

# NOTICE OF STUDY SESSION

## OF THE

### UNIVERSITY CITY CITY COUNCIL

Public Notice is hereby given that a Study Session of the City Council of University City will be held on Monday, May 9, 2016, at 5:30 p.m., at City Hall, fifth floor, 6801 Delmar, University City, MO.

#### AGENDA

1. Meeting called to order
2. Any changes to upcoming meeting agenda
3. Finance options for new police facility
4. Adjournment

This meeting is **OPEN** to the public.

Dated this 5<sup>th</sup> day of May, 2016

Joyce Pumm, MRCC, CMC  
City Clerk





## City Council Study Session Agenda Item Cover

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**MEETING DATE:** May 9, 2016

**AGENDA ITEM TITLE:** Finance Options for New Police Facility  
*(Informational, for discussion)*

**BACKGROUND REVIEW:**

On March 28, 2016 City Council approved the construction of a new police facility. The next step in the process is for City Council to identify a funding mechanism for the estimated \$12.5 million project. Missouri State Statutes provides authority for municipalities to use specific financing tools to fund capital improvement projects. A summary of these programs was presented to City Council in a March 28, 2016 informational memorandum.

Since that time, staff performed additional analyses of the options. The status of the General Fund Reserve and potential impact of each option on the City’s rating was critical to the analyses. For background, in March 2014, Standard & Poor Rating Services raised the City’s long term rating on General Obligation from AA to AA+. This favorable rating was based on the FY13 financial status, when the City had reserves of \$17.9 million or 66% of operating expenditures. In FY14, the City used a portion of reserves for one-time capital projects, but still maintained 60% of expenditures. The City projected that reserves would remain above 30% of expenditures through 2016. This ratio is indicative of a strong management condition with good financial practices, in accordance with Financial Management Assessment methodologies.

Below is summary of the General Fund Reserve without revenues and expenditures during FY 2016:

Date	General Fund Reserve	Purpose
June 30, 2015	\$ 15,800,000	Unassigned fund reserve
July 2015	(7,000,000)	Renovation or construction Police facility
October 2015	(500,000)	Remediation existing Police department
March 2016	(2,000,000)	Additional cost for remediation
Next budget amendment	(300,000)	Legal fees - Social House
Projected GF fund reserve	\$ 6,000,000	25% of operating expenditures
Operating expenditures FY 2016	\$ 23,510,000	Adopted budget

To maintain the City’s AA+ bond rating, the recommended General Fund Reserve should not be less than 25% of budgeted operating expenditures. As of March 31, 2016, the General Fund expenditures exceeded revenues by nearly \$607,000 due to a slow growth of sales tax revenue. If sales tax does not increase by the end of this fiscal year, the General Fund may result in a deficit balance, and would mean a decrease in fund reserve. The use of reserves must be carefully evaluated with respect to financing the police building.

The City must finance the project through borrowing. The two options are General Obligation Bonds and Certifications of Participation. Both are described in detail.



**1. General Obligation Bonds (GO Bonds)**

The City may issue general obligation bonds for this purpose authorized by Charter of Missouri law. Many municipalities have financed capital improvement projects through GO bonds, which are secured by the full faith and credit and taxing power of a municipality (see table below for example). The debt service on bonds is paid through an additional property tax levy. The City may only issue GO bonds after obtaining approval of four-sevenths of the qualified voters of the city.

<b>General Obligation Bonds Other Municipalities</b>			
<u>Government</u>	<u>Year</u>	<u>Issued Amount</u>	<u>Purpose of Issuance</u>
City of Belleville, IL	2015	\$ 8,500,000	City Hall and Police Station
City of Lake St. Louis	2010	7,230,000	Street Improvements
	2014	8,655,000	Street and Park Improvements
City of Maplewood	2015	6,000,000	Fire Station Project
City of Olivette	2014	13,500,000	City Hall Project
City of St. Charles	2013	12,400,000	Various Capital Project
City of St. Peters	2014	9,675,000	Storm Water Project
	2015	7,500,000	Water Works and Sewerage Project
City of Webster Groves	2011	13,000,000	Street Project
City of Woodson Terrace	2015	1,500,000	Community Center

Benefits of a GO bond option include a low interest rate for financing the project and low cost of issuance. Disadvantages of issuing GO bonds include the requirement for a supermajority approval of the voters. Bonds will also impose an additional financial burden on city taxpayers.

