



Financial Analysis of the Town of Pinetop-Lakeside's
Capacity to Purchase Woodland Lake Park

October 1, 2009

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The Problem: The acquisition of Woodland Lake Park has long been a goal of the Town of Pinetop-Lakeside. Acquiring the park is a key goal of the Town's Strategic Management Plan, drafted and adopted by the Town Council. Many citizens want the Town to proceed immediately with the purchase of Woodland Lake Park, or prioritized portions thereof, while real estate prices are at their lowest level in years. The Town has no discretionary money at the present time, cash reserves are nearly depleted, sales tax revenues are decreasing to levels that threaten the Town's ability to provide customary services, and many feel it would be unwise to proceed into greater debt at this time. \$7 million is more than the cumulative total of all debt the Town has incurred in its 25-year history.

Facts and Analysis: The law puts limits on the amount of debt the Town can legally incur. We cannot bond for the total price of the park – it simply exceeds our legal capacity. Beyond that, we are limited by the resources we have available to repay the debt. Even if we could bond for \$50 million, the Town does not have the financial resources to pay the debt service on a debt that large. Assuming that the 100± acres of developed park could be acquired for \$7 million, which is not certain at this time, debt service on the debt (20-year bond at 5.25% interest) would be \$47,500 per month, or \$570,000 per year. Twenty years of payments on this debt will total \$11,400,000. The Town is currently obligated for \$39,300 per month in debt service for streets paved in 1999, Mountain Meadow Park, and equipment. This monthly obligation will decrease slightly in 2010, and go away completely in 2014. If financing the purchase of Woodland Lake Park could be delayed until 2014, it would mean the Town would only have to set aside \$8,200 more per month than it currently does. However, it would also mean that the Town would not be able to incur any more debt for other needed projects like roads or equipment until 2034. In addition, debt service obligations of this size would call into question the availability of money needed for maintenance of the park. Any financing effort before 2014 would significantly increase the additional amount that must be raised in new revenues.

The Town of Pinetop-Lakeside is entirely dependent on local sales taxes for operating funds and funds for capital improvements. For the past 10 years, annual local sales tax revenues have averaged about \$3.1 million, adjusted for inflation. \$3.1 million in sales tax revenues equates to an average of \$124 million in total local sales. Fiscal years 2006 – 2008 were higher than that average, which gave many people the belief that the Town's revenues would be secure and strong in perpetuity. That has not been the case. Last year's sales tax revenues were down \$600,000 from the year before, and this year's collections for the first two months of the fiscal year are down 18% from last year. There is an inherent danger in relying on averages, because the current economy is unlike anything the Town has experienced before. When the economy is unpredictable, averages lose their meaning and confidence in averages decreases.

Typically, sales tax collections for the first two months of a fiscal year account for 20% of total annual collections. For the current fiscal year, total collections are only 16% of the Town's FY 2010 budgeted sales tax revenues. If current trends continue, we project FY 2010's total sales tax revenues to be \$2.9 million, 21% below our most conservative projections. This level of collections reflects a decrease in annual local sales of \$13 million. At this level of sales tax collections, \$800,000 will have to be cut from the budget just to continue operations, but cuts to debt service are not possible. Cutting \$800,000 from the Town's budget will call into question the ability of the Town to provide customary basic services. Incurring a \$7 million debt at the current time could bankrupt the Town if revenues remain at current levels or decline, leaving the park permanently out of reach.

It is the intent of the Woodland Lake Park Acquisition Task Force that revenues from restaurant taxes be included in the money needed to finance the park acquisition. The 2% restaurant/bar tax sunsets in December, 2013. If it were to be continued past December, 2013, it would be a source of some of the money needed to acquire Woodland Lake Park and for maintenance of both parks. It would not be sufficient to service the debt on the park.

Finally, the history of our state's economy shows repeating cycles of growth and decline, and being completely dependent on sales taxes collections to fund operations puts the Town in a continually tenuous condition. Even if the Town's economy does recover by 2014, it is unlikely that the Town will see twenty years of continuous economic growth without another recession. Perhaps another major source of funds will become available in the course of twenty years that could significantly decrease the amount of debt service money required, but without that additional revenue, the Town's ability to pay off a \$7 million debt will be a twenty-year challenge.

