

TAB 1

POINT PAPER

DEBT CAPACITY ANALYSIS AND COMPARISONS

Problem: City Commission has expressed an interest in the city's current status with respect to debt balances, capacity and comparisons to other cities.

Background: The city currently has \$17,357,576 in outstanding debt, including the 2007 BOA Loan, but excluding the CRA Loan. The city began incurring this debt in 1998 with the SRF loans and now has a total of 5 loans and several capital leases.

Our budgeting process includes the CIP budget and capital expenditures have historically been funded through new debt. City Commission has expressed interest in receiving information concerning our outstanding debt, how the city compares to other cities and the available debt capacity. A power point presentation was quickly given to the Commission on December 17, outlining the current outstanding debt and comparison. However, there was insufficient time for discussion. The request was made to allow time for discussion on the January 7, 2008 workshop agenda. Staff is looking to provide information to the Commission and get feedback on a possible plan for future debt.

The power point presentation from December 17th is included in the agenda packet for review.

Alternatives:

No action necessary.

Recommendation: No action necessary.

Budget Impact: None. Presentation for information only.

Debt Analysis
City of Palmetto

December 17, 2007

Represented January 7, 2008



Background

- Debt financing is a tool used to meet capital needs
- Borrowing to finance long-term projects spreads payments across the life of the asset
- Until 2004, the City was primarily pay-as-you go for capital projects
- Since 2004, the City has used long term debt to finance capital projects



Types of Debt Financing

- Capital Leases
- Bank qualified tax-exempt loans
- Commercial Paper
- Lines of Credit
- General obligation, revenue or special assessment revenue bonds

Why issue Debt?

- Prevents things from getting worse, makes things better, or more efficient
- Some projects can only be afforded by spreading costs over many years
- Provides Equity
 - Today's taxpayers should not pay the entire costs of projects that will benefit future residents
 - Benefits from the capital investment accrue over time, costs should be paid over time

Methodology

- Define key ratios associated with measuring debt burden
- Compare key ratios with other peer group cities
- Develop conclusions regarding current debt obligations
- Assess potential for additional debt capacity
- Develop debt policy to guide future long-term financing needs

Current Debt Outstanding

City of Palmetto Debt Outstanding						
	Issue Date	Maturity Date	Issue Amount	Outstanding as of 11/30/07	Annual Debt Service	
<u>SRF Loan - Storm Water</u>	1999	2020	\$ 2,872,229	\$ 2,060,770	\$	201,488
<u>SRF Loan - Reuse</u>	1998	2022	\$ 415,000	\$ 62,396	\$	5,130
<u>2004 BOA Loan Payable</u>	2004	2024	\$ 4,300,000	\$ 2,394,580	\$	195,800
<u>2005 BOA Loan Payable</u>	2005	2026	\$ 6,500,000	\$ 6,219,518	\$	498,390
<u>2007 BOA Loan Payable</u>	2007	2027	\$ 5,337,000	\$ 5,337,000	\$	423,757
			\$ 19,424,229	\$ 16,074,264	\$	1,324,565
<u>Capital Leases</u>	Varies	2008-2011	\$ 2,256,283	\$ 1,283,312	\$	516,367
<u>Total</u>			\$ 21,680,512	\$ 17,357,576	\$	1,840,932
<u>CRA Loan Payable</u>	2006	2026	\$ 4,395,000	\$ 4,120,313	\$	481,171
<u>CRA Capital Leases</u>					\$	232,683

Comparable Data – Peer Group

(Using FY 2006 data)

<u>City Name</u>	<u>Population</u>	<u>Total Property Values (\$)</u>	<u>Total Debt (\$)</u>
Bradenton	54,911	3,260,207,962	34,704,909
Venice	20,800	3,057,435,171	41,414,220
New Port Richey	16,645	702,754,887	33,204,342
Punta Gorda	16,593	2,579,227,371	29,313,103
Oldsmar	14,000	1,037,392,812	10,077,957
Palmetto	13,272	661,503,856	12,936,993
South Daytona	13,056	556,516,369	21,789,966
Gulfport	12,935	785,531,011	0
Cocoa Beach	12,781	1,674,992,031	18,179,718
St Pete Beach	10,032	2,279,917,618	9,647,073



Key Ratios

□ Debt per Capita



This ratio takes into consideration that the total debt of the city is paid by its citizens, current and future. It is stated as the amount of outstanding debt per citizen.

