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Is Now a Good Time for Cities to Borrow?

With recent interest rate increases by the Federal Reserve, many city officials are asking whether now is a good time to borrow money for capital projects. Two important factors that should be considered before answering this question are interest rates and building costs. Rising interest rates have increased the costs of borrowing rapidly since the 2016 Presidential election. The average interest rate on a 20 year general obligation bond has increased from a low of 2.80% on July 2016 to 4.26% on November 28, 2018. But, to keep it in perspective, during the last twenty years, the average interest rate has been 4.46% and the highest interest rate during that time was 6.09%. While we are still below the 20-year average, most economists expect interest rates to continue to increase in 2019.

For new construction projects increased building costs can have a more significant impact on projects than the costs to borrow. According to the Mortenson Construction Cost Index, overall construction costs have steadily increased since 2009. Construction bids continue to come in significantly higher than projections for new construction projects. While a slowdown in the economy might help reduce construction costs, at this point there are few signs of construction costs waning.

As Kentucky cities begin the new year, it is a good time to evaluate capital projects to determine if borrowing now versus later may save the city money on interest payments and, even more, on construction costs.

Always think of KLC first. We know cities and put our experience to work for you. Contact Robyn Miller or Steven Pickarski at KLC to discuss how KLC's finance programs can help with your city's current or future financing needs.