



# City of Del Mar Staff Report



TO: Honorable Mayor and City Council Members

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

DATE: November 16, 2015

SUBJECT: Update on City Hall/Town Hall Project Financing Plan

REQUESTED ACTION/RECOMMENDATION:

Review report and provide recommendations.

EXECUTIVE SUMMARY

An updated analysis of the City's financing capacity indicates that it can borrow up to \$38,200,000 at the 3.5 percent effective interest rate available through the California Infrastructure and Economic Development Bank (IBank), and can borrow up to \$19,100,000 using the financing policies recommended by the Finance Committee. The projected \$17,000,000 cost of the City Hall/Town Hall project is well within the City's capacity to finance. The City Council is requested to direct staff to finalize its financing application to the IBank, and to request a recommendation from the Finance Committee on the amount of cash and debt to be used in the financing.

DISCUSSION/ANALYSIS:

As the City Hall/Town Hall project progresses, staff has been actively monitoring the bond market and the financing environment. The bond market continues to be highly favorable. A comparison of recent interest rates is presented in the table below.

Item	Rate	Instrument
AA+ Municipal Bond	3.79 percent	30-year Lease Revenue Bond
IBank	3.5 percent	30-year lease financing agreement
Variable Loan	1 percent	1-month Libor + bank fee

Staff is recommending that the City pursue an application with the California Infrastructure and Economic Development Bank (IBank). Not only is this rate the lowest cost fixed interest rate available, but IBank also has the lowest costs of issuance, and

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City Council Action:

requires the least amount of staff time. This is the same state agency through which we secured the recent sewer project financing.

#### *IBank Details*

The California Infrastructure and Economic Development Bank (IBank) was created to provide accessible low-cost financing options for a wide range of infrastructure projects. Loans are available with terms of up to 30 years, and up to \$25,000,000. Interest rates are set at the time the loan is issued.

The IBank website states that applicants must demonstrate project readiness and feasibility to complete construction within two years after the IBank loan approval, although IBank staff indicated that the loan documents will be written to require a within-three year construction period. Applicants must demonstrate that all required permits and approvals have been received prior to final loan approval.

Eligible costs for financing include:

- All or any part of the cost of construction, renovation, and acquisition of all lands, structures, real or personal property.
- Rights, rights of way, franchises, licenses, easements, and interests acquired or used for a project.
- The cost of demolishing or removing any buildings or structures on land so acquired, including the cost of acquiring any lands to which the buildings or structures may be moved.
- The cost of all machinery, equipment and financing charges.
- The cost of architectural, engineering, financial and legal services, plans, specifications, estimates, administrative expenses.
- Soft costs (design, engineering, architectural, environmental permitting, etc.) incurred prior to the adoption of the Council resolution may be reimbursed from loan proceeds with no time restriction.
- Hard costs (actual construction, demolition, materials purchase, etc.) incurred within 60 days prior to the adoption of the Council resolution may be reimbursed from loan proceeds.

The IBank loan application process is straightforward:

1. Staff completes the IBank financing application.
2. IBank will provide a financing resolution through which the Council authorizes the City Manager to execute the financing documents (same process as the IBank Sewer Loan completed this year). The resolution will allow for the reimbursement of certain costs incurred prior to issuance of the loan.
3. IBank will prepare the financing documents which the City Manager will execute.

*Loan Costs*

The City was quoted a rate of 3.13 percent for 30 years. A one percent financing fee is incorporated into the loan balance, and a 0.3 percent annual fee applies on the outstanding principal, yielding an approximate true interest cost of 3.5 %. This rate is not guaranteed until the loan application is approved by the IBank board. As in the case with typical municipal bonds, there is call protection, or an inability to pre-pay the loan during the first ten years. The loan may be prepayed at a premium in years 11 and 12, and may be prepayed with no penalty after 12 years.

*Security*

The IBank loan will be a lease financing, such as the City used with the purchase of the Del Mar Shores Park. The City must identify a City asset of equal or greater value to the amount financed, and this facility will be leased to the IBank. The City will sublease the facility from the IBank, the payments of which contain a principal and interest component. Note that the City asset itself is not pledged as repayment, and the title of the facility is not impaired by any lien or other encumbrance. The security for repayment is only that of the City’s General Fund revenues. Facilities which could be leased include the City Hall/Town Hall project itself, or the Powerhouse Community Center. Note that if the City Hall/Town Hall project is used as the asset, the IBank will require interest to be capitalized during construction as the asset technically can’t be leased when it is not useful (still under construction). This adds to the size of the bond issue and increases financing costs.

*Reserve and Coverage*

No reserve fund is required. The City must demonstrate that it has sufficient net revenue to pay the debt service, but no specific coverage ratio is required.

*City Financing Capacity*

The table below looks at the maximum financing capacity at the current projected IBank interest rate of 3.13 percent (assumed 3.5 percent with costs) as well as a “worst case” analysis for a municipal bond rate, which is modeled at 4.0 percent, significantly above current interest rates. The Finance Committee recommended a policy in which debt service for the City Hall/Town Hall project is limited to half the annual average net cash flow, or a 200 percent debt service coverage ratio. The IBank requires the conventional 100 percent debt service coverage ratio. The City is projected to have an average annual net cash flow of \$2.079 million per year over the next 10 years, which is based upon the City’s Conservative Financial Forecast and not adding new programs. The City’s financing capacity ranges from a low of \$17.978M under the Finance Committee’s criteria, and a 4 percent interest rate, to a high of \$38.245M under the IBank criteria at the projected 3.5 percent interest cost.

