

CAPITAL BUDGETING FOR ELECTED OFFICIALS

How to Effectively Lead Your CIP & Understand Your Staff

Introduction of Presenters

- Bryan Thompson, Siler City Town Manager
- Renee Paschal, Chatham County Manager

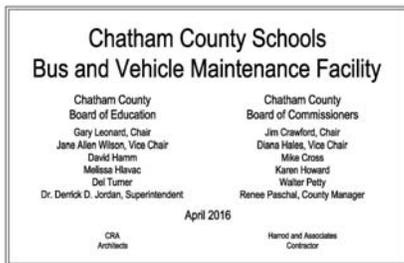
Overview & Schedule

9:05 am—Icebreaker
9:20 am—Translating Your Finance Officer: Overview of Capital Budgeting
10:05 am—Break
10:20 am—Overview (continued)
11:05 am—Lunch and bus tour of Chatham CIP projects
1:00 pm—Making Dreams Reality: Overview of Funding Capital Projects
1:45 pm—Break
2:00 pm—Overview of Funding (continued)
2:45 pm—Break
3:00 pm—Separate Case Studies for Large/Medium and Small Jurisdictions (breaks as needed)
4:45 pm—Questions, Wrap-up, Evaluation

Sources

- Justin Marlow, William C. Rivenbark, and A. John Vogt. 2009. *Capital Budgeting and Finance: A Guide for Local Governments, 2nd edition.* Washington, DC: ICMA.]
- Jack Vogt, *Capital Budgeting—Responding to Infrastructure Needs & Implementing Strategic Goals (2009)*
- State Treasurer’s Office, *Public-Private Partnership Financing Examples (2009)* and *Analysis of Debt (2015)*
- Lee Carter & Jack Vogt, *Fund Balance in Local Government Finance*
- Rebecca Joyner (Parker Poe, Chatham Bond Counsel)
- Doug, Jeremy, and Andrew Carter (DEC, Chatham FA)
- Vicki McConnell, Deputy County Manager/Finance Officer, Chatham County

Exercise 1: Ice Breaker Where Do I Want My Plaque?



Exercise 1: Ice Breaker Where Do I Want My Plaque?

- Take the “plaque” and marker provided
- Write your name, jurisdiction, and one project you want to see completed during your tenure on the board/council
- Stand and introduce yourself and your plaque project for 30 seconds



Exercise 2: Quiz on Terminology

- Workbook Page 1 (inside of cover)
- Take a few minutes and complete the quiz
- It's okay to discuss with your neighbor

Exercise 2: Quiz on Terminology

- Answers are on Page 35 of Workbook
- Take a few minutes and grade your quiz
- Most terms will be reviewed in class today
- The full glossary (reference tool) begins on Page 64 of your Workbook

Capital Project

- Involves **substantial cost** (defined by the unit)
- Anything **financed** by debt
- Involves acquiring a **capital asset** (tangible, long useful life)
- Generally, means **all components** (design, construction, furnishings & equipment, etc.)
- Does not include operating expenses
- Typically, much more cost than what the jurisdiction considers as "capital outlay"
- Sometimes only construction gets mentioned in early discussions
- Often **takes more than a year** to complete (start to finish)

Building a House is a Personal Capital Project

- Substantial cost:** The most expensive thing we buy
- Debt financed:** We figure out what we can afford; our bank will only lend us so much
- Acquiring a asset:** Many of us keep our houses for a long time, some of us for our lifetime
- All components:** The loan usually covers architectural drawings, land, well/septic or connection to city water/sewer, contractor, closing costs, appliances, etc.
- No operating:** Monthly utilities or maintenance are not included in project/mortgage, but we **need to consider them** when we decide if we can afford the debt
- May take more than a year from start to finish
- WE HAVE TO PLAN**—for most of us a house cannot be a whim purchase, we have to be purposeful and deliberate

Under the Hood Typical Project Components

- Projects are broken down and costed by:
 - Planning (including feasibility studies, surveys, preparation of specifications, architectural design, and engineering services)
 - Construction/purchase
 - Furniture, Fixtures, & Equipment ("FF&E")
 - Land
 - Contingency; usually 5-10% of construction or purchase cost
- Also includes:
 - Debt issuance costs, legal fees, materials testing, project management, etc.

Which of the Following Are Capital Projects? (Assume \$100K is threshold)

- Computer software for new payroll system (\$75,000)
- Computer hardware for new payroll system (\$30,000)
- Five replacement vehicles (total \$110,000) to be financed from capital reserve
- Personnel and office supplies for a new dentistry program in health department (\$105,000)

Exercise 3:
Examples of Capital Projects

- Review the Carrboro Sidewalks (Workbook pages 2-3) and Mecklenburg Medic Facility (Page 4)
- Answer the following:
 - What project elements do they have in common?
 - What unusual project elements do you see?
 - How many years will each project take?
 - Why do you think Mecklenburg's project is budgeted over 2 years?

