City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 11, 2003

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER PS

SUBJECT: BUDGET MEMO #28: ISSUING OPEN SPACE BONDS BACKED BY THE PROPOSED ONE-CENT REAL ESTATE TAX FOR OPEN SPACE (COUNCILMAN EUILLE'S REQUEST)

In response to the question raised during the City Council discussion on funding open space with a one-cent increment on the real estate tax rate, the following information is provided:

While Virginia law permits a general obligation pledge of local tax revenues to legally back and finance the debt service from general obligation bonds, State law does not legally permit the explicit designation of any portion of the City-wide real estate tax rate towards specific public purpose general obligation or revenue bonds (including open space). However, there is no legal impediment to issuing bonds (which include amounts for open space as one of the intended uses of bond proceeds) with a general obligation pledge knowing that the funding source is implicitly coming from a City Council policy to allocate one-cent's worth of the real estate tax rate to open space acquisition costs.

From a policy point of view, a number of issues are raised by issuing bonds whose debt service will be equivalent to one cent (or whatever portion of one cent is chosen to be used for bonds) of the real estate tax rate.

- General obligation bonds used for open space and financed in this manner count towards the City's debt policy limits and therefore add to the already fast growing City debt ratios.

- General obligation bonds are a permanently binding legal obligation and usually have a 20-year amortization schedule. The funding source of one cent on the real estate tax rate while potentially becoming the policy of the current City Council, is a policy that is not legally binding and is renewable each year by Council as part of the annual setting of the real estate tax rate. While this Council may set a specific open space funding policy, future Councils may amend it if the fiscal situation or the policy priorities of the City changes. However, if general obligation bonds are issued for open space, future City Councils will not have a choice on repayment of the debt service on those bonds for as long as 20 years (a shorter amortization schedule can be established but that has the effect of reducing the amount of bonds that can be issued because annual debt service payments would be higher).

- The receipt of an annual revenue amount of $1.9 million (about what one cent will generate annually) will give the City an annual income stream of funds in order to choose over a period of time which open space parcels to acquire.

- Having open space bond funds in hand up-front ($1.9 million as the maximum annual debt service amount would finance the debt service on about $20 million in bonds) will result in the funds being spent earlier on land acquisition than would have otherwise been the case. This has the potential advantage of getting land at a lower cost rather than paying for land after it has appreciated, but also the potential disadvantage of making more land acquisition decisions in the short term as opposed to making them at a slower, more deliberative pace over a longer period of time.

In the final analysis, land acquisition is often a matter of opportunity, where the timing of when someone is willing to sell land to the City at a reasonable market price is not predictable. As a result, one way of looking at the issue of whether to bond fund or not to bond fund, is to start the funding process on a cash basis (if Council approves the one cent for open space) and then see what opportunities occur. While paying for land on a cash basis is preferable, if a parcel of land that is a very high priority to the City becomes available, a decision to bond finance that purchase could be made at the time of the acquisition decision. In that case, the costs of acquisition could be rolled into the next bond issue. Also, with three real estate payments available for FY 2004 (June 2003, November 2003 and June 2004), at a one-cent increment there will be some $2.9 million in expenditure authority available to start the open space acquisition program, as well as the $0.6 million in City funded open space monies already funded or proposed to be funded in the CIP ($0.2 million per year in FY 2002, FY 2003 and FY 2004). This would bring the total of available funding in FY 2004 to $3.5 million.