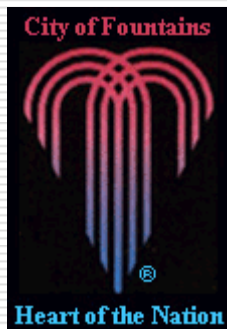


# Debt and its Impact on the City Budget

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Finance and Audit Committee  
May 16, 2007



# City Debt Service in FY 2007-08

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- Total Budgeted City Debt Service
    - \$200,950,311 of 16.4% of total City budget of \$1,226,737,224
    - Total of \$79.14 million is enterprise and assessment (total fee supported)
  
  - General Municipal Debt Service (Tax Supported)
    - \$121,810,543 in General Municipal Funds
    - 13.3% of total general municipal expenditures of \$910,503,984
  
  - Recommended budget standard is no more than 10% of general municipal expenditures on debt service.
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# Historical Comparison

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- Five Years Ago: FY 2002-03
    - \$95,350,454 or 9.8% of total City budget of \$971,142,620
    - General Municipal Debt Service that same year:
      - \$44,250,319 or 6% of \$727,702,408 Budget
  
  - Ten Years Ago: FY 1997-98
    - \$93,985,722 or 12.5% of total City budget of \$750,298,403
    - General Municipal Debt Service that same year:
      - \$53,450,128 or 9.7% of \$548,869,582 Budget
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# Advantages of Debt in Context of City Budget

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## **Intergenerational Equity**

- Roads, Buildings, and Bridges with multi-generational lifespans.
  - Address immediate needs
  - Future beneficiaries should pay their fair share

## **Optimum Match to Current and Future Revenues**

- Capital Asset Financed with Future Revenue Streams. Avoid Opportunity Cost associated with cash financing.
- Minimize outlay from scarce current resources.

## **Potentially Cheapest Form of Construction Financing**

- Construction cost escalators of 8% to 15% per year versus annual interest cost of 3% to 5%.
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# Disadvantages of Debt in Context of City Budget

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- **Limited Current and Future Financial Flexibility**
    - Debt service is paid first, limiting other options to use current resources to meet current needs.
  
  - **Underperformance of projects leads to current and future budgetary shortfalls.**
    - 81% of City's general municipal debt is backed by annual appropriation pledge.
      - Risk of shortfall falls back on the City to cover from current resources.
    - Co-dependence on debt financed projects to be successful and reduce City risk (downtown redevelopment)
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# A Breakdown of How Current City Debt Service is Paid

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- Total of \$200,950,311 budgeted debt service in FY 2007-08
    - Enterprise Revenues: \$77.8 million  
(Water and Aviation Department)
    - Dedicated Taxes: \$50.9 million  
(Restaurant Taxes, Fire Sales, Health Levy)
    - TIF/Economic Activity: \$27.8 million  
(Super TIF projects)
    - Multi Funding Sources: \$23.8 million  
(Combination of Fees, General Fund, Other)
    - General Fund only: \$16.8 million  
(Equipment Leases and Technology)
    - Fees and Charges: \$2.2 million  
(Tow Lot Charges, Municipal Court Fees)
    - Grants \$2.1 million  
(CDBG)
  - Goal is to maximize use of alternative funding resources.
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# Staff Role in Managing Debt on City Budget

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- Departments identify project needs and determine budget estimate to complete
  - OMB and Finance work to identify potential resources to address need
    - (e.g. fees, dedicated revenues, etc)
    - Goal is to minimize impact on scarce General Fund resources
  - Finance Department matches term of debt to expected lifecycle of asset to be acquired and manages debt issuance process.
  - Goal is unified staff recommendation to City Council for every debt related project
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# City Council Role in Managing Debt in City Budget

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- ❑ Debt is a tool that needs to be managed and balanced within context of all City resources.
    - Financing Long-Term Capital Assets with PAYGO or Debt?
    - Financing Short-Term Capital Maintenance with PAYGO or Debt?
    - Limiting exposure to economic development debt that underperforms
      - ❑ Growing risk in future year budgets
  - ❑ Need for a governing policy on debt issuance.
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