

City of Poquoson, VA

New Money Capital Funding Plan



April 9, 2018

New Money Needs and Capital Funding Approach



- The City identified the need for approximately \$23 Million in upcoming Capital Improvement Projects.
- Davenport prepared a New Money Capital Funding Plan, summarized on the following pages.
- Davenport assumed the City secures the funding needed for the Capital Improvement Projects while maintaining compliance with all of the City's debt policies by increasing the Real Estate Tax Rate by 6 pennies.
- Davenport analyzed the projected impact of New Money debt funding on:
 - Debt Affordability, i.e. the Capital Improvement Projects' impact on the debt service budget (i.e. cash-flow); and,
 - Debt Capacity, i.e. Key Debt Ratios with respect to the City's Financial Policy Guidelines.

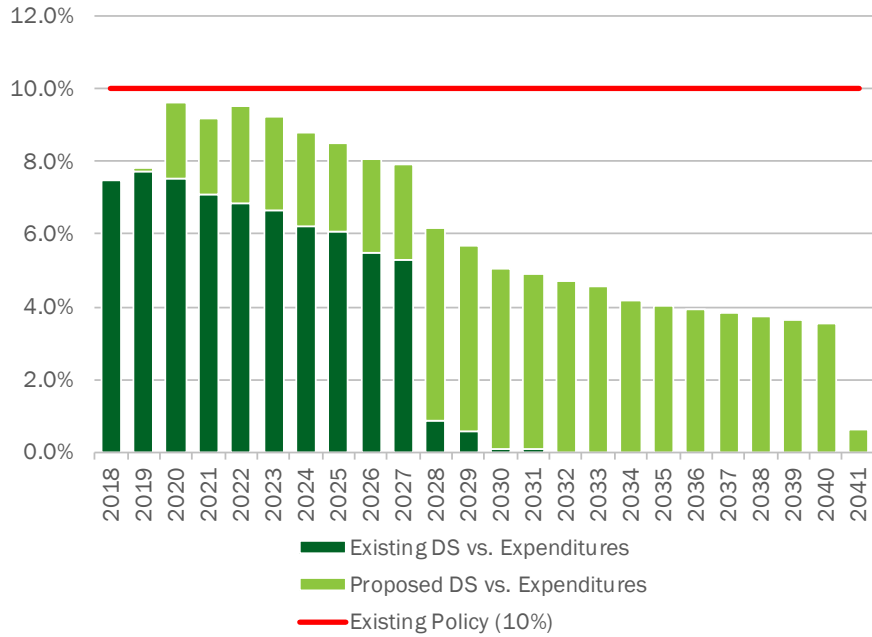
Key Assumptions



- Finance the Plan in Two Phases. They are as follows:
 - **Phase One** - Permanent Financing issued in the summer of calendar year 2018 (FY 2019) that obtains financing for approximately **\$18 million in project funds**.
 - ~20 Year Amortization
 - Planning Interest Rate of 4.50%

 - **Phase Two** - Permanent Financing issued in FY 2020 that obtains financing for approximately **\$5 million** (balance of CIP needs).
 - ~ 20 Year Amortization
 - Planning Interest Rate of 4.75%

Proposed Debt Service vs. Expenditures



- Standard & Poor's Criteria for General Obligation Credits Defines categories of Debt Service as a % of Governmental Expenditures as⁽¹⁾:

— Very Strong:	<8%
— Strong:	8% - 15%
— Adequate:	15% - 25%
— Weak:	25% - 35%
— Very Weak:	>35%

Category Commentary

- **Total Debt Service vs. Expenditures (FY 2018)**
 - Existing DS vs. Expenditures 7.49%
 - Proposed DS vs. Expenditures 0.00%
 - **Total DS vs. Expenditures 7.49%**
- **FY 2018 Debt Service**
 - Existing Debt Service⁽²⁾ \$3,042,357
 - Proposed Debt Service \$0
- **Total Debt Service vs. Expenditures (FY 2020)**
 - Existing DS vs. Expenditures 7.54%
 - Proposed DS vs. Expenditures 2.09%
 - **Total DS vs. Exp. 9.64%**
- **FY 2020 Debt Service**
 - Existing Debt Service⁽²⁾ \$3,187,852
 - Proposed Debt Service \$883,453
- **Operating Expenditures⁽³⁾**
 - FY 2018⁽⁴⁾ \$40,612,856
 - Growth Rate: 2.00%

