School Board Request for $7 Million Debt Issuance

August 22, 2024

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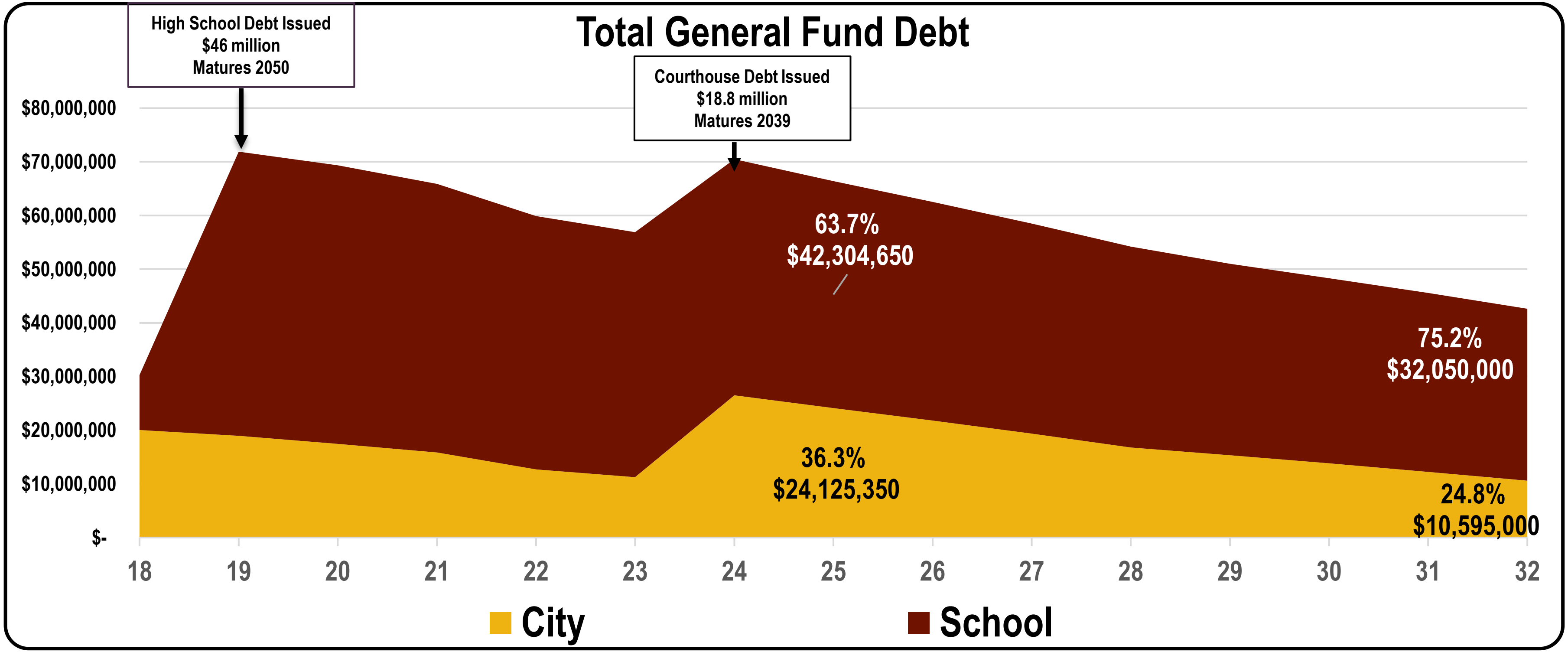
Financial Considerations

Financial prudence involves managing our finances and resources in a careful, cautious, and sensible way by making informed decisions, planning for the future, and avoiding unnecessary risks.

Financial Implications to Consider:

- Debt Affordability
- Current Debt Service
- Competing Projects and Priorities
- FY2026 Budget Concerns

