

August 21, 2013



## Key Findings:

- Local jurisdictions face a situation of scarce resources and many have difficulty financing needed capital projects.
- Often, local governments have unknown financial needs for future capital projects due to limited capital planning. This can lead to missed opportunities for garnering and seeking outside funding sources, in addition to preventing long-term financial planning.
- Bonding is one mechanism commonly used to finance capital projects. The bonding process typically includes high administrative costs.
- The Central Illinois Economic Development Authority is one tool local governments can utilize in appropriate situations to reduce bonding administrative and tax liability costs.
- In light of the research presented below, the CEC recommends that local governments in Sangamon County develop capital plans, and work on an individual basis to utilize the services of the Central Illinois Economic Development Authority (CIEDA) where appropriate. The CEC further recommends that, as possible, local governments work within these plans and with CIEDA assistance to coordinate capital projects so that opportunities for group bonding and financing may be explored.

## Citizens' Efficiency Commission Recommendation: Group Financing for Local Capital Projects

### Introduction

This report represents a formal recommendation by the Citizens' Efficiency Commission (CEC). Members of the CEC and its research staff have validated information contained in this report. The Commission expresses its hope that relevant local leaders will review the recommendation and take strides toward its implementation.

**In light of the research presented below, the CEC recommends that local governments in Sangamon County develop capital plans, and work on an individual basis to utilize the services of the Central Illinois Economic Development Authority (CIEDA) where appropriate. The CEC further recommends that, as possible, local governments work within these plans and with CIEDA assistance to coordinate capital projects so that opportunities for group bonding and financing may be explored.**

The Commission is prepared to provide assistance to the greatest extent possible for the review and implementation of these recommendations. The CEC may be interested in further efficiency considerations that develop based on this advisory report.

### Background Information

Local governments -- both municipalities and special districts -- often face capital equipment, maintenance, and construction needs. These represent major expenses which often require the issuance of bonds or some other financing mechanism. Early in the CEC's research process an attempt was made to review local governments' long-term plans in order to identify opportunities for increased cooperation in meeting such major needs, particularly in the case of capital planning. However, in interviews with local municipal officials the CEC and its research staff found that few local jurisdictions have written capital plans or other planning tools. In the course of its research, the CEC also became aware of an opportunity for bonding support and administrative assistance for local governments, and thought it useful to provide additional information about these resources to jurisdictions pursuing bonding. In pursuit of the educational and capacity-building recommendation, the Administrative, Management, and Budget Committee presented the following finding at the May 2013 meeting of the CEC and reviewed the support of the Commission to develop an educational recommendation for jurisdictions in Sangamon County:

*Many local governments issue bonds and use other similar financing mechanisms to fund local needs such as capital projects. The Administrative, Management, and Budget committee is aware of financing tools available to local governments to reduce their investors' tax liability. There are also indications that local governments may be able to reduce interest rates and administrative burdens in the bonding*

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*process through cooperative action. The committee requests full support of the Commission to further investigate the potential for cooperative financing among local governments.*

## **Overview of Existing Services**

### *Local Capital Planning*

While some of the larger government entities in Sangamon County have capital plans, many local jurisdictions do not. However, most local governments have capital expenditures and finance at least a portion of these projects through bonding.

A capital plan can be described as a “multi year (usually 5-6 years) listing of projects and capital programs planned for the community and the revenues and other financing sources identified to pay for those projects. Often included are policies regarding long range capital improvement priorities and capital financing policies.”<sup>1</sup> In interviews of regional mayors and village presidents, members of the CEC found that infrastructure needs were one of the key concerns highlighted by local municipalities.<sup>2</sup> In these conversations, it became evident that while municipal officials often have an informal idea which projects they will be completing in coming years, they do not have written plans, cost estimates, or succession plans for sharing this latent knowledge with their elected successors.

One typical tool used to finance capital projects is the municipal bond. Bonding is beneficial to local governments because of low interest rates, but there are high costs associated with bond issuance because of the considerable administrative burden required by the bonding process.

