2016-2018
BUDGET WORKSHOP

Special Issue:

Debt Financing for Capital Projects

Overview of Presentation

1) Review of Capital Needs
2) Debt Financing for Capital Projects
   a) Can capital maintenance projects utilize debt financing?
   b) Could the 18% maintenance funding (per policy) be used for debt service?
   c) If yes, are there currently adequate funds?
   d) How much debt could we afford? (Scenarios of debt service at various borrowing levels)

Review of Capital Needs

- In the 2000s, the County issued Certificates of Participation (COPs) for major capital projects.
- Focus has been on deferred maintenance; but long list of unfunded capital improvement projects also exist
- The list of capital projects include new facilities; replacement of systems to address deferred maintenance needs; or upgrades or remodels
- Some major capital replacements are being addressed through maintenance funding
- $500K previously allocated to capital; was redirected to maintenance in Fy13-14

Review of Capital Needs (Continued)

- To begin evaluating and assessing our capital needs, Capital Executive Committee (CEC) was reestablished
  - Established criteria for ranking projects based on health, safety, and legal risks
  - Reviewed unfunded projects – departments identified $300M in needs over 5 year period
  - Preliminary evaluation identified high priority projects totaling $22.3M, mostly deferred maintenance (system replacements)
  - Some of these are also on the General Services FY 16-17 projects list
  - Other important projects were noted, including building rehabilitation (example: Engineering Building) in need of HVAC systems and office renovations
- Evaluated funding options, including debt financing

What capital maintenance projects may be appropriate for debt financing?

- Debt can and has been used for capital maintenance.
  - e.g. replacement of elevators, roofs, and HVACs
- Debt Advisory Committee (DAC) staff indicated County has not financed roads with debt previously and would not recommend it.
- DAC reviewed financing discussed here on March 18, 2016.
- FY 2016-17 Recommended 18% Maintenance Funding Policy:
  - 50% Public Works
  - 35% General Services
  - 15% Parks
- If this allocation were to remain the same in future years, only 35% of the 18% Maintenance funds would potentially be available for debt service for General Services projects.

18% Maintenance Funding Policy as Source for Debt Payments

- ***Are there adequate funds generated from the 18% Maintenance Funding Policy to act as the funding source for debt service so that projects could be accelerated? If funds are not currently adequate, when might they be?***
  - General Services has indicated that they need some base level of funding annually to address current unanticipated needs (perhaps as much as $1M per year).
  - Based on the above unanticipated needs, it is not expected that adequate funds would be available until FY 2018-19.

18% Maintenance Funding Policy as Source for Debt Payments

General Services

County of Santa Barbara
Use of 18% Maintenance Funds Available for Debt Service

	Current Funding	Projected Increase	Total Funding	GS (35%)	Baseline Needed *	Available for Debt Service
FY 2015-16	-	1,200,000	1,200,000			
FY 2016-17	1,200,000	1,300,000	2,500,000			
FY 2017-18	2,500,000	1,857,000	4,357,000	1,524,950	1,000,000	524,950
FY 2018-19	**4,357,000**	**2,500,000**	**6,857,000**	**2,399,950**	**1,000,000**	**1,399,950**
FY 2019-20	6,857,000	2,900,000	9,757,000	3,414,950	1,000,000	2,414,950

**** Assumptions:*** **GS 35% Allocation, Baseline of $1,000,000 needed for immediate use**

General Fund Debt Service Availability

- ***Is there existing General Fund debt service that will expire in the near term that could be used for capital improvement projects?***
  - **No**
  - The current level of General Fund debt service is about $2.1M. This amount fluctuates from year to year but doesn't significantly decline until FY 2024-25, at which time it reduces to $1M.

Scenarios of Debt Service at Various Levels

	$10 million 10-Year	$15 million 15-Year	$20 million 15-Year
Amount	$ 10,000,000	$ 15,000,000	$ 20,000,000
Rate	2.5%	3.1%	3.1%
Average Annual Debt Service	$ 1,264,000	$ 1,416,000	$ 1,889,000

Conclusions

18% Maintenance Funding Policy as Source for Debt Payments

- Currently there are not adequate funds available from the 18% Maintenance Funding Policy for debt payments.
- If current growth continues, there could be adequate funds to earmark for debt service by FY 2018-19.

General Fund Debt Service Availability

- A significant reduction in debt service won’t occur until FY 2024-25 when debt service for various projects will be paid off ($1.1M reduction from current level).