

CAPITAL PLANNING MEMORANDUM

To: City of Avondale Estates Board of Mayor & Commissioners
From: Douglas J. Gebhardt, Vice President, Davenport & Company LLC
Date: April 17, 2019
Subject: Initial Capital Plan – Recommended Plan of Action

Background / Overview

On February 13, Davenport & Company LLC (“Davenport”), in our capacity as Financial Advisor, provided the Board of Mayor & Commissioners (the “BOMC”) an introduction into municipal finance. Following that meeting, on March 20, Davenport presented the City’s Capital Needs and identified the City’s Debt Capacity and Debt Affordability based upon industry standard best practices. In response to these presentations, the BOMC tasked Davenport and City Staff to develop a specific Plan of Action and recommended next steps to commence the City’s Capital Plan.

The Strategy / Approach

Davenport has categorized the City’s Capital Needs into three major categories – currently funded projects, immediate/committed projects, and long term projects which are further described below. Our strategy is to maximize the funding sources available to the City while minimizing the potential impacts to tax payers and staying within industry standard best practices.

Currently Funded Projects:

Davenport has identified that the City’s current revenues from the SPLOST and HOST are sufficient to cover the City’s Transportation Project Needs over the next 5 years. More specifically, these projects are/will continue to be funded:

- 1) US 278 Design / Construction; and,
- 2) Laredo Drive Design.

Immediate/Committed Projects

Recognizing the City’s long term capital needs are currently in excess of the borrowing capacity and revenues available, Davenport & City Staff recommend a strategy that **first** completes the immediate/committed capital projects, which are as follows:

- 1) Stormwater Master Plan;
- 2) Kensington / Northwoods Projects; and,
- 3) Park Design / Construction.

Note: ***Davenport is recommending borrowing for these projects through a Bond Anticipation Note, which is described in greater detail later in this memorandum.*** Additionally, Davenport recommends waiting to receive the results of the Stormwater Master Plan before making any changes to the Stormwater fees.

Long Term Projects

Following the initial capital project financing, City Staff and Davenport will develop a longer term plan over the next 12-24 months for the other unfunded projects which include but are not limited to the following:

- 1) Sustaining the City’s annual Paving Program;
- 2) Determining Stormwater Needs based upon the results of the Stormwater Master Plan;
- 3) Completion of Laredo Drive and other Street Grid Projects; and,
- 4) Public Works / Municipal Facility Needs.

Note: The City’s longer term capacity will be determined based upon a number of factors including but not limited to future tax bases and revenue growth.

Immediate Funding Source - Recommendation & Rationale

In order to finance the initial projects, Davenport recommends the issuance of a Drawdown Bond Anticipation Note (“BAN”). By issuing the BAN, it benefits the City by virtue of the following:

- 1) Locks in a financing mechanism today for total capacity of the initial projects and allows for “just in time” financing (i.e. only draw funds on an as needed basis).
- 2) In essence, the Bond Anticipation Note functions similar to a Line of Credit where interest is only paid on the amounts that are drawn.
- 3) Helps reduce the overall debt service burden on the General Fund while some of the projects are still in the planning phase and final project costs are being finalized.
- 4) Knowing that the City has some major developments that are either in the construction phase or in the pipeline, it allows the City to begin to further understand / recognize those revenue sources as well as any potential future revenue sources so that the permanent financing could be structured around these potential revenues.
- 5) Maintains the Stormwater Fund’s reserves for emergency purposes.

Typically, the BAN would be outstanding for a 2-3 year period. At the final maturity of the BAN, the City would issue a long term bond that would be used to pay off the amount that had been drawn on the BAN. The long term bond would be structured, as previously described, in a way that takes advantage of the City’s available revenue sources. Following the issuance of the long term bond used to pay off the BAN, the Bond would begin to amortize and be paid from the City’s General Fund or other legally available revenue sources.

In order to issue the BAN, Davenport recommends the City create an Urban Redevelopment Agency (the “URA”) which will serve as the conduit issuer. There are a number of steps to create the URA including the developing an urban redevelopment plan but it can all be done through local legislation. After the creation of the URA, the City has the ability to enter into an intergovernmental agreement with the URA. The intergovernmental agreement will outline that the debt service payments will be secured by the City’s full faith and credit pledge which provides the lowest possible cost. This process is similar to the Intergovernmental Agreement(s) the City has in place with the Downtown Development Authority. However, the Downtown Development Authority does not have the ability to finance the projects being currently contemplated by the City.

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Next Steps

	Task / Deliverable*
April 17, 2019 (Today)	<u>Board of Mayor & Commissioners Work Session:</u> BOMC authorizes City Staff, Davenport and Bond Counsel to proceed with the recommended Plan of Finance.
Task 1	Complete the necessary steps to create the Urban Redevelopment Agency to allow for the issuance of the BAN for the projects currently being contemplated.
Task 2	Validation.
Task 3	Develop an Request for Proposal for the City’s BAN and solicit the RFP to local, regional and national lending institutions.
Task 4	<u>Board of Mayor & Commissioners Work Session:</u> Davenport to present the RFP results and consider approval of the necessary financing documents including intergovernmental agreement and bond resolution.
Task 5	Close on the Financing.

*Note: Some of the tasks above can be completed simultaneously and/or not in that particular order.

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