

FINANCING OPTIONS

for

Fire Station Land Purchase and Temporary Fire Station

July 13, 2020

Presenter: Chun Saul, Finance Director

Financing Key Assumptions & Timeline

Total Estimated Costs \$1,820,000

Land purchase agreement signed 7/27/2020; Payment due 10/1/2020

Bond Issue 9/30/2020

Funding Sources:

- Airport Fund \$205,000 (Site preparation)
- General Fund \$30,000 (Temp Station Set Up Expenses)
- Use of Reserved Fund \$85,000 (Balance \$63,500 for future fire station budget need)
- Bond Proceeds \$1,500,000 (Land \$1.2 million & Temp Fire Station Buildings up to \$300K)

Estimated Costs & Timeline	May- July	October	November	Total	Funding Source
Site Preparation	\$205,000			\$ 205,000	Airport Fund
Temporary Fire Station Set Up & Purchase Tent	\$30,000			\$ 30,000	General Fund
Apparatus Bay Building with Contingency	\$190,000			\$190,000	Bond Proceeds (reimburse general fund)
Site Feasibility Assessment & Preliminary A&E	\$45,000			\$45,000	Public Facilities Reserve Fund
Land Purchase - Earnest Deposit & Final Pay	\$35,000	\$ 1,165,000		\$1,200,000	Bond Proceeds
Purchase Mobile Home Units			\$ 150,000	\$ 150,000	Bond Proceed \$110,000; Reserve Fund \$40,000
Total	\$505,000	\$1,165,000	\$ 150,000	\$1,820,000	

Debt Financing Options - Comparison

	LOCAL Program	Public Offering	Private Placement
Process	Financing (lease) contract offered through State Office of Treasurer (OST). OST pools various local participants and package them as securities called Certification of Participants. Similar to municipal bonds.	Traditional municipal bond issue. Bonds offered at open market, registered with SEC, traded on a public exchange	Debt obligation arranged with a single investor. Bonds not listed on a public exchange.
Pros	No upfront cost	Allows fixed rate for a longer maturity term (25 years)	Lower upfront cost than public offering. Competitive interest rate. Flexibility for timing, maximum payments, and call options. Expedient funding (about 8 weeks).
Cons	State controls funding schedule, three times a year (March, June & October), 10-year no-call option	Extensive disclosure requirements, more staff time, higher issuance cost	Recommended for 15 year or less maturity term

Estimated Debt Service Scenarios

Bond Issue \$1.525 million, Private Placement Offering Bond Proceeds, net of issuance cost \$1.5 million

Ps: LOCAL Program true interest rates for most recent sale (7/9/2020) for 20-yr real estate financing was 2.22%

Private Placement	15-yr term	20-yr term	25-yr term
Bond Proceeds, Par	1,525,000.00	1,525,000.00	1,525,000.00
True Interest Cost (TIC)	2.00000%	2.50000%	2.50000%
All-In TIC	2.21573%	2.67079%	2.64103%
Total Cost of Issuance*	24,440.63	24,440.63	24,440.63
Deposit to Project Fund (net proceeds)	1,500,559.37	1,500,559.37	1,500,559.37
<i>*Fee is for a private placement (Appx \$15K more if a public offering)</i>			
Debt Service Summary:			
Bond Proceeds	1,525,000.00	1,525,000.00	1,525,000.00
Total Interest	255,200.00	431,325.00	544,350.00
Total Debt Service	1,780,200.00	1,956,325.00	2,069,350.00
Maximum Annual Debt Service	119,220.00	98,375.00	83,200.00
Average Annual Debt Service	118,680.00	97,816.25	82,774.00
Debt service payment comparisons: 15-yr term vs. 20-yr and 25-yr terms:			
Increase in Total Interest Costs		176,125.00	289,150.00
Maximum Annual Debt Service		(20,845.00)	(36,020.00)
Average Annual Debt Service		(20,863.75)	(35,906.00)

** Interest rates are estimates as of 7/7/2020. Actual interest rates are determined on the day of sale.*

Recommended Option and Fiscal Impact

- 15-Year Term is Recommended
 - It is more difficult to fix the interest rate for maturities great than 15 years.
 - Some banks that buy long-term maturities may propose a rest after that period
 - Total interest cost savings is \$176,125 and \$289,150 respectively, when compared with a 20-yr and 25-yr term
- Annual Debt Service proposed to be provided with REET funds.
 - REET 1 & 2 funds provide 2/3 of 2011 LTGO annual debt service (Appx. \$77K)
 - 2011 LGTO matures in December 2026
 - Beginning fund balance was \$288,821
 - Average annual REET revenue for last 10-years is \$143,182 (vs. last 7-year average \$177,501)
 - A projection using 10-yr average annual REET revenue provides that REET funds will have sufficient fund balance each year to cover annual debt service payments for 2011 LTGO and the new proposed bond for the next 15 years (2021-2035).
 - Estimated Fund Balance at the end of 2035 is \$271K
- Subject to City's Debt Management Policy – Annual debt service payment for non-voted debt not to exceed 4.2% of general fund operating revenues or \$420,000, whichever is greater.
 - 2020 debt service amount for all non-voted debt \$323,135
 - The City's Debt Management Policy may need to be updated in 2021.
 - 4/1/2021 would be

Recommendation

- City Council to authorize the City Manager to start preliminary work related to a bond issue:
 - Engage a private placement agent & bond council
 - Preliminary bond ordinance
 - City Manager as a Designated Representative
 - Bond issue not to exceed \$1,525,000
 - Bond proceeds used for acquisition of land for fire station and temporary fire station buildings & pay issuance cost
 - Issue date no later than December 31, 2020
 - Maximum Maturity: 15-years
 - Private Placement Offering
 - REET fund for debt service payments.
- Next Steps
 - 7/27/2020 - Present a finalized land Purchase Agreement to Council for approval
 - By 7/27/2020 or 8/10/2020 - Present a Bond Ordinance to Council for approval

CLOSING

- Questions & Comments?
- Thank you!