

Memo: For Mayor and City Council

From: Brent Taylor, City Council

Date: January 3, 2013

Re: Discussion Items of Bonding Options, Election, and Project Timeline on January 8, 2013 meeting.

As requested last week, I am asking to present a discussion of bonding election and bonding options during the January 8 City Council meeting (including development of a timeline for the project). I am requesting this discussion because of the timeline that is associated with a decision to use General Obligation bonds or Utility Revenue Bonds (our two most likely and reasonable funding options to finance this facility and land purchase). If we are going to begin construction of a facility this year, a discussion of bonding at this time is appropriate—even though we do not have all the answers for where the proposed project will be located and how much it will cost. This is because if we chose to use a General Obligation bond, we will need a public vote in June in order to begin construction this year. Likewise, if we chose a Utility Revenue bond with a public vote, we also will need to hold an election in June in order to begin construction this year. We need to start discussing financing options now, in order to preserve our freedom of maneuver this year.

Also, we preserve our ability to begin construction this year, before land and construction costs rise any further. Thankfully the US economy is starting to come back to life. For example, there are a dozen homes under construction in my neighborhood, where I have never seen more than a single home at once being constructed over the last 3 years. At my business we are seeing rapidly expanding sales, and our primary customers are trucking and heavy industry. Of course these are small-scale examples, but the trends are good for the economy. This, of course, translates into higher construction costs, as demand increases. Construction costs have risen steadily throughout 2012, but are still relatively low (<http://enr.construction.com/economics/>--note that all costs have risen steadily in 2012, except for steel which recently fell substantially—another reason to consider construction this year if we use a steel building). I believe we should begin construction this year if we are able to develop a strong proposal that garners public support. In order to do this, however, we need to be doing foundational work for bonding while simultaneously developing the facility proposal in order to keep options open.

A General Obligation bond requires a bonding election while a Utility Revenue bond does not require a public election. However, we saw last Fall that it is advisable to still put this type of bond up

for an election by the people and that this type of bond may result in a public referendum requiring an election in either case. After our experience last Fall I strongly support putting either bond up for a public vote. I think the people made it clear that they want to have the final say when the City enters into a large amount of debt. In my mind, this means we need to at least hold open the option of a public vote in June.

I now briefly discuss the differences between General Obligation and Utility Revenues bonds. (I am not an expert on the different bonds and will ask Brian Steele, City Finance Director to provide more discussion of bonds during the January 8 City Council meeting or a future meeting). During the discussion of bonds during the January 8 City Council meeting or a future meeting). During the discussion over the previous proposal, the Council looked at both types of bonds, but decided to use Utility Revenue bonds. (I will abbreviate GO bonds and RB bonds for ease of discussion). The advantage of GO bonds are that they generally offer a slightly lower interest rate. Although the interest rate difference is small, it really adds up over the life of a bond. The GO bonds are repaid through the general taxes and the general fund, and represent general obligations for the population at large. RB's, on the other hand, are targeted towards a specific service provided by the City and a source of revenue as repayment. In the case of a *utility* RB, of course the source of repayment is the portion of the population using utility services and paying utility fees. Because GO bonds are backed by the full faith and credit of the City's general taxation power, they generally have lower rates. RB's on the other hand are backed by the City's ability to raise revenue through the use of particular services. Hence the slightly higher rate generally on RB's. See more details on the differences between the bonds at:

<http://news.morningstar.com/classroom2/course.asp?docId=5384&page=4&CN=sample> ;

<https://www.fidelity.com/fixed-income-bonds/individual-bonds/municipal-bonds>

I also recommend examining the Utah Code, Title 11-Chapter 14 "Local Government Bonding Act" and Chapter 14a: <http://le.utah.gov/UtahCode/section.jsp?code=11-14> This chapter has all of the legal requirements and more information about both types of bonds.

A URB was chosen for the project last Fall because it better matched the obligation of repayment of the debt. A GO debt becomes the obligation of all North Ogden residents and only of North Ogden residents. However, not all who use North Ogden utilities are North Ogden residents. There are many homes in unincorporated Weber County who utilize North Ogden utility services. Under a GO bond, these homes would not share the same obligation to repay the bonds that would be

shouldered by residents and taxpayers of North Ogden. Hence, a URB was selected for the process. Each type of bonds has its own advantages and disadvantages that we will need to consider when selected the most appropriate bond to finance this project.

