

A Resolution submitting to the electors at the April Municipal Election the question of issuing Sales and Use Tax Revenue bonds without raising taxes or imposing a new fee for financing capital improvement projects

January 12, 2015

Bonding Proposal

Addresses **\$145M**

in **Backlogged Priority Capital Improvement Projects** by issuing Sales and Use Tax Revenue Bonds

How will we pay for it?

- ✓ NO NEW TAXES!
- ✓ Make debt service payments on new bonds with current revenue sources:
 - Cash flow from maturing Springs Community Improvement Program (SCIP) bonds
 - Cash flow from a portion of existing City CIP budget

Why is this a holistic approach, not just stormwater?



Stormwater is a high priority

But so are other critical City infrastructure needs, including:

- ✓ Neighborhood streets
- ✓ Public Safety – Police & Fire facilities
- ✓ Parks – reduce water footprint through converting grass fields to artificial turfs



Project List Vetting / Public Input

- Proposed project list pulled from the City's Priority Capital Project Lists
 - Stormwater project list
 - Vetted by CH2MHill
 - Significant public discussion over the past 2 years
 - Other Capital needs project list
 - Vetted by CIP Review Committee
 - Staff, Community members, City Council members
 - Presented to City Council at 2 public meetings – 8/12/13, 9/9/13
- Unfunded capital needs presented to City Council – 6/9/14
- Community Forums
 - Mayor has held 7 forums across the City 11/9/14-1/8/15
 - One additional forum on 1/15/15
 - Summary of input from forums – Attachment D
- Parks Board support

Current Project List

- Incorporates input from forums and City Council members
- Added detention pond projects to the Stormwater projects
 - Positively impact water quality & water flow
- Attachment C
 - current project list
 - redlined project list
 - showing difference from the list presented November 24th

Proposed Project Spending

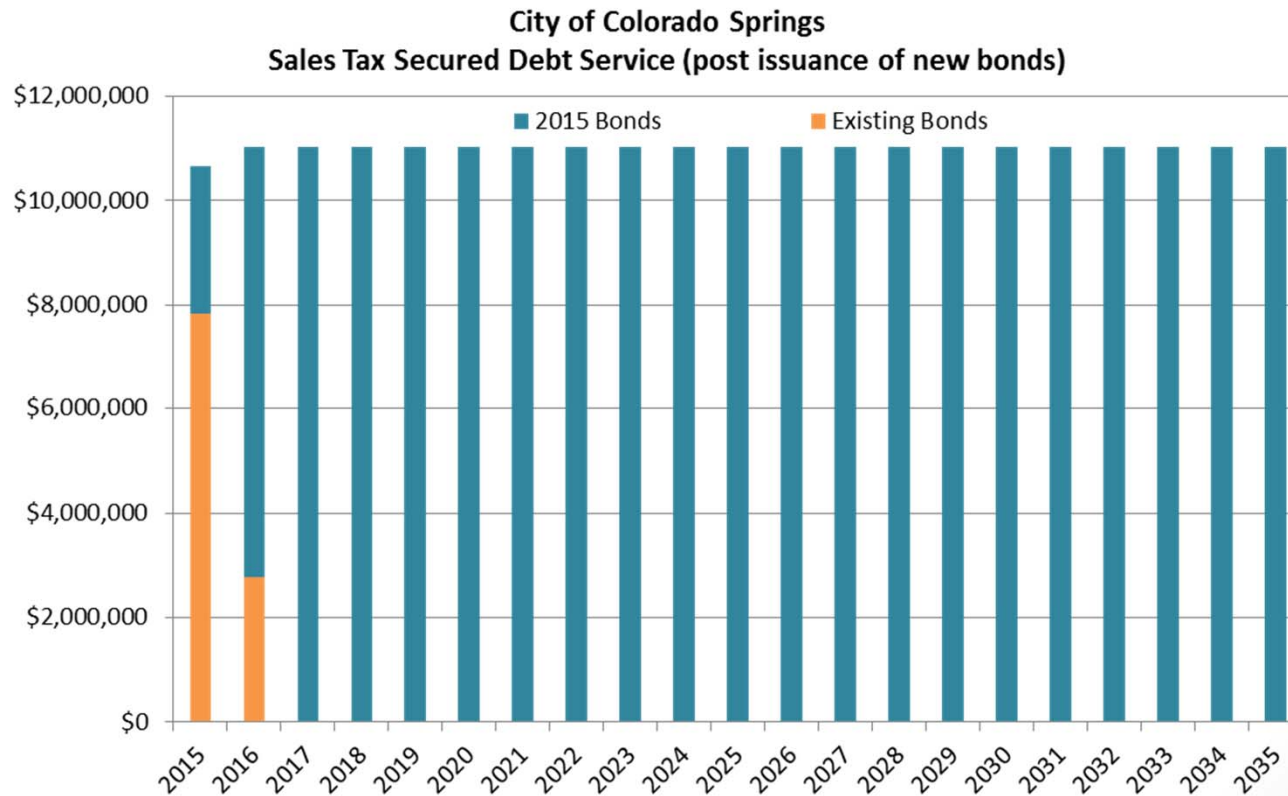
	Year 1	Year 2	Year 3	Year 4	Year 5	Grand Total
Neighborhood Streets	15,150,000	15,935,000	15,915,000	14,500,000	13,500,000	75,000,000
Stormwater	8,000,000	8,000,000	8,000,000	8,000,000	8,000,000	40,000,000
Public Safety (Fire, Police)	4,700,000	5,085,008	3,218,133	4,585,500	2,411,359	20,000,000
Parks	3,577,000	2,557,000	1,317,000	1,477,000	1,072,000	10,000,000
Total	\$31,427,000	\$31,577,008	\$28,450,133	\$28,562,500	\$24,983,359	\$145,000,000

