

EXECUTIVE BRIEF REGULAR MEETING

AGENDA DATE: June 2, 2020

DEPARTMENT: Financial Services

TITLE:

Ordinance No 2020-04 – second reading -authorizing the incurrence of debt obligations to fund cash flow deficits related to the COVID-19 pandemic

SUMMARY:

Authorization to issue temporary debt backed by City non-ad valorem revenues for the purpose of providing a funding source for potential cash flow deficits resulting in diminished revenue collections created by the Covid-19/Corona Virus pandemic.

BACKGROUND AND JUSTIFICATION:

As the result of the Covid-19/Corona Virus pandemic, the City has, and is expected to continue experiencing significant decreased revenue collections. Additionally, there is no certainty to the depth or duration of the impact, or how many cycles the City may experience as a result of the pandemic. Therefore, to mitigate potential working capital shortages, the City needs to be in a position to access an available funding source if/or when needed. It is expected that these funds will cover both operating and capital budget expenditures, including funding to initiate capital projects waiting on issuing other debt series.

Generally speaking, impacted revenue sources can be characterized as either timing differences, or lost revenue. For example, although the percentage of utility payments may be low as compared to historical experience, it is anticipated that these receivables will be collected over time. As such, the recognition of these revenues result in timing differences. On the other-hand, the late fees and penalties associated with these late payments are not expected to be collected, therefore these revenue streams are categorized as lost revenue.

It is important to understand that all funds do not share the same revenue streams and are therefore subject to varying degrees of timing versus lost revenue pressure. Based on to date analysis, it is estimated that the City's total monthly revenue impact is approximately \$950,000; \$585,000 timing and the remaining \$365,000 lost revenue. If there is a prolonged shut-down, it is expected that the monthly impact will increase as it becomes increasingly difficult for customers to stay current. It is also important to understand that when, what time of year, a shut-down occurs this too will impact revenue collections. For example, beach and golf course revenues will be impacted greater during peak season versus non-peak months.

In order to maximize the use of funds the City is considering a taxable component of the working capital debt. Since interest rates are low, there is not a significant difference between the taxable and non-taxable interest rate so the annual debt service would not be materially impacted. However; taxable bonds allow for a broader use of funds thereby avoiding potential IRS compliance issues. Under consideration are different debt structures which will depend on final loan approvals and underwriting constraints, but at currently it is expected that the bond will

have a ten to twelve-year maturity with a balloon payment and semi-annual interest payments with no pre-payment penalties thereby allowing the City to pay the loan off prior to term if able.

Dependent on the borrowing process, the principle being considered is between \$10 to \$20 million thereby providing opportunity to fund capital projects. The annual debt service, interest payment, for each \$10 million at 3% is \$300,000, which will be allocated between each fund based on its use of proceeds. Additionally, I would recommend creating a sinking fund if the debt is structured with a balloon payment. This would equal \$1million per year also allocated by fund.

The ordinance was approved unanimously at the Special City Commission Meeting on May 21, 2020.

MOTION:

Move to approve/disapprove – Ordinance 2020-04 - authorizing the incurrence by the City of debt obligations to fund cash flow deficits related to the COVID-19/Corona Virus Pandemic.

ATTACHMENT(S):

Fiscal Impact Analysis
Ordinance 2020-04

FISCAL IMPACT ANALYSIS

A. Five Year Summary of Fiscal Impact:

Fiscal Years	2020	2021	2022	2023	2024
Sinking Fund	\$0	\$0	\$1,000,000.00	\$1,000,000.00	\$1,000,000.00
Operating Expenditures	\$ 150,000.00	\$ 300,000.00	\$ 300,000.00	\$ 300,000.00	\$ 300,000.00
External Revenues	0	0	0	0	0
Program Income	0	0	0	0	0
In-kind Match	0	0	0	0	0
Net Fiscal Impact	\$ 150,000.00	\$ 300,000.00	\$1,300,000.00	\$1,300,000.00	\$1,300,000.00
No. of Addn'l Full-Time Employee Positions	0	0	0	0	0

B. Recommended Sources of Funds/Summary of Fiscal Impact:

Account Number	Account Description	Project Number	FY20 Budget	Current Balance	Agenda Expenditure	Balance
	Non-Ad Valorem Revenue					

C. Department Fiscal Review:

Bruce Miller, Financial Services Director