Debt per Capita - How does Palmetto compare to the peer group? (Using FY2006 data)

<input type="checkbox"/>	Gulfport	\$	0	
<input type="checkbox"/>	Bradenton	\$	632	
<input type="checkbox"/>	Oldsmar	\$	720	
<input type="checkbox"/>	St. Pete Beach	\$	962	
<input type="checkbox"/>	City of Palmetto	\$1,341		11/30/07 \$1,240
<input type="checkbox"/>	Cocoa Beach	\$1,422		
<input type="checkbox"/>	South Daytona	\$1,552		
<input type="checkbox"/>	Punta Gorda	\$1,767		
<input type="checkbox"/>	Venice	\$1,991		
<input type="checkbox"/>	New Port Richey	\$1,995		

Average of Test Group \$1,238



Key Ratios

□ Debt as a percentage of Taxable Property

The fair market value of taxable property within a municipality is an important measure of wealth to support present and future revenue capacity to meet obligations.

Debt per Taxable Value - How does Palmetto compare to the peer group? (Using FY2006 data)

<input type="checkbox"/>	Gulfport	0.00%	
<input type="checkbox"/>	St. Pete Beach	0.04%	
<input type="checkbox"/>	Oldsmar	0.97%	
<input type="checkbox"/>	Bradenton	1.06%	
<input type="checkbox"/>	Cocoa Beach	1.09%	
<input type="checkbox"/>	Punta Gorda	1.14%	
<input type="checkbox"/>	Venice	1.35%	
<input type="checkbox"/>	City of Palmetto	2.67%	11/30/07 1.96%
<input type="checkbox"/>	South Daytona	3.92%	
<input type="checkbox"/>	New Port Richey	4.72%	
<input type="checkbox"/>	Average of Test Group	1.70%	

Key Ratios

□ Debt as Percentage of Personal Income

This concept is similar to the debt per capita ratio. It incorporates an “ability to pay” component into the evaluation of debt service burden.

Debt per Personal Income - How does Palmetto compare to the test group? (Using FY2006 data)

<input type="checkbox"/> Gulfport	0%	
<input type="checkbox"/> St. Pete Beach	1.12%	
<input type="checkbox"/> Oldsmar	2.18%	
<input type="checkbox"/> City of Palmetto	2.82%	11/30/07 2.40%
<input type="checkbox"/> Cocoa Beach	3.70%	
<input type="checkbox"/> Punta Gorda	5.70%	
<input type="checkbox"/> Venice	6.00%	
<input type="checkbox"/> Bradenton	17.90%	
<input type="checkbox"/> New Port Richey	N/A	
<input type="checkbox"/> South Daytona	N/A	
<input type="checkbox"/> Average of Test Group	4.93%	

Key Ratios

- Debt Service as percentage of operating expenses

This measures available resources for day-to-day operations. The higher the percentage the less flexibility the city has in its debt capacity. A range of 5%-15% is a common benchmark.

Key Ratio – Debt Service as % of Expenses

<u>FY08 Budget</u>	<u>Governmental Funds</u> CRA Excluded	<u>Enterprise Funds</u> Solid Waste Excluded	<u>Total Funds</u>
Debt Service (Principal & Interest)	624,368	1,216,564	1,840,932
Expense Budget (Excludes Depreciation)	13,095,734	5,648,320	18,744,054
Debt Service as % of Expenses	4.77%	21.54%	9.82%

Key Ratios

□ Debt Service Coverage

This illustrates the amount of net revenues that are available to cover the amount of debt service. In this calculation, the debt service is removed from the expenses. A common benchmark for this is 1.2. The higher the number, the greater the flexibility.

Key Ratio – Debt Service Coverage

<u>FY08 Budget</u>	<u>Governmental Funds</u>	<u>Enterprise Funds</u>	<u>Total Funds</u>
Operating Revenues (Includes transfers)	12,952,921	6,333,857	19,286,778
Operating Expenses (Excludes depreciation & Debt Service)	12,471,366	4,431,756	16,903,122
Available Revenues	481,555	1,902,101	2,383,656
Total Debt Service	624,368	1,216,564	1,840,932
Coverage	0.77	1.56	1.29

Conclusions

- Palmetto is at or below the average for many debt ratios (e.g., debt outstanding, per capita, personal income)
- Other debt ratios for the City are near suggested limits based on comparative ratios (e.g. % debt service/operating expenses, debt coverage)
 - Additional debt could require changes/reduction to operating expenses or additional or increased revenues
 - Additional analysis with specific information would be needed to formalize conclusions
- Staff will need to look at several sources to fund future capital projects
 - Impact fees/developer agreement (new growth)
 - Grants
 - Begin setting aside a portion of annual budget to fund capital improvements
 - Additional debt if capacity exists or can be obtained

Next Steps

- Proposed legislative changes will influence further debt capacity analysis
 - January 29, 2008 referendum
- Additional analysis is needed by staff to determine future debt capacity
 - Staff would like to seek assistance from GFOA or financial consultant to perform more in depth analysis
- Staff working to draft fiscal policies before FY 2009 budget for:
 - Fund balance
 - Debt
 - Budget