FINANCING CAPITAL IMPROVEMENT PROGRAMS

How do we pay for it?

FINANCING ALTERNATIVES

- There are several options available to cities for financing capital projects. These include:
- Pay-as-you-go – These are typically for "maintenance" projects, e.g. concrete panel replacement
- Certificates of Obligation – Council approval needed
- General Obligation bonds – Require voter approval through a bond election.
- Revenue bonds – Usually for Enterprise Funds, e.g. Water and Sewer systems – Council approval

- **Tax Increment Financing (TIF)– Uses the taxes collected on the incremental increase in property value caused by the development to repay the debt. TIF district needs to be established by Council action. Best to coordinate with other taxing entities to maximize revenue.**

- **Municipal Management Districts (MMD) – MMD's are created by the State Legislature at the request of cities. They are allowed to establish a tax rate on top of the current city tax rate and use that additional tax revenue to repay debt.**

FINANCING MECHANISMS

- Financial Advisors – Cities can select a firm through an RFP process. Your financial advisors will coordinate the process for the bond sale. They provide financial analysis, coordinate the meetings with the bond rating agencies, and collect, analyze and rank the bids from prospective bidders when you sell bonds. They can also serve as your agent if you decide to do a negotiated sale.
- Bond Counsel – Cities require a legal counsel that specializes in the sale of municipal debt. This service can also be selected through an RFP process, or the financial advisor may provide a list of qualified bond counsels to choose from.

YOUR PARTNERS

- Three rating agencies – Standard and Poors, Moody's, and Fitch. Typically for most sales cities obtain ratings from two of the agencies.
- The job of the rating agencies is to determine the quality of investment someone would make if they purchased your bonds. AAA is the highest rating followed by AA+, AA, AA- and so forth (Moody's). (S&P uses Aaa, Aa+, Aa, etc.)
- Sometimes the rating agency will also include a comment regarding your city, e.g. Stable or Negative.

THE ROLE OF THE RATING AGENCIES

- Rating agencies rate the quality of a city's debt by evaluating the financial position of the city including fund balance history, looking at economic development activity and reviewing demographic/economic data about the community, e.g. per capita income, housing valuation trends, building permits.
- The rating then gives potential investors a sense of the level of risk involved in buying that city's bonds. The higher the rating, the lower the risk, the lower the interest paid.
- Don't try to hide anything from the bond rating agencies! They are looking for sound financial management practices. They want you to identify the challenges facing your city, but more important, they want to know you have a plan for addressing those challenges.

THE ROLE OF THE RATING AGENCIES

FY 2015 - 2020											
(in $1,000's)		Current	New Debt Payments (includes principal & interest)								
	Year	Debt Service	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	Total Due
	FY 2015	7,683									7,683
	FY 2016	7,727		418							8,145
	FY 2017	7,723		418	418						8,558
	FY 2018	7,395		418	418	418					8,648
	FY 2019	6,939		418	418	418	418				8,610
	FY 2020	6,604		418	418	418	418	418			8,693
	FY 2021	6,295		418	418	418	418	418	418		8,801
	FY 2022	5,975		418	418	418	418	418	418	-	8,481
	Total	56,341									67,619
	Payment Due		7,683	8,145	8,558	8,648	8,610	8,693	8,801	8,481	
	Other Funding Sources		650	650	650	650	650	650	650	650	
	Net Payment Due		7,033	7,495	7,908	7,998	7,960	8,043	8,151	7,831	
	I&S Rate Needed	(25.45)	22.0719	22.1896	21.4812	21.2989	20.7813	20.5856	20.4547	19.2664	
	Increase/(Decrease)		(3.3781)	0.1177	(0.7084)	(0.1823)	(0.5176)	(0.1958)	(0.1308)	(1.1883)	

FINANCIAL MODELING

Assumptions:			
Current debt from the First Southwest debt schedule, all debt including principal & interest			
Property Tax Values (growth assumptions)			
FY 2013	3,124,842		($1,000's)
FY 2014	3,093,594	-1.00%	
FY 2015	3,186,401	3.00%	318.6401
FY 2016	3,377,585	6.00%	337.7585
FY 2017	3,681,568	9.00%	368.1568
FY 2018	3,755,200	2.00%	375.5200
FY 2019	3,830,304	1.50%	383.0304
FY 2020	3,906,910	1.50%	390.6910
FY 2021	3,985,048	2.00%	398.5048
FY 2022	4,064,749	2.00%	406.4749
Net debt per capita will not exceed $__________. (currently $1,554) {optional policy statements}			
Debt service levy rate will not exceed _________ cents per $100 value or 35% (?) of the total levy.			
Interest rates on a 15-year general obligation bond average 3.5%.			

ASSUMPTIONS

- =PMT(rate, nper, pv)
- Rate = Interest Rate/12
- Nper = Number of Payments in Months
- Pv = Amount of the Bonds Sold (in $1000,s)
- Multiply this number by -12 to get the annual payment in $1,000's

PAYMENT CALCULATION

- QUESTIONS?