Conclusions and Recommendations: If the Town proceeds immediately to acquire Woodland Lake Park, it will require the generation of \$570,000 in *new* annual revenues. \$570,000 in new revenues would require a 21% increase in the Town's sales tax rate, from 2.5% to 3%. If the Town waits until current debts are paid off – a little less than five years from now – the new revenue requirements will be \$100,000 per year, which could possibly be done with only a slight increase (0.2%) in sales tax rates. Timing in this situation is very important.

The Town should not attempt to purchase the Park until all existing long-term debts have been paid off in June 2014, unless the economy improves to pre-2008 levels. If sales tax collections return to that level, a modest increase in the sales tax rate at that time should be sufficient to raise the additional revenues needed each month to service the debt. Issuing \$7 million in debt will seriously impact the ability of the Town to use debt to finance anything else that is needed for 20 years, and will negatively impact the funds needed for park maintenance.

Respectfully submitted,

/s/ Kent Brooksby, CPA, Finance Director

WLP

Compound Period : Semiannual

Nominal Annual Rate : 5.250 %

CASH FLOW DATA

Event	Date	Amount	Number	Period	End Date
1 Loan	07/01/2014	7,000,000.00	1		
2 Payment	01/01/2015	284,755.61	40	Semiannual	07/01/2034

AMORTIZATION SCHEDULE - Normal Amortization

Date	Payment	Interest	Principal	Balance
Loan 07/01/2014				7,000,000.00
2014 Totals	0.00	0.00	0.00	
1 01/01/2015	284,755.61	183,750.00	101,005.61	6,898,994.39
2 07/01/2015	284,755.61	181,098.60	103,657.01	6,795,337.38
2015 Totals	569,511.22	364,848.60	204,662.62	
3 01/01/2016	284,755.61	178,377.61	106,378.00	6,688,959.38
4 07/01/2016	284,755.61	175,585.18	109,170.43	6,579,788.95
2016 Totals	569,511.22	353,962.79	215,548.43	
5 01/01/2017	284,755.61	172,719.46	112,036.15	6,467,752.80
6 07/01/2017	284,755.61	169,778.51	114,977.10	6,352,775.70
2017 Totals	569,511.22	342,497.97	227,013.25	
7 01/01/2018	284,755.61	166,760.36	117,995.25	6,234,780.45
8 07/01/2018	284,755.61	163,662.99	121,092.62	6,113,687.83
2018 Totals	569,511.22	330,423.35	239,087.87	
9 01/01/2019	284,755.61	160,484.31	124,271.30	5,989,416.53
10 07/01/2019	284,755.61	157,222.18	127,533.43	5,861,883.10
2019 Totals	569,511.22	317,706.49	251,804.73	
11 01/01/2020	284,755.61	153,874.43	130,881.18	5,731,001.92
12 07/01/2020	284,755.61	150,438.80	134,316.81	5,596,685.11
2020 Totals	569,511.22	304,313.23	265,197.99	
13 01/01/2021	284,755.61	146,912.98	137,842.63	5,458,842.48
14 07/01/2021	284,755.61	143,294.62	141,460.99	5,317,381.49
2021 Totals	569,511.22	290,207.60	279,303.62	
15 01/01/2022	284,755.61	139,581.26	145,174.35	5,172,207.14
16 07/01/2022	284,755.61	135,770.44	148,985.17	5,023,221.97
2022 Totals	569,511.22	275,351.70	294,159.52	
17 01/01/2023	284,755.61	131,859.58	152,896.03	4,870,325.94

