Funding Capital Improvements

Issuing Bonds vs. Paying Cash

CITY OF ROELAND PARK

May 2017

Draft Capital Improvement Plan

The City has an estimated **$26M** in capital expenditure needs over the next 10 years. The City can fund these improvements with bonds, cash or a combination of both.

The City is contemplating bonding **$5.2M** (**20%**) of these projects, illustrated below.

Amounts shown in thousands (000's)

Potential Projects For Bonding	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total
Roe Lane (Roe Blvd to N. City Limits)		$500									**$500**
Residential Streets		$100	$700	$100	$700	$100	$700	$100	$700	$100	**$3,300**
Shelter Hse & Perform. Pav. (R Park)				$100							**$100**
2020 Roe Blvd (Cnty. to Johnson Dr.)	$ 500										**$500**
Permanent Restroom (R Park)					$130						**$130**
Annual Sidewalk Extension					$50	$50	$50				**$150**
Nall Ave (51st to 58th)						$143					**$143**
Elledge (Roe Ln to Catalina St)						$124					**$124**
Annual Sidewalk Extension								$50	$50	$50	**$150**
Mission Rd. (47th to 53rd)							$71				**$71**
	$500	**$600**	**$ 700**	**$200**	**$ 880**	**$416**	**$ 821**	**$150**	**$750**	**$150**	**$5,167**

Bond Funding

("Pay As You Use")

vs.

Cash Funding

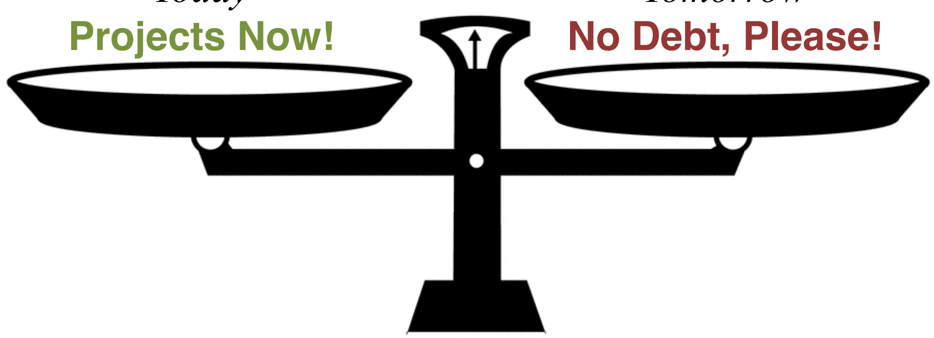
("Pay As You Go")

Is there a “correct” funding method?

- There is natural friction between the need for immediate long-term capital improvements and the desire to pay for them in cash over time.

- The City must **balance** (A) its desire to quickly complete projects with (B) its desire to minimize borrowing and total project costs.

- Depending on the City’s goals and priorities, the “correct” approach could be bond funding, cash funding or a combination of both.



Bond Funding (Pros & Cons)

Pros

- Funding projects much sooner
- Achieving **intergenerational equity** (projects are paid for by taxpayers that are using them over time)
- Mitigating project cost uncertainty (e.g. cost inflation)
- Maintaining strong cash position

Cons

- Incurring interest and transaction costs (borrowing isn't free)
- Increasing debt burden

When is bond funding appropriate?

The City should consider bond funding if…

- it needs to fund certain improvements ASAP
- it wishes to maximize its funding capacity
- it has a strong preference for **intergenerational equity** ("whoever uses the projects should pay for them")
- there is strong public desire for immediate and sizeable improvements

Cash Funding (Pros & Cons)

Pros

- Avoiding interest or transaction costs (lower overall project cost)
- Avoiding increased debt burden

Cons

- Sacrificing intergenerational equity (cash funding means the projects are paid for by today's taxpayers, not necessarily the taxpayers who will use the projects over time)
- Diminishing cash reserves
- Delaying project timelines
- Limiting "local dollar" reserves available to match grant funding
- Increasing uncertainty for long-term planning
- Increasing project cost uncertainty (e.g. inflation)

When is cash funding appropriate?

The City should consider cash funding if…

- its desire to minimize debt outweighs its desire for funding improvements ASAP
- it strongly wishes to minimize project costs (i.e. avoiding loan interest and transaction costs)
- it does not expect to have revenues available for debt repayment
- there is strong public opposition to borrowing

What is intergenerational equity?