Exercise 4: Household Budget

- Workbook, Page 5
- Think about key items in your household budget.
- Categories, most important, which ones to fund, cash vs. debt
- What forward-looking items will you sacrifice for?

What is a CIP?

- It is not...
 - Clothing Issue Point, Corrugated Iron Pipe, Channel Identification Plan, Counter Intelligence Program, Clean-In-Place, or Cheeseburger-in-Paradise
- It could be...
 - Critical Infrastructure Protection, Capital Investment Plan, Core Investment Program, or Critical Item Program
- It is...
 - Capital Improvements Program/Plan
 - The jurisdiction's long-term plan for important improvements
 - Usually includes costs, financing sources, and operating impact



What is a CIP?

- Considers all possible **capital projects**, decides which ones will be done and when, decides how they will be paid for
- Multi-year:** Plans usually range from 5 to 10 years
- Multi-phased:** Each project has multiple components and can be spread over several years
- The best ones include operating impact cost estimates
- Some jurisdictions include CIP in the operating budget, others have a separate document and process
- Synonymous with "**capital budgeting**"

City of Clinton CIP Example

- Workbook, pages 6-17
- Clinton is located in Sampson County
- Population: 8,787
- Great example of a small city's CIP
- Staff develops preliminary CIP in mid-March (discussed at budget workshop)
- Final CIP adjusted & presented for public review & Council approval in June

Legal Framework of Capital Budgeting

- Not legally required
- If done, **statutes charge manager** with preparation
- Governing board must:
 - Adopt **project ordinances**, if used
 - Establish **capital reserve funds**, if used
- A CIP is **a plan, not a budget**, and does not authorize spending
- On the other hand, debt is highly regulated (more later)

How Do CIP Projects Get “Budgeted”

- Having a project in the CIP does not mean you can start spending \$
- Projects must be budgeted before funds can be spent. How?
 - Some jurisdictions turn Year 1 of the plan into a budget
 - Through the operating budget—these should be projects that don't run past the end of the fiscal year they are budgeted in
 - Through a separate project ordinance—especially if project will exceed 1 year in length
 - Ordinance must be balanced, ie, revenues = expenses

If Not Legally Required, Why Do It?

- Gets everything listed in one plan
- Helps link to jurisdiction goals & long-range plans
- Helps prioritize important projects
- Helps see cumulative impacts of debt and other resource needs
- Can help transcend political volatility

Group discussion question: Should long-term capital priorities be reshuffled with new board majorities?

Link to Jurisdiction Goals

- If you don't know where you are going, you'll end up someplace else —Yogi Berra
- If you don't know where you are going, any road will get you there—Lewis Carroll
- By failing to prepare, you are preparing to fail—Ben Franklin
- A goal without a plan is just a wish—Antoine de Saint Exupery

Sources of Plans

- Comprehensive land use plan
- Strategic plans
- Master plans (parks, downtown, etc.)
- Maintenance plans
- Council/Board annual goals
- Financial policies and long-term financial models

- What plans does your jurisdiction use in CIP?

City of Raleigh Example

From: CIP Policies and Practices

- The city adheres to several policies and practices to ensure long-term financial sustainability, promote effective planning, and ensure appropriate use of capital funds. Below is a summary of major items:
- Alignment with city-wide Strategic Plan: The Strategic Plan, adopted by City Council in April 2015, serves as the primary guide for capital investments.
- Complementing the city's comprehensive plan: All capital projects should complement the comprehensive plan. The comprehensive plan includes specific policies that establish it as the city's lead growth and development guide and connect it to the CIP. Policies also require staff to consult the comprehensive plan when establishing capital priorities, share long-term plans with other city staff, and identify long-term planning opportunities.

Exercise 5: Examples of Tying CIP to Plans

- Read through these plans and note where they link to overall city plans
 - City of Raleigh Parks CIP (Workbook, pages 18-20)
 - Rocky Mount Community Development CIP (Workbook, pages 21-22)

CIP Process

- Who **manages** the CIP preparation process?
- What policies/plans **guide the process**?
- What **timeframe** do you use?
- What is the **calendar** for preparation and how does it relate to the operating budget?
- Where do proposed projects come from?
- How do you decide what gets done?
- How do you get **public support**?

Who Manages the Process?

