

BUDGET AND FINANCE COMMITTEE

February 12, 2002

4:00 P.M.

The Budget and Finance Committee was called to order by Councilman Lively, in the absence of Chairman Taylor. Councilmen Page, Littlefield, Robinson, and Benson were also present. Councilmen Hakeem and Franklin joined the meeting later. City Attorneys Randall Nelson and Mike McMahan and Shirley Crownover, Assistant Clerk to the Council, were also present.

Others present included Adm. Boney, Daisy Madison and Brian Smart.

FINANCIAL PROFILE

Councilman Lively called the meeting to order, explaining that Chairman Taylor had sickness in his family and was unable to be present. He turned the meeting over to Adm. Boney.

Adm. Boney began by saying that he had owed the Council a briefing on our debt position; that he was finalizing plans for refunding to lower interest rates; that we could refinance our debt by typically using a 3% threshold. He explained that if the situation changed between now and the time we do the refunding that we will not do it if the savings are not there. He stated that this was a good time to review our financial picture and to set the stage; that they would bring a Resolution within the next few weeks authorizing them to do the refunding.

Councilman Benson asked if we would be refunding everything. Adm. Boney explained that it would be just those that are economically feasible; that it would be a 3% savings and not spread.

Adm. Boney went over the profile, a copy of which is made a part of the minute material, page by page. He began with **Taxable Property Value Trends**, stating that the City continues to grow in terms of worth; that our city is vibrant and property values continue to grow.

The next topic was **A Comparison of Property Tax Rates Between the Major TN Cities and Counties**. We have the second lowest tax rate in the State, surpassed only by Davidson County, where there is metropolitan government.

Adm. Boney proceeded with the 2001-2002 Budget Summary, going over the Budgeted Revenues and pointing out that 57% of this comes from property taxes, which is the major item and the most predictable. The second largest revenue is 27%, which is essentially sales tax and is the most challenging to us and is lagging. He stated that he had the November data, and it looks pretty good.

The next topic covered was a recap of where the money is going

Adm. Boney then moved to Relevant Demographics, beginning with **Population**, starting with 1990 census figures and moving to the 2000 figures; there has been a 2% increase without any annexation.

The next topic was **Per Capita Income**, showing modest gains. We are higher than the State but lower than the National per capita.

Adm. Boney next went over **Unemployment Statistics**, explaining that “puts and takes” go on continually, and we have an unemployment rate that is lower than the State and the National average.

The next topic was **Employment by Sector**, which showed that Chattanooga’s employment base is diversified and balanced between Services, Wholesale & Retail, Manufacturing and Government, which constitutes a broad base of employment.

Adm. Boney next mentioned **Construction Permits**, which continue to climb, and the tax base continues to be alive.

Moving on to the **Current Debt Profile, General Obligation Debt Service Requirements** were covered. It was explained that rating agencies like to see debt retired within ten years, and it tracks well. Councilman Page asked if this was concerned with the individual debt service each year and had nothing to do with enterprise. Councilwoman Robinson asked about the source for revenues. Adm. Boney mentioned \$9 million dollars for debt service, explaining that if we were unable to pay the debt, then we would have to raise taxes. Councilman Page asked if there was an \$8 million dollar debt in the General Fund. Adm. Boney explained that the next slide would show the Enterprise Debt.

Adm. Boney moved on to **Self-Supporting General Obligation Debt Service Requirements, including Sewer, Stormwater and Landfill**. He explained that we issue “double-barrel” debt backed by the general obligation pledge of the City; this is a cheaper way to issue debt, and we get better rates. This relieves the burden from the General Fund and does not count in our net debt statistics. He went on to say that this was part of our “shopping list” for raising taxes. Ms. Madison explained that this was why “double-barrel” is so good.

Councilman Lively asked about the actual loss of the landfill. Adm. Boney explained that expenses are slowed down.

The next topic was **Component Units Debt Service, including the Electric Power Board and the Airport**. These are agencies we are “safety-netting”. The Electric Power Board has never defaulted on a debt. Councilwoman Robinson asked what the Electric Power Board issued bonds for. Adm. Boney responded “power expansion goals”. He went on to say that the Airport Authority is talking about refunding their existing debt and taking advantage of lower interest rates. Councilman Lively asked about the City Charter allowing us to go public with the Electric Power Board and the City maintaining 51% of the shares and relieving EPB of any debt. Adm. Boney stated that he had no idea of the worth of the Electric Power Board.

Adm. Boney went on to talk about **Southside Development**, which is being paid on time. Councilman Page questioned if debt service on Southside Development included the DRC, the Chattanooga, and the Trade Center and asked when this had to be serviced; that we are just paying interest now, and the principal starts in 2007. He questioned if this had any significance in terms of the debt of the City and asked about default. Adm. Boney asked “why default?” Councilman Page responded that if the revenues are not sufficient, then the City would have to step in. Adm. Boney answered that the City would make the money available to pay the debt but not raise taxes to do it. Councilman Benson stated that what he thought Councilman Page was getting at was that someone might have to step in in 2007. Adm. Boney assured that we would be fine. Councilman Benson indicated that he was happy that Adm. Boney felt good about this.

The next topic was **Outstanding Total Debt**. Councilman Page again asked if the DRC was considered in the Southside Development and questioned how we got any revenue out of this. Adm. Boney responded that “we don’t”. Neither is there any revenue expected from the Trade Center expansion. Councilman Page verified that the County does not participate in the Southside Development. Adm. Boney explained that they pay the operating cost for the Trade Center and the DRC. Councilman Lively asked if they paid any rent for the DRC. Adm. Boney responded that they did—for the pro rata space used.

