

# Planning for a Sustainable Future

Union County, North Carolina, Finance Department

*Budget Focus Area #1:*

*Possible Bond Election  
Concepts, Process,  
Considerations, and  
Projects*

## Budget Focus Area: Bond Elections

During the budget process, the Board of County Commissioners chooses to focus on several specific issues, versus working across the whole of County services. This process allows a focus on specific, timely issues, working deeply on single topics. For the FY 2016 process, the BOCC has chosen to focus on three specific areas.

- Bond Elections
- Sustainable Volunteer Fire Department Funding
- Revaluation and the Revenue Neutral Tax Rate

These areas will be specifically discussed during public work sessions and additional information will be provided through Budget Focus Areas Working Papers. These working papers provide issue specific analysis and discussion related to the topic and identifies the significant related issues.

The Bond Election Focus Area is a critical component of the long-term financial plan. The use of general obligation debt has a direct impact on the tax rate and determines new or replacement facilities that will serve the residents for the foreseeable future.

In addition to the long-term impact, the discussion of a possible bond election must occur in the context of the County's long-term plans for growth and service delivery as well as the consideration of the ability of the tax payers to fund the increased debt service.

The decision to hold a bond election and ultimately, if passed, issue new debt, is one that will impact the County and the tax payers for the next twenty years. In addition to the debt service, new facilities include additional operating cost and ongoing maintenance.

This Budget Focus Area Working Paper will provide an in-depth look at the bond election process, related debt instruments, and potential considerations; possible County bond election projects; and a brief discussion of possible bond funding for Union County Public Schools' projects.

The goal of this discussion, in conjunction with the Board of County Commissioners' work session is for staff to receive direction

concerning a possible bond election and the projects that may be included in that process.

## Bond Election Concepts

The concept of a bond election centers on the North Carolina Constitutional requirement that Counties or other governmental units must first seek the voters' approval before obligating or pledging the government's full faith and credit.

*"The General Assembly shall have no power to authorize any county, city or town, special district, or other unit of local government to contract debts secured by a pledge of its faith and credit, unless approved by a majority of the qualified voters of the unit who vote thereon. . ."*

- North Carolina Constitution  
Article V, Section 4(2)

Bond elections are a referendum, in this case, related to capital expenditures, which authorizes the County to issue General Obligation Bonds.

### A Note on General Obligation Bonds:

"The strongest form of security that a county or municipality can pledge for debt is the full faith and credit, making the debt a general obligation of the borrowing unit."

- Kara Millonzi, Coates' Canons Blog: Security for a Local Government Loan, UNC School of Government, January 27, 2014

The reason that the voters' approval is sought is due to the nature of the debt to be issued. The general obligation pledge is a full faith and credit pledge, meaning that all General Fund resources of the County are available for the debt service. In addition, this pledge is a commitment that the tax rates will be set sufficiently to cover the cost of that annual debt service.

Simply stated, when a county issues general obligation bonds, they agree to set the tax rate at whatever level is necessary to repay that debt. In addition, the Local Government Commission requires that the annual debt service be



included in the annual operating budget and that it be one of the first items funded.

There are several specific instances where voter approval is not required, with the exception of two-thirds bonds; none of the exemptions apply in this discussion.

There has been discussion concerning the use of two-thirds bonds. Two-thirds bonds are general obligation bonds. Using the two-thirds method, allows the County, if it chooses, to "recycle" the voted bond authority.

*"for the purposes authorized by general laws uniformly applicable throughout the State, to the extent of two-thirds of the amount by which the unit's outstanding indebtedness shall have been reduced during the next preceding year."*

- North Carolina Constitution  
Article V, Section 4(2)(f)

The two-thirds authorization deals only with the authority to issue the debt, it has no impact on the commitment or the repayment. For the purposes of a financing discussion, two-thirds debt is general obligation debt and carries the same level of commitment as well as the same risks as newly authorized debt.

North Carolina General Statutes §159-49 provides a detailed listing of the types of projects that the County may issue bonds to fund. The general commonality of the authorized items is they tend to focus on long-term assets. In addition to this listing, the Local Government Commission will evaluate the request for bond funding to ensure that the life of the asset is comparable to the life of the debt.

#### **A Note on Asset Life Matching:**

Asset life matching is important from the perspective that if you borrow funds for an asset, the expectation is that the useful life of the asset will at least be through the end of the debt payments.

