

## Capital Investment Financing Options



CITY OF JONESBORO, AR

## Capital Project Considerations

- Economic impact and return on investment to the community.
  - Catalyst for redevelopment of blighted areas.
  - Impact on quality of life, especially to young talent.
  - Impact on public safety.
- Ability to attract/match grants, foundations, contributions, naming rights.
- Annual operational costs: Additional staffing, equipment, and maintenance.

## RFP – Public/Private Partnership

- Purpose – Redevelopment project:
  - Entice a developer to build a priority project in a redevelopment area which would have a significant economic benefit and catalyze additional development.
- RFP – would determine:
  - Which developer best has the capability to do the project, and proposes the best scope of development.
  - What is the least amount of city funding of public improvements needed? (The “but-for” test.)

## Financing Method #1

### 1. Cash from reserve funds:

- Amount possible:
  - Unrestricted reserves, est. at 12/31/20: **\$19 mil.**
  - AR law required reserves\*: \$7.8 mil.
  - GFOA recommendations\*\*\*: **\$8.7 mil.**
  - “Excess” unrestricted reserves (using GFOA): **\$10.3 mil.**
- Difference on interest rates:
  - Cash deposits on reserve funds: est. 1.25%
  - Debt/Lease: est. 3% (plus fees)

\* Required: 15% of O&M  
 \*\* GFOA: 17% of O&M  
 O&M budget: \$52 mil.

## Financing Method #2

2. Debt/lease payments from existing cash flow (**no** tax increase).
  - Council approval (no public vote):
    - a. Maximum of 5 year term; OR,
    - b. Term longer than 5 years, but repayment is restricted to franchise fees.
  - Voter approval required:
    - Term more than 5 years and pledging sales tax for payments.

## Financing Options – No Tax Increase

Type	Limit	Approval	Disadvantage
Cash from Reserve Funds	NA	Council	* Takes several years.
Bank Loan or Lease	5 year term	Council	* Small loan amount due to short term.
Sales Tax Revenue Bond	Not Limited by law (but by cash flow)	<b>Voters</b>	* Higher bond amount possible. * Long timing to place on ballot * Election costs
Franchise Fee Revenue Bond	Franchise Fees	Council	* Limited amount of Franchise Fees.
Municipal Lease	Franchise Fees	Council	* Limited amount of Franchise Fees. * Higher fees than Revenue Bond.

## Revenue Bond vs. Municipal Lease

	Revenue Bond	Municipal Lease
Facility Owned by (until paid off):	City	Developer
Speed of project completion:	Longer	Shorter
Architect/Const. Mgmt. selected by:	City Council	Developer
Contractor selected by:	City Council	Developer
Developer Fees (% of Project Cost)	None	Up to 8%
Operation/Maintenance, Taxes, Insurance of Facility	City	City

## Franchise Fees

- Amounts:
  - 2018 Actual: \$1,766,000
  - 2019 Actual: \$1,716,000
  - 2020 Budget: \$1,600,000
  - 2021 Est. **\$1,500,000**
- Discount if pledging for debt service.
  - 30% (of \$1.5 million) = \$450,000
- Maximum possible Debt Service: **\$1 mil./yr.**

Est. Funding with **\$1 mil.** in annual debt service

Amortization	Revenue Bond	Municipal Lease**
10 year	\$8 mil.	\$7.4 mil.
15 year	\$11 mil.	\$10.4 mil.
20 year	\$14 mil.	\$13 mil.

\* Assumes 3% interest rate; debt service reserve of 5% of project cost; Cost of issuance of 2.3%; and 1.5% reserve interest.

\*\* Assumes management fee of 8% for Municipal Lease.

(Doesn't include capitalized interest for either option.)

## Financing Method #3

3. Tax increase to provide funding for debt/lease payments:
    - Requires voter approval.
- Example: **1% sales tax increase.**
    - Est. new annual tax: \$17 mil.\*
    - 10 year term financing: est. \$130 mil.
    - 15 year term financing: est. \$180 mil.

\* Based on average of past 3 years; Assumes no annual growth.

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