- Governing Board sets direction
- In small jurisdictions without a manager, Mayor may manage process
- Manager is legally responsible for preparation; he/she may delegate
- Manager, Finance, or Budget are typical
- Planning Department less typical

Plans and Policies that Guide

- Plans: comprehensive, strategic, master, etc.
- Financial Policies, cover:
 - Debt
 - Budget and CIP preparation
 - Reserves
 - Fund balance
- Exercise 6: Review Moore County's policy (pages 23-28) of Workbook). How long is the County's CIP for general projects? How long for enterprise funds?

What Timeframe Do You Use?

Discuss at your table which timeframe is better for a CIP and why:

- 5 years
- 7 years
- 10 years
- 15 years

Report out

Calendar for Preparation

- Examples (Workbook pages 29-30)
 - Chatham County
 - Wake County
- When is your jurisdiction's CIP adopted?

Calendar for Preparation

Discuss as a class:

Which is better, a CIP that is before the operating budget process or a CIP that is part of the operating budget process?

Where Do Projects Come From?

- City of Hickory:
 - Inspiring Spaces Connectivity Master Plan
 - Landscape Master Plan
 - Parks and Recreation Master Plan
 - Hickory Horizons Strategic Plan
 - Sidewalk and Bikeway Master Plan
 - Business/Industrial Master Plan
 - Water and Sewer Extension Plan
 - Library Long-range Plan
 - Airport Master Plan
 - Hickory by Choice Comprehensive Land Use and Transportation Plan
 - Neighborhood Focus: City grants for 12 self-identified neighborhoods to undertake neighborhood improvements

Where Do Projects Come From?

- Specified in policies (e.g., Moore County specifies government, schools, community college)
- Open call for projects
- Emerge as local government leaders discuss and think about how to improve
- Staff recommendations to Council
- Council suggestions to staff
- "Synthesize" what we hear from citizens
- Keep pace with professional standards: accreditation, mandates, new laws

Exercise 7: Prioritization Exercise

- Workbook Page 31
- Rank the 4 projects listed, plus your plaque project from 1 to 5 (1 is highest ranking, 5 is lowest)
- Answer the questions

Exercise 7:
Prioritization Exercise

- Unless you have a plan and/or some way to prioritize, it is difficult to make decisions on how to proceed. It is also difficult to build consensus and support.
- Again, should plans transcend political terms?

Prioritization

- Can range from no prioritization to very complex
 - Intuitive/gut prioritization: Based on judgment and experience (very common!)
 - Based on program goals and priorities
 - Based on urgency of need: Mandates, safety and health, required maintenance, consistency with plans/goals

City of Greeley, CO Prioritization

- Imperative (must do): correct danger to public health & safety, meet legal obligation, **alleviate immediate service/facility deficiency, prevent irreparable damage**
- Essential (should do): rehabilitate/replace obsolete facility, stimulate economic growth, reduce future operating costs, leverage grants
- Important (could do): provides new or expanded service, promotes intergovernmental cooperation, reduces energy use, enhances cultural or natural resources

--From 2007-2011 CIP (courtesy of Jack Vogt)

City of Clinton Prioritization

1. Addresses Public Safety (20 points)
2. Legally Mandated (20 points)
3. Achieves Council Goal (15 points)
4. Achieves Community Goal (15 points)
5. Availability of Outside Funds (10 points)
6. Increases Service Efficiency (10 points)
7. Promotes Economic Development (10 points)
8. Protects/Maintains City Assets and Financial Stability (10 points)
9. Receives Economic Payback in Less Than 5 Years (10 points)
10. Links with Other Projects (10 points)

Total Points: 130

Mecklenburg County

- Much more complex
- See Workbook Page 32

GO Bonds: Building Public Support

- No public hearing is required for CIP
- Voter-approved bonds are a clear method of input
- Some cities engage neighborhoods in planning efforts for capital improvements (Garner, Hickory)
- Many base projects on plans that included public input

- Discussion: How should the public be involved in the capital improvement process?

GO Bonds: Building Public Support

- Develop consensus on needs
- Talk to everyone – gauge needs communitywide
- Is there something for everyone? (touch all neighborhoods and constituencies)
- Demonstrate importance and necessity
- Needs assessments, studies, conceptual architecture work
- Lots of plans

GO Bonds: Building Public Support Understand Citizens' Interests

- Gut feel
- Polling
- News media (targeted stories)
- Chamber involvement
- Civic clubs
- Advocacy and affinity groups

GO Bonds: Building Public Support Understand Likelihood of Success

- Do you have a track record of doing what you say you're going to do?
- Any financial scandals?
- Any personal integrity problems with your leadership team?
- Did you involve many people in the project definition & prioritization process?
- Can you demonstrate that you adequately vetted, "scrubbed the budget" or "value engineered" the project? (No Taj Mahal)
- Is there any active opposition?