Resolution

- Ballot issue
 - Request that City Council refer an item to the April 2015 Municipal election requesting voter approval to issue up to \$160 million in sales and use tax revenue bonds for the purpose of completing critical neighborhood streets, storm water, parks, and public safety capital improvement projects across the city.
- If referred to the ballot and voters approve
 - City Council approval of bond ordinances required to issue bonds

Why now?

- SCIP bonds maturing in 2015 and 2016
- Debt service payments can be structured so remaining 2 SCIP payments + new debt service payments can be made with current revenues (See Attachment A)
- Interest rates all-time lows



Financial Advisor

- Jill Jaworski, Managing Director, The PFM Group
- Independent advisor
- Fiduciary responsibility to the City
- Advise on debt issuances
 - Debt structure
 - Security features
 - Pricing
- Respond to questions from Mayor, City staff, City Council

Financing Plan – Sales and Use Tax Revenue Bonds

- ~\$157 million bonds total (based upon fall market analysis)
 - \$11 million debt service reserve
 - \$1 million cost of issuance
 - \$145 million project fund
- 20 year final maturity, 12.73 years average life
- True Interest Cost (TIC) of 3.308% was assumed
- Yields: 0.37% to 3.34% (See Attachment B).
- Market pricing reassessed on January 6, 2015
 - Current rates are even more favorable – TIC 3.00%
- Rates will move again (+/-) – still recommend asking voters for authorization to issue up to \$160 million

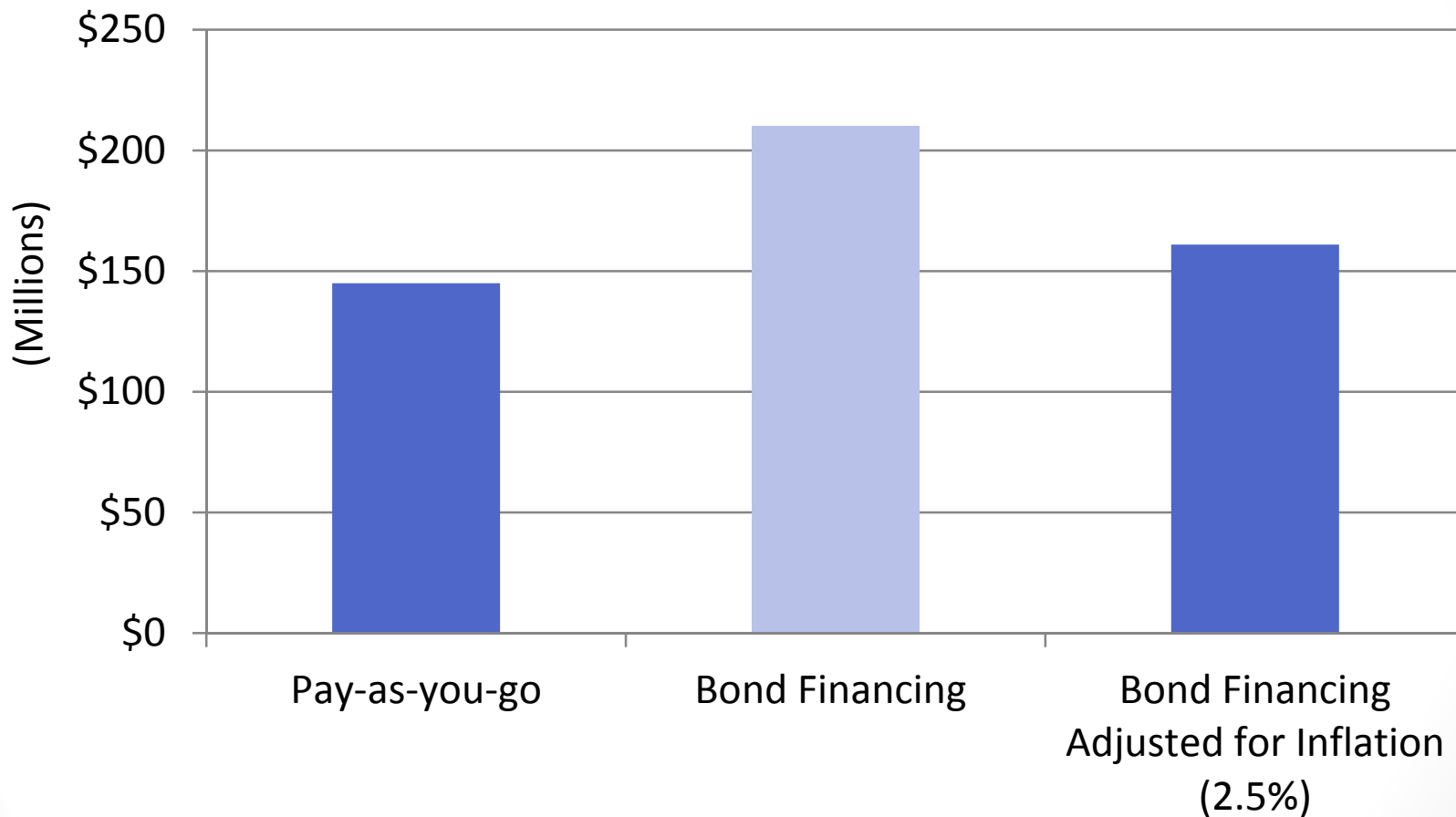
Financing Plan – Sales and Use Tax Revenue Bonds

