CITY OF INDEPENDENCE 1916 CITY HALL & PUBLIC SAFETY FACILITIES

Funding and repayment of the 1916 City Hall and Public Safety Facilities Project

January 31, 2019

Scope

The scope of this report is to evaluate the funding and repayment of Phase I and Phase II of the 1916 City Hall and Public Safety facilities project.

Background

In the summer of 2016, the 1916 City Hall facility was abandoned due to mold concerns and multiple employee worker's compensation illness claims and complaints. The City relocated operations in August 2016 to the former Mercy Hospital building as a temporary location until the conditions at the 1916 City Hall building could be addressed.

In 2017, the City Commission formed a citizen's steering committee to evaluate a variety of different options to address the permanent direction of City Hall and Public Safety facilities. The architecture firm of Treanor HL was contracted to facilitate the evaluation with the committee.

In order to fully understand the operating needs of the City, Treanor also performed a comprehensive space allocation study. This study determined that the actual square footage needed for departments housed in City Hall was more than twice the square footage available in the 1916 City Hall. In total, six different options were presented for consideration to the committee as outlined in Table 1.

Table 1 – 1916 City Hall and Public Safety Facility Project Options

OPTION	DESCRIPTION	ESTIMATED COST	STATUS
OPTION A	1916 City Hall & New Public Safety Bldg - Myrtle & 6th	$16,125,203	Recommended
OPTION B	1916 City Hall & Apparatus Addition at Temporary City Hall	$14,878,043	Eliminated 6/12/2017
OPTION C	Phased Renovation Temporary City Hall	$11,257,832	Eliminated 5/22/2017
OPTION D	Remodel Temporary City Hall	$4,109,552	Eliminated 5/8/2017
OPTION E	New Construction	$16,468,272	Eliminated 5/8/2017
OPTION F	1916 City Hall with Public Safety Building Addition	$15,321,314	Eliminated 6/12/2017

Through the course of meeting over several months, the committee eliminated options and arrived at a consensus to recommend Option A to the City Commission. Option A consists of renovating 1916 City Hall and construction of a new Public Safety facility in the existing City parking lot on the northeast corner of Myrtle and 6th Street for an estimated total project cost of $16,125,203.

