

BOARD OF ALDERMEN

ITEM NO. D(4)

AGENDA ITEM ABSTRACT MEETING DATE: February 14, 2006

TITLE: Worksession to Discuss the Adopted Capital Improvements Program FY2006-2007 through FY2011-2012

DEPARTMENT: Management Services	PUBLIC HEARING: YES ___ NO <u>x</u>
ATTACHMENTS: A. Adopted Capital Improvement Plan, FY06-07 through FY11-12 B. Debt Policy C. Draft Bond Timeline	FOR INFORMATION CONTACT: Steven E. Stewart, Town Manager, 918-7315 Bing Roenigk, Assistant Town Manager, 918-7439 Patrick Childs, Budget and Purchasing Administrator, 918-7301

PURPOSE

The purpose of this item is to provide the Board of Aldermen with the opportunity to discuss the Adopted FY2006-07 Capital Improvement Program (CIP). The CIP is a planning tool that enables staff and the Board to prioritize projects to meet the most critical needs over the next six years, protect the Town's positive fiscal position, and ultimately shape a vibrant community. Projects included in the CIP are not guaranteed funding. Each year, these projects are evaluated, prioritized, and considered for funding during the annual budget process. The Board is also requested to provide input on the proposed debt policy (Attachment B) that will directly affect the CIP spending plan.

INFORMATION

The six-year CIP schedule is an annual update of the Town's CIP that includes short and long-term maintenance and other operational requirements for proposed projects. Capital purchases, including vehicles and equipment that exceeds \$25,000 per item shall be considered for the Town's lease-purchase schedule identified in the CIP. The vehicle replacement schedule enumerated in the CIP document is based upon criteria established in the vehicle replacement policy, and the Town will make every effort to evaluate whether there are suitable hybrids or alternative fuel vehicles available before purchasing non-hybrids or non-alternative vehicles. Also, for the first time, Information Technology needs beyond regular desktop replacement are included in this update.

The Adopted Capital Improvements Program totals \$37,889,431. Approximately \$22,768,024 of the \$37.8 million total will be funded through debt financing instruments such as general obligation bonds and installment financings. Of the total debt to be financed, \$4,808,600 represents installment financing needed to maintain the town's rolling stock and equipment for day-to-day operations. The projected increase in the overall funding compared to the previous year's is largely attributable to updated construction figures for the Northern Area Fire Substation and Public Works Facility; increased costs of street resurfacing, sidewalks, park maintenance, and Martin Luther King, Jr. Park; and the inclusion of the Information Technology Schedule as well as the Weaver Street Reconstruction and Gary Road Storm Sewer Replacement projects.

The implementation of the sidewalk plan, construction of the Northern Area Fire Substation, and development of the Martin Luther King, Jr. Park over the next six years marks another significant phase

of the Town's aggressive capital planning whereby the Town moves beyond purchasing land for future facilities and begins to focus on implementing the vision created by residents and documented by Town staff in various needs assessments including Vision 2020, the Downtown Visioning Plan, and various master plans for parks and recreation and greenways.

More recent discussions have considered the possibility of debt financing to support the conservation efforts in the Bolin Creek Basin. This project is not currently planned for future funding in the CIP. Should the Board wish to pursue a bond issue, Attachment C provides a draft timeline based upon one developed by bond counsel for the sidewalk bond issue approved a couple of years ago. According to this timeline, if the Board determined its tentative plan for a bond issue by March 15, 2006 then the issue could be placed on the Tuesday, November 7, 2006 general election ballot. This schedule of 237 days provides enough time for the process considering statutory requirements.

Financing capital needs means that a revenue stream must exist to pay for the debt service costs. The tax impact of the CIP (shown on page 3.4) is significant and points to the need for diversification of the Town's tax base and consideration of revisiting revenue-generating possibilities with the North Carolina General Assembly to avoid a heavy reliance on property taxes, one of the very few revenue sources under control of local governments in North Carolina. A menu of revenue options exists, including impact fees for recreation and transportation purposes, meal taxes, special tax districts for economic development, real estate transfer taxes, and grants.

FISCAL IMPACT

The potential fiscal impact of the CIP, if implemented as recommended, is documented on pages 3.3 and 3.4 of the CIP document.

In addition, if the Board were to consider a bond referendum for a future project, the impact on tax rate and debt service is considered in the table below:

	FY06-07	FY07-08	FY08-09	FY09-10	FY10-11
Cost of borrowing \$1 Million Dollars, GO Bonds @ 5%; 20-year Loan, Level Principal:	\$ 100,000	\$ 97,500	\$ 95,000	\$ 92,500	\$ 90,000
Projected Tax Rate Equivalent	0.68	0.65	0.61	0.58	0.55
Projected Impact on Debt Service Spending	\$ 1,738,125	\$ 1,646,517	\$ 2,002,633	\$ 2,185,302	\$ 2,125,792
Projected Impact on Debt Expenditures as % of Total Spending	9.95%	8.98%	10.26%	10.72%	10.03%

Cost of borrowing \$2 Million Dollars, GO Bonds @ 5%; 20-year Loan, Level Principal:	\$ 200,000	\$ 195,000	\$ 190,000	\$ 185,000	\$ 180,000
Projected Tax Rate Equivalent	1.36	1.29	1.22	1.16	1.09
Projected Impact on Debt Service Spending	\$ 1,838,125	\$ 1,744,017	\$ 2,097,633	\$ 2,277,802	\$ 2,215,792
Projected Impact on Debt Expenditures as % of Total Spending	10.53%	9.51%	10.75%	11.18%	10.46%

*Numbers are based on latest 5-year projections presented at annual retreat

While there is no legal minimum for a bond referendum, staff at the Local Government advised that a bond issue be at a minimum of one million dollars. Installment financing may also be suitable. While GO bonds generally have lower interest rates, other cost factors associated with bond referendums and issues, such as the cost of bond counsel, election costs, and rating agency reviews, may actually negate the effective gains made from a lower interest rate. A cost analysis would be helpful in determining which type of financing to use.

STAFF RECOMMENDATION

The Board is requested to review the CIP document, proposed debt policy, and make suggestions to staff.