



# City of Del Mar Staff Report



TO: Honorable City Council Members

FROM: Mark Delin, Assistant City Manager  
Via Scott W. Huth, City Manager

DATE: May 19, 2014

SUBJECT: Financial Advisor Report on the City's Financing Capacity

REQUESTED ACTION/RECOMMENDATION:

Receive the presentation from the financial advisor and provide direction to staff.

DISCUSSION/ANALYSIS:

In its meeting of April 21, 2014, the City Council received a presentation from the Finance Committee on the maximum debt financing capacity of the City. Staff worked with the Finance Committee to prepare several different 30-year Cash Flow Forecasts based upon various levels of growth in the City's largest sources of revenues, property tax and transient occupancy taxes. The Finance Committee and staff concurred that two of the more conservative options, which used annual growth rates of 4.5 percent and 5 percent in these two revenues, were appropriate to use as a basis for the analysis. The 30-year cash flow analysis yielded annual average cash flows (the amount of annual revenues above expenditures) of \$3.4 million and \$5.1 million respectively at the two forecast levels, and 10-year average annual cash flows of \$1.1 million and \$1.3 million. The Finance Committee, citing the greater reliability of the short-term data, used an estimate of \$1.2 million for available annual cash flow.

The Finance Committee recommended a methodology, which allows up to 50 percent of free cash flow to be used for Debt Service. This leaves 50 percent of cash flow to serve as a hedge against unexpected costs and economic downturns, and has resulted in \$600,000 available for annual debt service, yielding a borrowing capacity of \$10.4 million at 4% interest or \$9.2 million at 5% interest. If all of the available cash flow were used for debt service, the City estimates a maximum borrowing capacity would be twice this, or \$20.8 million at 4 percent and \$18.4 million at 5 percent interest.

City staff has requested that the financial advisory firm of Fieldman Rolapp (which has served as the City's financial advisory on past bond transactions) provide an

---

City Council Action:

independent, professional opinion on the City's financing capacity based upon these same cash flows, and the current bond market. Fieldman Rolapp was instructed to use these cash flows with and without the added parking revenue available from street and structure parking as presented to Council in its April 21, 2014 meeting. Fieldman Rolapp was directed to also consider the City's ability to maintain the appropriate level of reserves required for it to maintain a AA+ General Fund revenue bond rating in this analysis. Note that the City currently has a AAA rating for its general obligation bond debt, but has no outstanding General Fund revenue bond debt. Revenue bonds typically carry a rating one notch below those of general obligation bonds.

Fieldman Rolapp will be presenting its analysis at the Council meeting.

FISCAL IMPACT:

There is no fiscal impact from considering this report.

ENVIRONMENTAL IMPACT:

This action does not constitute a "project" within the meaning of CEQA in that it has no potential to cause either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, and therefore does not require environmental review.

PREVIOUS COUNCIL ACTION

Council received the Finance Committee's bond capacity report on April 16, 2014, and received the staff report on parking revenues on April 21, 2014.