

MEMORANDUM

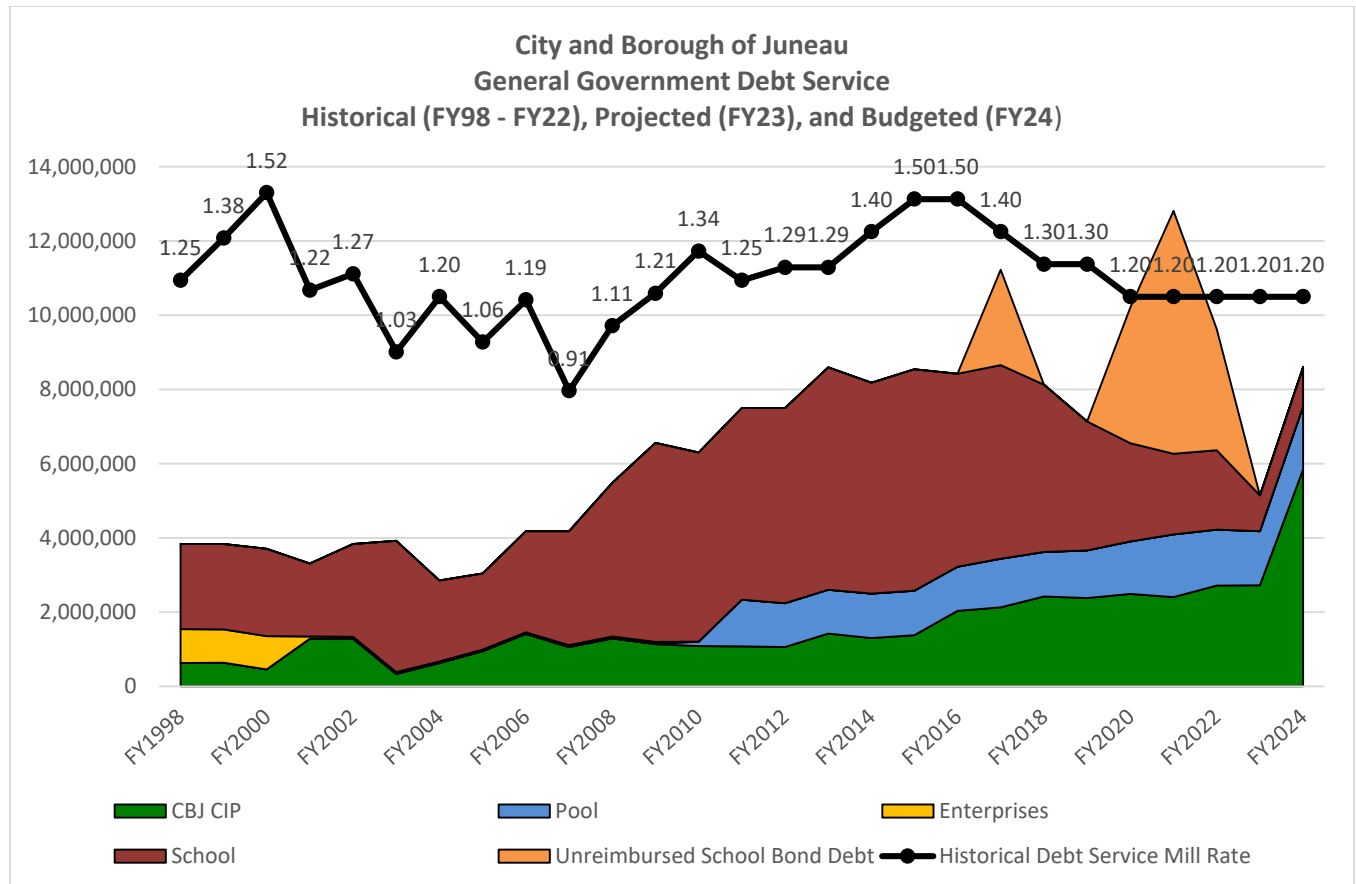


DATE: June 7, 2023
TO: Assembly Finance Committee
FROM: Jeff Rogers, Finance Director
SUBJECT: General Obligation Bond Capacity