For example, to purchase a vehicle, the County would not use a twenty-year note. This is because the expected useful life of that vehicle is four to five years, not twenty. The County would still be

paying for that vehicle for fifteen years after it has been sent to auction.

With this limitation in mind, general obligation debt should be used for the following:

- Land Acquisition,
- New or replacement facilities, including FF&E,
- Significant renovations of existing facilities, and
- Infrastructure with at least a twenty-year useful life.

While this list does not encompass all that the County may issue general obligation bonds for, it encompasses a list that the County should issue bonds for.

Items that do not typically fall into the "bond fundable" category are funded through the use of pay-as-you-go capital or through another short-term debt instrument. Those items do not require voter approval, but do require available funding.

#### **Bond Election Process**

The first consideration in the Bond Election process is analyzing when the County may hold a bond referendum. In accordance with G.S. § 163-287(a), the County may only hold the bond referendum when there is a county or State election, primary election in even numbered years, and any other election when all precincts in the County are open. In practicality, this limits the County to holding referendum in 2016 or 2018. In 2016, with the presidential primary, there will be three opportunities and in 2018 two.

The recommended process for pulling together a possible bond election is as follows:

*Step 1:* Establish the preliminary projects to be included in the proposed referendum.

*Step 2:* Refine project estimates and the possible tax impacts related to the proposed general obligation bonds. In addition, preliminary estimates of operating impact on the proposed slate of projects.



*Step 3:* Approve the final list of projects to be included in the proposed referendum, including project estimates, and estimated tax rate impact.

*Step 4:* Adopt the "Notice of Intent" at a Board of County Commissioner's Meeting.

*Step 5:* Following the adoption of the "Notice of Intent", the publication of the "Notice of Public Hearing", at least ten days in advance of the public hearing. No less than ten days following publication, hold the public hearing.

*Step 6:* At the next meeting following the public hearing the Board of County Commissioners may adopt the referendum and appropriate language.

These steps must occur before the filing dates of the selected election date, which in most cases will be about ten weeks ahead of the election date. With this lead time in mind, the process from start to finish could take from seven to ten months, including the lead time needed for refining project estimates and impact analysis.

### Bond Election Consideration

When discussing future bond elections, there are a several specific considerations that should be highlighted and factored into the decision making process.

1. Given that the bond election deals with adding additional debt to the County and the related tax rate increase, the first and foremost factor is the affordability of the projects for the County's tax payers.

### ***New Tax v. Growth in Tax Base:***

During the early 2000s the focus was funding new debt with the growth in the tax base. While this short-term strategy worked early on, it was not a sustainable approach. As there is growth in the community and in the population, there will be an additional need for community services such as law enforcement, education, and human services. If the growth in tax base is used to fund new

debt, then the service needs remain unfunded. In addition, as inflation continues to grow, the growth will be needed to maintain the current service levels.

2. Additionally, beyond the affordability, or perhaps a subset of the concept of affordability, is the determination of project essentiality. Essentiality, particularly in the debt markets, focuses in on the nature of the proposed projects. Are the projects a function of government? Are they necessary? Does the project cost outweigh the benefits to the community? These are factors that must be looked at when considering the financing of projects in the debt market.
3. Because the County, possibly, will be entering the public debt market to borrow the money for the approved projects, the views of the bond rating agencies must be considered. The rating agencies have signaled concerns about the existing debt load of the County and the debt per capita. Union County's debt per capita remains one of the highest in the State. Once an amount, if any, is determined, regular detail discussions with the rating agencies are essential.
4. New and replacement facilities, when completed will add additional operating costs. When evaluating the possible projects, the ongoing operational impact must be considered. This is particularly evident in new facilities, where additional staffing and operating costs will be required. The final determination concerning the projects to be included should be considered in light of their operating impact.

### Debt Sinking Fund

Assuming a referendum is successful; it is recommended that the County establish a debt sinking fund. The Debt Sinking Fund will accumulate the revenue from the 2016 General Obligation Debt Tax, if this is done in advance of an anticipated bond issuance, it will allow the County to smooth the tax rate and ultimately will result in a lower total tax rate for General Obligation Debt.

In addition, the sinking fund will provide an additional level of transparency to the process.



In addition, as the projects progress, the County will issue only the necessary debt to build the projects. This means that through the use of reimbursement resolutions, the County will issue the debt only after the cost of the project is locked in through the bid process. This ensures that the County borrows only what is necessary for the project and is not paying more debt service than needed.