GO Bond Referenda

- Can public dollars be spent on a campaign to promote passage?
- When can referenda be held?

City of Fayetteville Parks Bond: A Case Study

- Background
- \$50K for *Just the Facts*
[BondReferendumVideos](#)
- Little organized opposition
- Advocacy group
- Bonds approved
- Website now features project updates



City of Fayetteville Parks Bond: A Case Study

Lessons Learned

- Branding critical
- Inexpensive & effective ideas
- Be everywhere
- Intensity increased
- Double the budget



GO Bonds: Building Public Support Sell After the (Bond) Sale

- Keep everyone informed
- Progress reports to anyone that will listen
- Web-based dashboard progress updates
- Transparency, explain cost increases especially
- Thank bond voters constantly
- "Your bond dollars at work"
- These strategies get you ready for next bond referendum

GO Bonds: Building Public Support Sell after the (Bond) Sale

- Fayetteville status update: [Project Status Webpage](#)
- San Antonio, TX bond dashboard
<http://www.sanantonio.gov/TCI/Projects/BondStatusProjectsDashboard.aspx>
- Town of Garner, NC bond program website
Workbook, Pages 36-40

Other Advice

Planning Is Key—Spend the \$!

Usually, 2 phases of planning:

- Feasibility study
 - Answers: Do we need this? What would the project look like? What is the estimated cost?
 - Produces the cost estimate first plugged into the capital plan
 - E.g., building program for construction or preliminary engineering report (PER) for water/sewer
 - Few jurisdictions have the ability to do in house
 - Cost estimates without this analysis are less reliable
- Detailed design
 - Common examples are architectural design and engineering design; but could include other bid specifications
 - Generally produces bid documents
 - "Designer" typically performs construction administration or implementation oversight role

Planning Leads to Success

Siler City

- Recession hit the town hard
- Town spent the time planning
- Now able to leverage \$5.5 in grants for every \$1 in town funding
- \$33M in improvements

Chatham County

- Funded debt model before the recession
- Able to move forward with many projects
- Estimated \$10M in savings

Plans during Recession



- Downtown Masterplan
- Parks & Recreation Masterplan
- Pedestrian Masterplan
- Airport Layout Masterplan
- Land Development Plan Update
- Strategic Economic Development Plan
- Comprehensive Capital Improvements Plan for Water & Sewer

Plans during Recession



- Parks & Recreation Masterplan grants:
 - Siler City Swimming Pool: \$500K PARTF, \$1.5K Triangle Community Foundation, \$42K Chatham County
 - Soccer/Multipurpose Field: \$60K Oakleaf Foundation
 - Loves Creek Greenway: \$1.2M
 - \$1.8M total grants; \$443K local contribution
- Transportation grants:
 - ADA and Crosswalk: \$90K
 - US 64 Improvements: \$10M
 - Sidewalk Projects: \$900K (including \$500K Safe Routes to Schools Grant)
 - \$11M total grants; \$510K local contribution

Plans during Recession



- Siler City Municipal Airport:
 - Runway Rehab: \$2M (county assisted with local match)
 - Runway Extension: \$5M
 - Other: \$1.25M
 - \$8.25M total grants; \$705K local contribution
- Utilities:
 - Water Extension to Megasite: \$4M Golden Leaf
 - I&I: \$20K downtown study; \$2M I&& CDBG grant
 - Wastewater Treatment Plant: \$1.5M CDBG-ED, \$750K Chatham County
 - Water Plant: \$2.3M NC Connect Bond
 - \$10.6M total grants; \$4.55M local contribution

Plans during Recession



- Other:
 - Loves Creek Watershed: \$150K 319 EPA Grant, \$18K Water Resources Planning Grant, \$270K Environmental Enhancement Grant
 - \$100K Governors Crime Commission Grant
 - \$100K Small Business Revolving Loan
 - \$638K total grants; \$0 local contribution
- **\$33M in improvements; \$6M in local contributions**

Chatham County Justice Center

- 87,000 sf
- Opened January 2013
- Geothermal wells
- Houses all court functions



Margaret Pollard Middle

- 120,000 sf
- Opened 2011
- Geothermal wells
- LEED Gold Certified (1st middle school in state)



Agriculture & Conference Center

- 35,000 sf
- Opened March 2017
- One-stop for agriculture +conference center



Additional CIP projects completed since 2006

- Social services 20,000 sf addition
- Infrastructure for a business park
- New library
- 2 community college buildings
- Elementary school
- Jail*
- Joint County-School Bus Garage*

Projects—Questions to Ask

- How firm are cost estimates? Are they expected to change?
- Is inflation included and how was it determined?
- How much contingency is included and why?
- Were lifecycle costs considered?