- Fundamental tenant of public finance
  - The people that benefit from public infrastructure over time should share in its cost
  - Particularly important concept for projects with long useful lives
  - Critics of cash funding argue that it unfairly burdens **existing** taxpayers, as opposed to **future** taxpayers that will also benefit from the project

- Bond funding
  - Helps accomplish intergenerational equity
  - Incoming tax dollars each year are used to make bond payments through the life of the projects
  - Provides distinct and transparent synchronization of the project's users and funders
  - Only **then-current** taxpayers pay for the projects ("pay for what you use")

- Cash funding
  - Does **NOT** accomplish intergenerational equity
  - Project funded with tax dollars already collected

Quantifying The Cost of Bonding

- Bonding Cost Components
  - Total Project Costs: $ 5.50M *with 2% annual inflation*
  - Transaction Costs: 0.19M
  - Interest Paid: 1.20M *today's interest rate environment*
  - **Total Cost:** **$ 6.89M** *paid across 15 years from today (accelerated repayment scenario)*

- Cash funding
  - Total Project Costs: $ 5.62M *with 2% annual inflation*
  - Transaction Costs: n/a
  - Interest Paid: n/a
  - **Total Cost:** **$ 5.62M**

Net Cost of Bonding ≈ $1.27M

Debt Capacity

Can the City afford to borrow?

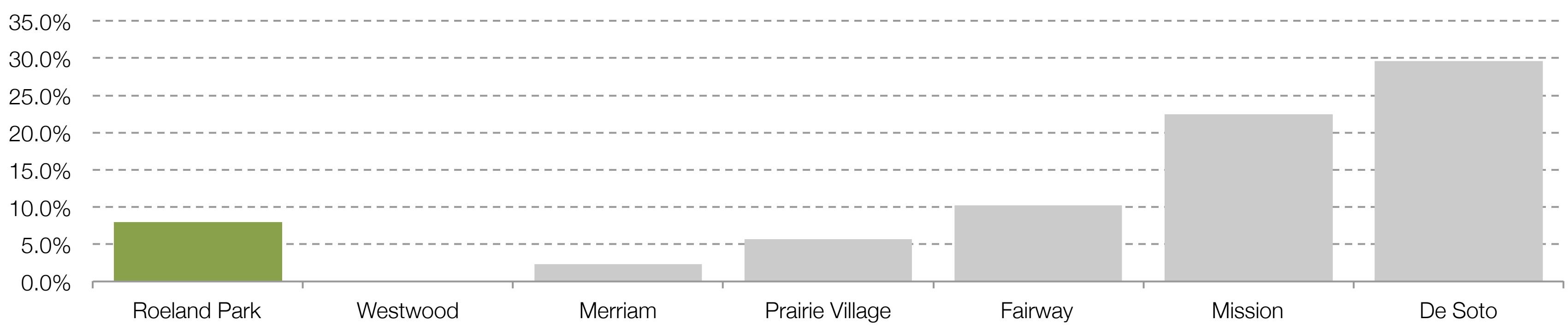
GO Debt as % of Assessed Value

Amounts shown in millions

	Roeland Park	Westwood	Merriam	Prairie Village	Fairway	Mission	De Soto
Tax Roll AV (2016)*	$ 70.3	$ 23.3	$ 187.1	$ 325.2	$ 86.4	$ 132.0	$ 66.4
GO Debt (2016)	5.6	-	4.4	18.3	8.9	29.6	19.6
GO Debt to AV	**8.0%**	**0.0%**	**2.3%**	**5.6%**	**10.2%**	**22.5%**	**29.6%**

**Tax roll value only (excludes motor vehicles)*

General Obligation Debt to Assessed Valuation



Statutory Debt Limit

The State imposes a statutory limitation on GO debt

- Cities in Kansas are limited to borrowing general obligation bonds equal to 30% of its total assessed valuation
- City's assessed valuation (including motor vehicles): **$78.1M**
- City's legal debt limit: $78.1M X 30%: **$23.4M**