Given that land acquisition and construction costs are likely to exceed the amount we have set aside for the project, I see three potential funding options/decisions for consideration:

1. General Obligation Bond: election required, and I recommend a June election to be able to begin construction this year if the public supports the project
2. Utility Revenue Bond: This option can occur with or without an election, but I recommend we use an election in order to gather public support for the project
3. Aggressive Savings: If we choose not to pursue bonding, we could raise utility rates in order to save more funds towards the project. We would need to determine how soon the project would be built, an estimated cost, and then determine how much to raise utility rates. This money should also be earmarked by ordinance for the sole purpose of a new PW facility, so that it could not be spent on any other item.

As we consider GO bonds versus URB's, I think we need to consider the advantages and disadvantages of each. Once we reach a decision on which type of bond to pursue, I recommend that we hold a public election. This should be preceded by a strong public awareness campaign to share information with residents about the needs for the facility, the process used in determining the type. I have laid out a proposed calendar/timeline. The City Council needs to establish at least an initial timeline for this project, in order to guide the PW Committee in their efforts. The timeline needs to include financial/bonding dates and decisions, and these are City Council responsibility. As stated several times in the PW Committee meetings, the bonding and financing aspects of this project are not in the purview of the PW Committee. However, the final timeline should be a collaborative effort between the Council and PW Committee. Once we have a draft calendar, we should then ask for the PW Committee to refine it further based on their expertise. Then we will have a final timeline to guide the project (of course this timeline will be flexible based on circumstances). The PW Committee will then have clear objectives and dates by which they must accomplish their tasks. My experience as a business owner and military officer has shown that projects work better with a clear timeline and dates for key objectives. It helps organize efforts and promote accountability towards a particular objective.

Therefore, I put out this proposed timeline for discussion and improvement by the entire City Council, for then further discussion/refinement by the PW Committee. I have made the calendar somewhat generic because I don't have the expertise to establish these dates. Rather, I have suggested some key dates/accomplishments towards accomplishing the larger task and a rough idea of where this year they might fall. I don't claim this timeline has everything it needs, but it is a good starting point for further discussion and improvement by City Council and PW Committee:

January 2012//February 2012

- PW Committee pursues real estate options for project, including estimates for property acquisition & site development costs
- PW Committee identifies a top recommended property, with other potential properties ranked according to secondary preference
- Primary property is sent to City Council for a vote on putting the property under contract
- City Council discusses *potential* bonding options and sets a *potential* bonding election for June 2012 in order to preserve the option for an election and construction to begin this Fall IF the project proposal is refined and ready for a vote
- North Ogden Public Works website tab is updated with as much information as possible for public disclosure & the City develops a plan to get as much information as possible about the project out to residents (open houses, public information, City newsletter or brochures, public hearings, etc.)

March//April

- PW Committee refines a proposal for the project based on the identified site which is under contract, including cost estimates and identification of construction options
- PW Committee develops a series of recommendations for the project to present to the City Council (including different cost and construction options); the PW Committee may identify a most highly recommended option if there is enough support across the Committee
- The City Council considers the options and develops a recommendation to present as the City's proposal for the project; City Council presents the proposal at a highly publicized public

hearing(s) or open houses in order to gather as much feedback from residents as possible and to share as much information about the project with residents as possible

- City Council and PW Committee incorporate additional public feedback and develop a final project proposal
- City Council determines how much of a bond will be required for the project and develops bonding election criteria and decisions—this determines the need for a bonding election

May//June

- The project is prepared for a public vote; this should include open houses and as much public information and involvement as possible
- Additional refinement of the proposal may take place, but no actual construction efforts or expenditures should be authorized until a public vote of the bond has taken place

July//August//September

- If the project is approved in the public vote, construction begins as soon as practical and possible
- Residents should receive regular construction updates and project updates to make sure they stay a part of the process
- Construction timeline will be developed in conjunction with the construction contractor

This is a draft proposal and a starting point for discussion for your consideration and improvement. I will introduce this and some related ideas and proposals during the January 8 meeting. The idea is not to make a decision on this on January 8th, but to start the discussion of funding options, bonding elections, and timeline that we need to start having. This will ensure we have all options open to use with enough time and meetings later this month to make any decisions that are required at this time.

Brent Taylor

A handwritten signature in black ink that reads "Brent Taylor". The signature is written in a cursive style with a small star symbol above the letter 'r' in "Taylor".

North Ogden City Council