

## Supporting Strategic Capital Needs

Following is a summary of considerations and facts regarding the City's effort to increase revenue to support strategic capital needs.

- I. Introduction: At the conclusion of an exhaustive series of planning and programming exercises, the City Council of Vestavia Hills is considering the following revenue increases that will annually generate approximately \$4mm additional dollars to the City to support a capital program estimated to cost \$58mm while strategically reserving a portion of these new funds for future capital needs of our City school system.
    - a. Increase of City sales tax:
      - i. General Sales and Use Taxes from 3.00% to 4.00%

This results in the **total** sales tax for Vestavia Hills increasing to 10.00%. The City of Vestavia Hills will then be at par with the following cities in our region: Birmingham, Bessemer, Fultondale, Gardendale, Homewood, Irondale, Pelham and Trussville. This increase would include all sales and use categories (including rental taxes) **except automotive sales tax rates that would remain at 1%.**
    - b. Increase of City lodging tax:
      - i. Lodging Tax Rates from 3.00% to 6.00%

This results in the **total** lodging tax for Vestavia Hills increasing to 17.00%. The City of Vestavia Hills will then be equal to or less than the following cities in our region: Alabaster, Bessemer, Birmingham, Fultondale, Gardendale, Homewood, Irondale, Mountain Brook, Pelham and Trussville. The City of Vestavia Hills has three hotels and has the lowest lodging tax in our region. (*Exhibit A – Summary of Regional Municipal Taxes*)
    - c. Dedicated use of new revenue proceeds:
      - i. Approximately \$3mm of the new annual proceeds would be utilized to fund debt service associated with selected capital projects
        1. Community Spaces Plan (*Exhibit B – Project Budget Summary*)
          - a. Wald Park improvements (park, ballfields, pool and tennis facility improvements)
          - b. Cahaba Heights ballfield improvements
          - c. Community Building addition and renovation (current Gold's Gym)
          - d. Residential street resurfacing (paving of 20 miles of poorly rated roadway)
          - e. Stormwater infrastructure improvements (pipe replacements)
          - f. Crosshaven Drive Phases I and II (road widening project and sidewalks)
          - g. Sidewalks construction (additional sidewalks with focus on connections to commercial centers)
          - h. New Merkel House redevelopment
      - ii. Approximately \$1mm of the new annual proceeds would be placed into escrow for future capital needs of our City school system and utilized as financial reserves to protect against economic downturns or other emergency needs as established by the Vestavia Hills City Council.
- II. Debt instrument to facilitate implementation of capital program: With the assumption of an approval of the additional City revenues, the City Council will consider approval of a 30-year bond issue to generate approximately \$58mm in capital to support the previously described program. The estimated annual debt

service to support said bond issuance is expected to be approximately \$3mm. The City has engaged the firm of Rice Advisory as its financial advisor and attorney Heyward Hosch as its bond counsel. Underwriting services shall be procured through the use of a request for proposals managed by Rice Advisory.  
(*Exhibit C – Memorandum from Rice Advisory*)

III. Program management service implementation: With the assumption of an approval of the additional revenue and bond issuance, the City Council would approve the contractual engagement of TCU Consulting Services to begin phases two and three of their previously approved contract for design and construction administration services associated with the entire capital program.

IV. Anticipated questions concerning capital financing and construction efforts:

- a. What can the City “afford” in the implementation of our 2018 Capital Plan as prioritized in the strategic planning work session?

In deference to what the City can “afford,” the City Council will take into consideration a significant number of factors prior to making capital funding decisions, including those presented during the annual strategic planning session in January. The documents from that work session are available online at <http://vhal.org/agendas-and-agenda-packets/january-18-19-strategic-planning-packet/>. Included in this packet is a spreadsheet of Project Alternatives and the options for various debt service amounts are summarized at the bottom of this spreadsheet. The direct link to the document is [http://vhal.org/wp-content/uploads/2018/02/L\\_Summary-of-Project-Alternatives.pdf](http://vhal.org/wp-content/uploads/2018/02/L_Summary-of-Project-Alternatives.pdf).