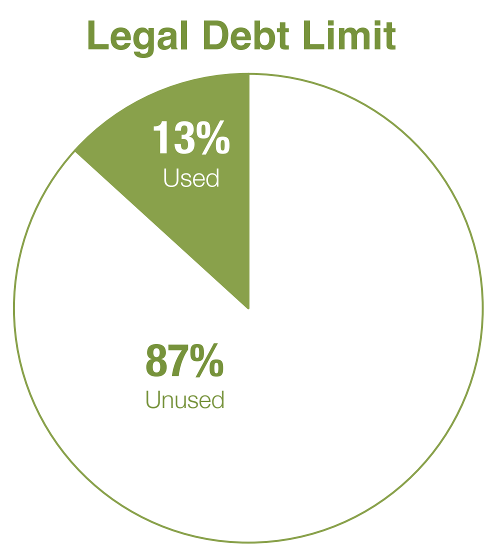
Exemptions to the Debt Limit include bonds issued…

- to refund other debt
- for storm or sanitary sewer system improvements
- for street or alley intersections improvements
- for street improvements immediately in front of city or school district property

Legal Debt Limit Margin

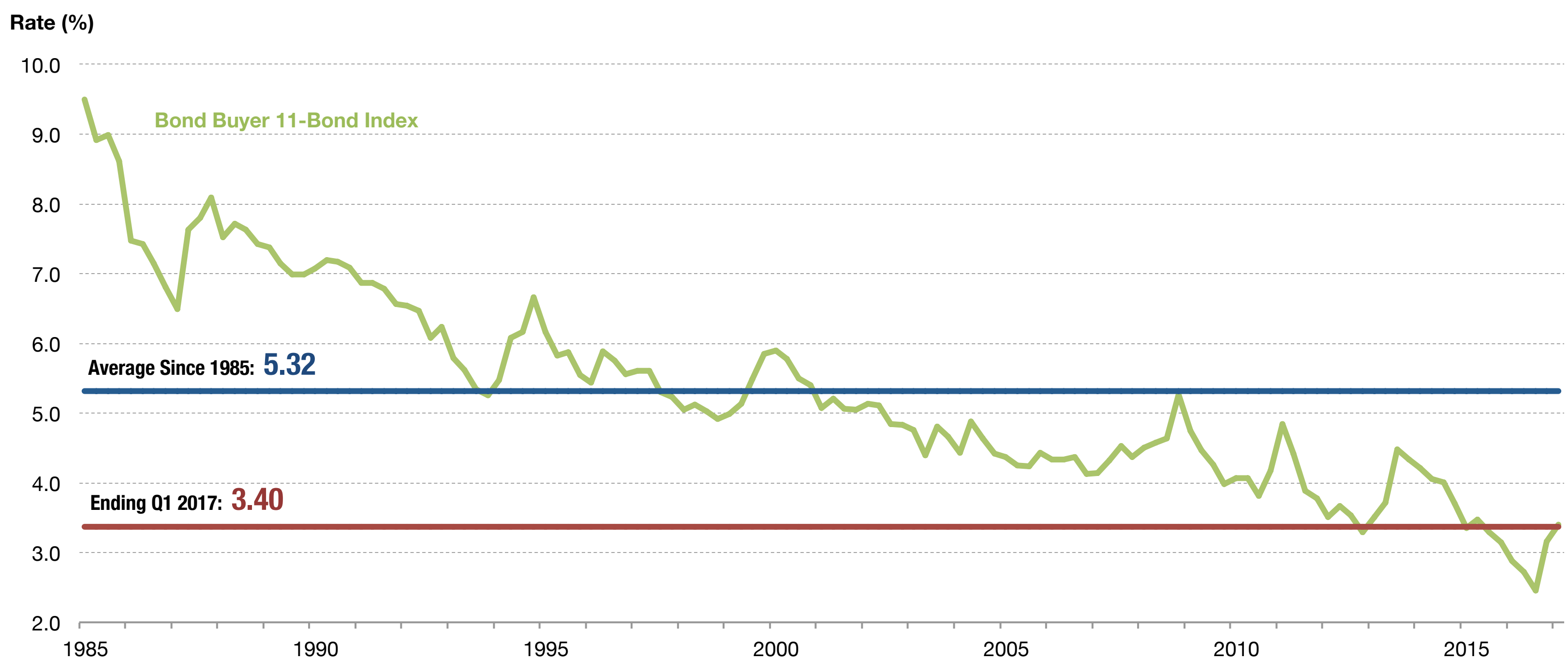
City's Legal Debt Capacity

- Outstanding GO Debt: **$5.6 MM**
- Exemptions: **$2.5 MM**
  - Exemptions related to storm water utility improvements (Series 2010-1, 2011-2) and refunding bonds (Series 2012-1)
- Net GO Debt Applicable to the limit: **$3.1 MM**
- $23.4 MM minus $3.1 MM = **$20.3 MM in remaining debt capacity**



