

**OFFICE OF THE CITY COUNCIL**

**RESEARCH DIVISION**

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**FINANCE COMMITTEE BUDGET HEARING #5 MINUTES**

 **August 25, 2021**

**9:00 a.m.**

**Location:** City Council Chamber

**In attendance:** Committee members Ron Salem (Chair), Danny Becton, Michael Boylan, Reggie Gaffney, Terrance Freeman, Ju’Coby Pittman, Matt Carlucci,

**Also**: Kim Taylor, Heather Reber, Brian Parks – Council Auditor’s Office; Jeff Clements– Council Research Division; Paige Johnston – Office of General Counsel; Bernadette Smith – Legislative Services Division; Eric Grantham – Information Support Services; Joey Greive, Randall Barnes, Angela Moyer and Teresa Eichner – Finance and Administration Department; Brian Hughes, Stephanie Burch, Leeann Krieg, Rachel Zimmer – Mayor’s Office

**Meeting Convened**: 9:00 a.m.

**Page references from this point refer to Council Auditor’s Meeting #5 handout**

**Debt Affordability Study**

City Treasurer Randall Barnes made the report on the annual debt affordability study. Mr. Barnes emphasized the difference between debt capacity (the maximum amount the City could possibly borrow) and deft affordability (how much is it prudent to borrow given available revenues and other competing needs). Several years ago the City adopted a number of debt affordability ratios that are analyzed each year. Two reports are issued, one with and one without the proposed borrowing for the next fiscal year. He explained the methodology of budgeting for expenditure of borrowed funds for CIP projects over 4 years (50% in year one of a project’s authorization, 25% year two, 15% year three, 10% year four). Mr. Barnes noted that the City has reduced its outstanding debt by over $500 million since the Curry administration has been in office, and reserve funds have been increased by $126 million over the same time. Jacksonville has a relatively high level of debt compared to its peer cities and a relatively high pension liability obligation, so having substantial reserve funds is important to the bond rating agencies as a sign of fiscal stability.

Mr. Barnes reported that all of the City’s debt ratios are well within their targets and their minimum/ maximum ranges because the City’s economy is growing steadily and the Mayor and City Council have been approving prudent budgets and refinancing higher cost debt to lower rates in the era of unprecedented low interest rates. The City is rated AA/AA/Aa3 for general obligation bonds by the 3 rating agencies and AA/AA-/A1 for special revenue pledge bonds. Paul Barrett, Senior Manager of Debt and Investments, reviewed the City’s 7 debt affordability ratios, which he said are all based on very conservative projections of revenue and budget growth. He said the City has dedicated debt service funds segregated from the rest of the General Fund operating accounts to ensure fund availability for debt service. The City’s emergency and general operating fund balances have been growing steadily.

As of the end of the current fiscal year the City is projected to have $992 million in outstanding Better Jacksonville Plan debt and $1.16 billion in general government and enterprise fund debt for a total of $2.15 billion outstanding. Even with the proposed substantial increase in CIP borrowing over the next several years, the debt affordability ratios all stay within acceptable ranges throughout the period, rarely exceed the target levels, and never exceed the maximum limits.

Council Member Becton asked about the process of bundling projects with different lifespans into a single debt issue. Mr. Barnes explained that projects with similar lifespans are bundled by their amortization period and the bundles are then aggregated into an overall average to set the bond terms. The City makes maturity payments on the bonds each year, so shorter lifespan projects get paid off earlier. The using departments pay their portion of the borrowing based on the lifespan of their particular elements of the overall debt issue. Mr. Barrett noted that the City typically borrows to reimburse itself for project expenditures already made from available pooled cash. Council Member Boylan asked if there were any substantial differences between the May and August debt affordability reports; Mr. Barrett said the May report is the baseline report showing existing approved borrowing and the August update includes the FY22-25 CIP planned borrowing. In response to another question from Mr. Boylan about what else the City could do to improve its bond ratings, Mr. Barnes said that the ratings are a combination of raw quantitative data and subjective evaluation of the City’s economic conditions, resiliency issues, management capability, and many other factors that might impact on the City’s ability to pay its obligations to bondholders.