### *Tools for Municipal Bonding*

Coupled with this situation related to local financing needs, the CEC also identified a state-level resource for local governments of which they may have limited awareness: the Central Illinois Economic Development Authority (CIEDA). CIEDA was created in 2006, and serves Calhoun, Christian, DeWitt, Greene, Jersey, Logan, Macon, Macoupin, Menard, Montgomery and Sangamon Counties.<sup>3</sup> As noted in CIEDA's literature,

The Authority has the ability to issue up to \$250 million in bonds [annually] for economic development purposes. CIEDA is a general development agency for the 11 counties and is one of ten such regional organizations within the State of Illinois. CIEDA can issue bonds on behalf of businesses in which debt service is payable exclusively from the earnings of the borrower. In issuing revenue bonds for the borrower, CIEDA acts as a “conduit” or “middle-man.” The bonds are sold to insurance companies, banks, mutual funds or brokerage houses on behalf of individuals. The proceeds of the sale are made available to the borrower for the project. The borrower then pays the money back directly to those who bought the bonds... CIEDA operates from

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<sup>1</sup> Government Finance Officers Association, Subcommittee on Capital Planning. n.d. “Capital Planning and Program Implementation Outline.” Available at: <http://www.gfoa.org/downloads/CPOutline12208.pdf>.

<sup>2</sup> Citizens' Efficiency Commission for Sangamon County. October 29, 2011. “Preliminary Report: Sangamon County Municipal Leader Interviews.” Available at <http://www.co.sangamon.il.us/Departments/RegionalPlanning/documents/CEC/Municipal%20Leader%20Interviews%20Report.pdf>.

<sup>3</sup> 70 ILCS 504/; CIEDA. March 2011. “CIEDA Overview.” Available at: <http://cieda.vainstudios.com/CIEDAOverview.pdf>.



fees charged companies to issue these bonds. The companies that pay these fees recapture the fee by the lower interest rate savings, generally within the first few months of the bond.

CIEDA also issues bonds on behalf of local governments, which can be of benefit because of the double tax-exempt status of CIEDA bonds. While local government bonds are already federally-exempt, using CIEDA as a conduit also allows state income tax exempt status for bonds issues on behalf of local governments. This tax-exempt bond status allows bond instruments to be purchased by investors at lower interest rates since the income from these bonds will not be taxed through investors' state income taxes. Typically, these lower interest rates generate a savings of up to 0.25% for public sector entities.

CIEDA indicates that the Authority generally functions at benefit to local governments only for projects over \$1.5 million. To provide some perspective as to this savings opportunity, in the 2013 Consolidated Election, the Village of Williamsville received approval to issue up to \$1.9 million in bonds for its library. A 0.25% savings on these bonds would equate to \$4,750 in annual savings, or approximately \$95,000 in savings over a 20 year bond, which would likely recoup CIEDA fees and allow for some surplus savings.

CIEDA also provides expertise and flexibility to local governments when it serves as a conduit for their bonding activities. Bond issuance is a complicated endeavor, and CIEDA has greater capacity to develop familiarity with types of bonds and the process of bond administration than local governments might. Some alternatives to these opportunities presented by CIEDA exist in statute. For instance, when faced with state deadlines related to volume cap utilization, home rule communities may also transfer volume cap for bonds to housing authorities and other entities.<sup>4</sup>

CIEDA offers the opportunity to work across multiple counties and jurisdictions to help local governments work with volume caps and other limitations to bonding authority. For instance, home rule jurisdictions that have not utilized their portion of the annual statewide volume cap on bonding authority can transfer their bonding authority to CEIDA for use elsewhere. Because of this coordinating role, the CEC also identified the potential for CIEDA to assist local communities in a coordinated bonding process under certain circumstances.

Finally, in some situations local governments may also benefit from opportunities to refinance their existing debt or "wrap" CIEDA bonds around their existing debt to reduce interest rates.

### **Best Practices and Benefits**

The CEC considers developing and following capital plans a best practice necessary to local jurisdictions and encourages their creation. One independent financial advisory company describes the benefits of capital planning as follows:<sup>5</sup>

- *Terminates the ad hoc policy of allocating resources to capital projects without regard to long-term impact on the government's available reserves.*
- *Assures that the most important projects obtain funding.*
- *Integrates budgeting for day-to-day services and activities with budgeting for capital improvements. This insures that construction and acquisition needs are addressed.*

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<sup>4</sup> Personal communication, Andrew Hamilton, Executive Director, CIEDA (April 8, 2013).

<sup>5</sup> WM Financial Strategies. n.d. "Capital Plans and Planning." Available at: <http://www.munibondadvisor.com/capitalplan.htm>.



- *Assures that the most appropriate method of funding is selected (e.g. pay-as-you go, privatizing or bonds. Also insures that when bonds are used the most appropriate type is selected.)*
- *Improves project planning and timing sequence. (e.g. Allows sufficient time to arrange and promote bond or tax referenda. Allows sufficient time to accumulate cash for pay-as-you go projects.)*

The GFOA also notes that capital planning is a best practice in issue resolution because it “allows for the programming of both projects started and completed within the same year as well as those funded over multiple years. The capital plan is a financial blueprint that sets forth the public infrastructure needed to support development in conjunction with the capital improvements element of the comprehensive plan over multiple years.”<sup>6</sup> This being the case, the existence of a capital plan, if followed, allows for programming and decision making across political terms of office, which in turn allows for project succession in contrast to the current, more informal practice.