The remaining 2016 election dates for a GO bond with deadlines for submission to the St. Louis County Election Board are:

<u>Election</u>	<u>Type</u>	<u>Submission Deadline</u>
August 2, 2016	Primary Election	May 24, 2016
November 8, 2016	General Election	August 30, 2016

These elections require 4/7 bond majority approval.

City Council may consider three bond amounts for three scenarios. The debt service schedules are presented on the following pages. Each scenario includes a 1.5% of issuance cost:

1. Bond request of \$7.7 million. In this scenario, the remainder of the estimated \$12.5 million construction costs would come from the \$7 million General Fund reserve set aside for this purpose. It is important to note, that the estimated \$2.2 million costs to temporarily relocate the Police Department is coming from this set aside and will reduce the amount of reserves available for new construction.
2. Bond request of \$12.5 million. Request the estimated construction costs of the new building only.

3. Bond request of \$15 million. Request the estimated construction costs of the new building plus additional maintenance and improvement costs for the Annex building. This request would include funding for additional work identified for the Annex that exceeds available general revenues. It is based on a professional assessment of all City facilities that occurred in March 2016 by EMG Corporation. The EMG report for the Annex identified repair work that is currently in progress (exterior repair work, interior environmental) and the following:
- Steam pipe tunnel repair or fill in
  - Replace interior finishes
  - Replace HVAC systems
  - Replace/upgrade electrical systems
  - Upgrade elevator
  - White-box interior

The three bond amounts are based on the following assumptions:

- All of the bonds would be sold as a single issue at one time. If the City authorizes more than \$10 million and subdivides the issue so that not more than \$10 million are sold in a single calendar year, the bonds could be “bank qualified” which would reduce the interest cost.
- All issues are based on non-bank qualified interest rates.
- The maximum maturity for Missouri GO Bonds is 20 years. These schedules are 19 years to conform with the tax levy cycle.
- Interest rates reflect current rate plus  $\frac{1}{4}$  % for double A rated issues. If the City does not retain this rate, interest rates would be substantially higher.
- If the bond issue is not approved at an August election, the City would not be able to levy a tax for debt service until 2017. The schedules assume no debt service payments would be made until March 1, 2018.
- There will not be growth in assessed valuation of \$591,656,000.

**GO Bonds Scenario 1**

**CITY OF UNIVERSITY CITY  
GENERAL OBLIGATION- \$7,700,000  
SERIES 2016**

	<b>Date</b>	<b>Principal</b>	<b>Interest Rate</b>	<b>Interest</b>	<b>Debt Service</b>
1	3/1/2018	215,000	0.950	233,497	448,497
	9/1/2018			92,378	
2	3/1/2019	355,000	1.150	92,378	539,756
	9/1/2019			90,336	
3	3/1/2020	360,000	1.300	90,336	540,672
	9/1/2020			87,996	
4	3/1/2021	365,000	1.350	87,996	540,992
	9/1/2021			85,532	
5	3/1/2022	370,000	1.450	85,532	541,064
	9/1/2022			82,850	
6	3/1/2023	375,000	1.600	82,850	540,700
	9/1/2023			79,850	
7	3/1/2024	380,000	1.750	79,850	539,700
	9/1/2024			76,525	
8	3/1/2025	390,000	1.900	76,525	543,050
	9/1/2025			72,820	
9	3/1/2026	395,000	2.100	72,820	540,640
	9/1/2026			68,673	
10	3/1/2027	405,000	2.300	68,673	542,346
	9/1/2027			64,015	
11	3/1/2028	415,000	2.350	64,015	543,030
	9/1/2028			59,139	
12	3/1/2029	425,000	2.700	59,139	543,278
	9/1/2029			53,401	
13	3/1/2030	435,000	2.850	53,401	541,802
	9/1/2030			47,203	
14	3/1/2031	450,000	3.050	47,203	544,406
	9/1/2031			40,340	
15	3/1/2032	465,000	3.150	40,340	545,680
	9/1/2032			33,016	
16	3/1/2033	480,000	3.200	33,016	546,032
	9/1/2033			25,336	
17	3/1/2034	495,000	3.250	25,336	545,672
	9/1/2034			17,293	
18	3/1/2035	510,000	3.300	17,293	544,586
	9/1/2035			8,877	
19	3/1/2036	530,000	3.350	8,877	547,754
		<b>\$ 7,815,000</b>		<b>\$ 2,404,657</b>	<b>\$ 10,219,657</b>