Jack's Advice

- Projects occur in stages over time: accept that; scope and cost estimates become more and more specific
- Avoid scope expansion: Additions of features during design and construction (can you say, "change orders")
- Design: Communicate, communicate, communicate (and manage)
- Project costing: Renovations can be difficult to price (Our advice: more contingency is needed)
- Our advice: If you can, hire a project manager

Lunch & CIP Tour

- Chatham Transit Network will pick you up in front of the Agriculture Center
- We will tour several Chatham County CIP projects and have lunch

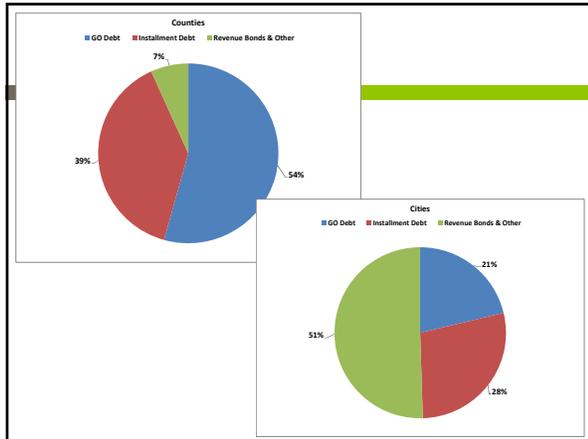
Part 2: Turning Your Dreams into Reality

Overview of capital financing:

- Debt finance
- Pay as you go
- Some best practices

Financing Methods

- | | |
|--|---|
| <input type="checkbox"/> Debt | <input type="checkbox"/> Pay-as-you-go |
| <input type="checkbox"/> General obligation bonds | <input type="checkbox"/> Capital reserves |
| <input type="checkbox"/> Installment debt (public & private) | <input type="checkbox"/> Funding depreciation |
| <input type="checkbox"/> Revenue bonds | <input type="checkbox"/> Annual revenues |
| <input type="checkbox"/> "Innovative" strategies | <input type="checkbox"/> Fund balance |
| | <input type="checkbox"/> Impact fees |
| | <input type="checkbox"/> Special revenues (911....) |
| | <input type="checkbox"/> Grants |



It's All about Collateral

- Full faith and credit, **taxing power** (GO)
- Real property **asset** you are financing (COPs, LOBs)
- Revenues** from the financed project (revenue bonds)
- Other revenues not levied by jurisdiction (special obligation bonds)
- Goal is to put up as much as needed without going over
- Banks like 100% collateral
- If public market and multiple projects, you need at least 50% collateral to loan value

Traditional Financing General Obligation (GO) Bonds

- Security is **full faith and credit** (taxing power)
- Voter approval** is required; can only be held during a primary or general election
- Interest rates and issuance costs are lower
- In 2009, represented 30% of local debt nationwide
- Max term 20 years
- Table discussion: Which projects are appropriate for GO debt? Why?

Traditional Financing
Revenue Bonds

- Security is **revenue generated by project**
- No voter approval
- Higher interest rates than GO bond, depends on rating
- Typically used for water, sewer, and electric
- Recent **NC Supreme Court decision and legislation** places these projects in some jeopardy
- Term can be up to 30 years

Traditional Financing
Installment Financing Contracts

- Security is **asset being financed**
- No voter approval
- Types: limited obligation bonds and certificates of participation (public market); bank loans (directly place/private)
- Somewhat higher interest rates than GO
- For public, interest cost is **negotiated** on public market by underwriter; money is **borrowed through a corporation**
- Grown in use** over the years since Wayne County court case in 1991
- Max term 20 years
- Table discussion: Which projects are appropriate for installment debt? Why?

Traditional Financing
Special Obligation Bonds

- Security is **non-levied revenue source**
- No voter approval
- Higher interest rates
- Used mostly by cities for downtown projects; require set up of municipal service district (can use to repay, but not to pledge)
- Pledge-able v. repayment revenues
- Can counties pledge sales tax? Can cities?

Traditional Financing
Leases

- For equipment
- Doesn't require Local Government Commission (LGC) approval** if 59 months or less
- Can't finance longer than useful life
- Interest rates low because of **short amortization**
- Usually not appropriate for large projects
- Examples: fire trucks and dump trucks

Traditional Financing
2/3 Bonds

- Can issue new bonds for 2/3 of GO principal retired within the year (net)
- No vote required
- Have to go through LGC
- Authorization

Innovating Financing
Public/Private Partnerships

- Usually doesn't affect **legal structure** of financing allowed by statute
- Takes many forms
- Involves private sector** in financing, construction, or partnership in public-private facilities
- One theory is lower interest (tax-exempt) financing for public and lower construction costs for private; but not the only form