- Depending upon spending plan will issue bonds in more than one bond sale
 - IRS requires reasonable expectation that at least 85% of project spending will be complete within 3 years
 - Recommend maximum repayment amount to be included in resolution - \$242 million
 - based upon interest rate 50 basis points higher than base analysis
- Average life of the bonds can be no more than 120% of the average useful life of the projects.
 - In the current analysis, average life of the bonds is 12.73 years, so average life of the projects must be at least 10.61 years
 - Average life of the projects currently calculated to be ~38 years

Why issue bonds?

- Can accelerate and complete ~ 70 priority projects totaling \$145 million in 5 years
 - ~ 14 years to complete the projects as pay-as-you-go
 - Citizens will benefit from the projects being completed more quickly
 - Akin to taking out a mortgage to buy a house:
 - Long-lived asset
 - Take a long time to accumulate the funds to pay cash
 - Will get the benefit of living in the house immediately
 - Not akin to putting it on your “credit card”
 - Not used to purchase long-lived, high-\$ assets
- Using cash for projects with shorter lives and bonds for projects with longer lives facilitates “intergenerational equity”, wherein projects with long useful lives are paid over several generations using the project through debt service payments

Doesn't issuing bonds cost more than pay-as-you-go?



Why Sales and Use Tax Revenue Bonds instead of GO Bonds?

- SCIP bonds were successful
 - Voters were comfortable with that specific revenue pledge
- Bond market/investors perspective has changed since the Detroit bankruptcy
 - Bonds secured by dedicated revenues generally sell at prices comparable to or in some cases better than general obligation bonds
- Sales taxes provide significant coverage
 - Over 10X debt service coverage
 - Sales taxes generate approximately 6X the revenue from property taxes
- A question seeking voter authorization for GO debt must cover not only the incurrence of the debt, but also the related increase in ad valorem property taxes sufficient to pay the debt service on the bonds

Will the City have too much debt?

- City Charter restricts General Obligation (GO) debt to 10% of Assessed Valuation (AV)
 - 2014 AV ~ \$4.7 billion
 - GO Debt limit based upon 2014 AV ~ \$467 million
 - Current GO Debt \$0
- Sales and Use Tax Revenue Bonds not subject to the Charter debt limit
 - Even though not subject to the limit, if it were, \$160 million would put the City at ~ 35% of the limit
- The City has other financial obligations that are not debt - subject to annual appropriation (COPs and leases)
 - Total outstanding principal ~ \$40 million
- Only 1 city of the 50 most populated cities that has less debt/capita than the City of Colorado Springs
- Municipal (and state) debt for capital needs only – balanced budget requirements, (federal government doesn't have balanced budget requirement so borrows for operating needs)