Sources:

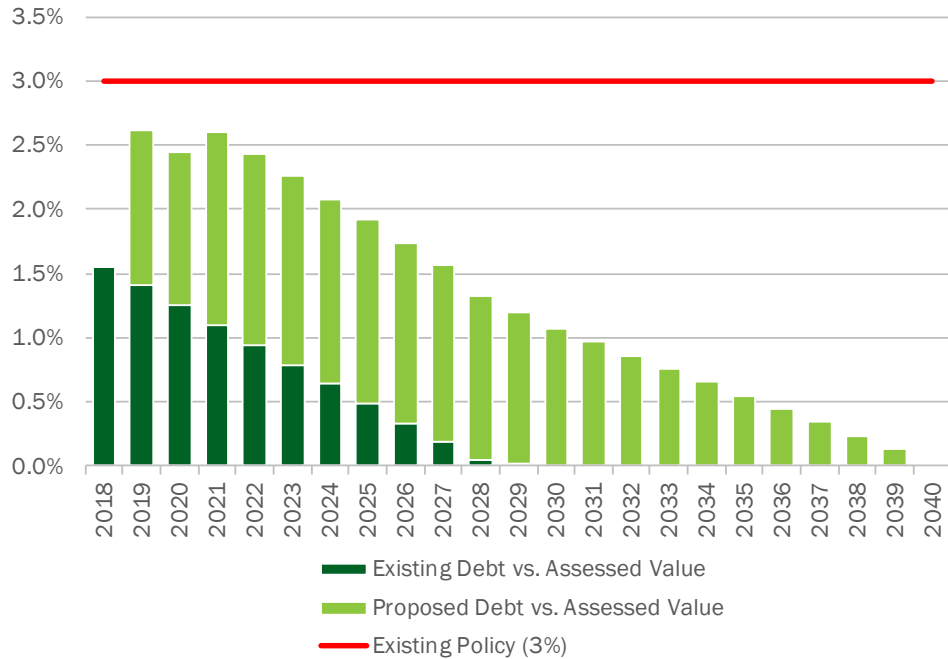
(1) S&P: U.S. Local Governments General Obligation Ratings Methodology.

(2) City Staff, Debt documents, FY 2017 CAFR.

(3) Operating Expenditures include (a) General Fund expenditures, (b) Debt Service Fund expenditures, (c) School expenditures net of (d) transfers from the Gen. Fund to Schools.

(4) FY 2018 Expenditures are based on FY 2017 CAFR expenditures of \$39,816,525 plus plus 2% growth. Assumes 2.00% growth rate each year thereafter.

Proposed Debt vs. Assessed Value



• Moody's Criteria for General Obligation Credits defines categories of Debt to Assessed Values as⁽¹⁾:

- Very Strong (Aaa): <0.75%
- Strong (Aa): 0.75% - 1.75%
- Moderate (A): 1.75% - 4.00%
- Weak - Very Poor (Baa and below): >4.00%

Category Commentary

• Total Debt vs. Assessed Value (FY 2018)

— Existing Debt vs. AV	1.55%
— Proposed Debt vs. AV	0.01%
— Total Debt vs. Assessed Value	1.56%

• Outstanding Debt (FY 2018)

— Existing Debt ⁽²⁾	\$24,213,669
— Proposed Debt	\$178,514

• Total Debt vs. Assessed Value (FY 2019)

— Existing Debt vs. AV	1.41%
— Proposed Debt vs. AV	1.21%
— Total Debt vs. vs. AV	2.61%

• Outstanding Debt (FY 2019)

— Existing Debt ⁽²⁾	\$22,212,770
— Proposed Debt	\$19,050,916

• Assessed Value

— FY 2018 ⁽³⁾	\$1,563,824,880
— Growth Rate:	1.00%

Sources:

(1) Moody's Investors Service.