Innovating Financing
Public/Private Partnerships

- Build public infrastructure to encourage associated private development
- Conventional: streets, sidewalks, utilities
- Unique: convention center, parking deck

Source: State Treasurer's Office, *Public-Private Partnership Financing Examples (2009)*

Innovative Financing
Industrial Revenue Bonds (IRB)

- Tax exempt financing for qualified projects
- Not an obligation of the governmental issuer
- Issued for business & industry, not for public facilities or infrastructure

Source: State Treasurer's Office, *Public-Private Partnership Financing Examples (2009)*

Innovative Financing
Taxable Financing/Lease Payment

- Taxable financing: government finances acquisition of facility through a lease payment
- Cons: not tax exempt debt; not viewed as a debt transaction

Source: State Treasurer's Office, *Public-Private Partnership Financing Examples (2009)*

Innovative Financing
Consider USDA Loans

- LGC doesn't approve USDA** (does approve interim financing)
- 30-40 year term
- County has to be within **USDA requirements**
- Issued out of Rural Development Office—tasked with finding projects that assist rural areas
- Requires interim financing** during construction period
- Allows **level payment** (most other debt, level principal)
- More flexible on structure
- Very low interest rates

Innovative Financing
Other USDA Programs

- Water and Environmental Grant and Loan Funding
- Community Facilities Direct Loan and Grant Program (previous slide)
- Rural Community Development Initiative Grants
- Economic Impact Initiative Grants
- Various Housing Programs
- See Workbook Pages 43-63 for Grant and Loan sources through NC Commerce, NC DEQ, and USDA

Innovative Financing
Clean Water State Revolving Loan

- LGC facilitates financing
- Make application through NC Department of Environmental Quality
- Secured by revenues of system
- Lower interest rates in market and longer term than capital markets
- For smaller, rural, lower income

Innovative Financing
Construction Period Financing

- Short-term deal (max 3 years)
- Available to highly rated jurisdictions only (AA or higher)
- Bank loan during construction; other debt at end of project
- Draw funds during construction
- Typically used for multiple projects

Innovative Financing
Special Assessment Districts

- Legislation was originally approved in 2008 to enhance assessment authority; known as special assessment districts for critical infrastructure or SAID
 - Authority to levy special assessments **expires July 1, 2020**
 - Assessments can be collected over **25 years**; interest up to 8% may be charged
 - Debt financing is allowed (**assessment can be pledged as security**)
 - Counties (and cities) were given broader authority for "critical infrastructure"
 - **Minimizes burden on those who don't benefit from improvements**
- Two deals done in NC so far: Hillsborough Waterstone Development and Mooresville Langtree Project

Innovative Financing:
Special Assessment Districts

- Improvements do not have to be complete before the assessment is imposed; based on estimated cost
- Basis for assessment not prescribed, but must bear a relationship to the improvements
- **Requires a petition** from a majority of property owners, representing 66% of the assessed property value; the petition must include the estimated cost
- **Lengthy and complex** process to establish (11 steps)

Innovative Financing
Tax Increment Financing

- Security is **increase in property taxes revenues** from project
- LGC does not like them, so process for **getting them approved is difficult**
- Both NC deals have been troubled:**
 - Roanoke Rapids Randy Parton Theater;
<http://www.wral.com/news/local/politics/video/6349936/>
 - Buncombe County Woodfin
- Some places do **synthetic TIFs**

Innovative Financing
Examples

- Infrastructure to encourage private development:
 - Charlotte—Westin Hotel, NASCAR museum, and NASCAR office tower
 - Raleigh—Marriott Hotel
- Commercial real estate: Kannapolis NC Research campus
- IRBs: Columbus County, Catawba County, Guilford County—all industrial improvements
- Private: Fayetteville retail/office building

Source: State Treasurer's Office, *Public-Private Partnership Financing Examples* (2009)

Bond Issuance Process

- Project planning
- Preliminary discussions with LGC (estimates of projects, etc.)—approve GO referendum application
- Vote (if required)
- Bids must be in hand
- Public hearing and adoption of resolution by governing board
- LGC approval
- Receiving ratings
- Finalize Official Statement
- Sale date
- Closing

Actors in GO & Installment Debt

Public Market	Private Market
<input type="checkbox"/> County Attorney	<input type="checkbox"/> County attorney
<input type="checkbox"/> Local Government Commission (LGC)	<input type="checkbox"/> LGC
<input type="checkbox"/> Financial Advisory (FA)	<input type="checkbox"/> FA (deals with bank, gets best interest rate, handles details)—not required
<input type="checkbox"/> Bond Counsel	<input type="checkbox"/> Bond counsel
<input type="checkbox"/> Underwriter Bond Counsel*	<input type="checkbox"/> Bank
<input type="checkbox"/> Underwriter*	<input type="checkbox"/> Bank counsel
<input type="checkbox"/> Trustee*	