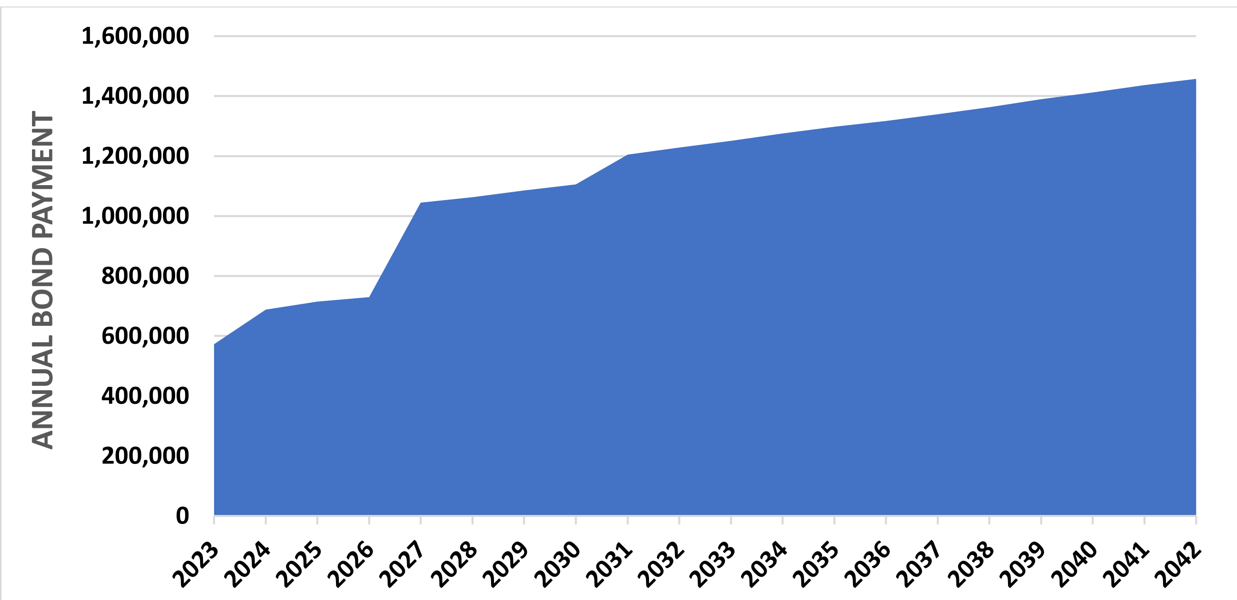
Steering Committee Recommendation

In 2018, the City Commission voted to approve a Phase I portion of this project to "seal the envelope" of the 1916 City Hall building. Treanor HL was also contracted for this project which encompasses the installation of a new roof and windows, exterior tuck-pointing, and interior selective demolition of non-historic walls. Phase I of the project went out to bid on January 7, 2019, with bids due on February 7, 2019. Treanor's estimated cost of the project was $1,287,985.

Project Funding

Due to the scope of the overall project and it's estimated associated cost in excess of $16,000,000, the City would be looking to fund Phase II of the project with short-term temporary financing to accommodate the construction of the project and then roll that balance into permanent financing with the issuance of general obligation bonds. Funding for Phase I "seal the envelope" for 1916 City Hall will utilize available cash resources from the City's 1% Special Use Sales Tax, which will reduce the overall debt exposure for the combined total project as a whole. Table 2 below illustrates an estimated general bond funding repayment scenario for Phase II of the project including capitalized interest from the short-term funding. This scenario assumes funding $15,000,000 over a 20-year period with a total repayment of $22,976,243.

Table 2 – Annual Bond Payment - $15,000,000 – 20 Year General Obligation Bond



<u>Funding Repayment</u>

The two primary sources of repayment options of the long-term general obligation bond financing are ad valorem tax and sales tax. This can be done by utilizing either of the sources individually or a combination of both sources.

When issuing general obligation bonds, the primary source of repayment should be clearly identified to the community in advance prior to the bond issuance. If a sales tax option is selected, it is important to understand that the City is obligated by Kansas statute to assess ad valorem revenues sufficient to support the repayment of the bonds if the identified funding source falls short of the repayment obligations or if that funding source would no longer be available.

With this in mind, the City currently assesses a property tax levy on the residents of Independence to help support City on-going operations. The City's approved mill rate for 2019 is 54.422 to cover these areas and is shown below in Table 3.

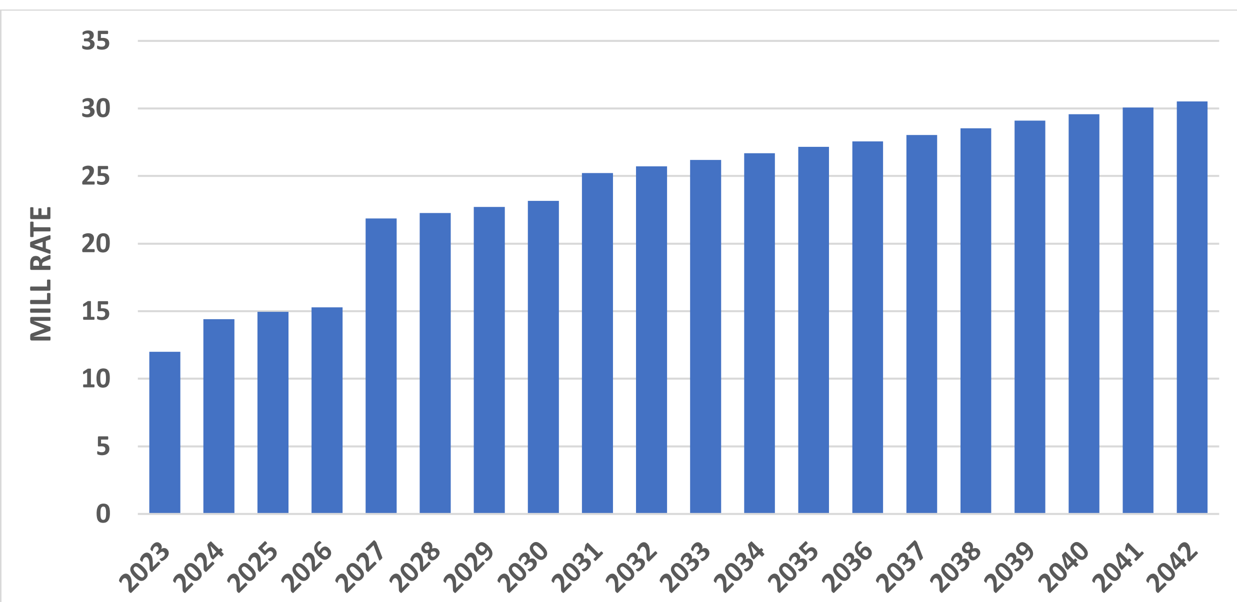
Table 3 – City of Independence 2019 Approved Mill Rate