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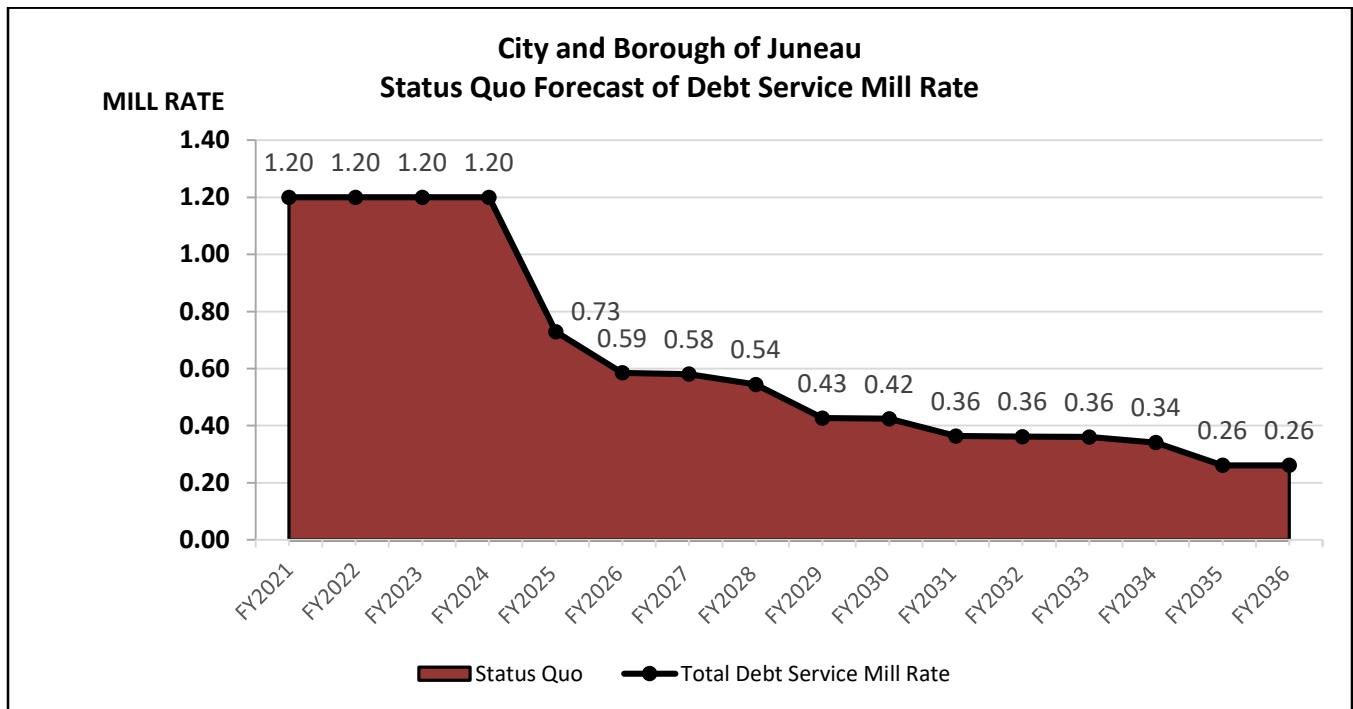
History of Debt Service

The following chart is an interesting view of CBJ's history of debt service since 1998. The black line plots the debt service mill rate, while the colored areas show the amount of debt service payments by function. As you can see, most debt spending over the past 25 years has been on school facilities (in red). You might note here that prior to 2014, the debt service mill rate fluctuated annually; but from 2014 to now, it has been flatter in the range from 1.2 to 1.5. During this time, debt has been issued strategically to limit rate volatility. In the years where CBJ experienced significant debt service shortfalls due to unreimbursed school bond debt (in orange), the balance of the debt service fund was temporarily allowed to go negative, which had the effect of spreading out that financial impact over several years. In FY2024, you can see the spike of debt service (in green) that corresponds to the accelerated rate of repayment on the newly issued park bond.



