

Solving Our Hydro Debt Dilemma

By

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The City of Quincy is facing a debt time bomb that is only months away from exploding. In December 2011, the City of Quincy will need to decide how to pay off bond obligations that are 300% higher than the amount obligated in the previous year.

The City must find a solution that does not drastically increase taxes, severely reduce services or pass the responsibility to another generation.

Background

In September of 2009 the City of Quincy looked for a way to pay for the cost to develop a hydro power license at Lock and Dam #21 in Quincy, Il. At the time, the City's plan was to pay for the development costs by issuing general obligation bonds, with the hope that when the license was granted, and the hydro power project reached construction phase, they could roll over the payments into revenue bonds.ⁱ The Quincy City Council voted to approve the issuing of \$6.6 million in bonds, with a structure to make two balloon payments on the principle of \$4.78 million in 2013 and \$1.96 million in 2016.ⁱⁱ

The City of Quincy's hydro power project came to a screeching halt in February of 2011 when the Federal Energy Regulatory Commission denied the City's permit request due to the abuse of "municipal preference."ⁱⁱⁱ The City appealed the decision to FERC, but the appeal was denied in May, 2011^{iv}. The decision left the City without an avenue to pursue in the development of hydro power^v and left Quincy without a revenue stream to pay for the bond debt.

Challenge

The City of Quincy is now faced with a general bond obligation of \$6,853,793 in 2013. That is an increase of \$4,654,968 or an over 300% increase from the previous year. It also faces a similar situation in 2016, when Quincy's bond obligation rises from \$2,161,985 in 2015 to \$4,068,112 in 2016.^{vi}

The City could choose to make the bond payment with the 2012 General Tax Levy. If the City were to levy for the whole amount, and the city's police and fire pension payments remain the same as the previous year, the City would have to levy for \$10,525,559. That would amount to a 181% increase in the city's property tax levy.^{vii} In 2015 the amount levied would need to be \$7,739,878. Again, if police and fire pension liabilities were frozen, the City would need to increase property taxes by 133% from 2011.

Raising taxes by the amount required to pay the debt would no doubt cause mass outrage from citizens. It would deal a crushing blow to the city's economy and drastically impact the good faith and credit of the people we are sworn to serve. This option is not acceptable.

The City could also choose to pay the debt with a one time reduction in the City's budget by paying the \$4.65 million difference between this year's bond obligation and next year's out of its \$30.2 million operating budget, a 15% decrease. With salaries and benefits taking up nearly 70% of the current budget, the only way this could be accomplished is through a decrease in personnel. Local leaders have said the only way to pay for such a decrease in the City's budget would be to cut public safety.^{viii} Some have also suggested that the City could freeze for one more year the \$1 million Neighborhood Enhancement Program that was started by Mayor John Spring in 2008. Further delaying necessary infrastructure projects would only make it more expensive for future generations to repair the projects that should have been fixed by the current city government. This also places the burden back on the shoulders of the tax payers who would not get to see the infrastructure improvements they have paid for and deserve.

Reducing city services by 15% would be devastating to the City's ability to deliver essential services that citizens should rightly expect. Besides the impact from reducing services, reducing personnel would have a further negative economic impact on our local economy by reducing head of household jobs. Delaying

infrastructure projects would also have a negative impact on Quincy by further placing the burden of the project on taxpayers who had little to do with the decisions made. It passes the responsibility of caring for city infrastructure to future councils and would make it more expensive for future administrations to repair the City's infrastructure. This option is also not acceptable.

Another challenge the City faces is the December 26, 2011 deadline to levy for the bond payment. A conservative time line to discuss, negotiate, and implement other financial options will take around 90 days. With the City needing to read the tax ordinance three times, the implementation must be done by the first week of December, 2011. This means the City should have a plan in place no later than the first week of September, 2011. The City of Quincy currently has an A+ municipal bond rating with Standard & Poor's.^{ix} Without a plan in place to pay the bonds on time, the City could be in jeopardy of a reduced bond rating, which would make it more expensive for the city to seek financing for future needs. The current bond market is favorable to restructuring municipal debt obligations. With the current appetite for municipal bonds, coupled with favorable interest rates, waiting longer to negotiate a deal could cost the city if it were to enter into a less favorable market.

Delaying the discussion on how to implement a plan to pay for the bonds will put the City in a time crunch that could make it more expensive in the future to seek financing. We must begin to plan now and show our creditors that we have a comprehensive plan in place to make the payments on our debt. The uncertainty of future bond markets should also be a factor for the City to begin looking at restructuring the City's bond payments. The current market is favorable for restructuring; any delay could make it more expensive for the City to refinance.

Solution

The City of Quincy did not spend the entirety of the \$6.6 million bonded for the hydro power project. According to the City of Quincy's comptroller's office, there is still \$3 million in unspent funds.

The City should use any unspent money from the bond issuance towards refinancing. The City could seek to invest it until one of the balloon payments is due or it could spread the amount over a 10 year period to help make yearly interest and principle payments.