FUND	2019 APPROVED MILL RATE FINAL VALUATION	
	MILL RATE	MILL LEVY
GENERAL FUND	35.147	1,678,831
EMPLOYEE BENEFIT	12.218	583,605
LIBRARY	4.825	230,471
LIABILITY INSURANCE	2.031	97,013
INDUSTRIAL	0.201	9,601
BOND PRINCIPAL & INTEREST	0.000	-
TOTAL	54.422	2,599,521

TOTAL ASSESSED VALUE	47,765,990
ONE MILL	47,766

In evaluating the option of financing the Phase II project with the repayment coming from ad valorem taxes, Table 4 demonstrates the additional mills necessary over a 20-year period to support the repayment of the bond obligations over and above those that are currently being levied for existing City operations.

Table 4 – Additional Annual Mill Rate to Support Bond Repayment



To provide an example of the impact of levying additional ad valorem taxes to support the bond issue as shown in Table 4, a property owner with a home valued at $100,000 would pay an additional $137.95 in City property taxes in 2023. Assuming the value of the home and the assessed valuation stayed constant for the duration of the 20-year bond issue, the additional property taxes on the home would rise to $350.88 in 2042.

The second repayment option of a bond issue would come from sales tax revenue. Currently the sales tax rate in Independence is 9.5% with 6.5% going to the state and 3% remaining in the community. The City's 3% sales tax breakdown is as follows:

- 1% General Fund
- 1% Education Sales Tax – City and School District bond initiatives
- 1% Special Use Sales Tax
    - 0.25% General Fund Mill Levy Support
    - 0.25% Building/Facilities Improvements
    - 0.25% Streets/Sidewalks Improvements
    - 0.25% ADA Improvements

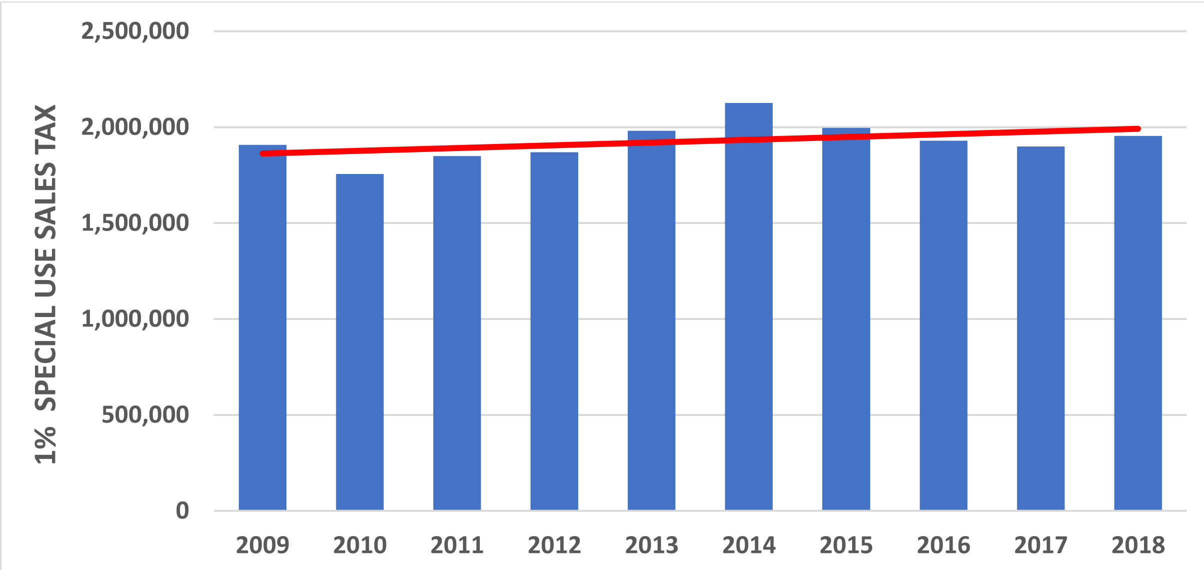
The above City sales tax breakdown demonstrates that each 1% has a specific purpose as they currently exist but, they also have an established lifespan. The 1% General Fund portion goes to provide property tax relief and support of overall City operations. The 1% General Fund Sales Tax is in effect until repealed.

