TO: Mayor and Council

FROM: Ed Van Eenoo, Deputy Chief Financial Officer

DATE: August 8, 2016

SUBJECT: Resolution No. 20160519-045 - Floodplain Buyout Funding Options

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On May 19, 2016, Council approved Resolution No. 20160519-045 directing the City Manager to identify potential funding options for the acquisition of homes that sustained flood damage in the vicinity of Pinehurst Drive and Wild Dunes Drive in the Onion Creek Subdivision of the Upper Onion Creek watershed. There are approximately 150 homes at risk of flooding from a 100-year event. Ten of these homes sustained flood damage in the past three years that deem the home substantially damaged. A cost estimate to acquire these 10 homes is $5 million.

Funding for the $5 million could be accomplished by any combination of the following options:

- Reprioritize a portion of the Watershed Protection Department's existing capital improvements funding to additional home buyouts;
- Include a proposition to authorize the issuance of public improvement bonds on a future ballot;
- Issue non-voter approved certificates of obligation;
- Draw down General Fund reserves below the 12% level required by City Council's approved financial policies; or,
- Draw down the ending balance of the Drainage Utility Fund below the roughly 8% level required by City Council's approved financial policies.

The Watershed Protection Department currently transfers $24.95 million annually to its capital improvements program and is proposing to increase this amount to $26.8 million in the FY 2016-17 Budget. This is consistent with the Department's long-term goal to achieve $30 million in annual cash funding of its capital improvements program. If Council were to redirect a portion of this transfer to additional home buyouts, it would require the Department to delay implementation of various other planned capital projects. The extent of the delays would vary depending on the amount of the transfer that was ultimately redirected.

If either public improvement bonds or certificates of obligation were issued for the full $5 million, the annual debt service is estimated at $400,000. In either case, the bonds would not be issued until the August 2017 Bond Sale or later and therefore would not impact the property tax rate or drainage utility fee until FY 2017-18 at the earliest. The estimated annual impact to the typical tax/rate payer would be $0.81 per year if supported by the property tax rate or $0.60 per year if supported by the drainage utility fee—the difference being strictly the result of how changes in the property tax rate vs. changes in the drainage utility fee affect a "typical" residential rate payer.

In regards to the use of public improvement bonds vs. certificates of obligation, it should be noted that the City Council's approved financial policies for general obligation debt state that the City's priority is to fund capital expenditures with cash or voter-approved debt. However, non-voter approved debt may be used for capital expenditures as an alternative to other financing options if the capital expenditure is:

- Urgent;
- Unanticipated;
- Necessary to prevent an economic loss to the City;
- Results in an economic gain to the City within a reasonable time; or
- Non-voter approved debt is the most cost effective financing option available.

It is the viewpoint of staff that the use of certificates of obligation in this instance would not be in compliance with this policy, thereby leaving public improvement bonds as the recommended debt financing option. If the City Council wishes to include a proposition for property buyouts on the November 2016 ballot, an election would need to be called prior to August 22.

Finally, General Fund reserves are currently projected to begin FY 2016-17 at $116.3 million, or exactly 12% of General Fund operating expenses, so any additional appropriation would drop the reserve level below City Council's 12% policy. Looking to the ending balance of the Drainage Utility Fund, it is projected to begin FY 2016-17 at $10.6 million and to decrease to $5.9 million by the end of the fiscal year, representing 12.9% of the Watershed Department's operating expenses. This ending balance could be drawn down $1,250,000 and still remain in compliance with the Council's adopted policy level.

If you have any questions or require additional information, please don't hesitate to contact me.

cc: Marc Ott, City Manager
Sue Edwards, Assistant City Manager
Elaine Hart, Chief Financial Officer
Joe Pantalion, Watershed Protection Department