*Only for Installment Debt, not required for GO

Local Government Commission (LGC)

- Division of the State Treasurer's Office
- Oversees issuance of almost all debt by local government
- Oversight is one of key reasons why we have high bond ratings
- Tremendous resource, especially for smaller jurisdictions, will help walk you through financing (FA for smaller entities)
- Charge for application and review; \$12,500 for LOB

Bond Rating Agencies

- Three agencies: Moody's, Standard & Poor's, Fitch (rate on different factors)
- Agencies rate GO Bonds, highest rating
- For installment debt, usually assign one step below; may step down 2 levels if "non-essential"
- Beneficial to visit or have them visit for large projects/issuances or pushing for upgrade
- Have to pay for rating; Moody's (\$23,500); S&P's (\$20,900)

Bond Rating Agencies

What determines your rating?

Moody's	Standard & Poor's
<input type="checkbox"/> Economy 30%	<input type="checkbox"/> Economy 30%
<input type="checkbox"/> Finances 30%	<input type="checkbox"/> Management 20%
<input type="checkbox"/> Management/ Institutional Framework 20%	<input type="checkbox"/> Liquidity 10%
<input type="checkbox"/> Debt 20%	<input type="checkbox"/> Budgetary Performance 10%
	<input type="checkbox"/> Budgetary Flexibility 10%
	<input type="checkbox"/> Debt & Contingent Liabilities 10%
	<input type="checkbox"/> Institutional Framework 10%

Bond Rating Agencies

What determines your rating?

- Agencies use different factors and weightings:
- In improving your rating, focus on finance, management, and debt—you can affect these in the short-term
- If you are not rated by all 3 agencies, consider the criteria before seeking a rating

Bond Rating Agencies

NC AAA Ratings

	Moody's	S&P's
Cities	8	13
Counties	5	8

What is the smallest county in NC to hold a AAA?

What is the smallest city in NC to hold a AAA?

What is the smallest city with a bond rating?

Bond Rating Agencies
Exercise 8: Help Chatham

- Review Chatham's Moody's score card (attachment on Page 33 of Workbook)
- What strengths does the county have?
- What weaknesses?
- What areas does the county need to improve for a AAA from Moody's?

Refunding

- Done to save interest costs
- Lots of deals in recent year because of very low interest rates
- Timing is important
- LGC still reviews
- 45-60 day process
- LGC will generally require level annual savings
- Talk to FA; or with IRMA exemption, can talk to banks

Bond Counsel

- Very specialized; need **special attorney**
- Reviews all documents
- Makes sure everything is legal**
- Documents are very tedious to review
- Provides an opinion that the documents, project and legal structure are legal and fair
- \$58K for Chatham's last financing

Pay-as-you-go Options
CDBG

- Two categories of funding for infrastructure:
 - Residential: NC Department of Environmental Quality (max of \$2M, allocated on point system)
 - Economic Development: NC Department of Commerce, Rural Economic Development Division:
 - CDBG funds to local governments for infrastructure improvements
 - For business expansion or retention
 - Local funding match \$1 for every \$3 CDBG dollars is required except for the 25 most distressed counties

Pay-as-you-go Options
CDBG Funds – What’s Eligible?

- State program is restricted to water and sewer
- Entitlement cities & urban counties have discretion on how to set up programs & use CDBG funds; examples:
 - Sidewalk improvements or installation, water & sewer, road paving, flood drainage improvements, & culvert improvements or installations

Pay-as-you-go Options
Other Grants Administered by State

- Downtown revitalization
- Drinking water reserve program (grants and loans)
- Building reuse
- Building demolition
- Parks and Recreation Trust Fund

Pay-as-you-go Options Capital Reserve Funds

- Authorized by Statute
- Governing board must establish
- How it is accumulated:
 - Extra fund balance
 - Annual appropriation
 - % of general revenue
 - Special revenues (impact fees, other fees, 911 funds, recreation exaction, donations and outside fundraising)
 - Depreciation
- Examples
 - Chatham County Friends of Library raised \$750,000 for "enhancements"
 - Plano, TX funds 75% of annual depreciation for streets and parks (Jack Vogt)

Pay-as-you-go Options Other Ideas

- Use operating revenues for smaller projects
- Use fund balance, if it is sustainable (more later)
- Set user fees to help recover capital costs (water and sewer impact fees are now a problem)

Best Practices

- Establish **and follow** policies for:
 - Debt: how much, when, how
 - Fund balance maintained and usage
 - Moore County example beginning on Page 23 of Workbook
- Forecast financial condition** and ensure CIP funding is sustainable (including operating)
- Balance debt and pay-as-you-go
- Leverage partnerships** with other governments and the private sector
- Improve bond ratings

Jack Vogt: Capital Budgeting—Responding to Infrastructure Needs & Implementing Strategic Goals

Policies
Debt: How Much?