The 1% Education Sales Tax was established to support the construction of the Jefferson Elementary School; renovation and expansion of the middle school and high school; and establish City infrastructure in the Jefferson School area. The City issued bonds to fund the necessary infrastructure needs for this project and is repaid by a portion of the 1% sales tax. The USD #446 projects were funded by a separate bond issuance which is paid for by the remaining 1% sales tax. The expiration of this 1% sales tax is one-half in April 2031 and the remaining half in October 2032.

The 1% Special Use Sales Tax is a critical funding mechanism for the City to provide funding for General Fund support, City facilities, streets and sidewalks, and ADA improvements City wide that are mandated by an agreement with the Department of Justice. The expiration of this 1% sales tax is October 2022.

Sales tax collections in the City have seen ups and downs over the last 10 years but when looking at that period as a whole, collections have remained relatively static as show in Table 5 using the 1% Special Use Tax as an example. Based on the community's existing situation, there are no economic factors currently in place in the area that would indicate that this trend in the foreseeable future would deviate significantly from its recent performance.

Table 5 – 1% Special Use Sales Tax – 2009-2018 Annual Receipts



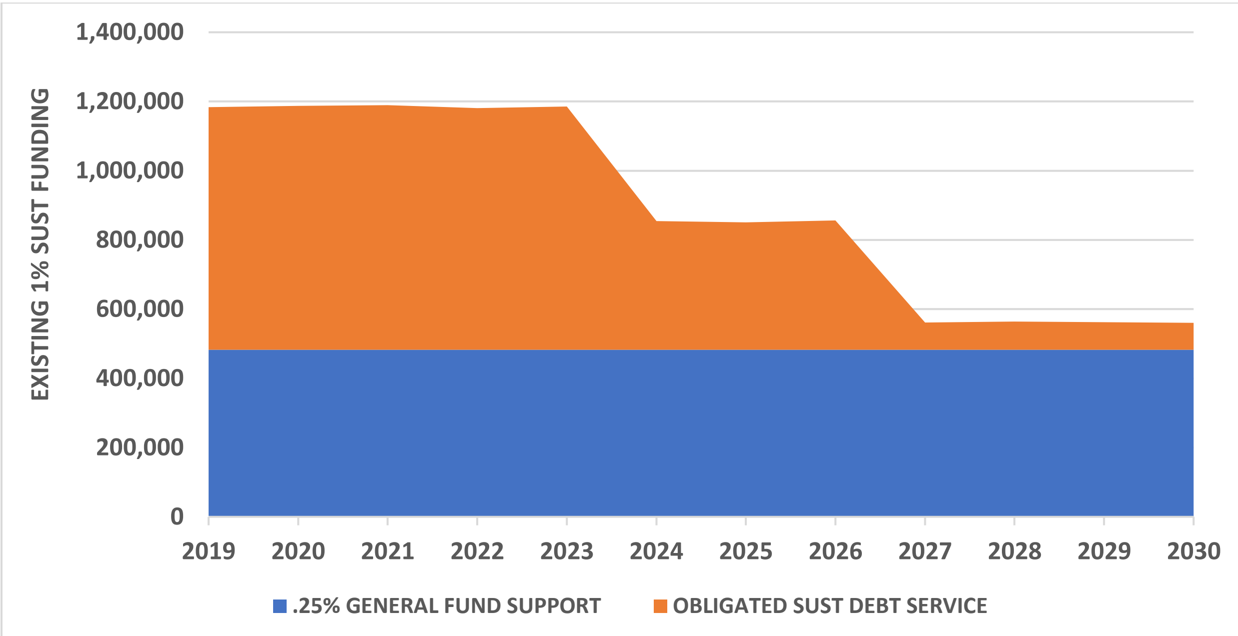
<u>Existing Demands on Resources</u>

It is important to understand the City's existing and future reliance on the current sales tax structure. As previously noted, the 1% General Fund sales tax is in place until repealed which serves as an offset to ad valorem taxation to support the general operation of the City. Additionally, the 1% Education sales tax is specific in its use to retire education bond obligations for the City (Series 10) and USD #446.

The 1% Special Use Sales Tax is vital in addressing the City's infrastructure needs as well providing additional support to the General Fund to minimize demands on assessment of ad valorem taxes to support the operation of the City. For the previous two years as well as for the 2019 budget, it is forecasted the sales tax generation in the 1% Special Use Sales Tax will be $1,931,000.

The City has targeted this revenue stream to retire three prior general bond issuances – Series 2012, 2013, and 2015. The repayment of these existing bonds extends through 2030. The Special Use Sales Tax also supplements 25% of its revenue generation to support City operations to minimize assessment of ad valorem taxes, which equates to approximately 10 mills. Table 6 shows the projected funding of the 1% Special Use Sales Tax for these purposes through 2030.