Councilman Benson asked about projections on keeping our reserves the way that they are. Adm. Boney responded that our reserves are very healthy. He went on to cover **Debt Statistics**, noting that our overall net debt is around \$80 million dollars, which can be reduced by \$490 for overall net debt per capita.

The next topic was **Debt Limit and Legal Debt Margin**, with our debt limit being \$272,918,906. Our net legal debt margin is \$196,698,590.

Adm. Boney next covered **Debt Per Capita**, which is another way to portray debt; citizens are also responsible for Hamilton County debt, which accounts for overlapping debt.

The chart for **Debt to Actual Value of Taxable Property** shows that debt levels are very low for both Chattanooga and Hamilton County and are well supported by the tax base.

Adm. Boney touched on **Debt to Assessed Value of Property**, which shows that Chattanooga's debt issuance has not increased significantly in proportion to tax base growth.

The next page was a **Debt Profile Comparison among the Major TN Cities**. Our statistics are somewhat comparable to the other three major cities. Councilman Lively asked about the pay-off curve.

Adm. Boney went over a bar chart showing the **Debt Comparison of Major TN Cities**. Our net debt per capita was lower than the other three major cities. Our income per capita was about equal to Knoxville, a little higher, and lower than that of Memphis and Nashville. All four cities have an AA rating, which is a higher rating than the State has.

The next area covered was **Standard and Poors' Benchmarks**, which were Overall Debt per Capita, General Fund Balance/Operating Revenues, General Fund Balance/Operating Expenditures, Unreserved General Fund Balance/Operating Revenues, Overlapping Tax/Market Value of Taxable Property, Outstanding GO Debt/Market Value of Taxable Property, Debt Service/Operating Expenditures, and Per Capital Debt/Per Capita Income. Adm. Boney explained that this was a good way to measure yourself. Chattanooga's net and overlapping debt is very low on a per capita basis. Chattanooga has consistently maintained a strong fund balance in relation to operating revenues. Similar relationships are seen in comparison of Chattanooga's Fund Balance to expenditures. The strength of Chattanooga's fund balance is more pronounced on an Unreserved basis.

Councilman Page asked if the Fund Balance was the money we have in excess or our "Rainy Day Fund?" Councilwoman Robinson asked the amount of the Fund Balance, the answer being \$33 million dollars. Councilman Benson pointed out that it was at \$56 million dollars.

Adm. Boney noted that Chattanooga and Hamilton County's debt burden remains at moderate levels. Overlapping debt is anything that the County issues debt for and the overlapping debt numbers are higher with the major component being the County. Adm. Boney reiterated that these are good guidelines and that Standard and Poors had helped everybody. Chattanooga's debt burden relative to taxable property remains extremely low and is the strength of our taxbase. Chattanooga has managed debt financing to keep debt service a small part of the budget. This rose in 1998 due to a combination of new money and refunding. Ms. Madison added that this was mostly sewer debt.

Chattanooga's debt is manageable in relation to per capita income and is on the high side. Ms. Madison added that we would like to bring wages up to a more livable wage.

Adm. Boney stated that this was the picture of what our debt picture looks like; that with the help of Public Financial Management, Inc., we are looking at the potential of refunding debt to save money.

The next topic discussed was the **Proposed Refunding**, with Adm. Boney explaining that the opportunity to refund debt is getting tighter and tighter; that we are right on the edge of an economic return and are looking at the coupons that it makes sense to refund. Councilman Page asked if we went to market and the interest rates are not right, if we can cancel? Adm. Boney responded that you can't "be playing the market"; that bond rates change every day; that it is generally 5% for longer debt and 3 ½% for shorter debt. He reiterated that this is strictly refunding. Ms. Madison added that we can negotiate; that if it is not economically feasible to do so, we won't do it. Adm. Boney added that arguing down interest rates is negotiable. Councilman Page stated that there seemed to be no risk factor and no way that the City could get hurt. Adm. Boney reiterated that if the numbers are not there, we won't do it.

In further discussing the **Proposed Refunding**, Adm. Boney went over our approximate savings attributable to GO refundings, our net present value being \$835,000 and savings as a percent of refunded bonds will be 2.38%. Adm. Boney admonished that the figures can change from day to day. The savings in the Debt Service expense will be split between the General Fund and the Sewer Fund, with the total projected savings being \$1,421,000. Councilman Lively asked if this included the cost of refinancing, with the answer being "yes", all the costs are in there. Adm. Boney stated that refunding is a "good news deal".

Upon questioning concerning underwriters, Adm. Boney explained that on a negotiated sale, we pick the underwriter up front. He went on to explain that refunding requires State approval, and we have already submitted it and expect it to be approved by the State.

Councilman Page asked if the savings are over the life, with Adm. Boney responding that they were not selling anyone on 25 years from now; that it is over the term of the bond.

Adm. Boney noted that he would have the authority Resolution ready in a week or two. **On motion of Councilman Franklin, seconded by Councilman Page, this will be recommended to the full Council for approval.**

Adm. Boney indicated that he would meet with each Councilman individually to go over this in more detail.

Councilman Benson complimented Adm. Boney on an excellent presentation.

The meeting adjourned at 5:00 P.M.