Current Debt Service Cash Requirements

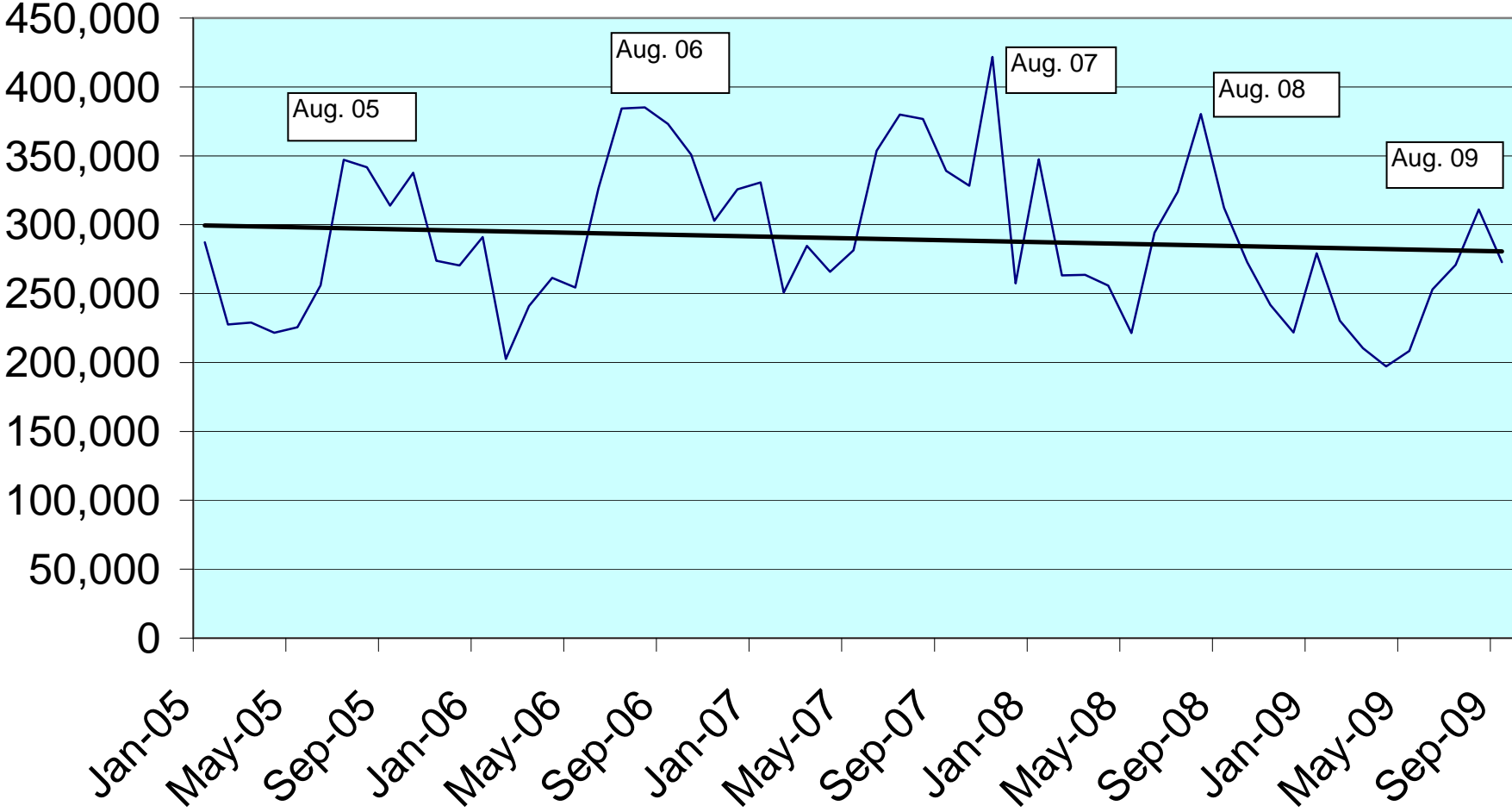
	Caterpillar Financial	1999 Rev Bonds	Street Sweeper Loan	MM Park GADA Bond	Total to Service Debt
Jul-09	3,890.63	16,069.17	4,041.53	15,272.92	39,274.24
Aug-09	3,890.63	16,069.17	4,041.53	15,272.92	39,274.25
Sep-09	3,890.63	16,069.17	4,041.53	15,272.92	39,274.25
Oct-09	3,890.63	16,069.17	4,041.53	15,272.92	39,274.25
Nov-09	3,890.63	16,069.17	4,041.53	15,272.92	39,274.25
Dec-09	3,890.63	16,069.17	4,041.53	15,272.92	39,274.25
Jan-10	3,890.63	16,069.17	4,041.53	15,272.92	39,274.25
Feb-10	3,890.63	16,069.17	4,041.53	15,272.92	39,274.25
Mar-10	3,890.63	16,069.17	4,041.53	15,272.92	39,274.25
Apr-10	3,890.63	16,069.17	4,041.53	15,272.92	39,274.25
May-10	3,890.63	16,069.17	4,041.53	15,272.92	39,274.25
Jun-10	3,890.63	16,069.17	4,041.53	15,272.92	39,274.25
Jul-10		16,347.08		15,140.63	31,487.71
Aug-10		16,347.08		15,140.63	31,487.71
Sep-10		16,347.08		15,140.63	31,487.71
Oct-10		16,347.08		15,140.63	31,487.71
Nov-10		16,347.08		15,140.63	31,487.71
Dec-10		16,347.08		15,140.63	31,487.71
Jan-11		16,347.08		15,140.63	31,487.71
Feb-11		16,347.08		15,140.63	31,487.71
Mar-11		16,347.08		15,140.63	31,487.71
Apr-11		16,347.08		15,140.63	31,487.71
May-11		16,347.08		15,140.63	31,487.71
Jun-11		16,347.08		15,140.63	31,487.71
Jul-11		16,158.75		14,990.63	31,149.38
Aug-11		16,158.75		14,990.63	31,149.38
Sep-11		16,158.75		14,990.63	31,149.38
Oct-11		16,158.75		14,990.63	31,149.38
Nov-11		16,158.75		14,990.63	31,149.38
Dec-11		16,158.75		14,990.63	31,149.38
Jan-12		16,158.75		14,990.63	31,149.38
Feb-12		16,158.75		14,990.63	31,149.38
Mar-12		16,158.75		14,990.63	31,149.38
Apr-12		16,158.75		14,990.63	31,149.38
May-12		16,158.75		14,990.63	31,149.38
Jun-12		16,158.75		14,990.63	31,149.38
Jul-12		16,368.75		15,239.58	31,608.33
Aug-12		16,368.75		15,239.58	31,608.33
Sep-12		16,368.75		15,239.58	31,608.33
Oct-12		16,368.75		15,239.58	31,608.33
Nov-12		16,368.75		15,239.58	31,608.33
Dec-12		16,368.75		15,239.58	31,608.33
Jan-13		16,368.75		15,239.58	31,608.33
Feb-13		16,368.75		15,239.58	31,608.33
Mar-13		16,368.75		15,239.58	31,608.33
Apr-13		16,368.75		15,239.58	31,608.33
May-13		16,368.75		15,239.58	31,608.33
Jun-13		16,368.75		15,239.47	31,608.22
Jul-13		16,110.42			16,110.42
Aug-13		16,110.42			16,110.42
Sep-13		16,110.42			16,110.42
Oct-13		16,110.42			16,110.42
Nov-13		16,110.42			16,110.42
Dec-13		16,110.42			16,110.42
Jan-14		16,110.42			16,110.42
Feb-14		16,110.42			16,110.42
Mar-14		16,110.42			16,110.42
Apr-14		16,110.42			16,110.42
May-14		16,110.42			16,110.42
Jun-14		16,110.38			16,110.38
Total	46,687.56	972,650.00	48,498.36	727,725.00	1,795,560.92