Ancillary benefits

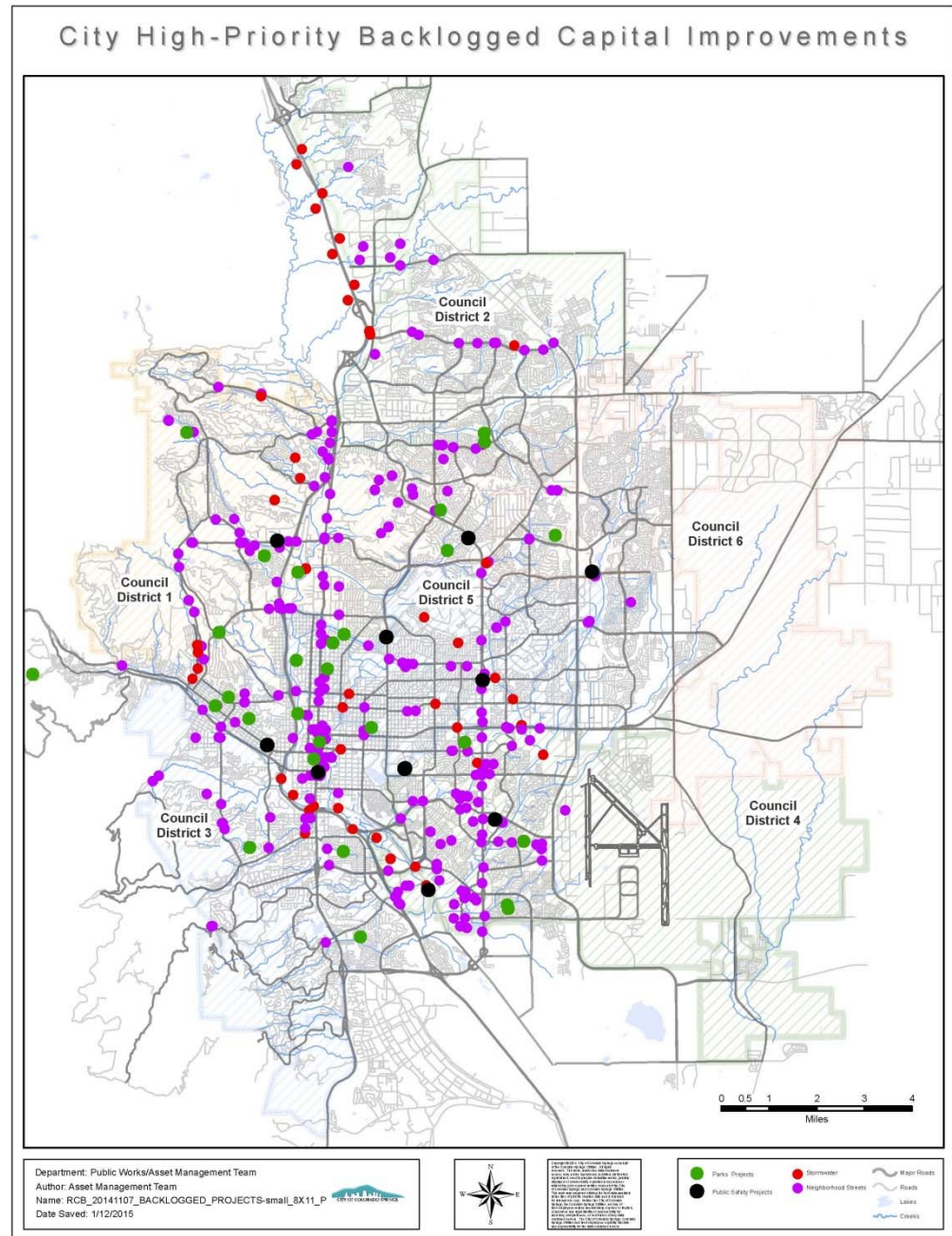
- Local spending
 - \$282 million – value added to local GDP
- Local jobs
 - Every year of project spending
 - Range from 250 – 460
- Complete projects that improve condition of the City
 - Attract & retain
 - Primary employers
 - Young professionals and families
 - Tourists

CIP funding

- Considered good public policy and public financial management to have a combination of debt funded CIP and pay-as-you-go CIP
- Will still maintain a pay-as –you-go CIP program ~ \$8 million/year

Map of Projects

- Neighborhood Streets
- Stormwater
- Public Safety
- Parks



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Next Steps

Thurs – Jan 15	Community Forum	Stetson Hill Police Substation
Tues – Jan 27	Regular City Council	Resolution referring item to the ballot
April 7	Citizens	Municipal Election
April – May	Bond financing Team	Prepare preliminary official statement, prepare bond ordinance, receive bond ratings
May – June	City Council	Present and consider bond ordinance