The amount we have to spend will depend on what the City can afford to borrow. (Videos of this discussion during the January work session are available on the City’s Facebook page.) Almost all growth in General Fund revenue is offset by a corresponding growth in demand for city services. As a result, organic growth (about \$1mm per year) is absorbed in General Fund expenses.

During the work session, Rice Advisory explained that our City can carry about 10% of our General Fund Revenues in debt service to remain in good standing with the rating agencies as well as adhering to financial guidelines (debt service maximums) established through Resolution 4112 of the Vestavia Hills City Council (2010). For our City, this is currently about \$4.5mm debt service. There will not be significant wiggle room in our General Obligation debt service ceiling until about 2034. **In other words, with the City’s desire to keep a solid credit rating, significant additional debt would require an accompanied revenue source or shifting of current financial and budgetary plans to support the additional debt.** Otherwise, the City could take on a few small capital improvement projects, but not many. For further information, see page 1 of the Rice Advisory General Obligation Debt analysis ([http://vhal.org/wp-content/uploads/2018/02/D\\_Rice-Advisory.pdf](http://vhal.org/wp-content/uploads/2018/02/D_Rice-Advisory.pdf)).

- b. If the City were to include an infusion of funds for road resurfacing in the 2018 Capital Plan, how can we operationally ensure that future funding is adequate to keep up with this infrastructure cost?

The assumption behind the bond issue amount and structure of incremental increases in operational funding, is to build a capital plan that allows every road within the City to be resurfaced within 20 years. The plan has been developed with consultation of our City engineering staff. Some roads will require resurfacing in a more frequent fashion and some in a less frequent fashion. **However, with supplemental funds (above the current gas tax) being added incrementally over three years, we can stabilize at a 7+ mile per year resurfacing schedule within our current operational funds.** *Exhibit D – Analysis of Future Road Resurfacing Plan* demonstrates how the stabilized schedule is projected to be achieved by 2021.

- c. Is the New Merkel House included in the 2018 Capital Plan? How much is included, and what does this produce?

TCU has amended their report to include a conclusion statement that given the limited programming completed on a rebuild of the New Merkel House a structure could be built for a budget of \$500k to \$1mm depending upon the scope defined in such programming. (The final report with complete appendix can be accessed in the following link: <https://www.dropbox.com/s/zidpwqcqym3m3xp/Vestavia%20Hills%201.18.2018%20%282.12.2018%29.pdf?dl=0> )

An example of a possible structure type that can be built in that range of costs has been identified. Note that the structure shown in the report is not the planned replacement structure, but rather an illustration of a comparable building type. We have included this amount in the Council priority listing and corresponding total funding need.

- d. Can the City handle the operational costs associated with the proposed new recreational facilities?

It is our intent to issue an RFP for operational management, marketing and program creation in our new facilities. The private operator would generate revenue to offset additional operational costs through new program fees. This would require collaboration with the Park Board, City Council and staff to balance all of these interests.

- e. What can the City do to fund future stormwater infrastructure needs in an aged system as described in the strategic planning work session?

The City does not have a dedicated revenue stream to address these needs. We are not alone in this fact. It is a statewide issue. Currently, we utilize capital reserves for emergency infrastructure repairs and the current budget has allocated the largest amount in recent memory to address **known** public repair needs. I suggest that the Council evaluate the use of excess funds from a proposed sales tax increase to address this matter, or do as other cities including Montgomery and Birmingham and institute a stormwater impact fee to create a relatively small stream of income to fund public stormwater management efforts. This could be accomplished through the Storm Water Management Authority (SWMA). Much more conversation is needed on this topic.

- V. What are the preliminary thoughts of the Vestavia Hills citizenry on this effort?

- a. The Vestavia Hills Listens portal was utilized to gauge this response and an outcome statement will be placed on the portal and included in this supplemental report.