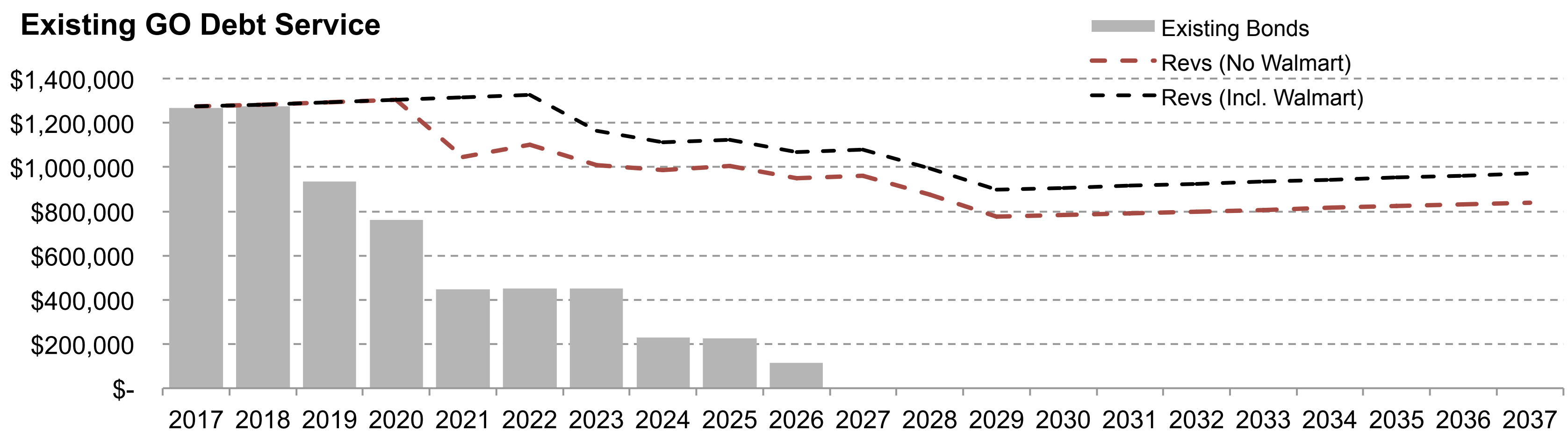
Interest Rates Remain Very Low

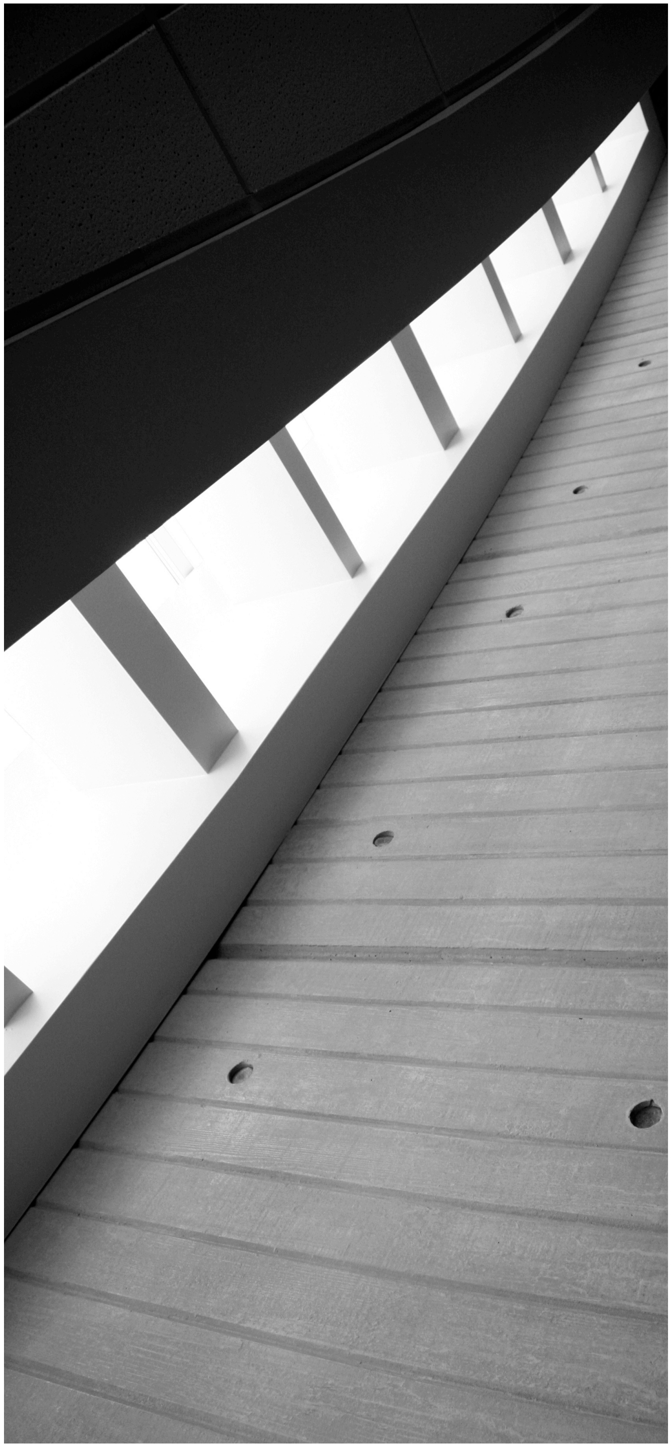
Historical Bond Buyer 11-Bond Index (Quarterly Averages)
The Bond Buyer 11-Bond Index is comprised of a selection of eleven 20-year general obligation bonds with average credit ratings equivalent to Aa1 (Moody's) and AA+ (S&P)