Based on the current assessed value of \$591,656,000, the tax rate required would be approximately 9.2 cents per \$100. The estimated impact would be:

**ESTIMATED TAX IMPACT**

<b>If Your House Is Worth</b>	<b>Your Assessed Valuation Is</b>	<b>At \$.092 Estimated Monthly Cost</b>	<b>At \$.092 Estimated Annually Cost</b>
\$ 80,000	\$ 15,200	\$ 1.17	\$ 13.98
90,000	17,100	1.31	15.73
100,000	19,000	1.46	17.48
110,000	20,900	1.60	19.23
120,000	22,800	1.75	20.98
130,000	24,700	1.89	22.72
150,000	28,500	2.19	26.22
175,000	33,250	2.55	30.59
200,000	38,000	2.91	34.96
400,000	76,000	5.83	69.92
500,000	95,000	7.28	87.40
600,000	114,000	8.74	104.88
700,000	133,000	10.20	122.36



**CITY OF UNIVERSITY CITY  
GENERAL OBLIGATION- \$12,500,000  
SERIES 2016 (20 Years)**

	<b>Date</b>	<b>Principal</b>	<b>Interest Rate</b>	<b>Interest</b>	<b>Annual Debt Service</b>
1	3/1/2018	345,000	0.950	379,309	724,309
	9/1/2018			150,085	
2	3/1/2019	575,000	1.150	150,085	875,170
	9/1/2019			146,779	
3	3/1/2020	858,000	1.300	146,779	1,151,558
	9/1/2020			142,976	
4	3/1/2021	590,000	1.350	142,976	875,952
	9/1/2021			138,994	
5	3/1/2022	600,000	1.450	138,994	877,988
	9/1/2022			134,644	
6	3/1/2023	610,000	1.600	134,644	879,288
	9/1/2023			129,764	
7	3/1/2024	620,000	1.750	129,764	879,528
	9/1/2024			124,339	
8	3/1/2025	630,000	1.900	124,339	878,678
	9/1/2025			118,354	
9	3/1/2026	645,000	2.100	118,354	881,708
	9/1/2026			111,581	
10	3/1/2027	655,000	2.300	111,581	878,162
	9/1/2027			104,049	
11	3/1/2028	675,000	2.350	104,049	883,098
	9/1/2028			96,117	
12	3/1/2029	690,000	2.700	96,117	882,234
	9/1/2029			86,803	
13	3/1/2030	710,000	2.850	86,803	883,606
	9/1/2030			76,685	
14	3/1/2031	730,000	3.050	76,685	883,370
	9/1/2031			65,552	
15	3/1/2032	755,000	3.150	65,552	886,104
	9/1/2032			53,661	
16	3/1/2033	780,000	3.200	53,661	887,322
	9/1/2033			41,181	
17	3/1/2034	805,000	3.250	41,181	887,362
	9/1/2034			28,100	
18	3/1/2035	830,000	3.300	28,100	886,200
	9/1/2035			14,405	
19	3/1/2036	860,000	3.350	14,405	888,810
		<b>\$ 12,963,000</b>		<b>\$ 3,907,447</b>	<b>\$ 16,870,447</b>

Based on the current assessed value of \$591,656,000, the tax rate required would be approximately 15.0 cents per \$100. The estimated tax impact would be:

**ESTIMATED TAX IMPACT**

<b>If Your House Is Worth</b>	<b>Your Assessed Valuation Is</b>	<b>At \$.15 Estimated Monthly Cost</b>	<b>At \$.15 Estimated Annually Cost</b>
\$ 80,000	\$ 15,200	\$ 1.90	\$ 22.80
90,000	17,100	2.14	25.65
100,000	19,000	2.38	28.50
110,000	20,900	2.61	31.35
120,000	22,800	2.85	34.20
130,000	24,700	3.09	37.05
150,000	28,500	3.56	42.75
175,000	33,250	4.16	49.88
200,000	38,000	4.75	57.00
400,000	76,000	9.50	114.00
500,000	95,000	11.88	142.50
600,000	114,000	14.25	171.00
700,000	133,000	16.63	199.50