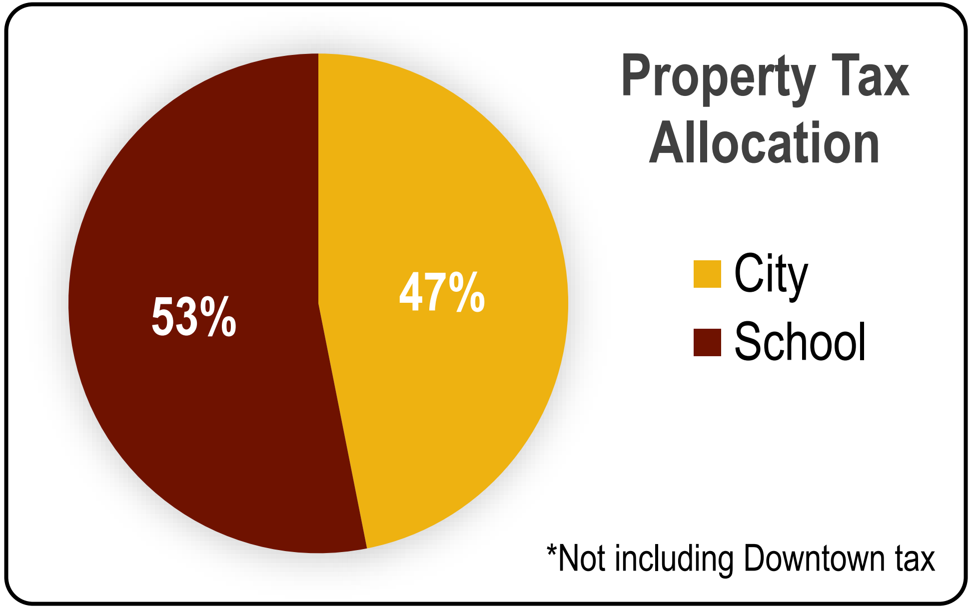
General Fund Debt



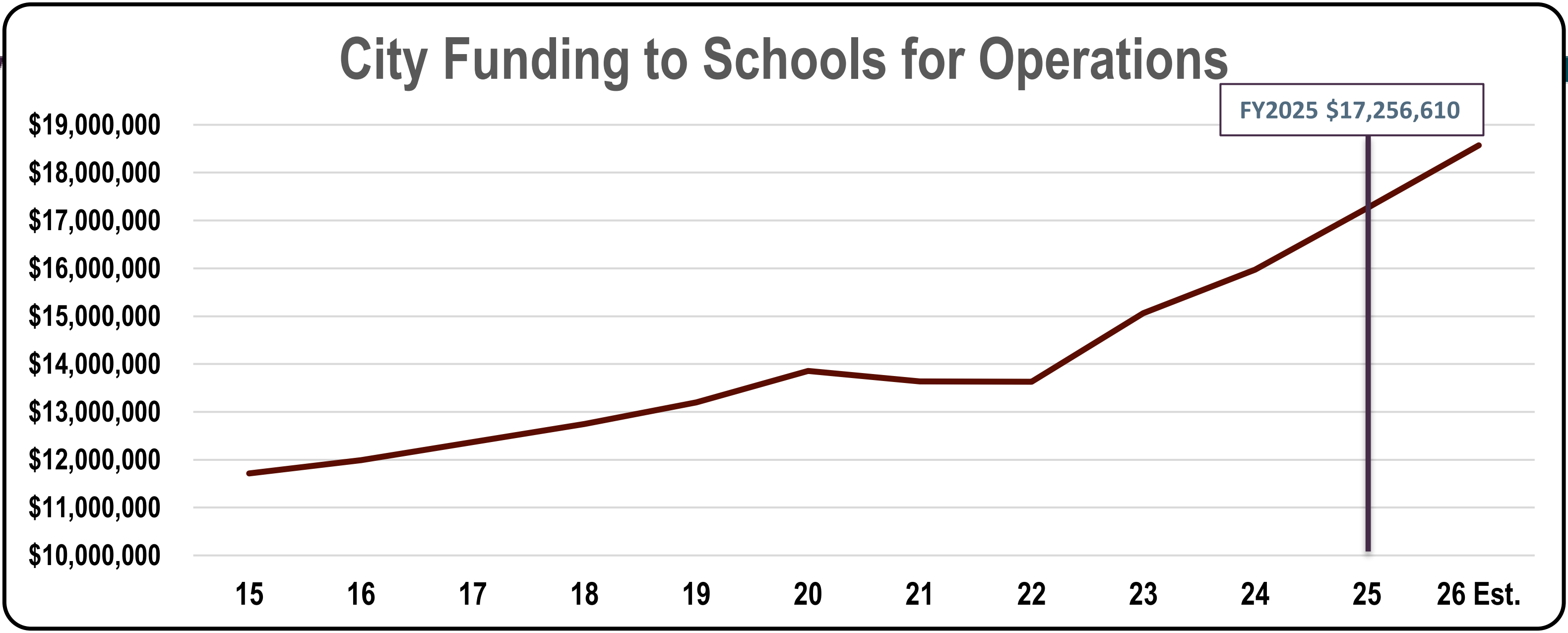
City Funding for Schools

School Funding Formula was adopted in August 2022.

- Relies heavily on property taxes.
- Two year rolling average.
- Smaller percentage of Other local taxes.
- Excludes taxes susceptible to economic changes.



