



CITY OF RYE

To: Mayor Cohn and City Council

**From: Greg Usry, Interim City Manager
Joe Fazzino, Deputy Comptroller**

Re: City of Rye CIP Financial Plan

Date: March 4, 2021

Overview

This year, the City will undertake the largest capital improvement program in recent memory. The projects, identified by the Council beginning in 2018 as being priority items for the City, were scoped and have been in design for some time. At the January 6th Council meeting, City staff reviewed the preliminary timeline for design, planning and construction. The costs reflected in the agenda materials are preliminary estimates that will be refined in the course of the year. Although we have estimated expenses based upon the best available information, final costs and exact timelines cannot be accurately determined until designs are complete and the projects bid.

As with engineering and construction, the City must also undertake a comprehensive financial plan for the CIP. The information presented here is an overview of that plan. It is intended to be a template, and will change as the project timelines and costs evolve. In the coming months, there will be regular updates of this material, incorporating changes to the capex plan and refinements to the CIP Financial Plan based upon guidance from bond counsel and our financial advisor.

Given the number of projects taking place simultaneously, the City must provide for a comprehensive approach to both cash liquidity needs, as well as the permanent funding. As with most projects, we anticipate the initial spending will largely be for soft costs (architectural renderings, design, studies etc.). As we finalize design plans and begin to engage individual project managers our spending will accelerate. We expect that most of these costs can be paid for with the Capex Reserve. For this year the City has sufficient cash reserves to pay for the related expenses. However, given the total expected costs and timing, the City will need to issue bonds by the first quarter of 2022 (or before depending upon costs and other variables).

The following table summarizes the various projects, including current estimated costs and the useful lives (as stipulated by the New York State Local Finance Law). The useful life calculation is important because it determines the term of any debt the City can issue to finance the projects.

Projects	Total Cost*	Useful Life
DPW Building 5	4,500,000	25
DPW Building 7	250,000	25
DPW Salt Shed	650,000	25
DPW Fuel Tank	250,000	15
Locust Avenue Sewer	443,480	30
Breevort Force Main	669,500	30
Central Avenue Pump Station	904,600	30
Midland Sewer	460,000	30
Highland Road Sewer lining	70,000	30
Sewer Manhole and Line Rehab	3,956,460	30
City Hall HVAC	2,400,000	25
Theodore Fremd Wall	1,300,000	15
Forest Avenue Sidewalks	2,178,000	15
Police/Court	3,100,000	25
Temporary Court@ CarPark 5	<u>600,000</u>	25
	\$ 21,732,040	

**Does not reflect grant reimbursements*

In addition to the projects above, the 2021 finance plan must address projects related to the 2012 bond referendum. In 2012, a referendum was approved to bond for several streetscape projects. Following the referendum the City spent the \$1.68mm of authorized monies to replace/improve streets and sidewalks in the Central Business District, sidewalk repairs City-wide and some costs related to Fireman’s Circle. Although the referendum was passed and monies spent, bonds were never subsequently issued. As a result, the projects were funded out of the General Fund and there remains a fund receivable in the amount of \$1.68mm. This will need to be rolled into the bond financing. This additional amount does not count against the Council’s authorized debt since it was already approved by voter referendum.

Funding Sources

In determining the City’s ability to fund the various projects, the City will utilize:

- Capex Reserve Fund
- Grants
- Long term debt

Beginning in 2019, the City began reserving General Fund surplus monies (so long as the General Fund Reserve met its 10% fund balance requirement) and setting those aside in a Capex Reserve Fund. By Council action and City policy, any excess monies at year end, as well as one-time, extraordinary revenues, are set aside to offset the cost of the CIP. Currently, the Capex Reserve totals \$5.5mm (prior to any 2020 year-end adjustments).

As highlighted below, the City sought and received grants totaling \$6.19 mm to offset certain project costs. Most of these grants monies are related to our sewer projects.

Grant-Qualified Projects	Total Cost	Grants	Net Cost
DPW Salt Shed	650,000	400,000	250,000
Locust Avenue Sewer	443,480	177,610	265,870
Breevort Force Main	669,500	227,125	442,375
Central Avenue Pump Station	904,600	596,650	307,950
Midland Sewer	460,000	287,250	172,750
Highland Road Sewer lining	70,000	44,250	25,750
Sewer Manhole and Line Rehab	3,956,460	2,432,250	1,524,210
Theodore Fremd Wall	1,300,000	550,000	750,000
Forest Avenue Sidewalks	<u>2,178,000</u>	<u>1,478,000</u>	<u>700,000</u>
	\$ 10,632,040	\$ 6,193,135	\$ 4,438,905

Generally speaking, the grants awarded for the sewer projects will be paid in the course of project construction, and will not require the complete outlay before reimbursement. Although this helps in our liquidity planning (discussed below), most of this reimbursement will come after soft costs and therefore will occur later in the capex timeline. Similarly, the grant for the Forest Avenue sidewalk project will be paid over time once the project is underway. Given the timetable for the sewer projects, DPW improvements and City Hall HVAC, we expect to bond well before the sidewalk project.