In March, 2011 the Quincy City Council passed a resolution designating future revenue from the AMEREN franchise agreement. The revenue was directed to offset energy costs to departments who received energy credits under the previous agreement, the remaining balance was split evenly between a green energy account and a debt services account. After taking out the estimated refund to departments for previous energy credits, the proceeds for the next 9 years to the city will be an estimated \$3 million^x.

The City should direct 100% of the net proceeds from the AMEREN Franchise agreement into a debt services account to develop a revenue stream to make payments over a 10 year period.

After the previous two suggestions are adopted the city will need to come up with close to \$1.9 million over a 10 year period to make the rest of the payments. Not including boards, commissions, infrastructure spending or private agency funding, the City of Quincy currently has a \$28.6 million general fund budget. A small decrease in expenditures over a 10 year period will fund the difference. This will not drastically reduce services nor should it cut personnel.

The administration should implement a 1.4% across the board "give back" by any department receiving an expenditure or transfer out of the 2011-2012 general fund budget. The \$400,400 generated by the reduction should be placed in the debt service account and repeated over the next 4 years.

Example if all 3 solutions implemented:

Total cost of 2009 Hydro bonds:	\$7.2 Million
Balance of Unspent Funds:	<u>-\$3.0 Million</u>
Total Refinancing Needed:	\$4.2 Million
New Refinancing (\$4.2Million Bond, repaid in 10 years with 3.2% interest):	\$4,900,000
AMEREN Franchise Revenue:	-\$3,000,000
5 Year Savings by reducing general Fund 1.4%	<u>-\$2,002,000</u>
Balance Left in the General Fund after 10 Years:	\$100,000

Conclusion

By utilizing a mixture of unspent funds, directing new revenues toward debt, and trimming the general fund's expenditures and expenses, the City of Quincy can pay off the existing hydro debt without drastically raising taxes, severely reducing services or passing the problem off to another generation.

Appendix

2011 City of Quincy Bond Levy (For Property Tax Year 2010)

2011 Police Pension Levy:	\$1,604,102
2011 Fire Pension Levy:	\$2,067,664
2011 Bond Levy:	<u>\$2,137,453</u>

2011 Total Levy:	\$5,809,219
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City of Quincy Bond Obligations Past^{xi} and Future^{xii}

2008	\$896,770
2009	\$904,640
2010	\$1,288,997
2011	\$2,306,269
2012	\$2,198,825
2013	\$6,853,793
2014	\$2,138,602
2015	\$2,161,985
2016	\$4,086,112
2017	\$2,127,523

Estimated yearly net proceeds into the general fund from AMEREN:

2012:	\$230,000
2013:	\$260,000
2014:	\$290,000
2015:	\$330,000
2016:	\$350,000
2017:	\$365,000
2018:	\$377,000
2019:	\$395,000
2020:	<u>\$406,000</u>

Total: \$3,003,000

General Fund Expenditure or Transfer by Department^{xiii}

City Council:	\$203,000
Mayor:	\$309,576
Treasurer	\$256,640
City Clerk	\$174,116
Director of Administrative Services	\$124,434
Comptroller	\$364,666
Legal	\$284,306
Planning and Development	\$358,187
9-1-1	\$758,908
Transit Lines	\$227,229
Airport	\$424,544
Central Garage	\$369,519
Central Services	\$2,306,286
Engineering	\$1,269,544
IT	\$642,609
Regional Training Facility	\$60,804
Landfill	\$76,000
Library	\$1,808,932
Police	\$10,186,682
Fire	<u>\$8,464,161</u>
Total:	\$28,670,143

ⁱ Undisclosed Writer (2009, September, 5) Bond Issue Proposal at a Glance. The Quincy Herald Whig, Assets section

ⁱⁱ <http://www.wgem.com/global/story.asp?s=11095644>

ⁱⁱⁱ <http://www.connecttristates.com/news/story.aspx?id=582990>

^{iv} <http://quincynews.org/local-news/ferc-denies-rehearing-on-hydro-project-at-lock-and-dam-21.html>

^v <http://www.connecttristates.com/news/story.aspx?id=624575>

^{vi} <http://www.quincyl.gov/Comptroller/Budget/CAFR2010.pdf> page 94

^{vii} Hopf, M (2010, December, 8) Quincy City Council Approves \$5.81 Tax Levy. The Quincy Herald Whig, local section

^{viii} <http://www.connecttristates.com/news/story.aspx?id=613675>

^{ix}

^x <http://quincynews.org/local-news-archive/aldermen-approve-designation-of-ameren-revenues.html>

^{xi} Undisclosed Writer (2009, December, 12) City of Quincy Tax Levy. The Quincy Herald Whig, Assets section

^{xii} <http://www.quincyl.gov/Comptroller/Budget/CAFR2010.pdf> page 94

^{xiii} <http://www.quincyl.gov/Comptroller/Budget/CAFR2010.pdf> page 94