City Funding for Schools



The chart above <u>does not</u> include a special appropriation made by city council:

- January 13, 2022 - $2,500,000 (from City's FY2021 carry over funds)

City & School Collaboration

- **City & School collaboration leverages economies of scale and is a win-win for the taxpayer.**
  - Shared Human Resources Department
  - Shared Finance Department
    - Includes Accounts Payable, Cash Management, Financial Reporting, Grant Accounting, Payroll, & Procurement
  - Parks and Recreation
    - Field maintenance and supplies
    - Use of equipment
    - Discount on HEART program for employees
  - Public Works
    - School Board office space
    - Bus parking

Shelburne Renovation

Phase I – Renovation & Addition of Classrooms/Admin space - $6,700,000

- **Fully Funded**

Phase II – New Construction of Collaborative Learning Space

- Schools have requested a **$7 million debt issuance** to fund Phase II.
- Estimate annual debt service is approximately **$600,000** (assuming 15 years at 3.23%)

Phase III – Relocation of Transportation & Maintenance - $32,500,000

- In the School CIP for FY2028/FY2029
- **Unfunded**

School Board Resolution

Staunton City School Board passed a resolution August 12, 2024 requesting city council to issue new general obligation bonds of approximately $7 million.

- Schools do not have the authority to issue debt and will need city council's approval to proceed.
- Debt would be issued through Virginia Public School Authority Fall Pool. Next pool is in the spring.
- **August 26, 2024** - Application deadline.
- **September 12, 2024** – Required public hearing.
- **September 26, 2024** - Council to consider bond resolution/ordinance.
- **September 27, 2024** - Deadline for council to adopt bond resolution and ordinance.
- **October 30, 2024** - Bond closing.

Total Available Funding for All Phases of the Shelburne Renovation $9.2 M

City Funding $4,733,691

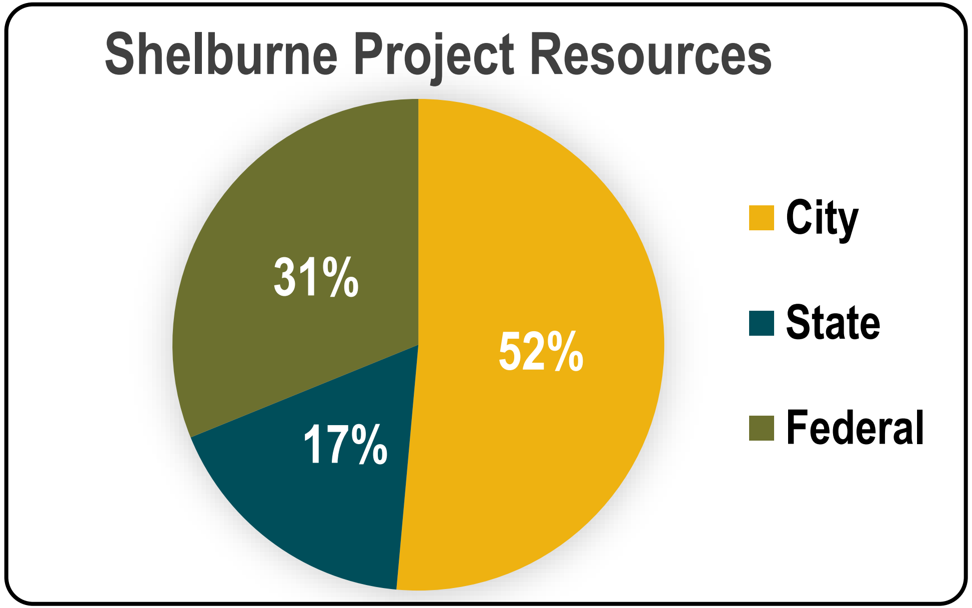
- **$1,500,000 -** from the school fund balance. These are unspent city funds designated for school operations that schools are allowed to retain 100% for capital improvements.
- **$2,500,000** – special appropriation by city council from the FY2021 city carry over funds.
- **$733,691**– transfer from city CIP fund in FY2024.

