

## CAPITAL BUDGETING

Chatham's Story and an Overview of CIP

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### Presenter

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- ❑ Renee Paschal, Chatham County Manager
- ❑ Developed Chatham's first CIP in 1996
- ❑ Prioritization process featured in *ICMA's Capital Budgeting and Finance*

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### Sources

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- ❑ 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

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### First, a little quiz

- Locate Chatham County on the map:



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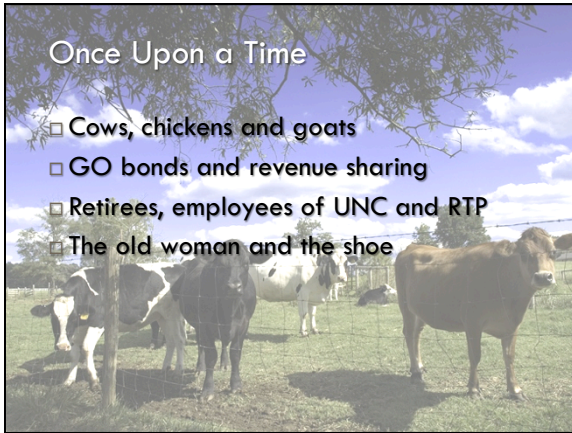
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### Once Upon a Time

- Cows, chickens and goats
- GO bonds and revenue sharing
- Retirees, employees of UNC and RTP
- The old woman and the shoe



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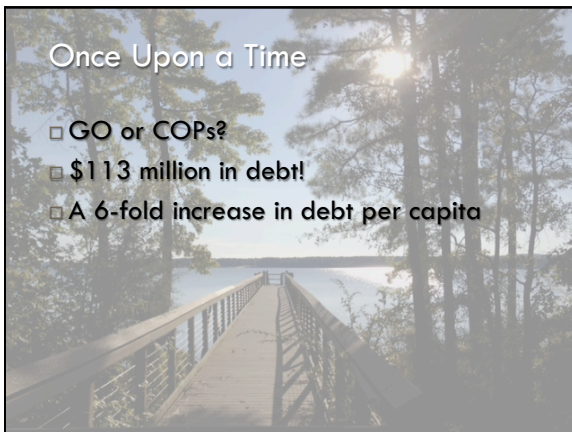
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### Once Upon a Time

- GO or COPs?
- \$113 million in debt!
- A 6-fold increase in debt per capita



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Enter the Wizard

- ▣ Doug Carter and Associates (DEC)
- ▣ The debt model
- ▣ BOC unanimously adopts CIP
- ▣ Projects begin



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And we all lived  
happily ...  
...for a couple of years



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But is a success story

- ▣ 11 years later
- ▣ We have a lot to show for it
- ▣ In spite of (because of?) the recession



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## Chatham County Justice Center

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




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## Margaret Pollard Middle

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




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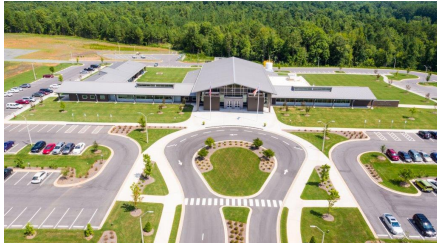
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## Agriculture & Conference Center

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




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### 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

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### Before the Recession

- ☐ Set aside 4 cents on the tax rate to fund the debt model—*this was key*
- ☐ Set up the debt reserve
- ☐ Authorized DSS expansion, business park construction, and new elementary school
- ☐ These projects were nearly complete before recession began
- ☐ Funded through Certificates of Participation (COPs)
- ☐ Design work for community college buildings, middle school and library complete

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### During the Great Recession

- ☐ At first, we couldn't find money to borrow
- ☐ Financing was difficult to obtain, but we were able to obtain bank loans and, eventually, an ARRA loan
- ☐ Construction bids were significantly below budget:
  - ☐ Library 13% below bids received in August 2008
  - ☐ Community college building 19% below budget
  - ☐ School 13% below budget
  - ☐ Justice center 17% below budget
- ☐ Interest costs were at all-time lows, 2.68% for Agriculture & Conference Center

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## Strategy: Focused on Funding

- Every project scheduled in the CIP is funded
- Funds are accumulated up front
- Projects without a funding source are classified as “future projects” and are not scheduled
- This category has been useful:
  - Alleviates need for “pie-in-the-sky” projects
  - Alerts the board to needs on the horizon that may compete with scheduled project for funds
- We spend much time on identifying operating costs—now used as basis for expansion requests

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## Why AAA?