Table 6 – Existing Funding Requirements of 1% Special Use Sales Tax



<u>Other Community Priorities</u>

In 2018, the City Commission formed the Strategic Plan Advisory Committee (SPAC) which was comprised of City residents. The goal of the committee was to seek community input in order to develop a community-based strategic plan. Tanner, LLC, was selected to facilitate this plan and the committee developed five key initiatives for Independence through its process and presented the Commission as outlined below:

1. Economic Development
2. Infrastructure
3. Beautification
4. Parks & Recreation
5. Community Spirit & Unity

The City Commission approved the Community-based Strategic Plan in October 2018 and tasked City staff to develop plans to implement the vision and goals as identified in the strategic plan. Of the five initiatives noted, infrastructure is the primary consumer of monetary resources and is also a key component to accomplishing the other initiatives.

City Staff has begun the task of developing a comprehensive plan to address the City's infrastructure to include city streets, ADA, facilities, and water/sewer infrastructure. This is a large task and is still under development, however preliminary estimates have been established to gain an understanding of the scope of what is in front of the City with regards to both scope and costs of accomplishing the initiatives in a realistic and established time frame.

The Water/Sewer department has a large footprint in accomplishing the initiatives but, it also has its own funding source generated from fees charged for these services. The department's fee schedule for services was updated and approved in 2017 and implemented in 2018 to begin addressing the long-term needs in these areas.

The remaining infrastructure needs identified have limited funding resources and are primarily funded through the 1% Special Use Sales Tax. Although complete plans are still in development, the initial plans have provided preliminary estimates to address city streets, ADA, and facility improvements over a 20-year period. Average annual spending forecasts are provided in Table 7 that will enable the City to address the SPAC's directive on infrastructure over the course of a 20-year timeframe.

Table 7 – Projected 20-Year Capital Infrastructure Plan Funding

INFRASTRUCTURE PLAN	PROJECTED 20 YR PLAN COST	ANNUAL COST
CITY STREETS	$ 8,600,000	$ 430,000
ADA	10,000,000	500,000
BUILDINGS/FACILITIES	4,000,000	200,000
PLAN FUNDING NEEDS	22,600,000	1,130,000
LESS OTHER RESOURCES	(6,158,000)	(307,900)
UNFUNDED PLAN NEEDS	$ 16,442,000	$ 822,100

