

City Hall Project Review of Financing

February 1, 2016

Background

- In early 2014 the Finance Committee assessed the City of Del Mar's Debt Capacity. The Finance Committee worked with Staff to develop a long term forecast of Revenues, Expenditures and Capital Improvement projects to project available cash flows.
- The Finance Department developed a set assumptions for the growth of revenues, expenditures and included annual costs from the ten year Capital Improvement Plan.
- In April 2014 the Finance Committee reported to City Council.

2014 Debt Capacity Recommendation

- The City should make long term borrowing decisions based upon projected free cash flow using the long range Forecast.
- Debt should be limited so that no more than 50% of projected net cash flows would be committed to Debt Service.
- The City should adopt a metric of Debt service to Net Cash Flow of 1 to 1.

Recommended Structure of City Hall Financing

- Staff developed several financing options for consideration:
 - Municipal Lease Revenue Bond
 - I Bank Lease financing
- The Finance Committee and Staff concluded that the I Bank was the most cost effective and flexible alternative.
- The I bank Lease is secured by City Assets during the construction period and upon completion the City Hall and Town Hall buildings become the Leased Assets for the life of the Lease.
- The annual cost and gross cost of financing alternatives were reviewed for periods of 20, 25 and 30 years and given the low rate environment it was recommended that a term of 30 years be used.
- Rates were quoted in the range of 3.24% for 30 years plus a .3% annual fee.

Recommended Amount of City Hall Financing

- The updated Forecast as of December 2015 indicates that the maximum annual Debt Service could be \$1.2 million using the metric of Debt Service to Cash flow of 1 to 1.
- Based upon our analysis of alternatives and the latest Forecast, the Finance Committee unanimously recommends the following parameters for the City Hall project financing:
 - City Hall Project Cost \$18 million
 - Cash Down Payment \$2 million
 - Maximum Financing \$16 million
 - 30 year financing term
 - Maximum Annual Debt Service \$892,000 (using a rate of 3.24% plus a .3% annual fee)

Debt Service falls well within the Debt Capacity limits and uses available cash to limit the total amount borrowed.

City Hall financing – 10 year Sensitivity Analysis

- The base case scenario Assumptions: Property taxes and TOT will grow at 4% and 6% respectively
- The Debt Service on maximum financing of \$16 million over 30 years at 3.24% plus annual fees equals \$889,000 per year for a total of \$8.9 million over the 10-year test period
- Net Cash flow (Revenues less all Expenditures, Transfer costs, the latest CIP Plan and the above Debt Service) amounts to \$14.8 million over the 10-year period.
- The sensitivity analysis measures the impact of the various revenue reductions and expense increases on the 10 year net cash flow as follows:
 - Property tax growth declines by 1% or 2%
 - TOT growth declines by 1% or 2%
 - Expenses (including Transfers) grow by 5% (except Salaries which were held to the original 3.5%)

Sensitivity Analysis

(\$ millions)	Property Tax	TOT		10 year Impact on Cash Flow	10 year Cash Flow	Debt Service to Cash flow ratio
Base Case Growth	4%	6%			\$14.8	.6 to 1.0
1% reduction in growth of PPT & TOT	3%	5%		\$6.5	\$8.3	1.07 to 1.0
2% reduction in growth of PPT & TOT	2%	4%		\$10.8	\$4.0	2.23 to 1.0
5% increase in growth of costs				\$3.0	\$11.8	.75 to 1.0

Conclusion

- Although Forecasts are subject to the risk that the projections may not be realized, the base assumptions are conservative and the sensitivities show acceptable risk.
- The projected net cash flow creates a sufficient hedge against unforeseen reductions in revenues or increases in costs.
- The Finance Committee feels confident that the recommendation to borrow up to \$16 million is reasonable and prudent.
- Any additional funding requirements should be paid with cash reserves.