Another benefit of long-term, professional capital planning lies in a jurisdiction's ability to identify and capture outside funding. The span of available financial resources are often more dynamic and fluctuating than the confines of the needs they are meant to assuage. With a plan in place, jurisdictions have a competitive advantage for grant applications and may also be able to secure unexpected revenues. A local case history that provides an example of this phenomenon occurred at the Springfield Metro Sanitary District (SMSD). Due to careful long-term planning for its renovated Spring Creek facility, when American Recovery and Reinvestment Act (ARRA) funding surfaced at the federal level, the Sanitary District was in a position to begin construction and receive substantial additional federal funding that had been unanticipated.<sup>7</sup>

While numerous tools are available for financing projects, including the pay-as-you-go and privatization options discussed in this list of benefits, the CEC has chosen to look specifically at unique municipal debt financing options because limited revenues may preclude local jurisdictions from undertaking these other options. Beyond capital planning, the benefits of the bonding tool of CIEDA described above suggest that under appropriate circumstances, cooperation with CIEDA may be a best practice that should receive full consideration by local jurisdictions undertaking municipal financing.

## **Alternatives**

Several options are available on a region-wide basis related to the existing dispatch network. These alternatives include:

1. Maintain the status quo.
2. Develop capital plans on a jurisdiction-by-jurisdiction basis and continue to use existing financing mechanisms.
3. Use additional financing tools and mechanisms offered by CIEDA as appropriate individual projects surface without developing capital plans.

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<sup>6</sup> Government Finance Officers Association, Subcommittee on Capital Planning. n.d. “Capital Planning and Program Implementation Outline.” Available at: <http://www.gfoa.org/downloads/CPOutline12208.pdf>.

<sup>7</sup> Personal communication from Gregg Humphrey, Director/Engineer, SMSD (June 10, 2013).



4. Develop capital plans and utilize additional financing tools and mechanisms offered by CIEDA.
5. Develop capital plans, utilize financing tools offered by CIEDA, and work to coordinate bonding activity to share bond issuance fees.
6. Develop an infrastructure for on-going capital project financing cooperation through a regional leadership council or another body.

**Alternative 1**—Maintain the status quo—may not allow jurisdictions to continue to meet capital needs. Aging infrastructure is anticipated to lead to increasing costs over time. Public sentiment toward tax increases and bonding referenda is unlikely to become more positive, particularly in the current economic climate. Without careful long-term planning, governmental jurisdictions will likely be unable to meet needs and may also miss opportunities to receive grant funding.

**Alternative 2**—Develop capital plans on a jurisdiction-by-jurisdiction basis and continue to use existing financing mechanisms—would add some benefits to local governments in terms of awareness and capacity to undertake financial planning. Formal capital planning would also assist with succession planning, as newly elected local leaders may be unaware of capital needs with which former officials had an informal and undocumented, yet thorough familiarity. While creating capital plans is not a cost-neutral activity, the long-run benefits of capital plans make these costs worthwhile.

**Alternative 3**—Use additional financing tools and mechanisms offered by CIEDA as appropriate individual projects surface without developing capital plans— offers the benefits of the CIEDA bonding assistance tools as described above. These include reduced tax liability for investors, administrative flexibility and expertise, and reduced staff time needs and/or legal costs for local governments undertaking the bonding process. However, localities will not have increased ability to anticipate their capital needs or coordinate bond issuance either within or across jurisdictional lines in order to reduce administrative costs.

**Alternative 4**—Develop capital plans and utilize additional financing tools and mechanisms offered by CIEDA—offers all of the combined benefits of Alternative 2 and 3, although cross-jurisdictional activities would remain very limited.

**Alternative 5**—Develop capital plans, utilize financing tools offered by CIEDA, and work to coordinate bonding activity to share bond issuance fees—again offers the benefits detailed in preceding alternatives, but begins to address the potential for cooperative or group financing. Although there are major obstacles in terms of coordination of type and timing of bonds, there may be benefits in reduced administrative cost if these obstacles can be surmounted. Capital planning and increasingly strong and open cross-jurisdictional communication are the first steps in laying a groundwork for these options.