Estimated Revenue and Cost of Sales Tax Increase

5-Year Average Total Sales	5-Year Average Sales Tax	0.1% Increase	0.2% Increase	0.3% Increase	0.4% Increase	0.5% Increase
\$124,000,000	\$3,100,000	\$3,224,000	\$3,348,000	\$3,472,000	\$3,596,000	\$3,720,000
Less current average		(3,100,000)	(3,100,000)	(3,100,000)	(3,100,000)	(3,100,000)
Additional Sales Tax (rounded)		<u>124,000</u>	<u>248,000</u>	<u>372,000</u>	<u>496,000</u>	<u>620,000</u>
Annual Debt Service on \$7 million (P+I)		569,520	569,520	569,520	569,520	569,520
Amount to be used from Restaurant tax		125,000	125,000	125,000	125,000	125,000
Remainder to be subsidized from current sales taxes		<u><u>320,520</u></u>	<u><u>196,520</u></u>	<u><u>72,520</u></u>	<u><u>0</u></u>	<u><u>0</u></u>

Current sales tax rates supply the \$39,300 needed each month to service current debt. It is estimated that we would have to raise an additional \$8,280 per month - approx \$100,000 per year - to cover the additional debt service.

Sales Tax Collections - 5 Years (Adjusted for Inflation)



Restaurant Tax Collections - 5 Years (Adjusted for Inflation)