Future of Debt Service

CBJ is retiring GO debt rapidly in the coming years. The current 1.20 debt service mill rate is forecast to fall to 0.73 in FY25 unless the community votes to take on more general obligation debt or CBJ accelerates payment on existing GO debts. The following graph illustrates this projected trajectory.



Future Debt Capacity

PFM Group Consulting provided CBJ with a report on general obligation debt capacity in 2017. In that report, they focused on three measures:

- 1.) Percentage of assessed value
- 2.) GO debt service mill rate
- 3.) GO debt per capita

Measure #1: Percentage of Assessed Value

CBJ has informal internal policies limiting outstanding debt to 5% of assessed value. However, the 2017 analysis by PFM instead used 3% of Assessed Value as the limit. With CBJ's assessed value in FY24 at \$6.5 billion, CBJ would have capacity for \$195 million of outstanding debt. Given that CBJ will have about \$36 million of outstanding GO debt at the end of FY24, CBJ has approximately \$159 million of additional GO debt capacity according to this measure.

Measure #2: GO Debt Service Mill Rate

In their analysis, PFM calculated debt capacity at 1.5 mills which was the highest debt service mill rate in recent memory (from 2010). At 1.5 mills, CBJ generates enough property tax to pay \$9.75 million of debt service per year. Projected FY25 debt service is \$4.7 million, leaving \$5 million of additional tax to pay for GO debt. That amount of additional property tax is sufficient for a \$78 million bond amortized for 25 years at 4% interest. At the current debt service mill rate of 1.2 mills, CBJ generates enough property tax to pay \$7.8 million of debt service per year, which would leave \$3.1 million of additional tax to pay GO debt. That amount of additional tax is sufficient for a \$48 million bond amortized for 25 years at 4% interest. Note this is only a measure of additional debt capacity in FY25. Debt capacity in future years would continue to grow as other debts are fully retired.

Measure #3: GO Debt Per Capita

Again, PFM's analysis used the 2010 high-water mark for debt as the basis for calculating this measure. The bonded indebtedness per capita in that year was \$5,037. At 32,000 residents today, CBJ would have a debt

capacity of \$161 million, even before adjusting the per capita amount for inflation. Given that CBJ will have about \$36 million of outstanding GO debt at the end of FY24, CBJ has approximately \$125 million of additional GO debt capacity according to this measure.

These various measures of GO debt capacity are summarized in the following table:

