



City of Homer

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Administration

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Memorandum 18-039

TO: Mayor Zak and Homer City Council
FROM: Katie Koester, City Manager
DATE: March 21, 2018
SUBJECT: Memo for March 27 Police Station Worksession

The purpose of this memo is to provide Council with information on potential scenarios for a bond for the police station with the goal of drafting an Ordinance for consideration by Council this summer and a ballot question for the voters in the fall. Understanding the annual payment that the City would need to come up with will help in selecting a revenue source. For the purposes of this conversation, I have assumed the total project cost will be \$7.5 million and that the City will bond for \$5 million. This takes into account the amount Council already allocated for the project, \$2.5m¹.

Timeline

Selecting a revenue source to make bond payments is a tough subject and may require additional worksessions. In order to put a bond question on the October 2018 ballot, the Council would need to pass an ordinance by the last and only meeting in July. This means a decision on details for an Ordinance should be hammered out for introduction in June.

Ballot language

In considering details of the ordinance, Council should think about ballot language and whether or not you want to restrict the revenue source to only making bond payments or present the voters with a question that could allow the revenue to be spent on operations and maintenance and/or other potential capital improvement projects. i.e., does the revenue source (tax) sunset when the bond is paid off.

Increased Operations and Maintenance

In an effort to provide a more precise estimate on what it will cost to operate the new police station, Public Works Director Meyer performed a detailed analysis of major city facilities (earlier figures were from applying an industry formula developed for estimating such costs). The attached spreadsheet demonstrates that using the current square footage cost to operate and maintain the existing Police Station (\$25/SF); the O&M cost for the new station is \$273,075.

One could argue that many O&M costs associated with the station are fixed (no matter what the size of the new building), that the new building will be less costly to heat (new building will be heated with natural gas), and that the cost per square foot to operate the new station will be less per square foot

than the existing. Adjusting for these variables results in an O&M cost of \$20/SF for the new station (see attached adjusted costs); or an annual cost of \$218,460 for the new station.

Subtracting the cost of maintaining the existing station; the additional O&M cost would be \$81,549. Therefore, if we were to eliminate ALL expenses associated with the existing station by selling or mothballing the facility, the City would need to come up with an additional \$81,549 annually once the building is operational. What the City plans on doing with the existing facility will inform how much additional operations and maintenance revenue will be required of the future City operating budget.

How much additional revenue does the City need annually for this project?

Assumptions have to be made to calculate these numbers including length of term and interest rate. The Alaska Bond Bank provided terms that they consider reasonable and conservative: a 20 year term with a 4% interest rate. I also included a 30 year scenario at a 4.5% interest rate as a point of comparison. The term of the bond cannot be beyond the anticipated life of the building. Stability of the revenue source is important to consider when deciding on a revenue target as the City is required to make the bond payment regardless of whether or not the designated revenue stream brings in the predicted revenue. Council has precedent using the 1.25 number as it is applied in decisions related to taking on debt in the HAWSP fund.

Bond for 5 Million

Term and Rate	Annual Payment	X 1.25	+ Increased O&M*
20 years at 4%	\$390,660	\$488,325	\$569,874
30 years at 4.5%	\$320,076	\$400,095	\$481,644
*Assumption: \$81,549 in increased operations and maintenance			

Enc: City Building Maintenance Costs per Square Foot

Balance from Public Safety Building Project	\$73,500
Liquidation of Permanent Fund	\$1,173,864
Mid-year transfer Ordinance 17-34(A)	\$448,422
FY2018 budget transfer from Health Insurance Fund	\$669,212
FY 2019 Community Assistance (not accepted)	\$149,000
TOTAL	\$2,513,998