Mr. Boylan asked about the methodology used to project interest rates and other economic conditions years into the future. Mr. Barnes said they use the same sorts of information as other economic forecasters and always try to be on the conservative side of projections. In response to a question from Council Member Pittman about how leadership changes at the City impact project priority and borrowing practices, Mr. Barnes talked about the structure of bonds, their call dates and possible refinancing options. He said there are criteria in the Ordinance Code that regulate when and how bond refinancing can take place. Council Member Freeman asked about the impact, if any, of JEA’s Plant Vogtle obligations on the City’s finances. Mr. Barnes said that the bond raters view all Jacksonville residents as JEA ratepayers as well as City taxpayers, so there is some interest by the raters in the costs that obligation will incur that might impact on the ability of taxpayers to afford government services and repay bonds. He believes the impact should be relatively small. Chairman Salem asked Council Member Boylan, the Council’s liaison to JEA, to keep on top of the Plant Vogtle issue and perhaps invite the JEA CEO to a future Finance Committee meeting after his upcoming visit to Plant Vogtle to give an update.

Chairman Salem noted that the economy has experienced an unprecedented period of extremely low interest rates and asked about refinancing opportunities. Mr. Barnes said the federal law was changed several years ago to limit the ability of governments to refinance bonds before their call date so bondholders are at least minimally protected. It would be possible to borrow via taxable debt to repay previous non-taxable borrowing, but it’s a complicated calculation. Mr. Salem asked about how many cities are AAA rated. Mr. Barnes said there are some, but Jacksonville is unlikely to reach that status until the pension liability is reduced and more outstanding borrowing is paid down. CFO Joey Greive said that in Florida, Broward County is AAA rated, largely because of its extremely large reserve funds. Chairman Salem asked if the low interest rates have impacted the length of borrowing; Mr. Barnes said that they have shortened their borrowing life somewhat, but the City mostly matches the borrowing length to the life of the asset being procured.

**Capital Improvement Plan**

Chief Administrative Officer Brian Hughes said that the proposed CIP incorporates input from council members, CPACs, and business and community leaders to capture the scope of the community’s needs. The Curry administration has been proposing robust CIPs to meet the City’s needs because more resources are now available, in part due to the pension reform sales tax and the extended local option gas tax proposed by the Mayor and adopted by City Council.

Heather Reber of the Council Auditor’s Office reviewed the City’s debt management fund budgets and the Capital Improvement Plan. The City has budgeted $10M in each of the next 5 years for Resiliency Infrastructure Improvements for uses to be determined, in part by the work of the new Chief Resiliency Officer. Council Member Boylan asked for an update on the use of funds appropriated last year for drainage outfall cleaning. Public Works Director John Pappas said that they have spent much of the first year devising the process of hiring contractors to do this work and anticipate being much quicker to get contracts approved and work done in succeeding years. The goal is to maintain each outfall facility at least once every year.

**Motion**: on p. 35, approve Auditor’s recommendation #1 to grant the Council Auditor the ability to make all corrections necessary to place all projects in the CIP within the proper account - **approved**

**Motion**: on p. 35, approve Auditor’s recommendation #2 to remove certain projects as follows rom the 1-year schedule since the funding will be appropriated through separate legislation, correcting the project detail sheets and 5-year schedule to correct the funding sources which moves $74 million from Pay-go to Grant/Trust Fund:

Project Change

|  |  |
| --- | --- |
| Water/Wastewater System Fund  | Move $50,000,000 from Paygo to Grant/Trust Fund  |
| Roadway Resurfacing  | Move $24,000,000 from Paygo to Grant/Trust Fund  |

The motion was **approved**.