### Possible County Bond Election Projects

The following projects have been in various discussions, some dating back as far as 2006. It is important to note that this list does not represent a recommendation from County Management, but a listing of possible projects. This list is for consideration and may easily be added to or reduced. In addition, the selections from this list will require refinement and more detailed cost analysis. For the majority of these projects, there is not a current cost estimate. Many initial estimates are based on older estimates or initial project estimates, without the benefit of quality project planning.

The possible County projects include:

1. *Replacement and Expansion of Jail and Sheriff's Office* – The project is to replace and expand the existing office and detention facilities. This includes, but is not limited to, medical offices, office space, housing for female and juvenile detainees, housing for male detainees, related ancillary services, and other necessary services.

The current Union County Jail Facility opened in 1994 after the County settled a Federal Lawsuit regarding the conditions under which inmates were being housed. There were often more inmates than there are available beds and inmates are required to sleep on the floor. Several federal court cases (including in our U.S. 4<sup>th</sup> Circuit) have upheld that requiring inmates to sleep on the floor of a detention facility, for any reason, is cruel and unusual punishment and a violation of their Constitutional protections. The County may risk additional lawsuits given current conditions.

Inmate population issues are not the only concerns that make a new jail facility a necessity for the Sheriff's Office and the County. Over the past 18 years, the Union County Sheriff's

Office has grown, not only in numbers, but in the way it conducts the County's business on a daily basis. Procedures within the jail have changed to meet the needs of a changing society and the process by which the jail operates is more involved. The current available space is not conducive to the daily operation of the jail. Many of the changes were made with the public's safety in mind, from ensuring the identity of a detainee to providing an accurate accounting of a person's criminal record so that an appropriate bond decision can be made.

Outside of the jail, changes in legislation have required operational modifications within the Sheriff's Office. Evidence and property storage laws dictate that the Sheriff's office to store more, longer. The current evidence room, a renovated training room, is not adequate to conform to the mandated changes.

The ever-changing world of law enforcement technology is yet another issue the Office has encountered. As they work to keep up with the automation of many of the processes, the Information Technology needs and equipment are constantly growing and changing. Unfortunately, the space to accommodate this growth does not exist within the current structure. Overall, the Sheriff's Office is critically short of the office space needed to conduct business in an efficient and effective manner.

2. *Emergency Management Facility* – The project provides for the detailed design, necessary infrastructure and facilities development including power supply, land acquisition, building design to 911 required compliance, EMA/Fire Marshal/ES uses and related development needs. Estimated 40,000 square foot facility.

The Union County Emergency Communications Department was remodeled in September 2011 with the plan to move to a more permanent facility within 3-5 years.

3. *4H Pavilion* – This project would provide for a multi-use agricultural structure. The specific scope of the project is under development.



The Agriculture Center, when initially conceived, included a livestock pavilion to provide space for the exhibition of 4H livestock projects in a covered, non-temperature controlled environment. Due to the cost of the original project and getting the Ag Center operational, the project has been held in abeyance.

An RFP was let in 2013 to conduct a feasibility study which was initiated and eventually abandoned after preliminary findings in 2014. In November 2014, the Agricultural Advisory Board voted not to pursue the services of a second consultant to provide input into the project but rather to build a consensus of what the project needs to entail. The preliminary plans are currently being reviewed by the Ag. Board as are the options for the scope of the eventual project.

4. *Cane Creek Park Improvements* – This project will provide significant renovation and replacement of existing facilities at Cane Creek Park. The proposed improvements include a new Camp Ground Welcome Center and Camp Store, a Nature Center, expanding the water and sewer infrastructure in the campground, and an extensive paving project.
5. *Historic Courthouse Renovations* – This project will provide for the renovation and restoration of the County’s historic courthouse. A study of the facility is planned for FY 2015 that will provide a more detailed project description and possible future uses for the facility.
6. *Jesse Helms Park Development* – The project provides for the development of Jesse Helms Park as outlined in the various phases of the Jesse Helms Park Master Plan. Development includes completing the park’s passive areas, trail systems, pavilions and shelters, park maintenance facilities, and other enhancements to improve the recreational offerings at the park.
7. *Park Land Banking* – This project provides for a land banking program to acquire land to address future park demands as the County is developed.
8. *Southwest Union Library* - This project provides for the construction, furnishing, and opening day collection for a new

35,000-square-foot full-service regional library to serve the southwest side of the County.

