Analysis of Suggestions for Improvement as part of the FY 2010 County's Line of Business & Schools Program Review Processes Fall 2008

Request By: Public

Suggestion: Delay any bonds that would affect 2010 and 2011 fiscal years unless the project is absolutely critical to the safety and security of our residents. It may not be wise to float bonds when the revenues are down by $400 million.

Response Provided By: Department of Management and Budget

Background : Bond referendums are conducted to ask voter approval for the use of general obligation bonds to fund a variety of capital construction purposes, such as public safety facilities, schools and road improvements. Bond sales of general obligation bonds are sized based on cash flow requirements for bond-funded capital projects in various stages such as, land acquisition, design, and construction. Some capital projects are funded on a pay-as-you-go basis with General Fund dollars.

Recommendation:

Staff started a review of bond-funded projects and cash flow requirements in July 2008 for the anticipated January 2009 bond sale. All bond-funded capital projects and General Fund pay-as-you-go projects are being reviewed to determine the feasibility of deferring the capital construction projects and thereby generating budgetary savings.

It is possible to delay bond sales. If bond sales are delayed in FY 2009, it should be noted that for every $1.0 million dollars reduced from the bond sale, the debt service reduction is estimated to be approximately $102,000 for FY 2010. In other words to obtain a $1.0 million debt service savings, approximately $10.2 million worth of spending on capital projects must be deferred from the bond sale in FY 2009 to generate a $1.0 million savings in FY 2010.

The program areas that would be impacted by not selling bonds are those with large amounts of outstanding bonds authorized but unissued. Unissued bonds have not been sold as the project is not ready for design or construction and/or the County's bond sale size and debt capacity limits do not allow the bonds to be sold. Currently there is over $680 million in outstanding bonds for Schools, the next largest category is transportation with over $200 million, and public safety has over $137 million. Other program areas with available bond authorization include Libraries, Human Services, and Parks. If the County does not sell bonds for these purposes, maintenance of existing facilities will be delayed as will new construction for these program areas.

Some County residents will remember that this strategy was employed in 1992 during the last major budgetary downturn. At that time, approximately $225 million of approved projects were deferred from a billion dollar Capital Improvement Program. The period of deferral lasted 5 years and the subsequent restoration for some deferred projects took another 3 to 5 years. Capital projects require years to implement, starting with land acquisition, planning and engineering analysis, then to design, and finally to a 2 to 3 year construction period.

A typical new school may require 3 to 5 years from authorization to completion. Stopping capital projects in progress is difficult and slow due to existing contractual commitments. Deferring

projects not yet started delays the multi-year construction cycle and when restarted competes with the backlog of deferred needs that have accumulated in the meantime. Complicating this process this time is a bond sunset law which imposes a 10-year life on any prior bond authorization.

Ironically, deferring capital construction can mean savings today but potentially increased costs tomorrow as inflation takes hold. Conversely, lasting short-term savings may actually be possible during an economic downturn. Government construction projects usually obtain lower prices for all phases of the project from design through construction as the private sector is not competing for business and demanding as much capacity from the construction market. In economic downturns, there is less domestic competition for materials, equipment and commodities, and much greater availability of regional labor, skilled labor, and sub contractors that leads to a significant decrease in the level of overall construction costs. When construction of delayed projects is resumed in the future during improved economic times, there is greater competition for materials and labor resulting in increased prices. Thus, for those governments that can afford to continue with a capital program during economic downturns, cost savings can be obtained.

Finally, it should be remembered that during the last downturn, there were no County referendums for any projects but Schools and Transportation between 1990 and 1998; a period of 8 years.