**EXHIBIT A – Regional Municipal Taxes**

**SALES TAX RATES**

Municipalities	City	County	State	Overall
Alabaster	4.0%	1.0%	4.0%	<b>9.0%</b>
Auburn	4.0%	1.0%	4.0%	<b>9.0%</b>
Bessemer	4.0%	2.0%	4.0%	<b>10.0%</b>
Birmingham	4.0%	2.0%	4.0%	<b>10.0%</b>
Fultondale	4.0%	2.0%	4.0%	<b>10.0%</b>
Gardendale	4.0%	2.0%	4.0%	<b>10.0%</b>
Homewood	4.0%	2.0%	4.0%	<b>10.0%</b>
Hoover	3.0%	2.0%	4.0%	<b>9.0%</b>
Irondale	4.0%	2.0%	4.0%	<b>10.0%</b>
Madison	3.5%	0.5%	4.0%	<b>8.0%</b>
Montgomery	3.5%	2.5%	4.0%	<b>10.0%</b>
Mountain Brook	3.0%	2.0%	4.0%	<b>9.0%</b>
Pelham	4.0%	2.0%	4.0%	<b>10.0%</b>
Tuscaloosa	2.0%	3.0%	4.0%	<b>9.0%</b>
Trussville	4.0%	2.0%	4.0%	<b>10.0%</b>
Vestavia Hills	3.0%	2.0%	4.0%	<b>9.0%</b>

**AUTOMOTIVE SALES TAX RATES**

Municipalities	City	County	State	Overall
Bessemer	1.0%	0.375%	2.0%	<b>3.375%</b>
Birmingham	2.0%	0.375%	2.0%	<b>4.375%</b>
Gardendale	0.75%	0.375%	2.0%	<b>3.125%</b>
Homewood	2.0%	0.375%	2.0%	<b>4.375%</b>
Hoover	1.0%	0.375%	2.0%	<b>3.375%</b>
Mountain Brook	3.0%	0.375%	2.0%	<b>5.375%</b>
Trussville	1.5%	0.375%	2.0%	<b>3.875%</b>
Vestavia Hills	1.0%	0.375%	2.0%	<b>3.375%</b>

## LODGING TAX RATES

Municipalities	City	County	State	Overall
Alabaster	6.0%	7.0%	4.0%	<b>17.0%</b>
Auburn	7.0%	2.0%	4.0%	<b>13.0%</b>
Bessemer	6.0%	7.0%	4.0%	<b>17.0%</b>
Birmingham	6.5%	7.0%	4.0%	<b>17.5%</b>
Fultondale	9.0%	7.0%	4.0%	<b>20.0%</b>
Gardendale	8.0%	7.0%	4.0%	<b>19.0%</b>
Homewood	9.0%	7.0%	4.0%	<b>20.0%</b>
Hoover	3.0%	7.0%	4.0%	<b>14.0%</b>
Irondale	7.0%	7.0%	4.0%	<b>18.0%</b>
Madison	9.0%	1.0%	4.0%	<b>14.0%</b>
Montgomery	11.0%	0.0%	4.0%	<b>15.0%</b>
Mountain Brook	6.0%	7.0%	4.0%	<b>17.0%</b>
Pelham	6.0%	7.0%	4.0%	<b>17.0%</b>
Tuscaloosa	11.0%	0.0%	4.0%	<b>15.0%</b>
Trussville	6.0%	7.0%	4.0%	<b>17.0%</b>
Vestavia Hills	3.0%	7.0%	4.0%	<b>14.0%</b>