**Motion**: on p. 35, approve Auditor’s recommendation #3 to remove the FIND projects from the 1-year schedule. The City’s match amount ($2,130,000) will be appropriated through Schedule B1-C and the grant amount ($1,775,000) will be approved by MBRC once the grants are awarded to the City:

Project Original Revised Difference

|  |  |  |  |
| --- | --- | --- | --- |
| Castaway Island Dredge  | $880,000  | $0  | -$880,000  |
| Exchange Club Park  | $385,000  | $0  | -$385,000  |
| Goodby's Creek Dredge  | $825,000  | $0  | -$825,000  |
| Reed Island Park Development  | $825,000  | $0  | -$825,000  |
| Riverview Park Boat Ramp  | $990,000  | $0  | -$990,000  |

The motion was **approved**.

**Motion**: on p. 36, approve Auditor’s recommendation #4 to remove the grant amounts ($3,705,955) shown on the 1-year schedule from the projects below. This will change the totals shown on the 1-year schedule as these funds should not be appropriated in the fiscal year 2021/2022 budget since they were previously appropriated by separate legislation. The grant amount will be shown as previous funding on the5-year schedule, except for the Stormwater Station Generator Backup project since legislation is still pending:

Project Original Revised Difference Ordinance #

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Stormwater Station Generator Backup  | $1,392,049  | $345,710  | -$1,046,339  | 2021-79  |
| Department of Health Generator  | $808,887  | $622,222  | -$186,665  | 2020-413-E  |
| Pre-Trial Detention Center Generator  | $1,827,860  | $456,965  | -$1,370,895  | 2020-362-E  |
| Police Memorial Building Generator  | $1,094,463  | $273,616  | -$820,847  | 2020-366-E  |
| Traffic Engineering Building Generator  | $374,946  | $93,737  | -$281,209  | 2020-414-E  |

The motion was **approved**

**Motion**: on p. 36, approve Auditor’s recommendation #5 to remove the grant funds from the 1-year schedule for the Johnston Island Acquisition project. The grant funds will remain on the 5-year schedule for this project. This will have no impact to project funding. Also, list this project on Schedule B1-C since this project was on the project listing to apply for FIND grant funds in Resolution 2019-150-A. This will allow the grant funds to be appropriated through MBRC instead of through separate legislation – **approved.**

**Motion**: on p. 36, approve Auditor’s recommendation #6 to remove the AIPP allocation for the Homeland Security & Vice Building in the amount of $3,750 and increasing the AIPP allocation for the Academy Firing Range Storage Lease Building by $13,500 for a net increase of $9,750; increase the Transfer-in from the General Fund/GSD – **approved**

**Motion**: on p. 36, approve Auditor’s recommendation #7 to correct the project names on the 1-year schedule, 5-year schedule and project information sheets as follows:

Current Project Name Recommended Name

|  |  |
| --- | --- |
| Exchange Club Park  | Exchange Club Island Park Development  |
| Cedar Point Bridges Widening  | Cedar Point Road Bridges  |
| Stormwater Station Generator Backup  | Stormwater Pump Stations Generators  |
| Pre-Trial Detention Center Generator  | Pre-Trial Detention Facility Generator Replacement  |
| Police Memorial Building Generator  | Police Memorial Building Generator Replacement  |
| Traffic Engineering Building Generator  | Traffic Management Facility Generator Replacement  |
| Acree Road Bridges  | Acree Road Bridge Replacement  |
| LaSalle Street Pump Station  | LaSalle Street Outfall  |
| Civic Site Attraction and Riverwalk at the Shipyards  | MOSH and Riverwalk at the Shipyards  |

The motion was **approved.**

**Motion**: on p. 37, approve Auditor’s recommendation #8 to correct the project information sheets in the CIP book to include project numbers for projects being funded in fiscal year 2021/2022 and to include a justification for all projects in the CIP as shown on pp. 37-39 – **approved.**

**Motion**: on p. 39, approve Auditor’s recommendation #9 to include the CDBG funding approved by Ordinance 2021-323-E for the following projects on the 5-year schedule as shown on p. 39 – **approved.**