**CITY OF UNIVERSITY CITY  
GENERAL OBLIGATION- \$15,000,000  
SERIES 2016**

	<b>Date</b>	<b>Principal</b>	<b>Interest Rate</b>	<b>Interest</b>	<b>Annual Debt Service</b>
1	3/1/2018	415,000	0.950	455,056	870,056
	9/1/2018			180,051	
2	3/1/2019	690,000	1.150	180,051	1,050,102
	9/1/2019			176,084	
3	3/1/2020	700,000	1.300	176,084	1,052,168
	9/1/2020			171,534	
4	3/1/2021	710,000	1.350	171,534	1,053,068
	9/1/2021			166,741	
5	3/1/2022	720,000	1.450	166,741	1,053,482
	9/1/2022			161,521	
6	3/1/2023	730,000	1.600	161,521	1,053,042
	9/1/2023			155,681	
7	3/1/2024	745,000	1.750	155,681	1,056,362
	9/1/2024			149,163	
8	3/1/2025	755,000	1.900	149,163	1,053,326
	9/1/2025			141,990	
9	3/1/2026	770,000	2.100	141,990	1,053,980
	9/1/2026			133,905	
10	3/1/2027	790,000	2.300	133,905	1,057,810
	9/1/2027			124,820	
11	3/1/2028	810,000	2.350	124,820	1,059,640
	9/1/2028			115,303	
12	3/1/2029	830,000	2.700	115,303	1,060,606
	9/1/2029			104,098	
13	3/1/2030	850,000	2.850	104,098	1,058,196
	9/1/2030			91,985	
14	3/1/2031	880,000	3.050	91,985	1,063,970
	9/1/2031			78,565	
15	3/1/2032	905,000	3.150	78,565	1,062,130
	9/1/2032			64,311	
16	3/1/2033	935,000	3.200	64,311	1,063,622
	9/1/2033			49,351	
17	3/1/2034	965,000	3.250	49,351	1,063,702
	9/1/2034			33,670	
18	3/1/2035	995,000	3.300	33,670	1,062,340
	9/1/2035			17,252	
19	3/1/2036	1,030,000	3.350	17,252	1,064,504
		<b>\$ 15,225,000</b>		<b>\$ 4,687,106</b>	<b>\$ 19,912,106</b>

Based on the current assessed value of \$591,656,000, the tax rate required would be approximately .178 cents per \$100. The estimated tax impact would be:

**ESTIMATED TAX IMPACT**

<b>If Your House Is Worth</b>	<b>Your Assessed Valuation Is</b>	<b>At \$.178 Estimated Monthly Cost</b>	<b>At \$.178 Estimated Annually Cost</b>
\$ 80,000	\$ 15,200	\$ 2.25	\$ 27.06
90,000	17,100	2.54	30.44
100,000	19,000	2.82	33.82
110,000	20,900	3.10	37.20
120,000	22,800	3.38	40.58
130,000	24,700	3.66	43.97
150,000	28,500	4.23	50.73
175,000	33,250	4.93	59.19
200,000	38,000	5.64	67.64
400,000	76,000	11.27	135.28
500,000	95,000	14.09	169.10
600,000	114,000	16.91	202.92
700,000	133,000	19.73	236.74

## 2. Certificates of Participation (COPs)

Legal authority for lease-purchase financing is authorized by Missouri statutes. Under a lease-purchase financing option, the City can lease the real property to be acquired and constructed from a lessor, which may be an investor or a trustee bank. The City makes rental payments annually and can purchase the property at the end of term. A lease-purchase agreement outlining the terms must be approved by the governing body, but is not a voter approved obligation. Therefore, the City will not have the ability to place a debt service levy to repay the bonds. There is no legal limit with respect to the maturity of lease obligations; however, a term longer than twenty-five years is not recommended.