Appendix

City of Del Mar 10 Year Historical Revenues – General Fund Only

Year (\$,000)	Prop Tax	Sales Tax	TOT	Total Taxes	Tot GF Rev
2014 / 15	4,961	1,998	2,444	9,403	14,132
2013 / 14	4,778	1,701	2,102	8,581	12,609
2012 / 13	4,485	1,675	1,939	8,099	11,940
2011 / 12	4,235	1,628	1,805	7,669	11,553
2010 / 11	4,146	1,551	1,705	7,402	11,197
2009 / 10	4,030	1,368	1,505	6,903	10,341
2008 / 09	3,857	1,362	1,418	6,647	10,023
2007 / 08	3,553	1,409	1,247	6,209	10,049
2006 / 07	3,362	1,666	1,682	6,710	10,770
2005 / 06	3,021	1,602	1,565	6,188	10,335
2004 / 05	2,641	1,496	1,489	5,626	9,443
CAGR 5 year	4.24%	7.87%	10.18%	6.37%	6.45%
CAGR 10 year	6.50%	2.94%	5.08%	5.27%	4.11%

Base Case Ten year Cash Flow Model

City of Del Mar
Forecast Summary
Property Taxes - 4%; TOT - 6%

Project Cost Including I-Bank fee: **\$ 18,023,897**

Scenario 2 - \$16 million debt, \$2,000,000 cash

General Fund	Projected 2015-2016	Projected * 2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
GF Beginning Balance	\$ 3,156,670	\$ 3,205,920	\$ 3,862,378	\$ 5,225,720	\$ 6,631,617	\$ 8,148,645	\$ 9,799,506	\$ 11,593,160	\$ 13,539,717	\$ 15,650,437
GF Revenues	14,137,537	14,806,447	15,306,547	15,822,725	16,361,504	16,923,957	17,511,212	18,124,456	18,764,936	19,433,962
GF Expenditures	11,038,630	11,118,150	11,262,417	11,676,077	12,059,763	12,448,132	12,851,336	13,269,422	13,702,473	14,151,078
City Hall Debt Service (GF Expenditures)	86,421	889,081	888,079	887,045	885,977	884,874	883,736	882,561	881,348	880,095
Transfers Out, net of Transfer to CIP Fund and Pension Reserve	1,563,736	1,405,758	1,014,435	1,032,433	1,067,462	1,098,817	1,131,212	1,164,644	1,199,122	1,234,679
Transfer to CIP Fund (CIP Expenditures excluding City Hall/Town Hall Project)	1,399,500	737,000	440,000	451,000	461,000	471,000	481,000	491,000	501,000	511,000
Transfer to CIP Reserve	-	-	-	-	-	-	-	-	-	-
Transfer from CIP Reserve for City Hall Project	-	-	-	-	-	-	-	-	-	-
City Hall Project paid/budgeted by General Fund	-	-	-	-	-	-	-	-	-	-
Transfer to Pension Reserve Fund	-	-	338,273	370,273	370,273	370,273	370,273	370,273	370,273	370,273
GF Expenditures and Tfrs Out (net of Transfers In)	14,088,287	14,149,989	13,943,205	14,416,828	14,844,475	15,273,096	15,717,557	16,177,900	16,654,215	17,147,125
Reimbursement of CIP Expenditures from Loan Proceeds	-	-	-	-	-	-	-	-	-	-
Rev Over/(Under) Expenditures - Conservative	49,250	656,457	1,363,342	1,405,897	1,517,029	1,650,860	1,793,655	1,946,556	2,110,721	2,286,837
GF Contingency Ending Balance	\$ 3,205,920	\$ 3,862,378	\$ 5,225,720	\$ 6,631,617	\$ 8,148,645	\$ 9,799,506	\$ 11,593,160	\$ 13,539,717	\$ 15,650,437	\$ 17,937,274

Note: New Calculation of GFC% Includes Other Required Transfers)