Debt Service Fund Revenues

- The City has substantial bonding capacity given conservative assumptions
  - The City's property and sales tax revenues grow 1% annually
  - Walmart leaves in 2021
- Revenues available for debt service
  - Special Assessments (runs through 2028)
  - Property Taxes (5 mills)
  - 0.50% Street Sales Tax
  - 0.25% Infrastructure Sales Tax (expires in 2023)





Bonding Scenarios

What would borrowing look like?

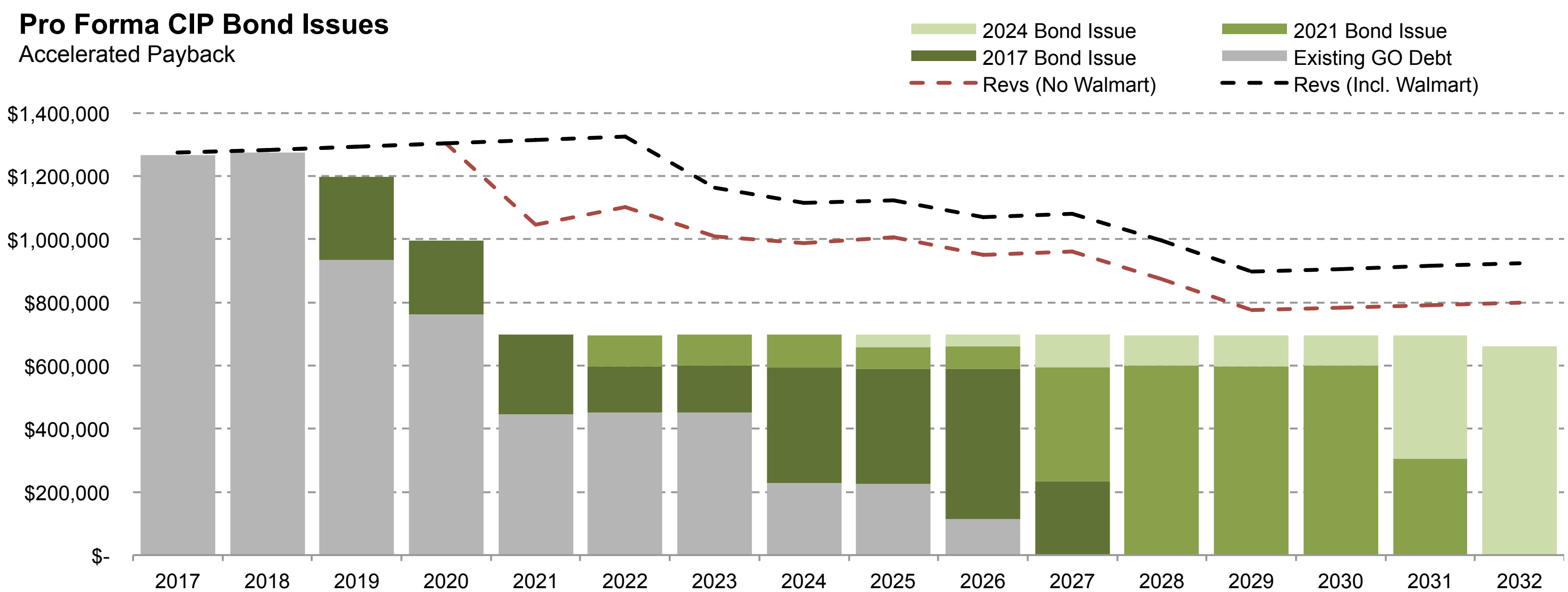
Three-Stage Bonding Plan

The previously discussed $5.2M in projects could be funded with three bond issues in years 2018 ($2M), 2021 ($2.1M) and 2024 ($1.1M).

