



TROY M. SCHULTE

COUNTY ADMINISTRATOR

(816) 881-3333

Fax: (816) 881-3133

Jackson County Courthouse
415 East 12th Street, Second Floor
Kansas City, Missouri 64106
jacksongov.org

DATE: April 5, 2023

TO: Frank White Jr., County Executive

FROM: Troy Schulte, County Administrator

Bob Crutsinger, Director of Finance

RE: Financing of the New Detention Center

Mr. County Executive,

You requested that County finance staff put in writing their rationale for recommending the 1,000-bed option at a total cost of \$301.2 million. The desire of County Administration is to complete the facility to meet the current and future detention needs of the County and do it in a financially sustainable way that does not hamstring future operations of the County.

Given current revenues, we believe that the most the County can now prudently spend on a new detention center is the \$301.2 million for the 1000 bed option. The building is designed to be easily expandable so if the current financial projections for the County change in a positive direction, the building can easily be expanded at a cost of approximately \$10 million for each additional 128 bed pod.

Four funding components make up the financing for the project and each is presented within a framework that tries to protect the County's budget in future years.

The largest component of the project is the projected bond financing of \$261.3 million for construction of the facility. The anticipated debt service for this amount of bonds is \$16.0 million per year beginning in 2025. The source of repayment of these bonds is the County Improvement Fund which is expected to generate \$19.5 million in the 2023 fiscal year. County Administration strongly believes that using all of the County Improvement Fund on debt service for the new detention center would put the County at risk in future years in not being able to meet other critical needs that may arise. Under the current financing scenario, the County would be able to retain at least \$3.5 million in funds on an annual basis for other critical infrastructure needs. Those critical needs would most likely involve ongoing capital maintenance and repair of county facilities such as the courthouses which are currently in the most critical state of disrepair.

The second largest component of the financing is \$22 million in available general fund and county improvement cash reserves. Jackson County presented its FY 2021 audit with total General Fund reserves of \$99.4 million and an undesignated fund balance in the General Fund of \$70.6 million. This is remarkable improvement since FY 2018 when the County closed its books with just over \$12 million in undesignated reserves. Of the \$70.6 million in available reserves, County administration is recommending that \$44.3 million be retained as a 90-day or 25% emergency cash reserve for the county. Under this scenario, \$22 million in available cash could be used to pay for the new detention center and lower the amount of borrowing needed. It should be noted that the planned use of this \$22 million was shared with the credit rating agency Standard & Poor's (S&P) as part of our overall credit presentation on the project and S&P subsequent reaffirmed our strong credit rating of AA- with a stable outlook.

Frank White, Jr., County Executive

The third component of the financing is \$11.2 million in project fund interest earnings which will be derived by earnings on idle construction funds as the project is constructed over the next two and a half years. Selling all the bonds upfront will allow the County to maximize its investment income on the cash generated by the bond sale. These interest earnings can then be used to supplement the project and reduce the need for additional borrowing or the use of County cash reserves.

The last financial component of the project is the planned use of \$7.5 million in ARPA funds. The Federal legislation expressly prohibits ARPA funds from being used for direct incarceration of persons. The County is allowed to use ARPA funds for court services needs and as a result we are recommending that \$7.5 million in ARPA funds be used to construct the two full-service courtrooms that will be built into the new detention center and operated by the 16th Circuit Court.

In summary, it is the strong belief by County Administration, that given current revenues, the recommended financing plan of \$301.2 million is presented so as to limit the future potential financial risk to the County. If the Legislature wishes to expand the size of the facility beyond the current 1000 bed design, we believe it prudent to identify a new revenue source, and if approved by voters, consider an expansion of the facility at that time.