(2) City Staff, Debt documents, FY 2017 CAFR.

(3) FY 2018 AV shown above based on FY 2017 AV per 2017 CAFR of \$1,548,341,465 plus 1% growth. Assumes 1.00% growth rate each year thereafter.

Next Steps



- Monday, April 9 (Tonight)
Regular Meeting of City Council
City Manager introduces FY 2019 Budget
Davenport presents Capital Funding Plan
- On/About Monday, May 14
Regular Meeting of City Council
City adopts FY 2019 Budget
- Week of June 4
Meetings with National Credit Rating Agencies
- Mid June
Receive updated Credit Ratings
- End of June/early July
Sell/issue Phase One Bonds (~\$18 million)
(Interest rate set)
- By July 31
Close on Phase One Bonds
- FY 2020
Sell Phase Two Bonds (~ \$5 million)



Appendix

Key Assumptions



- Key Assumptions:

- The Penny Impact Analyses assume the Real Estate Tax Rate Value of one penny to be **\$156,000**.
- Growth in the value of one penny on the Real Estate Tax Rate is assumed to be 0%.
- The basis for projecting the cash-flow impact of new Debt Service is the City's FY 2018 Tax Supported Debt Service level (\$2,941,339), consisting of:
 - The City's Adopted FY 2018 Debt Service Budget (\$2,902,671); plus
 - Interest paid in FY 2018 on the 2013 EDA Loan (\$38,668).
- Assumes the City receives revenues to offset debt service on Existing and Proposed Leases.
- A Capital Reserve Fund is used to help absorb peaks in Debt Service.

Note: Value of 1 penny is based on information from City staff.

Estimated Results



- A Summary of estimated results for the Capital Funding Case is shown below:

	Assumptions and Estimated Results	
	Phase 1 FY 2019 Financing	Phase 2 FY 2020 Financing
Borrowing Assumptions	21 Year Permanent Financing (4.50%)	20 Year Permanent Financing (4.75%)
Total Project Funds Achieved (By FY 2019)	\$18,000,000	
Total Project Funds Achieved (By FY 2021)	\$23,000,000	
Total Penny Impact (FY 2019)	6.0¢	
Total Proposed Debt Service ⁽¹⁾	\$40,352,125	
Max Debt Service vs. Expenditures	9.64%	
Max Debt vs. Assessed Value	2.61%	

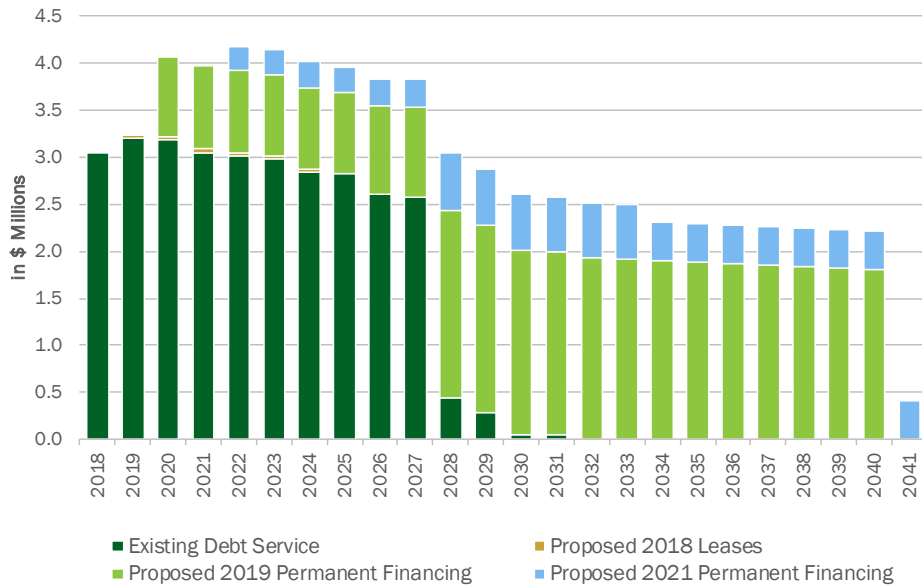
(1) Excludes estimated debt service of \$197,718 on potential 2018 leases.