**Alternative 6**—Develop an infrastructure for on-going capital project financing cooperation through a regional leadership council or another body—addresses the key obstacle described in Alternative 5 by developing an infrastructure for coordination through a working group such as the Sangamon County Regional Leadership Council. A review body that coordinates capital projects and their financing on a regional basis, similar to the Springfield Area Transportation Study, may ultimately be of benefit if the Leadership Council can build or leverage the capacity and technical expertise to make this a possibility.



## Recommendation

**In light of the research presented below, the CEC recommends that local governments in Sangamon County develop capital plans, and work on an individual basis to utilize the services of the Central Illinois Economic Development Authority (CIEDA) where appropriate. The CEC further recommends that, as possible, local governments work within these plans and with CIEDA assistance to coordinate capital projects so that opportunities for group bonding and financing may be explored.**

The benefits of implementing the recommendations detailed above include:

- Increased understanding and awareness for capital projects and associated budgetary needs;
- Increased potential to coordinate capital projects and financing efforts due to greater awareness of long-term needs;
- Potential to reduce investors' tax liability and therefore interest rates on local government bonds through CIEDA cooperation;
- Access to flexible, professional, and experienced bond issuance expertise through CIEDA;
- Flexible and favorable bond terms permitted under CIEDA authority; and
- Potential to reduce bond issuance administrative costs through cooperative efforts.

## Obstacles to Implementation

As noted by the Government Financial Officers Association, there are a number of drawbacks and obstacles that may prevent local governments from developing capital plans. "The effort required to develop a meaningful Capital Plan is substantial," the GFOA notes. "Both the technical and communication challenges among various departments and between the government and the general public may pose a substantial obstacle to its endorsement. Some may see the coordinating effort between the comprehensive elements as unnecessary and creating more work."<sup>8</sup>

It is also important to note that municipal bonding is highly regulated and subject to very specific statutory requirements and obligations. As a result, situations for cooperative financing with other local governments may be very rare or difficult to identify. Bond complexity and local control over bond provisions are serious obstacles to group bonding. Liquidity and timing are likely to be the greatest drawbacks for pooled bonding, and CIEDA indicates that pooled bonding endeavors have never yet been successfully completed in its jurisdiction.<sup>9</sup>

## Steps toward Implementation

In order to implement this recommendation, the CEC recommends that the following course of action would be beneficial:

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<sup>8</sup> Government Finance Officers Association (GFOA), Subcommittee on Capital Planning. n.d. "Capital Planning and Program Implementation Outline." Available at: <http://www.gfoa.org/downloads/CPOutline12208.pdf>.

<sup>9</sup> Personal communication, Andrew Hamilton, Executive Director, CIEDA (April 8, 2013).



- Identify partners or bodies with the technical capacity and expertise to develop capital plans for smaller local jurisdictions;
- Formalize and document these capital plans and the associated financial planning concepts;
- As appropriate, utilize CIEDA tools to reduce bonding costs; and
- Pursue coordinated financing by comparing capital plan scheduling and developing project work groups to assist in guiding a cooperative decision-making process with CIEDA as a bounding resource.

Finally, the CEC notes that most municipal officials are aware that capital planning is important, but often have limited knowledge and expertise for compiling these plans. For this reason, the CEC finds it increasingly important that local governments engage in capacity-building exercises, including developing a leadership council or peer network for mayors and village presidents, as well as public works officials. As discussed in the Obstacles to Implementation section above, capital planning is not cost-neutral. However, low-cost alternatives for developing capital plans may exist through collaborative venues or in cooperation with local universities and institutions of higher education, as discussed in the CEC's March 2012 and May 2013 recommendations.<sup>10</sup> Through these capacity-building mechanisms, local jurisdictions may have increased ability to recognize and implement cooperation opportunities, both in the process of planning for capital needs and in financing them.

The CEC offers its support for these implementation efforts. If the CEC can provide any further assistance in facilitating efforts toward cooperation, it would be pleased to do so.

Respectfully submitted,

Hon. Karen Hasara, Chair  
on behalf of the  
Citizens' Efficiency Commission  
for Sangamon County

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<sup>10</sup> CEC, (March 14, 2012). "Formalize Leaders' Peer Networks for Multijurisdictional Collaboration," Available at <http://www.co.sangamon.il.us/Departments/RegionalPlanning/documents/CEC/Leaders%20Peer%20Networks%20Full%20Recommendation.pdf>.; CEC, (May 8, 2013) "Expand Local Government Cooperation with Institutions of Higher Education to Develop and Share Professional Resource Base," Available at: <http://www.co.sangamon.il.us/Departments/RegionalPlanning/documents/CEC/High%20Education%20Recommendation.pdf> .