- Rating agencies cited:
  - Excellent planning—CIP and fund balance model, which includes CIP operating effects
  - Reserves (including capital reserve to pay future debt and fund balance)
  - Adoption of and adherence to Financial Policy, including maintaining adequate fund balance
- Important because county is able to borrow funds at lowest interest costs available and most favorable terms

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## AAA: Debt Model/Reserve

- The reserve has held up through 3 complete BOC changes
- Currently on version 52b of model
- Evers out contributions to the debt reserve
- Without model 10.9 cents would have been required in FY 18 for debt service covered by the model (v. 7.7-cent annual contribution to reserve)
- High of 19.2 cents needed in 2022
- Funds accumulated up front—favorable view from rating agencies
- No tax increase is needed to fund debt service for existing and future projects (does not include operating)

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### AAA: Fund Balance Model

- 7-year projection of the county's revenues, expenditures, and uses of fund balance
- Ensures the county stays above its 20% goal of unassigned fund balance
- County appropriates fund balance only for one-time expenditures

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### AAA: Financial Policy

- In place since 2003; reaffirmed by four different boards
- Establishes goals, such as maintaining fund balance
- Also covers:
  - Budget
  - Debt
  - Fees & User Charges
  - Capital Improvements Program
  - Fund Balance
  - Capital Reserves
  - Cash Management
  - Accounting & Financial Reporting

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### AAA: Other Information Presented

- Indicators:
  - High per capita income
  - Low unemployment and recent job growth
  - Positive performance in general fund during recession
  - Building permits recovering
- Two very large economic development projects (megasite for auto and Chatham Park); EDC President also presented to rating agencies

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## CAPITAL BUDGETING

Covering the Bases

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### 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)

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### 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

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## 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.

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## 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)

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## Exercise 1: Examples of Capital Projects

- Review the Carrboro Sidewalks (Workbook pages 1-2) and Mecklenburg Medic Facility (Page 3)
- 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?

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## 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




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## 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 document, others have a separate document and process
- Synonymous with "**capital budgeting**"

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## City of Clinton CIP Example

- Workbook, pages 4-15
- 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

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## Legal Framework of Capital Budgeting

- Not legally required
- If done, **statutes charge manager** with preparation
- Governing board must:
  - Adopt **project ordinances**, if used (§ 159-13.2)
  - Establish **capital reserve funds**, if used (§ 159-18)
- A CIP is **a plan, not a budget**, and does not authorize spending
- On the other hand, debt is highly regulated (more later)

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## 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

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## 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

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

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### 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

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### Sources of Goals

- ☐ Comprehensive land use plans
- ☐ 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 developing its CIP?

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### 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.

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## 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**?

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## 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

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## Plans and Policies that Guide

- ☐ Plans: comprehensive, strategic, master, etc.
- ☐ Financial Policies, cover:
  - ☐ Debt
  - ☐ Budget and CIP preparation
  - ☐ Reserves
  - ☐ Fund balance
- ☐ Exercise 2: Review Moore County's policy (pages 17 & 20) of Workbook). How long is the County's CIP for general projects? How long for enterprise funds?

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## What Timeframe Do You Use?

Which timeframe is better for a CIP and why:

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

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## Calendar for Preparation

- ☐ Examples (Workbook pages 22-23)
  - ☐ Chatham County
  - ☐ Wake County
- ☐ When is your jurisdiction's CIP adopted?
- ☐ Which is better, a CIP that is before the operating budget process or a CIP that is part of the operating budget process?

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## Where Do Projects Come From?

- ☐ Specified in plans
- ☐ 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

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## 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

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## Choosing What Gets Done: 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

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## 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)

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## 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

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## Mecklenburg County

- ☐ Much more complex
- ☐ See Workbook Page 24

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## 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

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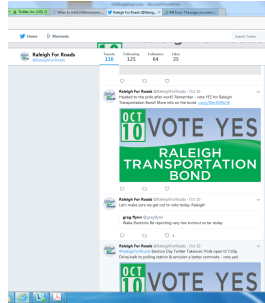
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## GO Bond Campaigns

- ❑ Public sector can only provide factual information
- ❑ City of Fayetteville video: [BondReferendumVideo](#)
- ❑ Raleigh for Roads
- ❑ Referenda must be during regular primary or general election in even numbered years (municipal exception)




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## Miscellaneous Other Advice

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## 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

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## Chicken & egg problem



- Which comes first?
  - Project budget
  - Funds for planning
- Chatham uses designation of “future projects”
- Steps:
  1. Document need as future project
  2. Budget *planning funds* in operating budget (feasibility study)
  3. Develop project budget
  4. Include project in CIP
  5. Develop project ordinance or include in operating budget
  6. Spend \$

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## 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?

