

M E M O R A N D U M

TO: Town Commission

FROM: Tom Harmer, Town Manager

REPORT DATE: October 3, 2019

MEETING DATE: October 15, 2019

SUBJECT: Ordinance 2019-13 Gulfside and Bayside District Referendum to Authorize the Issuance of General Obligation Bonds/Notes for Beach Restoration, Renourishment and Maintenance Capital Projects on Longboat Key (Including Erosion Control Structures and Sand Placement) and Related Financial Impact

Recommended Action

Forward Ordinance 2019-13 to the November 1, 2019, Regular Meeting for first reading.

Background

The Commission approved a five-year Capital Improvement Plan of \$42.5 million for the Beach Capital Fund during the FY20 budget adoption process. Since January 2019, the Commission was presented updates to the Comprehensive Beach Management Plan during four separate public Commission meetings. Town staff and Dr. Al Browder from Olsen & Associates presented and discussed the Plan document along with three potential construction/nourishment scenarios at the October 1, 2019 Regular Meeting. The Commission unanimously approved the Comprehensive Beach Management Plan and instructed staff to bring forward updated funding scenarios at the October 15, 2019 Regular Workshop, for consideration.

Beach Districts History

In 1992, Ordinances 92-24 and 92-26 were enacted which enabled the Town to levy a millage dedicated to beach nourishment. The Town was sectioned in two beach erosion control districts. District A is responsible for 80% and District B is responsible for 20% of the sum of the annual millage levied for the payment of debt service on beach nourishment bonds. District A included (a) all Gulf-front properties located between Gulf of Mexico Drive (GMD) and the Gulf of Mexico; and (b) all commercially zoned or used properties that are contiguous to GMD or other District property. District B's geographical boundary would include all properties that were not located in District A.

For purposes of longer-term planning, the Town commissioned a study performed by Burton & Associates in 2014 to develop a 20 year plan of millage rates which included both Operating & Maintenance and borrowings for large capital outlay while providing as low and consistent millage rate as possible. The conclusions of this study provided the framework for the new Beach Districts (Gulfside and Bayside) established in 2014 through Ordinance 2014-29. The new

Ordinance would also sunset the old districts A and B upon the payoff of the 2016 bonds or in 2021, whichever occurs earlier.

Ordinance 2014-29 refined and simplified beach district boundaries to be geographically separated by Gulf of Mexico Drive. It substantiated the historic 80/20 division and retained the 80/20 apportionment of millage between the Gulfside and Bayside Districts, respectively. There is a more comprehensive listing of the dependent districts' powers including the ability to fund routine beach operation and maintenance activities and authorizes the creation and use of a sinking fund toward future sand replenishment projects. This means there is potential to levy an operating mill rate or a debt mill rate or combination of both for each District.

Bond Authorization and Financial Impacts

In 2016 the Town hired Bryan Mantz (PRMG/GovRates Inc.) to build a non-proprietary Excel financial model which the Town could use in perpetuity for long term planning, budgeting and creating "what if" scenarios. This model was utilized to evaluate the updated Comprehensive Beach Management Plan including the Beach Fund's FY20-FY24 five-year adopted capital project budget of \$42.5 million.

The financial model is assuming the Town will receive 26.94% (new rate) in reimbursements under the FDEP Beach Management Funding Assistance Program. However, these funds are not guaranteed. The Town has to apply for FDEP funds annually and make the approved list. If the Town gets on the list, our eligible projects are reimbursed at the 26.94% funding rate, which is only limited to the State's budgeted cap. The topped ranked Towns, Cities and Counties are filled first and any remaining funds go to the next applicant in line until all the funds are expended. This list is also limited to State's budgeted appropriations.

We therefore recommend that any bond authorization be grossed up to include the State reimbursement, which may not be realized. The Town will then be able to seek additional borrowing to finish the projects in case State funding falls short of expectations. The bonding authorization being proposed is \$36,000,000 maturing not more than eight (8) years from issuance, subject to referendum approval.

Town staff will present the estimated mill rate impact on a \$25 million borrowing, which is the original \$24 million borrowing presented at the May 20, 2019 Special Workshop (Budget) plus closing costs and added contingency. We will also present the mill rate impact on a \$36 million borrowing if State FDEP grants are not realized. These scenarios will be presented in 6-Year, 7-Year, and 8-Year term payback based on a bank loan and we will use current market rates and market rates +1% for sensitivity. Bond closing costs include validating bonds, but excludes the additional legal costs if bonds are contested.

At the October 1, 2019 Regular Meeting the Commission requested a financial evaluation of adding 100,000 cubic yards of sand for an additional cost of \$5 million. Taking into consideration the FDEP reimbursement rate of 26.94%, this

would require an additional \$3.5 million borrow amount for a total of \$28.5 million. Because of the increase in cost and potential grant recovery, the authorization would also increase to \$41 million instead of \$36 million. Our model does not factor in any funding from Manatee County for the North end groin project. We will prepare a formal ask as requested by the Commission and if they did agree to some assistance it could offset the cost for the additional sand.

A short repayment term may be attractive to banks for a bank loan, but our financial advisors, Hilltop Securities, will evaluate a public offering vs. bank loans in the future given the potential size of the financing. A bond issue would have higher issuance costs than the bank loan scenarios, but it may be possible that the market rates are more competitive versus a loan, thereby offsetting the additional cost. The dynamic between these two options will fluctuate with the market.

Proposed Ordinance 2019-13 is attached for your review and includes the bonding authorization and proposed ballot language for Gulfside and Bayside Districts.

Timing Considerations

Listed below is the anticipated timeline for the Referendum and Bond Issue. If construction should be delayed due to special circumstances, after the referendum passes, but before the bonds are issued, the Town Commission may want to consider an operating mill rate in FY21 to prefund construction costs instead of deferring to FY22. Imposing a FY21 operating millage will provide consistency in taxation and reduce future borrowing amounts, thereby saving interest expense. However, any operating mill rate imposed will count toward the annual roll back rate calculation as well as the State 10 Mill rate cap and the Town's 5 Mill rate cap per Town Charter.

Next Steps

Leading up to Referendum

- November 4, 2019 Referendum Ordinance First Reading
- December 2, 2019 Referendum Ordinance Second Reading and adoption
- December 16, 2019 Deadline for ballot language to Supervisors of Elections
- Public outreach on Comprehensive Beach Management Plan and Ballot initiatives (January – March)
- March 17, 2020 Referendum

Leading up to Bond Issue

- Master Bond Resolution April 6, 2020
- Bond Validation by late July 2020 (approximately three month process, potentially longer)
- Supplemental Bond Resolution after RFP process or Public Offering
- Mill Rates established during FY21 budget process based on new property values and published on August 2020 TRIM notice
- Close on Bond in coordination with construction schedule and permitting

- Construction begins estimated early 2021 (after turtle season)

Staff Recommendation

Forward Ordinance 2019-13 to the November 1, 2019 Regular Meeting for first reading.

Attachments

- A. Ordinance 2019-13 (Available in Town Clerk's Office)
- B. PowerPoint (Available in Town Clerk's Office)
- C. Burton Study of 2014 (Available in Town Clerk's Office)

End of Agenda Item