State Funding $1,603,576

- School Construction Grant Program Entitlement FY2023

Federal Funding $2,867,594

- Elementary and Secondary School Emergency Relief Funds



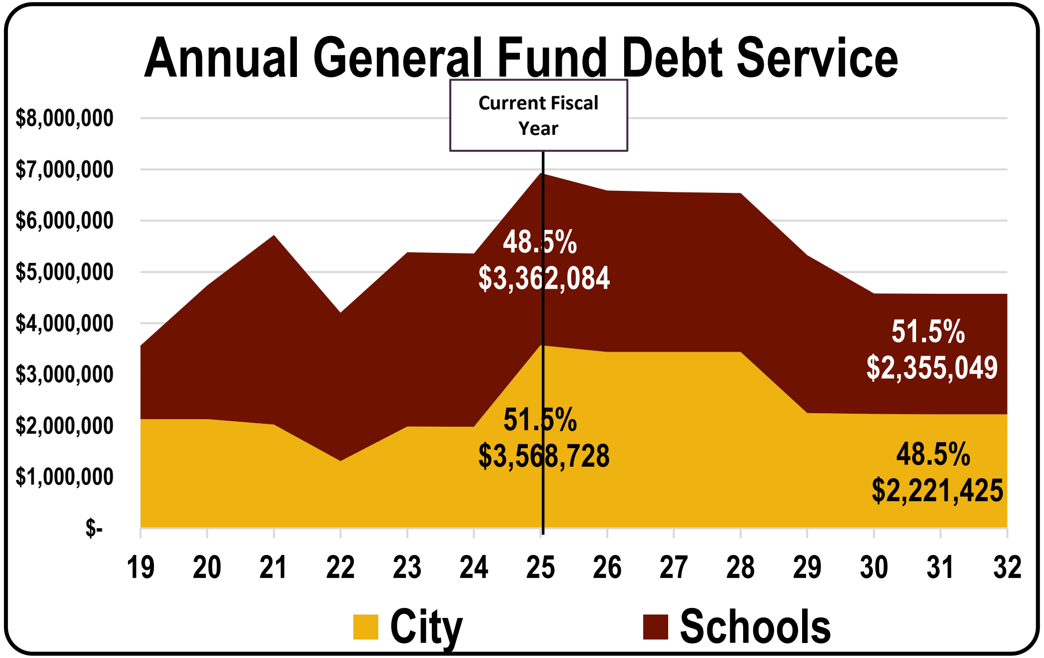
Debt Capacity vs Debt Affordability

- **Debt Capacity** – the total amount of debt that could be taken based on financial strength and stability.
  - Criteria is set in the Financial Management Policy Adopted December 11, 2014.
  - Code of Virginia 15.2-2364 Limitations on amount of outstanding bonds.
- **Debt Affordability** – the ability to make the required annual payments.

Debt Affordability

Why a new debt issuance is not advantageous at this time.

- The city is **unable to fund** the entire current annual debt service out of operations.
- The city is using savings to pay for debt.
- Any new debt issuance would require new revenue.



FY2026 Budget Considerations

The City of Staunton has several important factors to consider in the upcoming FY2026 budget.

- $1,300,000 – Increase in the local contribution for schools per 2022 funding formula. ***(4.48 cents*)***
- $(665,000) – Loss of operating revenue when the Harrisonburg/Rockingham Jail Buy-In ends. ***(2.29 cents*)***
- ***$600,000 – Potential debt service on Shelburne Renovation Phase II. (2.05 cents*)***
- $200,000 – Additional increase in Sheriff's budget for the new courthouse staffing. ***(.69 cents*)***
- $100,000 – New estimated operating expenditures relating to the opening of the new courthouse. **(.34 cents*)**

$2,865,000 – Total of above items **not including** a cost of living increase for city employees, city operating increases, increases in outside agency funding, or other city needs. **(9.85 cents*)**

*Equivalent increase to the Real Estate tax rate

Other Considerations

Other Important Considerations

- **City CIP** - The city has to rely on leftover year end funds in order to fund the capital improvements plan.
- **Unfunded City Equipment** – the city is not able to fund important equipment replacements in the budget.
- **The Staunton Plan** – The current Staunton Plan includes several priorities that are either unfunded or underfunded including:
  - Public Safety Facilities
  - West End Revitalization
  - Uniontown Improvements
  - Affordable Housing
  - Aging Infrastructure

Challenges of Current Request

1. **There is no current revenue source to support a new debt issuance.**

2. **The Debt Sinking fund balance (our savings) doesn't have the capacity to support an additional debt issuance.**

Tax Increase

- Real Estate Tax Increase of 2.05 cents per $100 assessed value specifically set aside for the new debt issuance on top of the tax increase already needed for FY2026.

Redirect current CIP funding of approximately 2.05 cents on the 2024 real estate rate

- **Library** $287,261 (one penny on the 2023 real estate rate)
- **Uniontown Improvements** $287,261 (one penny on the 2023 real estate rate)
- **West End Revitalization Plan** $287,261 (one penny on the 2023 real estate rate)

Potential Advantages and Disadvantages of Delaying a Decision

Potential Advantages

- Holistic approach to capital improvements spending
- Clearer picture on FY2026 budget and 2025 assessments
- Lower Interest Rates
- More competitive bids
- Opportunities for alternative revenue sources (e.g. state funds, grants, etc)

Potential Disadvantages

- Cost could increase
- Delayed delivery of project