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## Capital Finance

- Overview of capital financing:
- Debt finance
  - Pay as you go
  - Some best practices

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## Financing Methods

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

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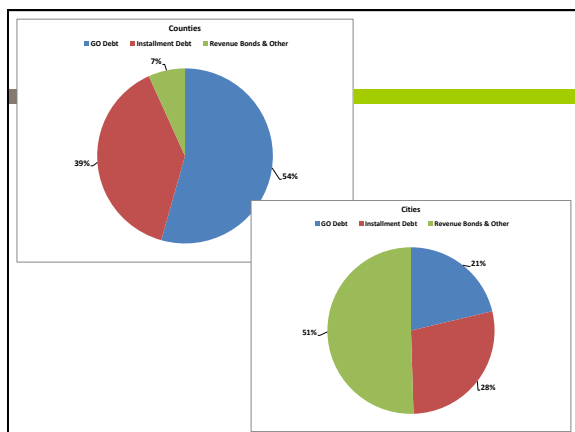
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## It's All about Collateral

- Full faith and credit, **taxing power** (GO)
- **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

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### 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
- Which projects are appropriate for GO debt? Why?

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### 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
- Term can be up to 30 years

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### 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?

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### 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?

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### 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

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### Traditional Financing 2/3 Bonds

- ☐ 2/3 Financing
- ☐ Limit of \$30M authorization
- ☐ Can issue new bonds for 2/3 of GO principal retired within the year
- ☐ Have to go through LGC
- ☐ Required to go through same authorization in bond document

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### 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

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### 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

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### 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 24-46 for Grant and Loan sources through NC Commerce, NC DEQ, and USDA

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### 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
- ❑ See Workbook Page 36

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### 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

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### 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

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## 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)

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## 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**

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## 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

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## Actors in GO & Installment Debt

### Public Market

- ☐ County Attorney
- ☐ Local Government Commission (LGC)
- ☐ Financial Advisory (FA)
- ☐ Bond Counsel
- ☐ Underwriter Bond Counsel\*
- ☐ Underwriter\*
- ☐ Trustee\*

\*Only for Installment Debt, not required for GO

### Private Market

- ☐ County attorney
- ☐ LGC
- ☐ FA (deals with bank, gets best interest rate, handles details)—not required
- ☐ Bond counsel
- ☐ Bank
- ☐ Bank counsel

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## 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

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## 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)

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## Bond Rating Agencies NC AAA Ratings (2015)

	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?

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## 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

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## 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

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## Financial Advisor

- ☐ Provides independent advice, they sit **on your side**
- ☐ Regulated by MSRB and SEC (Frank-Dodd Act)
- ☐ **Helps you plan** your debt
- ☐ **Develops models** for repayment of debt and funding
- ☐ Deals with banks and underwriters
- ☐ Helps choose underwriter
- ☐ Oversees bond sale; help you choose best time to sell
- ☐ Helps with presentations to rating agencies
- ☐ Shops around for best interest rates

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

- ☐ CDBG Infrastructure
- ☐ Downtown revitalization
- ☐ Drinking water reserve program (grants and loans)
- ☐ Building reuse
- ☐ Building demolition
- ☐ Parks and Recreation Trust Fund
- ☐ See Workbook for more information

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## 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
  - ☐ Depreciation
- ☐ Examples
  - ☐ Chatham County contributes a minimum of 1% of its operating budget
  - ☐ Plano, TX funds 75% of annual depreciation for streets and parks (Jack Vogt)

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## 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 covered by new legislation)

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## Best Practices

- Establish **and follow** policies for:
  - Debt: how much, when, how
  - Fund balance maintained and usage
  - Moore County example on Pages 17 & 18 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

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## Policies

### Debt: How Much? (2015)

- 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”

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## 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

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## Exercise

### Page 17 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 1.5%
- ☐ Group discussion: What are your jurisdiction's debt policies?

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## 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 18 of Workbook)

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

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## 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 47-48)

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

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## 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)

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## CIP Operating Effect

### Chatham Example (P. 49 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

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Questions?

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