The City will be relying on debt to finance most of the capital plan. Per the City Code, the Council has the authority to approve a specified amount of debt without public referendum (C21-9). This is limited to 30% of the average gross annual budget for the preceding three years. Based upon this limitation, the Council can currently approve an additional \$13.55 mm of bonds. In addition, the Council can authorize additional bonds without referendum for certain qualified projects (\$1.77 mm under a Public Safety Exemption and \$2.5 mm under a Disaster Rebuilding Exemption). At this early stage it is unclear if we will need this additional non-referendum bonding capacity, but it is available if necessary and subject to bond council approval (Police/Court facilities, Theodore Fremd wall etc.). The table below summarizes the possible sources of funding available for the CIP:

Source of Funds	
CapEx Reserve	5,500,000
Grants	6,193,135
City Council Authorized Debt	<u>13,550,000</u>
	\$ 25,243,135

Liquidity Planning

For most of capex-related costs in 2021, the City can rely on its accumulated Capex Reserve Fund to pay for the cost of design and early construction. Because we have additional cash resources (General Fund Reserve) we do have the ability to temporarily fund any unexpected costs with the anticipated reimbursement from bond proceeds. However, as we move into the latter half of the year we will need to plan on issuing debt. The timing of the debt will depend upon the spend-down of the Capex Reserve and our desire to take advantage of historically low interest rates. Based upon estimated costs, I anticipate we will utilize most if not all of the Capex Reserve Fund. *However, please note that ANY spending related to the CIP will be accompanied by a Council resolution stipulating the ability to pay the costs from a variety of funds, including bond proceeds. In so doing, we reserve the ability to reimburse the Capex Reserve out of bond proceeds if we are able and choose to do so.*

Bond Issuance and Debt Service Cost

Long term bonds will constitute the largest percentage of the permanent funding for the CIP. Although the Capex Reserve Fund is sufficient to fund the initial costs, we expect the need to borrow by the first quarter of 2022.

Currently, the City can borrow at an average interest cost of 1.1-1.4%; among the most attractive interest rates in 50 years. Although there is nothing to indicate that rates will be markedly higher in the course of this year, we should be prepared to enter the bond market as the year progresses. It will take approximately 60 days to prepare the legal documents, meet with the rating agencies and issue bonds. In the coming weeks, we will be engaging the City's financial advisor and bond counsel to begin the process. Once bond documents are prepared and the audit finalized we can dictate the timing of the borrowing.

One final consideration on timing is the debt service expense. Beginning on the borrowing date the City will incur debt service expense, regardless of when we actually spend the proceeds. Because it is unlikely that we will need the monies until early in 2022, by issuing debt early we will incur unnecessary costs. Based upon current interest rates, and assuming a borrowing of approximately \$15mm for 20 years, the City would incur approximately \$70k per month of debt service expense. Although it is important to lock in the attractive interest rates, we do not want to pay for unnecessary debt service cost. Based upon an assumed borrowing of \$15mm if rates rose by .50% from current levels it would cost approximately \$45k annually. It seems prudent and compelling to prepare documents but to wait until the end of the year to borrow (assuming interest rates or forecasts do not rise appreciatively.) Please note, we did include approximately six months of debt service cost in the 2021 budget.

One final note, to the extent the City wishes to replenish part/all of the Capex Reserve and assuming the City has the authorized debt capacity, a bond issue can reimburse the City for expenses incurred before issuance. However, given the size of the City's CIP, we anticipate that most/all of the Capex Reserve will be required, along with the bond issue.

In addition to the timing of any borrowing, we must consider the term of the bonds. Traditionally, tax exempt debt for infrastructure projects mature up to 20-30 years. Much like a conventional mortgage, the City's debt will amortize annually over the term, resulting in level annual payments. The maturity of the debt will be determined by the projects that are financed. The New York State Local Finance Law dictates the average life associated with a particular project. Because the City will be borrowing for a variety of projects, the maturity will be determined by the weighted average useful life of all of projects. As we further develop our debt plan, we will be strategically deciding which projects to include in the borrowing. Because interest rates are so low, and the interest rate difference is relatively small between a 20-year and 30-year borrowing cycle, we will seek to borrow for the longest term possible. Ultimately, the maximum term will be determined by the City's bond counsel, based upon NY State Local Finance Law. Based upon current interest rates the annual debt service expense of \$15mm of debt (Council authorized debt, including the 2012 referendum debt) would be \$850K for a 20 year amortization and \$625k for a 30 year amortization.

Summary

The financial undertaking over the next 12-36 months will be considerable, and will require modifications as projects are bid, and construction schedules are determined. Although the cumulative project costs are sizable, the City has put itself in a unique position to finance these critical infrastructure projects.

Use of Funds by Project	
Sewer Projects	6,504,040
DPW Improvements	5,650,000
City Hall HVAC <input type="checkbox"/>	2,400,000 <input type="checkbox"/>
Theodore Fremd Wall	1,300,000
Forest Avenue Sidewalks	2,178,000
Police/Court Facilities	3,700,000
2012 Projects	1,680,000
Contingency ¹	<u>3,511,095</u>
	\$ 26,923,135

Source of Funds ²	
CapEx Reserve Fund	5,500,000
Grants	6,193,135
City Council Authorized Debt	13,550,000
2012 Referendum Bonds	<u>1,680,000</u>
	\$ 26,923,135

¹ Contingency monies are available to offset expected higher project costs or other unforeseen expenses. This amount is expected to decline significantly as actual costs are updated/revised.

² In addition to Council authorized debt, the City can issue up to \$1.69 mm under a Public Safety bond authorization and up to \$2.5 mm under a Disaster Rebuilding bond authorization. Both require only City Council approval.