Note: Estimated results are preliminary, subject to change. Actual results may vary from these estimates.

Estimated Resulting Debt Service



- The City is projected to remain in compliance with its Payout ratio policy.



	A	B	C	D	sum of A : D	
FY	Existing Debt Service	Proposed 2018 Leases	Proposed 2019 Permanent Financing	Proposed 2021 Permanent Financing	Total Debt Service	10-Year Payout Ratio
Total	\$ 30,146,507	\$ 197,719	\$ 31,911,328	\$ 8,440,797	\$ 70,696,351	
2018	3,042,357	-	-	-	3,042,357	96.8%
2019	3,198,601	32,953	-	-	3,231,555	57.0%
2020	3,187,852	32,953	850,500	-	4,071,305	58.3%
2021	3,055,340	32,953	879,959	-	3,968,252	54.9%
2022	3,017,255	32,953	875,744	258,195	4,184,148	56.6%
2023	2,978,961	32,953	872,879	265,320	4,150,114	58.4%
2024	2,840,203	32,953	871,364	270,367	4,014,888	60.6%
2025	2,830,456	-	861,199	269,635	3,961,290	62.8%
2026	2,610,620	-	938,834	288,282	3,837,736	65.5%
2027	2,575,944	-	965,399	295,407	3,836,750	69.0%
2028	437,317	-	2,000,638	604,865	3,042,820	73.4%
2029	288,000	-	1,985,088	597,630	2,870,718	79.8%
2030	42,400	-	1,969,539	590,394	2,602,333	87.8%
2031	41,200	-	1,953,990	583,158	2,578,348	97.9%
2032	-	-	1,938,441	575,922	2,514,363	100.0%
2033	-	-	1,922,891	568,686	2,491,578	
2034	-	-	1,907,342	409,117	2,316,459	
2035	-	-	1,891,793	409,117	2,300,910	
2036	-	-	1,876,244	409,117	2,285,361	
2037	-	-	1,860,695	409,117	2,269,812	
2038	-	-	1,845,145	409,117	2,254,262	
2039	-	-	1,829,596	409,117	2,238,713	
2040	-	-	1,814,047	409,117	2,223,164	
2041	-	-	-	409,117	409,117	

Note: Based on City CAFRs, Bond Documents, and Davenport Debt Model.

-Estimated results are preliminary, subject to change. Based on planning interest rates estimated as of March 5, 2018. Actual results may vary from these estimates.



Penny Impact Analysis

- Penny Impact Analysis assumes the Value of one penny to be \$156,000 with no growth in value.
- The estimated Real Estate Tax equivalent impact is roughly 6.0¢.

	A	B	C	D	E	F = sum A : E	G	H	I = F - G - H	J	K	L = G + K
Fiscal Year	Existing Debt Service	Existing Leases	Proposed 2018 Leases	Proposed 2019 Permanent Financing	Proposed 2021 Permanent Financing	Total Existing and Proposed Debt Service	Budgeted Debt Service Level ⁽²⁾	Offsetting Revenues for Existing and Proposed Leases	Additional Revenue Required	Incremental Equivalent Real Estate Tax Impact ⁽³⁾	Additional Revenue Produced by Tax Increase ⁽⁴⁾	Total Available Revenues for Non-Lease Debt Service
2018	\$2,971,938	\$70,419	\$0	\$0	\$0	\$3,042,357	\$2,941,339	\$70,419	30,599	-	\$0	\$2,941,339
2019	3,128,183	70,419	32,953	0	0	3,231,555	2,941,339	103,372	186,844	6.0¢	936,000	3,877,339
2020	3,117,433	70,419	32,953	850,500	0	4,071,305	2,941,339	103,372	1,026,594	-	936,000	3,877,339
2021	2,984,921	70,420	32,953	879,959	0	3,968,252	2,941,339	103,373	923,541	-	936,000	3,877,339
2022	2,981,480	35,775	32,953	875,744	258,195	4,184,148	2,941,339	68,728	1,174,080	-	936,000	3,877,339
2023	2,978,961	0	32,953	872,879	265,320	4,150,114	2,941,339	32,953	1,175,822	-	936,000	3,877,339
2024	2,840,203	0	32,953	871,364	270,367	4,014,888	2,941,339	32,953	1,040,595	-	936,000	3,877,339
2025	2,830,456	0	0	861,199	269,635	3,961,290	2,941,339	0	1,019,951	-	936,000	3,877,339
2026	2,610,620	0	0	938,834	288,282	3,837,736	2,941,339	0	896,397	-	936,000	3,877,339
2027	2,575,944	0	0	965,399	295,407	3,836,750	2,941,339	0	895,411	-	936,000	3,877,339
										6.0¢		