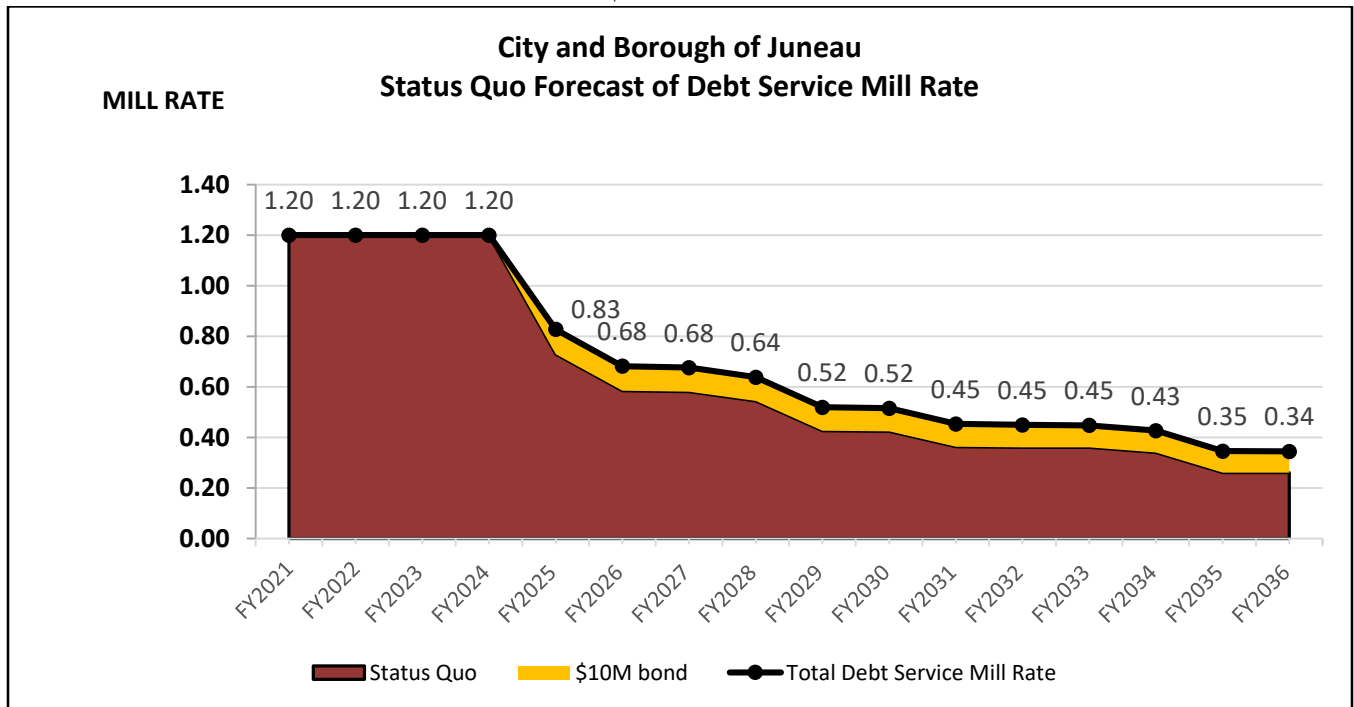
Measure	Total Capacity	Existing Debt	Implied Capacity
3% of Assessed Value	\$195 million total	\$36 million total	\$159 million
Debt Service Mill Rate of 1.5 mills	\$9.75 million annually	\$4.7 million annually	\$78 million
Debt Service Mill Rate of 1.2 mills	\$7.8 million annually	\$4.7 million annually	\$48 million
\$5,037 per capita	\$161 million total	\$36 million total	\$125 million

Facing similar results in 2017, PFM concluded that it was most practical for CBJ to consider debt capacity primarily based on debt service mill rate tolerance rather than from assessed value or population. Since that analysis, CBJ has generally calculated its potential debt capacity against the “limit” of 1.2 mills for debt service.