**Motion**: on p. 39, approve Auditor’s recommendation #10 to reallocate funding at the request of the administration from 7 Drainage System Rehabilitation Capital Improvement projects (discussed in Meeting #1) by a total of $14,000 and increase funding for Arlington/Pottsburg (Beach & Southside) Pond project by $14,000 to avoid the need for a waiver of Municipal Code Section 754.112 (Annual Budget for Stormwater User Fees) which requires certain amounts be appropriated for stormwater capital projects and drainage system rehabilitation projects – **approved.**

**Motion**: on p. 39, approve Auditor’s recommendation #11 to correct the Previous Funding amounts on the 5-year schedule to reflect the correct total cost for each project – **approved.**

**Motion**: on p. 39, approve Auditor’s recommendation #12 to authorize the Auditor’s Office to adjust project names, project numbers, and prior years funding amounts for schedule presentation purposes as necessary for continuity – **approved.**

CAO Brian Hughes asked that a line item be included in the CIP to add FY21-22 funding for Racetrack Road Improvements for $10.7M from borrowing. Council Member Becton described the new development happening in the area and described FDOT’s plan to widen a bridge to handle the additional traffic. The St. Johns County portion of the road is already 4-laned, this project will 4-lane the City’s section. Mr. Hughes said the City of Jacksonville and St. Johns County already share road maintenance responsibilities in the area where roadways cross back and forth across the county line, and a written agreement will be developed to address the particulars.

**Motion** (Gaffney): approve the inclusion of $10.7M in borrowing in the CIP in FY21-22 for Racetrack Road Improvements – **approved**.

**The committee was in recess from 10:51 to 11:10 a.m.**

Council Auditor Kim Taylor asked for a revision to the last amendment to reflect the fact that two of the road segments will be located in St. Johns County and therefore will not be City assets and ineligible for listing in the CIP, although they will still be part of the overall project.

**Motion** (Becton): amend the previous amendment to remove items 2 and 3 (Sections B and C of General Roadway Construction) totaling $1.24 million from the CIP as those road segments will not be located in Jacksonville and therefore will not be City assets – **approved**.

In response to a question from Council Member Pittman, Mr. Greive explained the progress on FEMA reimbursement for hurricane damages: Hurricane Matthew - $56.8 million requested, $29.9 million reimbursed to date; Hurricane Irma - $75.5 million requested, $54.8M reimbursed to date; Hurricane Dorian - $6.8 million requested, $382,000 reimbursed to date. Separate disaster accounts were created for each event to pay for costs just of that event. The City has hired a disaster recovery consultant to help process the requests to FEMA to get reimbursements as quickly as possible.

Chairman Salem asked about funds for the Metropolitan Park and Shipyards properties. Brian Hughes said the $20M for Civic Site Attraction and Riverwalk at the Shipyards represents the Museum of Science and History relocation to the Northbank, with funding for site infrastructure and adjacent Riverwalk work. Site evaluation work will begin immediately after this budget is approved to determine MOSH’s exact site requirements. The project listed as Metro Park marine fire station, museum and dock/design replacement is intended to relocate the current marine station to a better location to meet the coverage needs of the unit and to expand to incorporate a larger facility for housing more firefighters.

In response to a question from Council Member Becton, Mr. Greive said that projections show that the Better Jacksonville Plan sales tax will complete its project obligations one to two years early and can then convert to pension liability purposes. Sales tax revenue has been growing strongly and is generating pay-as-you-go capacity above debt service needs, so projects will have additional funding for earlier completion. Public Works Director John Pappas reviewed the status of projects that were transferred from the City’s BJP list to the JTA with local option gas tax funding. Mr. Becton asked that the total remaining BJP obligations be provided to the committee. Mr. Greive said it is between $150 and $200 million; he will get an exact figure. Council Member Gaffney asked about the Hart Road Bridge replacement project; Mr. Pappas said it is not in the CIP because it is in a Community Redevelopment Area budget.

Ms. Taylor reported that the Special Council Contingency stands at a positive $1,250,079.

**Meeting adjourned:** 11:36 a.m.

Minutes: Jeff Clements, Council Research Division

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8.25.21 Posted 2:00 p.m.