The most common structure used to accomplish this objective is certificates of participation (COPs). COPs are certificates that represent a proportionate interest of the owner of each Certificate of the lessor to receive rental payments in accordance with the agreement. COPs generally have a higher interest rate than for bonds due to lease-obligations being renewed annually through the budget process, rather than secured by an enforceable pledge of revenues (such as property tax). Section 97.890 RSMo. provides the City with revenue generated from ½ cent sales tax that is legally available for capital improvement purposes. The City currently uses this revenue to retire a portion of COPs series 2012 which would end in FY 2020. The City may continue to make rental payments from the General Fund on this series until FY 2020 so that the routine capital projects would not be interrupted or ceased. The new COPs could be retired through an annual budget appropriation from either the General Fund or Capital Improvement Sales Tax Fund. The table illustrates the amortized schedules for borrowing \$7.7 million with the term of 20 years. This schedule is estimated based on approximated current interest rate and assume the City retains its AA+ bond rating.

This financing tool has been used by many St. Louis County municipalities for the construction of public facilities. Below is the listing of those cities, the year and amount of certificates.

<b>Certificates of Participation Local Municipalities</b>			
<u>Government</u>	<u>Year</u>	<u>Issued Amount</u>	<u>Purpose of Issuance</u>
City of Chesterfield	2000	\$ 17,565,000	Acquisition of Land and construction of City Hall and Police Station
	2005	25,700,000	Acquisition of Park Land and construction
City of Brentwood	2014	5,760,000	Improved Recreational Complex
City of Bridgeton	2009	5,785,000	Construction of Municipal Government Center
	2013	9,465,000	Community Center
City of Eureka	2012	8,170,000	Recreation Center
City of Frontenac	2009	4,010,000	Construction of City Government Center
City of Ferguson	2013	9,055,000	Community Center and Police Station
City of Kirkwood	2014	3,605,000	Automated Water Meter Reading System
City of Maryland Heights	2015	15,000,000	Community Center
City of Wentzville	2011	18,900,000	Park Project
City of Wildwood	2010	3,000,000	Construction of City Hall



**CITY OF UNIVERSITY CITY  
 CERTIFICATES OF PARTICIPATION - \$7,700,000  
 SERIES 2016 (20 Years)**

	Date	Outstanding COPs	Principal	Interest Rate	Interest	Debt Service
1	3/1/2017	33,888	370,000	0.800	158,156	528,156
	9/1/2017	538,200			103,958	
2	3/1/2018	27,700	320,000	1.050	103,958	527,916
	9/1/2018	480,350			102,278	
3	3/1/2019	21,216	325,000	1.300	102,278	529,556
	9/1/2019	466,700			100,165	
4	3/1/2020	13,523	330,000	1.450	100,165	530,330
	9/1/2020	711,750			97,773	
5	3/1/2021		335,000	1.650	97,773	530,546
	9/1/2021				95,009	
6	3/1/2022		340,000	1.800	95,009	530,018
	9/1/2022				91,949	
7	3/1/2023		345,000	2.150	91,949	528,898
	9/1/2023				88,240	
8	3/1/2024		355,000	2.300	88,240	531,480
	9/1/2024				84,158	
9	3/1/2025		360,000	2.500	84,158	528,316
	9/1/2025				79,658	
10	3/1/2026		370,000	2.700	79,658	529,316
	9/1/2026				74,663	
11	3/1/2027		380,000	2.950	74,663	529,326
	9/1/2027				69,058	
12	3/1/2028		390,000	3.100	69,058	528,116
	9/1/2028				63,013	
13	3/1/2029		405,000	3.200	63,013	531,026
	9/1/2029				56,533	
14	3/1/2030		415,000	3.300	56,533	528,066
	9/1/2030				49,685	
15	3/1/2031		430,000	3.400	49,685	529,370
	9/1/2031				42,375	
16	3/1/2032		445,000	3.450	42,375	529,750
	9/1/2032				34,699	
17	3/1/2033		460,000	3.500	34,699	529,398
	9/1/2033				26,649	
18	3/1/2034		475,000	3.550	26,649	528,298
	9/1/2034				18,218	
19	3/1/2035		495,000	3.600	18,218	531,436
	9/1/2035				9,341	
20	3/1/2036		510,000	3.650	9,341	528,682
		2,197,000	<b>\$ 7,855,000</b>		<b>\$ 2,733,000</b>	<b>\$ 10,588,000</b>
		97,000				

Cap. Imp.	<b>\$ 2,294,000</b>	General Fund	\$ 2,115,958
		Cap. Imp.	\$ 8,472,042

Average Interest Rate 3.15%