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total
		Bond Issue			**Bond Issue**			**Bond Issue**			
		$2M			**$2.1M**			**$1.1M**			**$5.2 M**
Annual CIP Requirements	$500K	$600K	$700K	$200K	$880K	$416K	$821K	$150K	$50K	$150K	**$5.2 M**

Scenario A: Accelerated Payback

- Demonstrates an **accelerated payback** period (15 years from today) assuming the City limits its annual debt service requirements to $700K in years 2021 and thereafter.
- Total interest paid: $1.2M

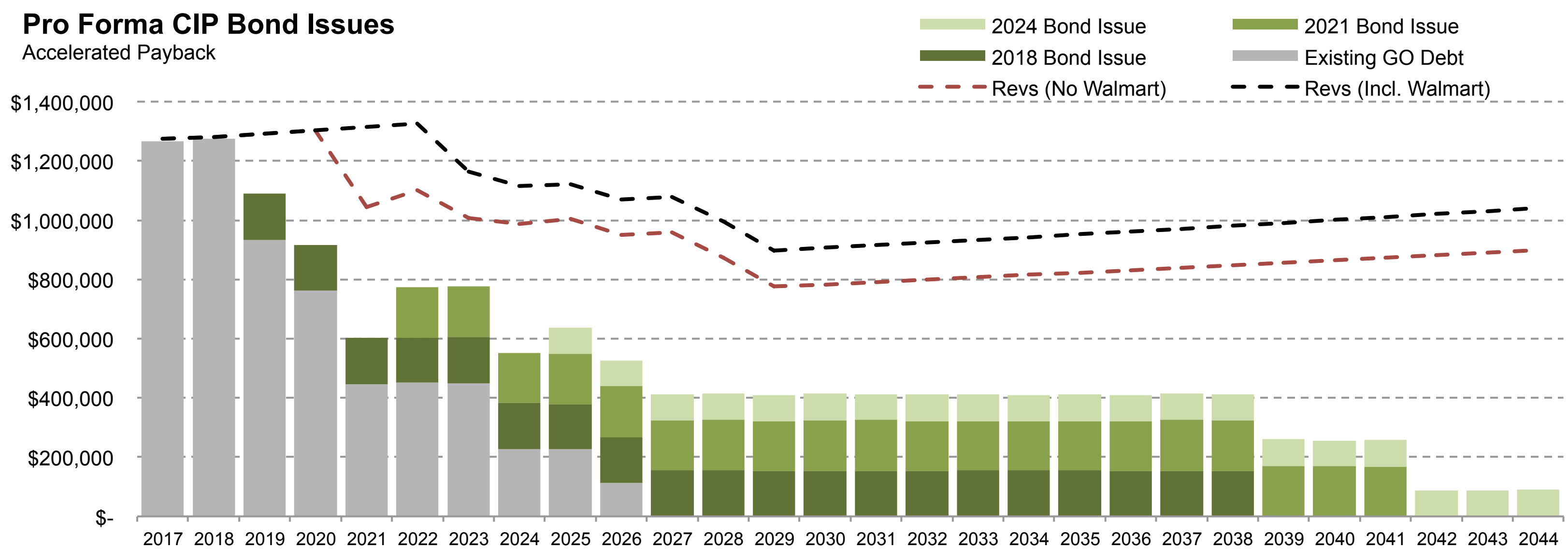


Note: Assumes interest on the 2018 bond issue is capitalized for one year.

