

RECREATION PARK PROJECT FINANCING OPTIONS

February 25, 2019

Presenter: Chun Saul, Finance Director

Project Budget & Funding Sources

- ▶ Total Estimated project Budget \$3,750,000
- ▶ Potential Funding Sources*:
 - ▶ State & Federal Grants \$1,250,000 (Anticipated notification May/ June 2019)
 - ▶ State grants \$750,000
 - ▶ Federal grants \$500,000
 - ▶ Private and community Funding \$1,756,000:
 - ▶ Secured to-date \$1,306,000
 - ▶ Pending Funds \$450,000 (Community fundraising goal)
 - ▶ Total Potential Funding \$3,006,000

***Assumptions Used:** All state and federal grants applied will be awarded to the City and funds available for spending in the fall of 2019, except for Youth Athletic Facility (YAF) Grant applied in the amount of \$350,000.

- ▶ Funding shortage \$744,000 (Long-Term Debt Financing)

Discussion

- ▶ Debit Financing Amount
- ▶ Maturity Terms (10 year, 15 year vs. 20 year)
- ▶ Financing options (LOCAL vs. Pirate Placement)

Debt Financing & Funding Timeline

▶ Key Assumptions:

- Construction timeline: Start in August 2019 and End in October 2019
- Construction bid process begins in Mid March
- Bid opening- Mid. May 2019 (will have better idea on total project costs)
- State & Federal Grant Award Notification - June 2019
- Will know how much debit financing is needed - June 2019
- Bid Award by End of June 2019/Early July 2019 (w/ construction beginning August 2019)
- Contractor 1st progress bill - payable by September 30, 2019
- Debt financing close out and funding available by September 30, 2019

Debt Financing Options

Two Financing Options:

Office of State Treasure (OST) LOCAL Program vs. Private Placement

▶ LOCAL Program

- ❑ Structured as a financing contract (lease) offered through the Office of the State Treasurer (OST)
- ❑ OST pools the various lease agreements across all LOCAL participants and packages them as a security called a Certification of Participation (COP).
- ❑ COP's are similar to municipal bonds: structured with regular principal and interest payments and sold to investors.
- ❑ Recreation Park improvement project - qualifies as real estate transaction, maximum term of 20 years.
- ❑ Participation is dependent on OST credit approval.

Debt Financing Options (Continued)

▶ A private placement financing

- ❑ Debt obligation arranged with a single investor (i.e. a bank, insurance company, or an individual), instead of public issue with multiple investors
- ❑ Require City Council approve a delegation bond ordinance - outlines the parameters (i.e. max par amount, maturity, and interest rate etc.)
- ❑ Engage a Private Placement Agent & Bond Council
- ❑ Maximum payment flexibility
- ❑ Prepayment flexibility (negotiable)
- ❑ Lower legal fees than traditional municipal bonds
- ❑ Expedient funding (about 8 weeks)
- ❑ 15 year Maximum maturity recommended - interest rate is typically lower and there are more bidders. (There are more bank purchasers that can only go out 15 year or less).

Comparison

Option	LOCAL	Private Placement
Pros	<ul style="list-style-type: none"> • No upfront issuance costs. Issuance cost is lower and included in the interest rate 	<ul style="list-style-type: none"> • City controls financing terms & options • City has control of a timing for funding • Maximum payment flexibility • Prepayment flexibility • Takes about 8 weeks to close a deal. • Potentially slightly better interest rates (Bank-qualified financing vs. non-bank qualified) • No continuing disclosure requirement.
Cons	<ul style="list-style-type: none"> • Timing restriction. Application deadlines: <ul style="list-style-type: none"> ○ 3/22/19 for 6/25/19 funding (not ideal) ○ 7/15/19 for 10/22/19 funding (potential) • *Estimated project timeline: start in August and finish in October. Funding needed by end of September. • Prepayment restriction - A 10-year no-call period 	<p>Up-front issuance costs, estimated at:</p> <ul style="list-style-type: none"> ○ Bond council: \$4,500 ○ Private Placement Agent: \$8,500-\$12,500 ○ Total \$13,000 - \$17,000

Annual Debt Service Payment Scenarios

- Estimated Debt Service Payment Scenarios for a 20-year Term.

Amount	\$1 Million	\$825,000	\$750,000	\$500,000
Est. Interest rates*	3.42% - 3.78%	3.42% - 3.78%	3.42% - 3.78%	3.42% - 3.78%
Est. Annual Debt Service	\$68,366 - \$70,644	\$55,500 - \$56,750	\$51,275 - \$52,986	\$34,183 - \$35,322
Est. Total interest	\$397,008 - \$443,560	\$330,700 - \$370,474	\$297,758 - \$332,668	\$198,509 - \$221,784

- Estimated Debt Service Payment Scenarios for a 15-year Term.

Amount	\$1 Million	\$825,000	\$750,000	\$500,000
Est. Interest Rates*	2.95% - 3.38%	2.95% - 3.38%	2.95% - 3.38%	2.95% - 3.38%
Est. Annual Debt Service	\$81,646 - \$84,171	\$69,875 - \$71,125	\$61,232 - \$63,130	\$40,823 - \$42,088
Est. Total Interest	\$252,045 - \$290,840	\$208,945 - \$246,719	\$189,035 - \$218,131	\$126,024 - \$145,424

**Interest rates shown are estimates from the LOCAL. Actual interest rates are determined on the day of sale.*

How Much Can City Afford for Annual Debt Service?

City Council Policy: The City's annual debt service on non-voted long-term obligation debt not to exceed 3% of general fund operating revenues.

General Fund	Amount
2019 Operating Revenues Budget	\$9,742,242
3% of General Fund operating revenue budget	\$292,267
2019 Debt service amount for all non-voted debt outstanding	\$242,514
- 2011 LTGO Bonds \$99,563 (maturity 12/2026)	
- 2014 Fire Truck \$100,172 (maturity 9/2022)	
- Chip Spreader \$42,780 (maturity 10/2024)	
Remaining annual debt payment capacity (through 2022)	\$49,753

LTAC Funds for Annual Debt Service Payment

- ▶ Lodging Tax funds have been identified as the resource needed to pay all or most of the payments associated with a bond/loan:
 - ▶ The Lodging Tax Advisory Committee has discussed this possibility and conceptually recommended committing \$50K a year to pay off a bond/loan for improvements for Recreation Park.
 - ▶ The use of Lodging Tax resources are restricted to tourism enhancement as set forth by the RCW.
- ▶ Questions:
 - ▶ How Much LTAC money is available pay for annual debt service for this project?
 - ▶ Would the LTAC consider committing more than \$50K a year because the project now includes synthetic turf that expands the tournament season.

Recommendation

- ▶ City Council Approval Requested to Initiate Loan Process:
 - Debt Financing: \$825K (not to exceed \$1.0 million)
 - Maximum Maturity: 15 years
 - Private Placement Financing (City has more control of timing and payment terms)
 - Lodging Tax Fund for debt service - all or most of the debt service payments.
 - Minimum \$50K up to 100% of annual debt service (estimated \$69K - \$71K)
- ▶ Next Step
 - Late March or early April 2019
 - Formal approval of details and related documentation