CAPITAL FINANCING OPTIONS

Understanding the different capital financing options is an important component in achieving a local government's long-term capital infrastructure vision and balancing that vision with financial and economic conditions. This is especially true for a fast growing and urbanizing city like Bellevue. In addition, the "Great Recession" has had a lasting impact on consumer confidence and spending, which in turn has impacted our tax revenue base resulting in fiscal challenges for Bellevue and governments across the country.
A capital financing strategy provides a solid policy foundation that seeks to:

- Ensure financial strength and flexibility in the future
- Limit the overall cost of providing capital infrastructure, while meeting the community's current and future needs
- Strengthen the government's standing with bond rating agencies, bond buyers, and the community.

Highlights:

- Understanding the different capital financing options provides solid policy foundation
- "Great Recession" negatively impacts tax revenues
- Balance capital infrastructure investment with financial and economic conditions

Capital Financing Overview

There are two general ways to finance capital infrastructure projects. These are pay-as-you-go and debt financing. Pay-as-you-go sources may be realized by levying taxes and fees, using reserves, or obtaining grants or contributions. Debt financing involves borrowing money and making periodic debt service payments over many years to pay back the lender.

Highlights:

- Achieve a balance between pay-as-you-go and debt financing
- Depends on the type of capital projects needed and financial conditions

Pay-as-you-go Financing
A jurisdiction that finances all or most of its capital program with pay-as-you-go sources may find that they have to delay projects or fail to invest in them altogether, thereby creating potential infrastructure deficiencies or foregoing emerging investment opportunities.

Debt Financing
On the other hand, a jurisdiction that relies predominately on debt finds itself faced with fixed debt service payments that may limit flexibility to address newly emerging or other capital needs into the future. Recognizing this, jurisdictions must comply with debt limits set by State law and, in many cases, adopt more stringent policy limits (such as Bellevue's policy limits).

Achieving a Balance
How much of a capital program should be financed by debt and how much from pay-as-you-go sources depends on the type of capital projects needed and on the financial and economic conditions now and projected into the future. Most local governments find that the most effective way to finance their capital program is to rely on both.

Specific Overviews of Capital Financing Options
Council Agenda memos on February 21 and March 12th contain overviews of Capital Financing Options including: Local Improvement Districts (February 21); Impact Fees, Property Tax capacity, Voted Ballot Measures Bonds vs. Levy, and Transportation Benefit Districts (March 12). Both of the Council Agenda memos are attached.