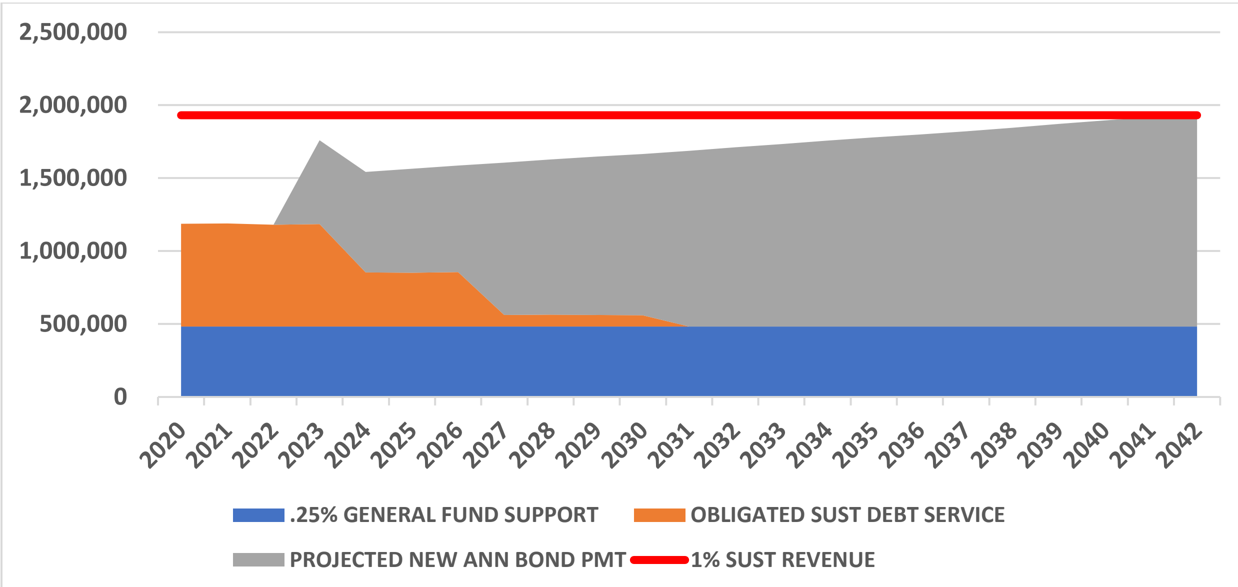
Incorporating City Hall and Infrastructure

The City has deferred maintenance on many of the community's most critical assets for decades and is at the point that this course of action is no longer sustainable. This practice has placed the City squarely in its current position on City Hall but neglect of City streets and facilities as well as the ADA agreement with the Department of Justice must be addressed.

As previously addressed, the City relies on the 1% Special Use Sales Tax to provide ongoing support to the general fund and funding to repay existing bond issues which will continue through 2030. Assuming that the 1% Special Use Sales Tax could be re-purposed in 2022 and would be the primary source of repayment for a bond issuance for the 1916 City