**EXHIBIT B – Project Budget Summary**

Summary of Project Alternatives			
Capital Planning for 2018			
Project Concept	Project Sub- Component	Program Cost	Project Priorities
<b>Community Spaces</b>			
	Wald Park	\$ 15,429,766.00	\$ 15,429,766.00
	Cahaba Heights	\$ 7,398,815.00	\$ 7,398,815.00
	Community Building	\$ 15,270,390.00	\$ 15,270,390.00
New Merkel			\$ 500,000.00
Refinance Golds Gym Purchase		\$ 8,900,000.00	\$ 8,900,000.00
<b>Road Paving</b>			
	Pave 20 Miles of Poorly Rated Streets	\$ 3,300,000.00	\$ 2,200,000.00
<b>Stormwater Infrastructure</b>			
	Misc Public Pipe Replacement	\$ 550,000.00	\$ 550,000.00
Sidewalk			
	<b>East Street</b>	\$ 200,000.00	\$ 2,500,000.00
	<i>Length (LF)</i> <b>Cahaba Heights</b>		
	4,800 Crosshaven	\$ 518,400.00	
	6,000 Cahaba Heights Rd	\$ 648,000.00	
	3,500 White Oak Area	\$ 378,000.00	
	2,700 Bearden/Greendale Area	\$ 291,600.00	
	8,000 River Run Area	\$ 864,000.00	
	<i>Unknown</i> Valley Park Drive Connection		
	<b>Vestavia West</b>		
	12,000 Tyler Rd Area	\$ 1,296,000.00	
	21,250 Columbiana Rd Are/Jacobs Rd	\$ 2,295,000.00	
	15,000 Shades Crest West Area	\$ 1,620,000.00	
	40,000 Dolly Ridge/Altadena Rd Area	\$ 4,320,000.00	
	17,000 Panorama/Derby Dr Area	\$ 1,836,000.00	
	15,000 Mountain View/Vesclub Area	\$ 1,620,000.00	
	15,000 Rocky Ridge/Countrywood	\$ 1,620,000.00	
	<i>Unknown</i> Rocky Ridge Rd		
	160,250 Sub-Total		
<b>Road Capacity Improvement</b>			
	Crosshaven Phase 1	\$ 2,535,000.00	
	Crosshaven Phase 2	\$ 2,076,000.00	
Future VH BoE Needs			
Grand Total			\$ 57,359,971.00
<b>Summary of Financing Models</b>			
Assumption			
Debt Service	\$4,000,000	\$ 3,000,000.00	
Capital Production- 10 Yr Term	\$ 35,545,000.00	\$ 26,655,000.00	
Capital Production- 20 Yr Term	\$ 61,045,000.00	\$ 45,770,000.00	
Capital Production- 30 Yr Term	\$ 77,525,000.00	\$ 58,120,000.00	

## EXHIBIT C – *Rice Advisory Memo*

To: **Jeff Downes, City Manager**  
**City of Vestavia Hills, Alabama**

From: **Chris Williams/Rush Rice**

Date: **March 2, 2018**

Re: **Community Spaces Plan**

As discussed, here is a brief discussion of some key components relating to the financing of the Community Spaces Plan. Of course, there are a multitude of considerations, but these are the factors we should focus on at this point.

- **Selection of underwriter(s).** This issue is of a significant size and will draw the attention of bond underwriters of all sizes and abilities. We'd recommend an RFP process that will allow us to evaluate potential underwriters using a number of criteria, only one of which will be the amount of the fee. Our objective is to guide the City to completion of a financing that produces the lowest effective borrowing cost achievable. Underwriting fees are only one of numerous factors that go into calculating the effective borrowing cost. Other factors include sales force, investor base, couponing, pricing, call provisions and more. Also, a firm with strong Alabama/Southeastern presence might assign the issue a higher priority than a Wall Street firm with possibly bigger fish to fry.
- **Bond counsel.** This is one area where it definitely pays to engage professionals with a deep institutional knowledge of the operations, practices, municipal code and legal environment of the City. We have worked with Heyward Hosch many times and have a high degree of confidence in his professional abilities and those of his colleagues at Maynard Cooper.
- **Rates and borrowing capacity.** Even though rates have increased somewhat over the past couple months, they are still very low from a historical standpoint. At current market conditions, we are of the opinion the City could achieve its objective of raising an estimated \$58M while maintaining a level annual debt service structure of approximately \$3M for 30 years.
- **New Revenue.** With a new revenue source expected to produce about \$4 million per year, combined with the City's very strong credit ratings, we are highly confident that the bond indenture can be structured so that any sales tax funds collected in excess of debt service on the bonds can be used for any other lawful purpose. Also, although the City will be increasing its annual debt service, it will also be creating a new revenue source, which in fact, will benefit the existing debt policy to limit the annual debt service requirements on general obligations to an amount not greater than 10% of annual General Fund revenues.
- **Other thoughts.** We believe it might be advantageous for the City to explore the possibility of obtaining its first ever rating from S&P Global. Unlike Fitch, S&P is very active in the Alabama market and is well received by many bond investors, which in turn, could benefit the City on its overall borrowing costs.