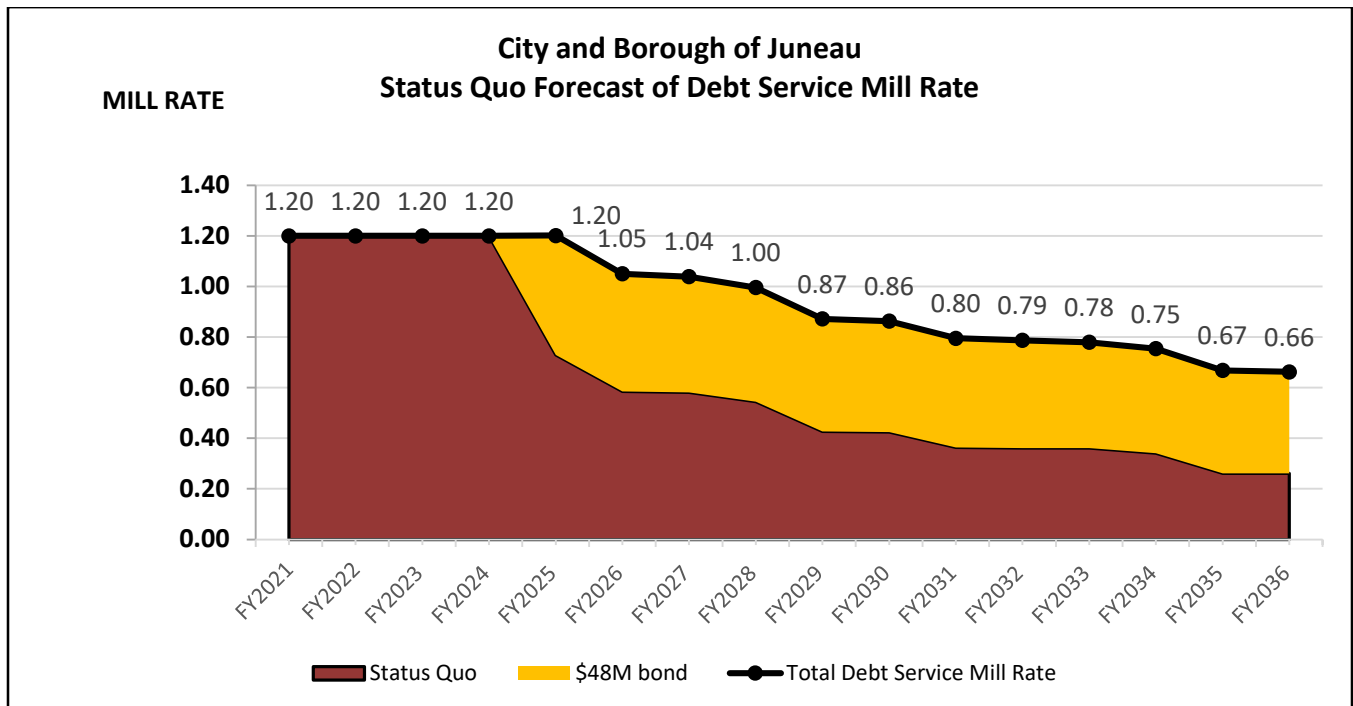
Debt Service Mill Rate Going Forward

It’s best to consider the impact of potential bond issuances using the debt service calculation model. But in short, every \$10 million of new GO debt (25 years @ 4%) impacts the debt service mill rate by about 0.1 mill. Shorter terms will result in higher payments for fewer years, longer terms will result in lower payments for more years. Generally, bond terms of more than 25 years are not recommended.

Here is the debt service model forecast with a new \$10 million bond:



And here is the debt service model forecast with a new \$48 million bond (the maximum amount of bond capacity while maintaining a 1.2 debt service mill rate):



Accelerating Debt Service Payments

As an alternative to new debt issuance, CBJ could opt to retain the 1.2 debt service mill rate and use the excess tax revenue to pay down existing GO debts more rapidly than originally planned. CBJ has about \$8 million of outstanding GO debt that will be callable in FY25, meaning that it could be paid down in advance. For example, without any new GO debt, if CBJ retained the 1.2 mill rate, the city could fully retire that callable \$8 million bond in the next two to three fiscal years. Paying down future debts in advance would expand the debt capacity available to future Assemblies (accordingly, it steepens the decline of the debt service mill rate in the future).

Recommendation

- 1.) Consider renewing the New City Hall bond question with voters
- 2.) Review the following documents and plans for projects that may be ripe for debt financing
 - a. 5-year Capital Improvement Plan
 - b. Legislative Priority List
 - c. Assembly Goals
 - d. Outcomes of the Joint Assembly/School District Facilities Committee
- 3.) Avoid bond sales under \$10 million
 - a. Some costs of issuance are fixed per bond issue, so small bonds are cost inefficient
 - b. Multiple bonds approved by the public can aggregated into one more cost efficient bond sale
- 4.) Consider proposing bonds for groups of related projects, such as:
 - a. Public Safety
 - b. Parks
 - c. Transportation
 - d. School improvements

Additional Considerations on School Improvements

From 2000 forward, CBJ completed many school projects, including the construction of TMHS, one of the largest CIPs ever undertaken by CBJ. During these years, school facilities that had not received much if any maintenance

for several decades were completely remodeled and substantially upgraded. The State school bond debt reimbursement program allowed for 70% of the costs of these projects to be paid for by the State. The Assembly should anticipate significant school facility costs in the future, but not to the level of spending in the last twenty years. No new schools are planned (TMHS, Riverbend Elementary and DZMS were all brought on-line in the last 30 years) and most facilities will need maintenance projects that will not rise to become systemic tear down to the studs affairs. The ongoing Joint Assembly and School District planning committee has the task of ultimately making big community decisions about school facilities. Although school projects in the future will not be as aggressive, the State contribution is also uncertain, quite possibly less than 70% of the costs of the projects.