Scenario B: Extended Payback

- Demonstrates an **extended payback** period. Each of the three bond issues are structured individually with level annual debt service over a 20-year period. The final bond issue is paid off in 2044 (27 years from today).
- Total interest paid: $2.6M
- More budgetary flexibility from year-to-year

Pro Forma CIP Bond Issues
Accelerated Payback



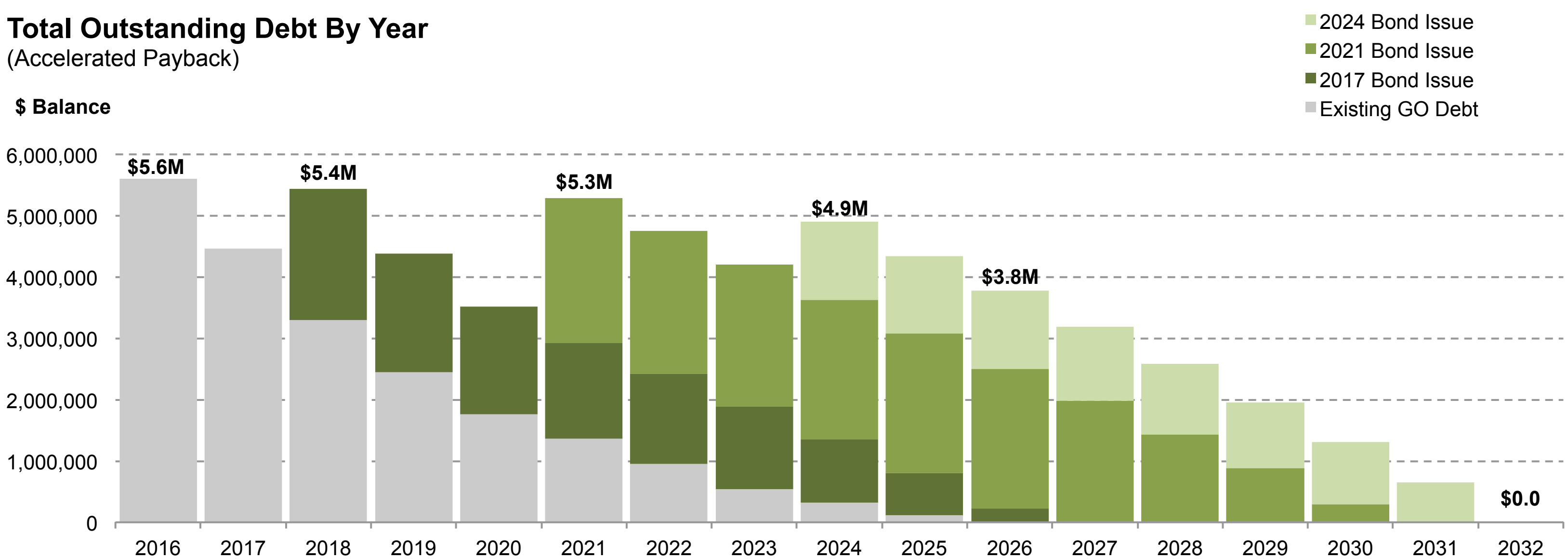
Note: Assumes interest on the 2018 bond issue is capitalized for one year.

Quickly Paying Off The Bonds

- The City currently pays down its debt at a fast pace, and it could continue to do so with this three-stage plan of finance
- The financing plan does not increase the City's outstanding debt relative to this year ($5.6 million) for any given reporting period.
- On average, the City's outstanding balance each year would continue to trend downward. This is true whether the City decides to use 10, 15 or 20-year payback periods for each new bond issue.

Shrinking Debt Balance

- This chart shows the City's **outstanding debt balance** in any given year assuming it issued bonds based on the accelerated payback scenario.
- The City's outstanding debt would continue to shrink each year, on average.



Conclusion

A Quick Recap

- The City is contemplating bond funding approximately $5.2M (20%) of its $26M 10-year CIP
- The appropriateness of cash or bond funding is dependent upon the City's goals and priorities
- Bond funding provides quicker completion, intergenerational equity, stronger cash balances and improved planning certainty
- Cash funding provides cost savings and a lower debt burden
- The City has the debt capacity for new borrowing, even given conservative economic assumptions
- Interest rates remain below historical averages
- The City could borrow while continuing to ***decrease*** its outstanding debt over time relative to today