## EXHIBIT D – Analysis of Future Road Resurfacing Plan

Analysis of Ongoing Road Resurfacing Needs in Vestavia Hills									
Total Road Miles with Vestavia Hills City Limits		171 miles							
Number of Road Miles subject to JeffCo Thru Rd Agreement		-17 miles							
Total Road Miles to be Maintained by the City of VH		154 miles							
Annual Number of Roads to Maintain in 20 yr resurfacing plan		7.7 miles							
Cost per Road Mile under current three year contract	\$	110,000.00							
Annual Cost of Resurfacing with 20 year plan	\$	847,000.00							
Current gas tax funding dedicated to road resurfacing	\$	(292,000.00)							
<b>Annual funding deficit to accomplish 20 year plan</b>	<b>\$</b>	<b>555,000.00</b>							
<b>Capital Funding Plan assuming 20 mile resurfacing catch up w/in proposed bond issue</b>									
			Road Miles						
<b>FY 2018</b>									
Operating Funds	\$	292,000.00							
Bond Issue	\$	2,200,000.00							
<b>TOTAL</b>	<b>\$</b>	<b>2,492,000.00</b>	22.65						
<b>FY 2019</b>									
Gas Tax	\$	292,000.00							
Additional Funds	\$	184,000.00							
<b>TOTAL</b>	<b>\$</b>	<b>476,000.00</b>	4.33						
<b>FY 2020</b>									
Gas Tax	\$	292,000.00							
Additional Funds	\$	368,000.00							
<b>TOTAL</b>	<b>\$</b>	<b>660,000.00</b>	6.00						
<b>FY 2021</b>									
Gas Tax	\$	292,000.00							
Additional Funds	\$	552,000.00							
<b>TOTAL</b>	<b>\$</b>	<b>844,000.00</b>	7.67						
<b>FY 2022 and Thereafter</b>									
Fund Paving at an escalating amount based upon costs of work to be performed									
Approximately 7.7 miles per year									

  

History of Road Resurfacing Using Fund 4 and 5 (4 and 5 cent gas tax)				
	Actual FY 15	Actual FY 16	Actual FY 17	Budget FY 18
Fund 4	\$ 196,019.00	\$ 212,174.00	\$ 213,906.00	\$ 197,000.00
Fund 5	\$ 108,440.00	\$ 104,407.00	\$ 105,427.00	\$ 95,000.00
<b>Total</b>	<b>\$ 304,459.00</b>	<b>\$ 316,581.00</b>	<b>\$ 319,333.00</b>	<b>\$ 292,000.00</b>

  

**Road Resurfacing Funds- Gas Tax**

Fiscal Year	Fund 4	Fund 5	Total
FY 15	\$ 196,019.00	\$ 108,440.00	\$ 304,459.00
FY 16	\$ 212,174.00	\$ 104,407.00	\$ 316,581.00
FY 17	\$ 213,906.00	\$ 105,427.00	\$ 319,333.00
FY 18	\$ 197,000.00	\$ 95,000.00	\$ 292,000.00