- Debt limit
 - Legal debt limit for NC jurisdictions is **8% of assessed value**
 - Counties range from 0.014% to 2.976%
 - Cities range from .007% to 2.116%
- Per capita debt
 - No legal restriction
 - Counties range from \$7 to \$3,038
 - Cities range from \$0 to \$58,923
- Debt service as a % of operating budget
 - LGC wants **no more than 15%** because it reduces flexibility
 - Mitigated by “debt reserve”

Policies
Debt: When and How?

- When?
 - Project threshold
 - Project type
- How?
 - What type of debt will be issued?
 - Policies on 2/3 bond and refunding

Exercise
Pages 24-25 of Workbook

- Read the debt section of Moore County’s Policy
 - What capacity policy does Moore have?
 - When will the county issue debt?
 - What happens if debt service exceeds 15%
- Group discussion: What are your jurisdiction’s debt policies?

Policies
What is Fund Balance?

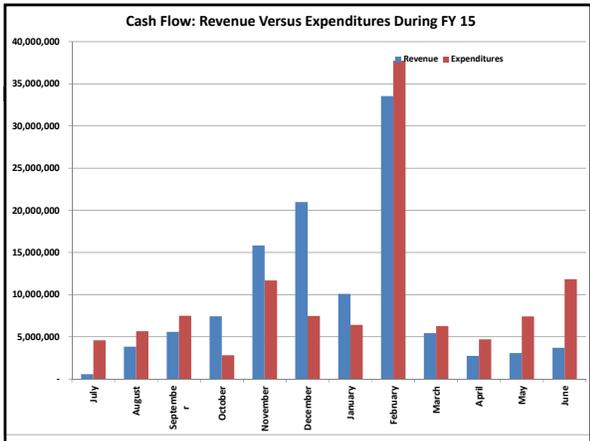
- Excess, **surplus**, or unbudgeted money
- “End of fiscal year, that portion of your money that can be carried forward to finance budgeted expenditures during next fiscal year”
- Unappropriated** and **not designated** for specific purposes; serves as a general operating reserve for budget

Source: Lee Carter & Jack Vogt, *Fund Balance in Local Government Finance*

Policies
Importance of Adequate Fund Balance

- Helps with emergency needs
- Moderates unexpected revenue shortfalls
- Cash flow
- Take advantage of financial opportunities (refunding bonds OR project ideas that emerge)
- Bond ratings

Source: Lee Carter & Jack Vogt, *Fund Balance in Local Government Finance*



Policies
When to Use Fund Balance?

- Policy maker decision—set a policy and follow it!
- LGC requires 8% of general fund expenditures (MINIMUM!)=1 month of operating expenses
- What is Moore County’s policy? (Page 25 of Workbook)

Source: Lee Carter & Jack Vogt, *Fund Balance in Local Government Finance*

Policies
When to Use Fund Balance?

- Averages:**
 - Large: 14-24%
 - Medium: 11-53%
 - Small: 25-100+%
- Advice:**
 - Avoid the “LGC Letter” at all costs!
 - Should use for “**one-time events**” instead of ongoing operations
 - Model it** (see Chatham example, Workbook pages 41-42)

Source: Lee Carter & Jack Vogt, *Fund Balance in Local Government Finance*

CIP Operating Effect

- Where does capital project spending affect the operating budget?
 - Debt payments
 - Contribution to capital reserves
 - One-time funding from operating budget
 - New personnel to run new facilities
 - New operating costs (utilities, etc.)
 - Revenues
 - Reduced costs (e.g., rent payments)

CIP Operating Effect Chatham Example (P. 34 of Workbook)

- Most operating costs, unless fixed by contract, are inflated 3%
- Operating includes:
 - New personnel
 - One time and ongoing operating costs
 - Capital outlay
 - Savings
 - Additional revenue

Exercise 9 Case Studies

- Choose your jurisdiction
 - Small town, population of 8,325, economically challenged with significant needs and opportunities (Advisor: Bryan)
 - Medium-sized county, population of 100,000, economically well off with significant needs and opportunities (Advisor: Renee)
- Read the case study thoroughly
- Follow the instructions on Page 3: prioritize projects (criteria explained on last page of case study) and develop a recommended CIP
- Also answer the questions at the end
- You will present your recommended CIP to the Board (Donna, Bryan, and Renee)

Questions, Evaluation & Thank You!

- Do you have any questions for us?