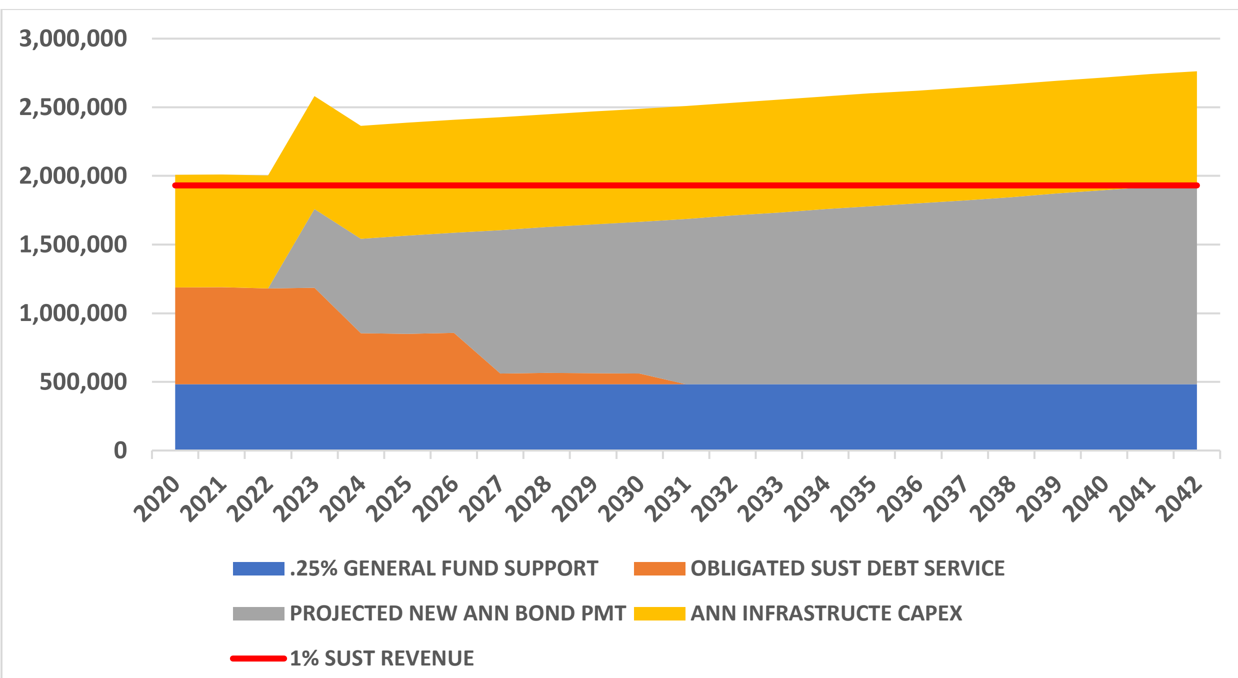
Hall/Public Safety Facilities project, the Phase II bond repayment will consume most or all remaining resources available to address other infrastructure needs as shown in Table 8.

Table 8 - 1% SUST Spending with Phase II Bond Payment



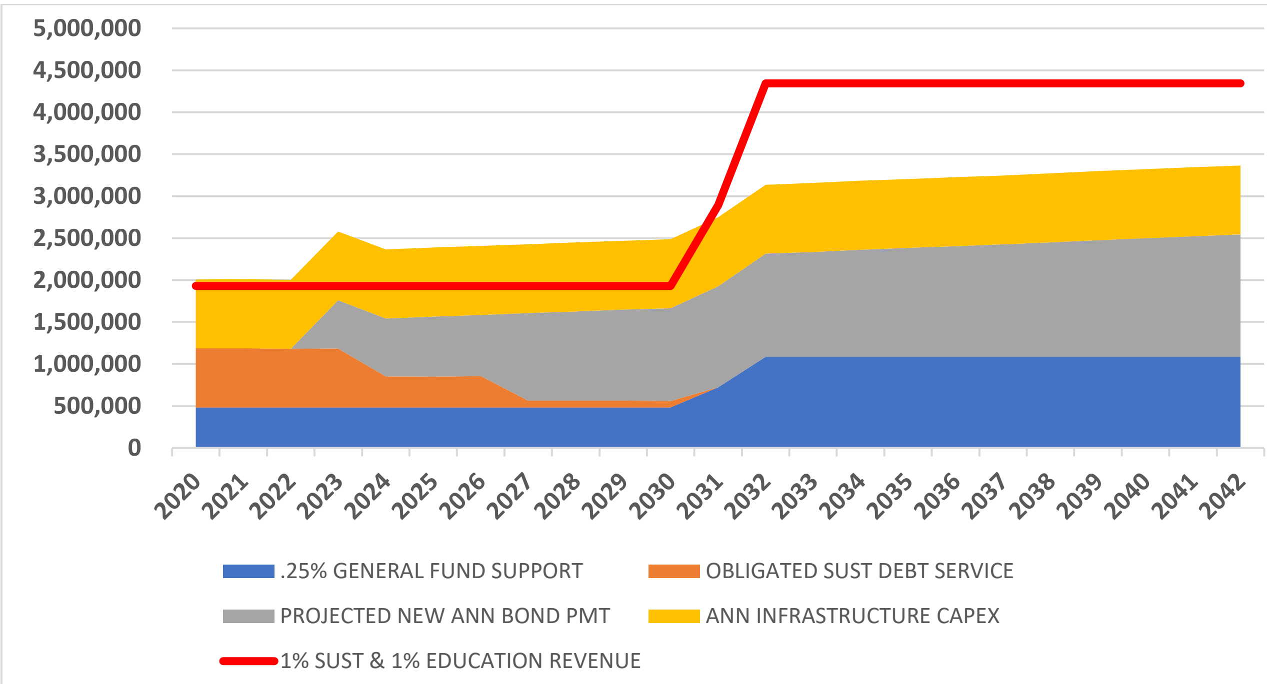
If the above (Table 8) existing Special Use Sales Tax obligations and Phase II project are combined with the other infrastructure needs, there are not sufficient resources available from the 1% Special Use Sales Tax to address and fund the City's capital infrastructure needs as outlined in Table 9.

