

# Ordinance 2023-3: Alternative Plan for Funding Police Station

## Policy Background Information Paper

Council Member Domotor

February 9, 2023 (Revised 2/26/23)

### Input Assumptions:

- As specified in Ordinance 2023-3, \$500K will be immediately moved from the Capital Reserve Fund<sup>1</sup>. Beginning in the next budget year effective July 2023, \$350K of new funding will be budgeted and \$350K will be budgeted annually thereafter. This will yield \$850K after one year and \$1.2 million in two years.
- Police station Cost Estimate: \$6,000,000<sup>2</sup>.
- Land Cost Estimate: \$1.2 -2.0 million. Figure \$1.2 million. Two acres.
- Interest Rate: 6% annually.
- Loan Terms: 20 years / 30 years.

### *A Commitment to Public Safety.*

Ordinance 2023-3 is a commitment to our citizens to prioritize public safety and to save the needed funds and take actions to make the police station a reality. In one year, the town will have \$850K and after two years the town will have \$1.2 million to help fund, as examples: the purchase of land; reducing the principal amount being financed through a loan; or to fund engineering and architectural design. The Ordinance also calls for an *Action Plan* to be prepared by the Mayor and Town Council.

### Some Options / Scenarios:

- The town identifies a piece of property at no cost / already has, then no land cost.
- The town identifies a piece of property and uses \$1.2 million as a starting purchase amount. After a year, the town would have \$850K to put toward land purchase / or after two years the town would have \$1.2 million to put toward land purchase.

**OVER** 

<sup>1</sup> There is currently \$2,896,535.47 in Capital Reserves - \$800,000 (committed to other projects for the remainder of the year/beyond) = \$2,096,535.47. The \$500,000 to be set-aside as seed money for the police station will leave \$1,596,535.47. This remaining balance provides enough for contingencies (e.g., up to \$1,000,000 for 90 days of funding in an emergency) and \$596,535.47 additionally for other considerations. [Information provided by town staff].

<sup>2</sup> Input assumptions are in alignment with various suggestions provided by town staff.

- If no land is needed, then after a year the town would have \$850K to put toward a police station loan / or after two years the town would have \$1.2 million to put toward a police station loan. These amounts could be used to reduce the initial principal amount for a police station by about \$1 million to \$1.2 million dollars. That is, financing \$5,000,000 or \$4,800,000 respectively. [Also, the \$1.2 million represents 20% of the \$6,000,000 police station cost, if a 20% down payment is needed]. If the town wanted to fund the police station immediately, it would have to finance the full \$6 million loan.
- An initial review of the current year’s detailed budget worksheet suggests that this plan to allocate a standard dollar amount annually for this essential public safety resource is workable.

**Police Station Funding Costs Table:**

- Monthly and annual payments that could go toward a loan to fund a police station are shown in the table below, assuming a 6% interest rate and 20 or 30 year loan term. A column titled “REFERENCE: Minimum Amount Committed to Budget/Year” is the minimum amount of \$350K currently identified as the minimum annual commitment to be saved per Ordinance 2023-3. The table below shows how much a police station would cost to finance, and how much a minimum funding commitment of \$350K would go toward the needed annual payment.

Police Station Funding Costs+					
Loan Amount	Interest Rate (%)	Term (yrs.)	Monthly Payment Amount	Yearly Payment Amount	REFERENCE: Minimum Amount Committed to Budget/Year*
\$4,800,000	6	20	\$34,389	\$413 K	\$350 K
\$4,800,000	6	30	\$28,778	\$345 K	\$350 K
\$5,000,000	6	20	\$35,822	\$430 K	\$350 K
\$5,000,000	6	30	\$29,997	\$360 K	\$350 K
\$6,000,000	6	20	\$42,986	\$516 K	\$350 K
\$6,000,000	6	30	\$35,973	\$432 K	\$350 K

\* The minimum amount committed per Ordinance 2023-3 that could go toward an annual loan payment for the police station. The delta between the “Yearly Payment Amount” column and this “Reference” column can be calculated to understand the shortfall and see the additional amount needed to support an annual payment. Additional, acceptable funding streams/initiatives could augment this approach. ***It is essential that any additional or alternative funding approach (e.g., a tax increase) meet the approval of the citizens of Mount Airy.***

+ Costs calculated using the “Bankrate Simple Loan Payment Calculator” found online.