(1) Existing tax supported debt service as of 6/30/2017. Includes existing leases.

(2) Budgeted Debt Service consists of FY 2018 Adopted Debt Service Budget plus \$38,668 paid in FY 2018 on EDA loan.

(3) Value of one penny on the real estate tax rate assumed to be \$156,000.

(4) Additional Revenue equal to cumulative penny increase(s) multiplied by \$156,000.

Estimated results are preliminary, subject to change. Based on planning interest rates estimated as of March 5, 2018. Actual results may vary from these estimates.

Penny Impact Analysis, cont.



- It is assumed the City would use a Capital Reserve Fund for Surplus Revenues to smooth the impact of new Debt Service over the next decade.

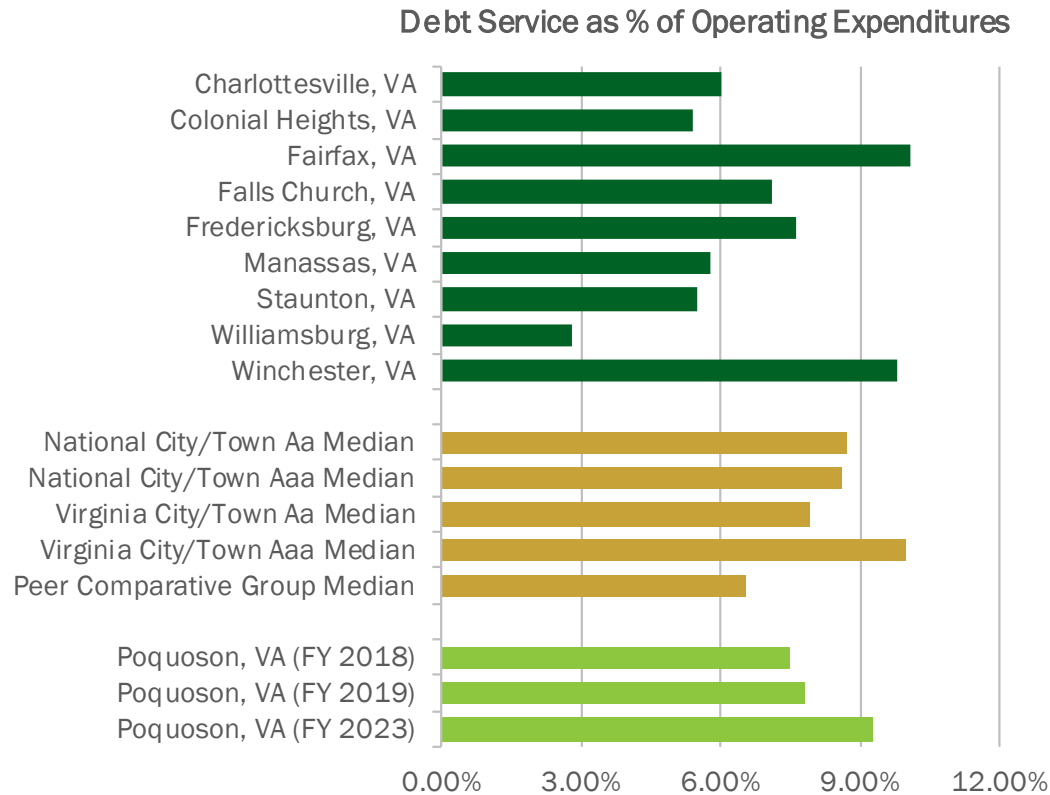
	<i>L = G + K</i>	<i>M = F - H</i>	<i>N = L - M</i>	<i>O</i>	<i>P = N - O</i>	<i>Q</i>
Fiscal Year	Total Available Revenues for Non-Lease Debt Service	Total Existing and Proposed Debt Service (net of Leases)	Surplus/(Deficit) before use of Capital Reserve Fund	Capital Reserve Fund used for Debt Service	Surplus/(Deficit) after use of Capital Reserve Fund	Capital Reserve Fund Balance
2018	\$2,941,339	\$2,971,938	\$0	\$0	\$0	\$0
2019	3,877,339	3,128,183	749,156	0	749,156	749,156
2020	3,877,339	3,967,933	(90,594)	(90,594)	0	658,562
2021	3,877,339	3,864,880	12,459	0	12,459	671,022
2022	3,877,339	4,115,419	(238,080)	(238,080)	0	432,941
2023	3,877,339	4,117,161	(239,822)	(239,822)	0	193,120
2024	3,877,339	3,981,934	(104,595)	(104,595)	0	88,524
2025	3,877,339	3,961,290	(83,951)	(83,951)	0	4,573
2026	3,877,339	3,837,736	39,603	0	39,603	44,176
2027	3,877,339	3,836,750	40,589	0	40,589	84,765