One super-regional library to serve the entire southwestern quadrant of the County is part of the Library's master facilities plan and the recommendation of the Library Board of Trustees.

This 35,000-square-foot campus will be a full-service facility with 175 parking spaces; housing 87,500 pieces of material. It will also include public computers and wireless internet access, a community meeting room, a children’s library with a story time room, a teen room to house collections and provide space for programs and activities, as well as comfortable seating; newspaper and magazine display shelving, study tables with seating, study rooms, and a conference room.

9. *Expansion of the Union West Regional Library* – This project provides for the expansion of the existing Union West Regional Library by approximately 18,000 square feet.

Expansion of the Union West Regional Library to 30,000-square-foot is recommended in the Library Master Facilities Plan to accommodate current and future usage of the branch. Currently, as compared to the Main Library, the Union West Regional Library circulates ten percent more items, and conducts 149 percent more children's programs attended by 154 percent more children.

#### Possible South Piedmont Community College Bond Election Projects

Based on the FY 2015 capital request from South Piedmont Community College, the following projects are provided for consideration.

1. *SPCC Multi-Purpose Building* - Project provides for the construction of a new three-story, 72,500-square-foot “multi-purpose” building on the Monroe Campus to house the business office, student services, and bookstore, as well as providing additional classroom and lab space.

In addition to the new facility the project includes a new parking area and a vehicular circulation route, a “green space” for pedestrian traffic, located in center campus, and renovation of an existing building on



the Monroe Campus to accommodate a modern Conference Center and the Union County Public School Early College.

2. *SPCC Center For Technology and Allied Health* - This Project provides renovations to a 49,000 square-foot building to accommodate vocational/trades and technological programs as well as health and safety programs that lead to an Associate of Science degree using certificate and diploma programs.

The Union County Board of Commissioners approved the initial \$3,700,000 purchase and minor renovation of the Bealer Building. The completion of this renovation will alleviate the need for two additional companion buildings for the proposed Multi-Purpose Building.

3. *SPCC Building A Renovations* - This project provides for the renovation of Building A. The existing building was originally constructed in 1981 as a bank operations center. A 2005 renovation of the building replaced the roof and mechanical systems, and reconfigured approximately 11,000 square feet for use as a conference/instruction center; however, the remainder of the building has not been significantly upgraded or modified for its current function.

Additional renovations would bring the entire building into compliance with the current building, accessibility, and energy codes and to accommodate current College and Union County Early College programs.

4. *SPCC Building B Renovations* - This project provides for the renovation of Building B. The existing building currently includes approximately 41,500 square feet of useable space. The building was completed in 2003 as the first new building at the Old Charlotte Highway Campus, and has not been modified or renovated since that time.

As the new space is created at the Center for Technology and Allied Health and on the Old Charlotte Highway Campus, the renovations of Building B are required to repurpose existing spaces. These renovations will accommodate new College and Union County Early College Programs.

5. *SPCC New Classroom Building* - The Old Charlotte Highway Campus currently includes eleven modular classrooms that

encompass approximately 10,000 square feet. These modular classrooms are a temporary solution to overcrowding. A general purpose classroom building would accommodate this immediate need, as well as planned growth of the College and Union County Early College.

The Campus Facilities Master APlan completed in 2007 and updated as part of the State Construction Office Facilities Master Plan document in 2008, indicated new single-story classroom buildings of approximately 30,000 square feet.

### Possible Union County Public Schools Bond Election Projects

Union County Public Schools is currently completing the Community Construction and Equity Plan (CCEP). This plan, following final approval by the Board of Education will be referred to the Joint Working Group that is evaluating the long-term capital needs and possible sources of funding for UCPS' capital needs.

It is anticipated that the CCEP will include numerous projects. A significant portion will not be eligible for bond funding and will require a pay-as-you-go funding plan. The remaining projects will be considered for inclusion in a possible bond referendum, using the recommended process and considerations.

### Final Thoughts

Bond elections and the subsequent debt have a lasting impact on the community and the tax payers. Each project should be weighed carefully and thorough consideration given.

Given that for \$100 million borrowed, the taxpayer can expect a four to five cent tax increase, plus the additional taxes to fund the increased operating costs, the County has a fiscal responsibility to be judicious in its use of its General Obligation Bond authority.

With that being said, a voter referendum allows the taxpayers to provide direct input concerning the impact of the General Obligation Debt.