Financing Capacity Based Upon \$2.079M Average Net Cash Flow – FY 2017- FY 2026			
Finance Committee		Standard Municipal Bond Financing Criteria	
3.5% Interest	4.0% Interest	3.5% Interest	4.0% Interest
\$19,122,000	\$17,978,000	\$38,244,879	\$35,957,486
Assumed 30-year maturity debt – Note that IBank limits the loan size to \$25,000,000.			

Annual debt service costs run \$54,371 per \$1,000,000 at 3.5 percent interest, and \$57,830 at 4.0 percent interest.

The October 20, 2014 City Council staff report identified that the City's financial capacity for this project ranges between \$14.9 M and \$22.2 M, using data presented at the June 2, 2014 City Council meeting and based upon the Finance Committee's and the City's Financial Advisor's (Fieldman Rolapp) recommendations. The greater financing capacity projected today is based upon an improved interest rate environment, and improving City net revenues.

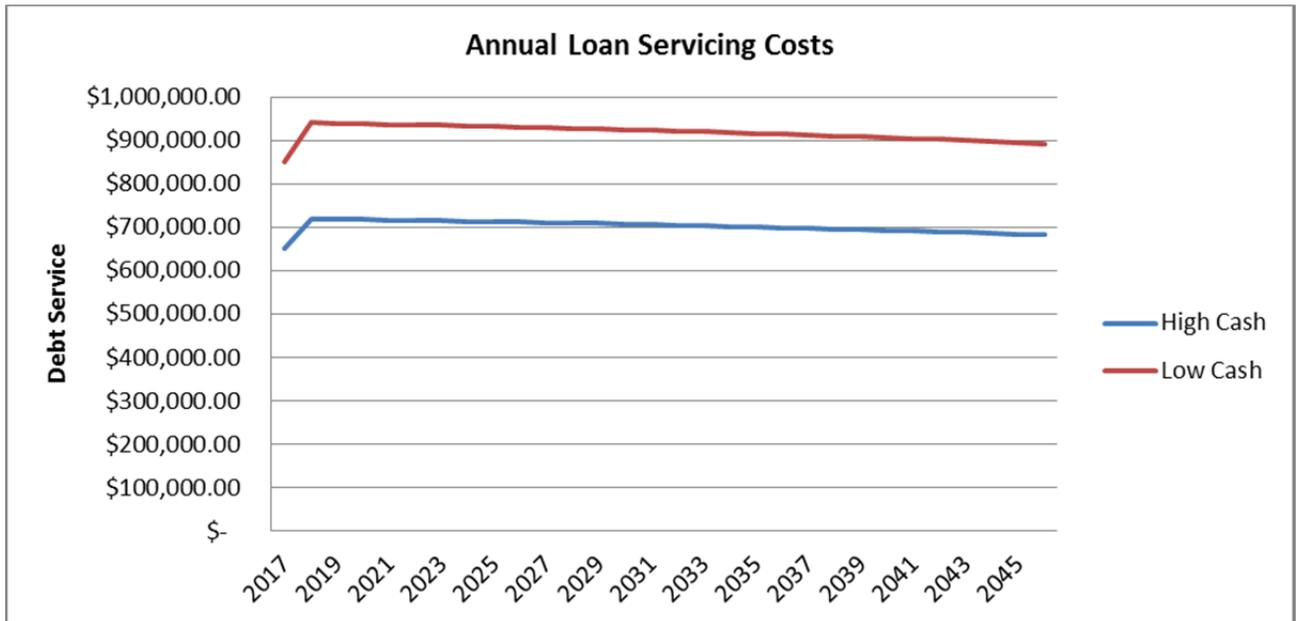
*Project Financing Strategy*

A decision that staff will bring to the Finance Committee is the amount of cash and debt that should be used in the financing. The table below looks at a financing through the IBank at the quoted 3.13 percent interest cost plus the 30 basis point annual fee on the remaining principal. The analysis looks at the assumptions that the City financed the project with zero cash, and with \$4 million in cash. Assuming a \$17 million project, when one adds the 1 percent IBank financing fee the loan size would be \$17,170,000 for the larger loan, and \$13,130,000 for the smaller loan. The City's cost would be per the table below.

Financing Revenue	Low Cash	High Cash
General Fund Backed Financing	\$ 17,170,000	\$ 13,130,000
Cash	0	4,000,000
First Year Full Debt Service	941,235	719,768
Total 30-year loan payments	27,549,658	21,067,386
Add Back Cash	0	4,000,000
<b>TOTAL COST</b>	<b>\$27,549,658</b>	<b>\$ 25,067,386</b>

Note that this analysis above does not consider interest earnings that the City could achieve by holding and investing the cash it does not spend. The graphic of Annual Loan Servicing Costs examines debt service under the two scenarios. Debt service declines as the principal is retired.

Staff requests City Council direction to finalize its application with the IBank, and to work with the Finance Committee to review and verify the City's financing capacity, and provide a recommendation on the amount of debt and cash to be used in the financing. Staff will return to the City Council for approval of the financing plan and for approval of any resolutions or other loan documents that are required to enter into a project financing agreement.



**FISCAL IMPACT**

There is no fiscal impact from this report. Once the project financing mechanism is determined, staff will return to Council with the appropriate resolutions and financing documents, and adjustments to the Fiscal Year 2015-2016 and 2016-2017 budget.

**ENVIRONMENTAL IMPACT:**

None.

**ATTACHMENTS:**

None