Projected GFC% using New GFC% Calculation	26.5%	30.1%	40.3%	49.4%	58.9%	68.8%	79.0%	89.5%	100.4%	111.7%
Minimum 10% GF Contingency	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Minimum 10% GF Contingency in \$	1,211,874	1,283,378	1,297,204	1,341,661	1,383,067	1,424,565	1,467,638	1,512,293	1,558,537	1,606,433
Net Available Cash using New GFC% Calculation	\$ 1,994,046	\$ 2,578,999	\$ 3,928,515	\$ 5,289,956	\$ 6,765,578	\$ 8,374,941	\$ 10,125,522	\$ 12,027,424	\$ 14,091,900	\$ 16,330,841

CIP Reserve

CIP Reserve Beginning Balance	\$ 2,918,947	\$ 1,252,947	\$ 533,936	\$ 533,936	\$ 533,936	\$ 533,936	\$ 533,936	\$ 533,936	\$ 533,936	\$ 533,936
Transfers In from General Fund	-	-	-	-	-	-	-	-	-	-
Transfers Out to General Fund for City Hall project	-	719,011	-	-	-	-	-	-	-	-
Transfers Out to General Fund for Annual Street project	216,000	-	-	-	-	-	-	-	-	-
Transfers Out to General Fund for Relocation project	450,000	-	-	-	-	-	-	-	-	-
Reserved for CDM Streetscape and Intersection Improvement at San Dieguito	1,000,000	-	-	-	-	-	-	-	-	-
CIP Reserve Ending Balance	\$ 1,252,947	\$ 533,936	\$ 533,936	\$ 533,936	\$ 533,936	\$ 533,936	\$ 533,936	\$ 533,936	\$ 533,936	\$ 533,936

General Fund and CIP Reserve

GF Contingency PLUS CIP Reserve Balance	\$ 4,458,867	\$ 4,396,314	\$ 5,759,656	\$ 7,165,553	\$ 8,682,581	\$ 10,333,442	\$ 12,127,096	\$ 14,073,653	\$ 16,184,373	\$ 18,471,210
Projected GFC% using New GFC% Calculation	36.8%	34.3%	44.4%	53.4%	62.8%	72.5%	82.6%	93.1%	103.8%	115.0%
Minimum 10% GF Contingency	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Minimum 10% GF Contingency in \$	\$ 1,211,874	\$ 1,283,378	\$ 1,297,204	\$ 1,341,661	\$ 1,383,067	\$ 1,424,565	\$ 1,467,638	\$ 1,512,293	\$ 1,558,537	\$ 1,606,433
Net Available Cash using New GFC% Calculation	\$ 3,246,993	\$ 3,112,935	\$ 4,462,451	\$ 5,823,892	\$ 7,299,514	\$ 8,908,877	\$ 10,659,458	\$ 12,561,360	\$ 14,625,836	\$ 16,864,777

Required Transfers Added to GF Expenditures (excludes Other GF Tfrs and CI	\$ 993,690	\$ 826,553	\$ 821,546	\$ 853,484	\$ 884,935	\$ 912,639	\$ 941,310	\$ 970,944	\$ 1,001,548	\$ 1,033,154
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City Hall/Town Hall Financing Cost Comparison

City Hall Cost	\$18 million	\$18 million	\$18 million
Cash Down	\$0M	\$2M	\$4M
	Gross Cost over Term of Lease (millions)*		
30 years with Capitalized interest	\$ 30.8	\$ 29.3	\$ 27.9
30 years - no capitalized interest	\$ 29.4	\$ 28.1	\$ 26.8
25 years - no capitalized interest	\$ 27.4	\$ 26.3	\$ 25.2
20 years - no capitalized interest	\$ 25.4	\$ 24.5	\$ 23.7
	*Cost includes cash down payment		
	Annual Debt Service (including fees) (000s)		
30 years with Capitalized interest	\$ 1,123	\$ 997	\$ 872
30 years - no capitalized interest	\$ 1,002	\$ 890	\$ 778
25 years - no capitalized interest	\$ 1,117	\$ 992	\$ 867
20 years - no capitalized interest	\$ 1,293	\$ 1,148	\$ 1,003
	Year of maximum debt service reported		