Table 9 – 1% SUST Spending with Phase II Bond Payment and Infrastructure Capital



Although the 1% Special Use Sales Tax resources fall short of funding Phase II and a 20-year infrastructure plan, there is a path to funding both initiatives with sales tax. Repurposing the sunset of the 1% Special Use Sales Tax in 2022 in addition to repurposing of the 1% Education Sales in 2031 and 2032 would allow a combined funding mechanism to accomplish the funding goal for both Phase II and capital infrastructure which is contained in Table 10.

Table 10 – Addition of 1% Education Sales beginning in 2031 and 2032



This scenario does accomplish funding for both Phase II and a 20-year infrastructure plan however, infrastructure spending allocations would need to be evaluated prior to the re-purposed 1% Education Sales Tax in 2031 and 2032.

<u>Other Considerations</u>

The completion of Phase I and II of the 1916 City Hall and Public Safety project would allow the City to permanently relocate City operations from its current location in the City-owned former Mercy Hospital building. In successfully finding the ultimate solution in completing and funding the needs of the City previously outlined, the future of the Mercy building will need to be taken into consideration in the decision-making process.

Simply removing City operations from the Mercy building will not erase the City's exposure from the facility. It has been documented that the utility expenses to operate the facility are high. This is primarily due to the fact that the facility was constructed to be a medical care facility and the air quality and air movement requirements for such a facility were an integral part of the construction of the building.

At face value, it would seem that moving City operations from the Mercy building would substantially reduce the utility expenses incurred to operate the facility. That unfortunately isn't the situation as the continuation of the operation of the HVAC system will be required to maintain the environmental integrity of the building.

Currently, it costs approximately $420,000 annually to operate the Mercy building for City operations. Of the total facility costs, 66% represents the costs of utilities. Based on the need to keep the HVAC in operation to maintain facility air quality, much of the utility costs will remain with the removal of City operations from the facility. Additionally, it needs to be taken into consideration that new utility costs will be encountered by the City for the new facilities that are not currently occupied.

Additional factors to be considered with regards to the Mercy building:

- Existing tenants
    - St. John's Healthcare – 5-year lease with annual revenue of $100,000
    - Kansas Dept Children & Families –lease with annual revenue of $80,000
- Marketing the facility for sale
    - Use of the facility for potential buyers
    - Existing interested buyers
    - Cost of operating HVAC system
        - Estimated cost to upgrade system $165,000
        - Upgrade could reduce electrical cost by 25% annually
    - Timeline for sale
- Revenue expectations for sale of the facility
    - Professional appraisal of the facility
- Cost of demolition of the facility

Future Direction

This is a critical conversation that must be addressed both as a City and a Community. These are decisions that will have a major impact on shaping the direction and future of the City of Independence for decades to come. So where do we go from here?

- Phase II – 1916 City Hall & Public Safety Facilities
    - Plans
        - City Hall
        - Public Safety
    - Architecture RFP for design and construction
    - Project Costs
    - Timeline

- Public Vote
  - Issuing General Obligation Bonds
    - City Hall
    - Public Safety facility
  - Extension and re-purposing Sales Tax
    - Special Use Sales Tax
    - Education Sales Tax
- Plans for Temporary City Hall/Former Mercy Building
  - City options/actions for the facility
  - Timeline
  - Existing Fire/EMS Apparatus building
  - Sale of Mercy building before completion of Phase II
    - Plans for location of City operations