

2017 – 2018 BUDGET QUERY

Question: 9

Date: November 4, 2016

Topic: Debt service assumptions in the Proposed Budget

QUESTION

What is the budget impact of spending on other items some or all of the \$2.6 million in General Fund assumed in the Capital Improvement Plan?

RESPONSE

The 2017-2018 Proposed Budget includes \$2.6 million of new General Fund support for the Law and Justice Center. The \$2.6 million comes from existing fund balance. Spending this money on something other than the Law and Justice Center leads to:

- Support for a previously unsupported project
- Increase to future debt service for the Law and Justice Center to continue to provide the current budget for this project. Alternatively, the budget for this project could be reduced.

The current assumptions are shown in the table below.

	General Fund Project Contribution	Total Debt Issue	Annual Assumed Debt Service (2018-2036)	Estimated Debt Service for this debt issue (2018-2036)
2017-2018 Proposed Budget Law and Justice Center	\$3,100,000	\$8,000,000	\$575,000	\$10,905,000
Assume no additional General Fund support to Law and Justice Center	\$500,000	\$11,000,000	\$790,000	\$14,973,000

Based on current estimates, Council can assume that each \$1.0 million of debt will require roughly \$72,000 in debt service in future years.

Other points to consider include:

- Issuing more debt increases the overall project cost, although the cost increase is spread over time.
- If the City issues Councilmanic (non-voted) debt, the annual debt service becomes part of the City's ongoing recurring expenditures and must be supported by recurring revenues.
- The City's financial policies and financial best practices state that the use of one-time revenues, such as fund balance, to support operating expenditures is strongly discouraged.