Estimated results are preliminary, subject to change. Based on planning interest rates estimated as of March 5, 2018. Actual results may vary from these estimates.

Peer Comparative Debt Service vs. Expenditures



- It is estimated that the City would be in line with other highly rated Cities/Town statewide and nationally.

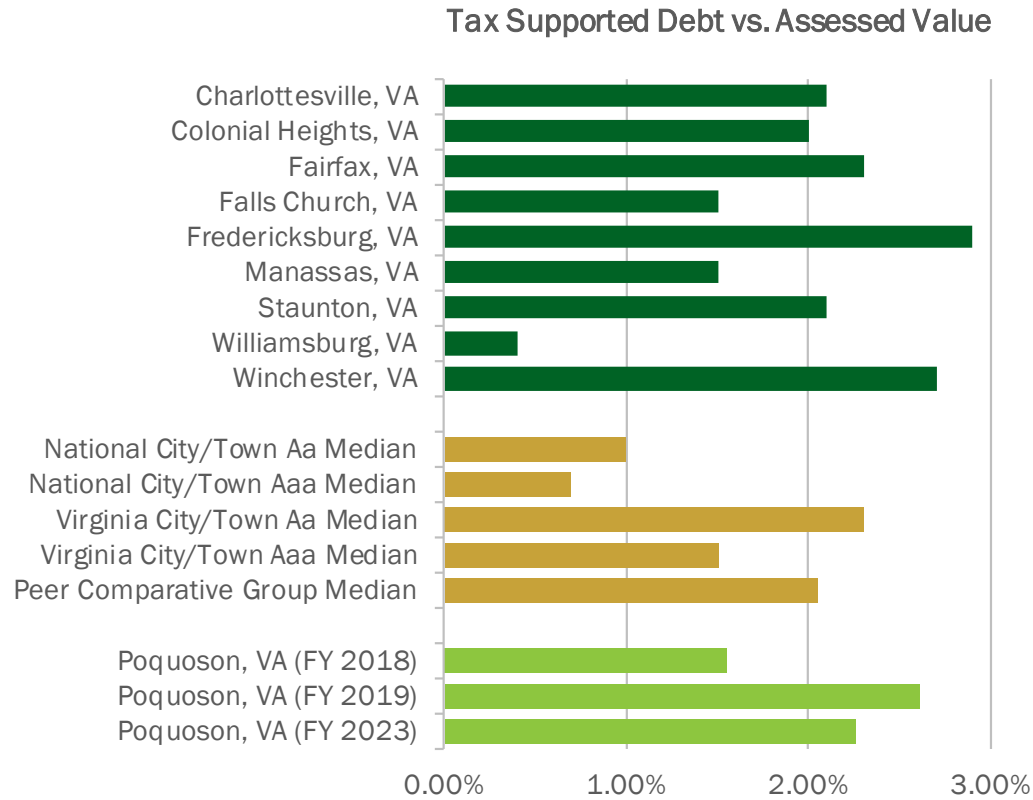


Estimated results are preliminary, subject to change. Based on planning interest rates estimated as of March 5, 2018. Actual results may vary from these estimates.
 Assumes Expenditures grow by 2% annually.
 Peer and Median data is from Moody's Municipal Financial Ratio Analysis (MFRA) database.

Peer Comparative Debt vs. Assessed Value



- It is estimated that the City would be in line with other highly rated Cities/Town statewide and nationally.



