Response to Budget Question

Request By: Supervisor Foust

Question: How can the County support the financing for the acquisition of the American Red Cross building for the schools when we were unable to support an increase of $15 million to the Park 2008 Bond Referendum due to the negative impact to the future debt ratios?

Response: The County utilizes four categories of funding for capital projects. These are in order of magnitude: 1) general obligation bonds and other bonds payable solely from the general fund; 2) revenue bonds payable from special revenue funds such as sewers; 3) pay-as-you-go from the general fund or other funds; and 4) "alternative financing" that may involve an exchange of assets, public private partnerships, capitalized or redirected operating expenses and other forms of payment from various sources.

Projects supported by alternative financing which do not solely rely upon general fund revenues as the primary source may continue to go forward under circumstances which are unique to each project. This is the defining financial feature of all projects undertaken through public private partnerships or alternative forms of financing that have enabled the County to achieve a number of capital requirements over the last several years even as other forms of financing are constrained.

The general obligation bond program relies totally upon the debt capacity afforded by the financial strength of the general fund as defined by the careful policies and debt ratios established by the Board's Ten Principles of Sound Financial Management. The vast majority of county capital projects are funded through general obligation debt including school construction, transportation improvements, public safety, parks and other county infrastructure. The County's general obligation debt capacity for the next few years will be impacted by the recent downturn in available real estate tax revenue. Staff recommended the delay of the public safety bond and recommended against the increase in the park bond until the depth and length of this recent downturn can be established. Our debt service to disbursements ratio now stands at 8.3 percent for FY 2009 which gives the County a small cushion until we reach the 10 percent policy limit. However, the expected pace of the planned program of expenditure from currently authorized bonds leaves no flexibility for new demands, and reductions to the general obligation program may be required should conditions worsen.

The school project, on the other hand, relies upon a funding source that is uniquely available from the acquisition of the office building, namely the long term savings accruing from the consolidation and reduction of administrative staff from multiple sites into one. Were it not for the acquisition of the office building, funds to complete the acquisition would not be available. Excess savings are expected to be made available for school operations. The acquisition of the office building can proceed without impact to other general fund financing sources or debt structure as the business model simply represents the transfer of already budgeted and planned operating and maintenance costs to debt service for net savings over time. The impact to the debt ratios is neutral as the payments to the debt service fund will be made from the School Operating fund. The

School Operating fund has other revenues available, including sales tax and state aid, from which to make this payment that would not otherwise be available for General Obligation debt.