

MEMORANDUM

TO: Mayor and Town Council
FROM: Roger L. Stancil, Town Manager
SUBJECT: Consideration of Proceeding with the Library Expansion Project
DATE: January 25, 2010

PURPOSE

The purpose of this report is to provide an overview of what I see as the key point included in the attached staff memoranda – the effect the operating cost of the expanded library has on the Town's operating budget.

DISCUSSION

Tonight the Council has the opportunity to review the project costs and the estimated tax increases that will be necessary to fund the future operating cost impact associated with staffing and maintaining an enlarged facility.

Debt. To date, \$2,000,000 in project bonds have been sold. The funds from this sale have been spent or obligated in the design of the project. The Town must sell an additional \$14,260,000 in bonds to continue with the project as currently proposed. Once all of the bonds for the library project are sold, cumulative annual project debt payments are estimated to be equivalent to the revenue generated by a tax rate of 2.13 cents. The Council has made two major financial decisions in the past which will allow the Town to absorb the cost of debt service without a tax increase:

- Establishment of the Debt Management Fund, which separates debt service and operating budget costs and allocates 9.30 cents of the current tax rate to debt service. New projects such as the library expansion can be absorbed as older debt service obligations are met.
- Delay of the expansion project bond sale until market conditions were more favorable, also allowing time for other debt obligations to be met.

Operating costs. The increase in annual Library operating costs once the facility is opened and fully staffed cannot be accommodated within current budget allocations. The increase in Library operating costs are estimated at \$774,799, or a tax rate equivalent of 1.31 cents at current valuations. These increased ongoing operating costs are significant and will present real challenges as the Town's budgets for upcoming years are developed. In addition to the ongoing operating costs, there are costs associated with leasing a building to be used for Library services during construction that are estimated to be approximately \$300,000 in FY 2010-11 and \$75,000 in FY 2011-12. Taken together the tax rate equivalent of anticipated operating and

transition service costs is expected to total 0.44 cents in FY 2010-11, 0.95 cents in 2011-12 and 1.31 cents in succeeding years.

RECOMMENDATION

I recommend proceeding with the expansion project because the current bond market and competitive construction industry conditions are favorable to the Town. I also recommend that the Council recognize the additional costs to the Town's operating budget and direct the Manager to bring a Recommended Budget to the Council that treats the anticipated operating and transitional costs as new initiatives and additions to the base budget.

ATTACHMENTS

1. Library Expansion Project Financing Part "A" Staff Memorandum dated January 25, 2010
2. Library Expansion Project Update Part "B" Staff Memorandum dated January 25, 2010