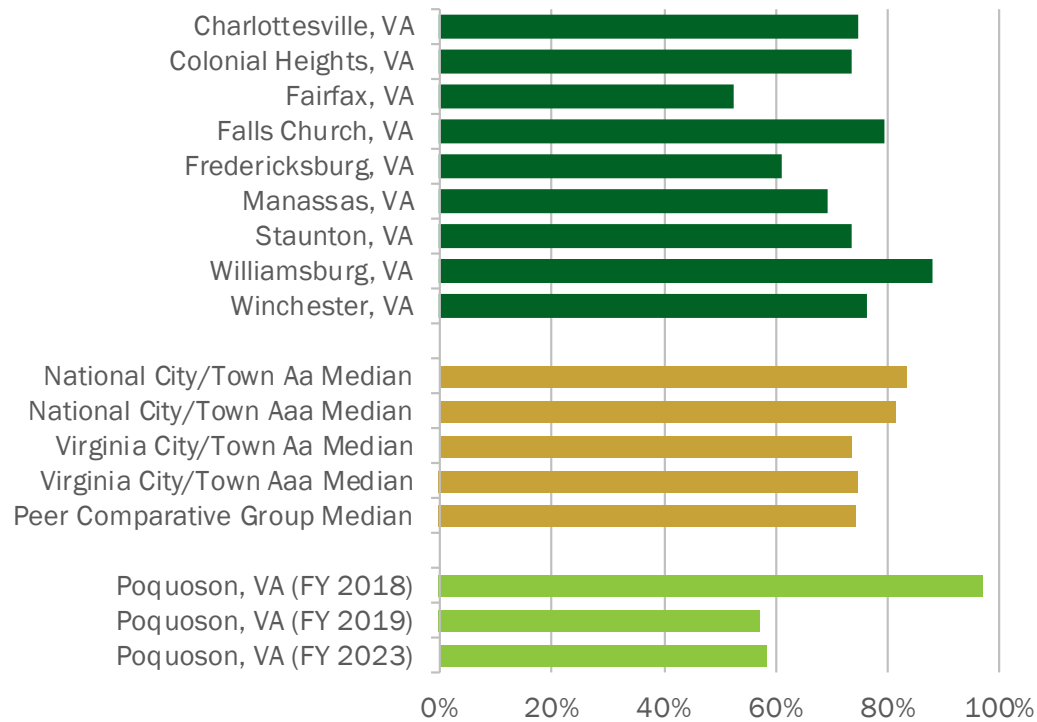
Estimated results are preliminary, subject to change. Based on planning interest rates estimated as of March 5, 2018. Actual results may vary from these estimates.
 Assumes Assessed Value grows by 1% annually.
 Peer and Median data is from Moody's Municipal Financial Ratio Analysis (MFRA) database.

Peer Comparative 10 Year Payout Ratio



- It is estimated that the City would be in line with other highly rated Cities/Town statewide and nationally.

Payout, 10 Years, All Tax-Supported Debt (%), Current Value



Estimated results are preliminary, subject to change. Based on planning interest rates estimated as of March 5, 2018. Actual results may vary from these estimates. Peer and Median data is from Moody's Municipal Financial Ratio Analysis (MFRA) database.

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