



City Hall Financing

Del Mar City Council
February 1, 2016

Background

- Previous Council presentation on November 16, 2016
- Received direction to apply to I-Bank for financing for the full \$17.8 million estimated project cost with the understanding that the amount of the application could be downsized if needed, either:
 - Prior to completion of the financing application
 - Upon receipt of construction bids; or
 - Upon completion of construction
- Received direction to solicit recommendation from the Finance Committee on amount of cash and debt to be used

Council Actions

1. Provide direction on amount of loan and cash to be used in the financing
2. Confirm financing plan with respect to use of leased asset

Finance Committee Recommendation and Alternative

- Of the approximately \$18 million cost
 - Finance \$16 million through IBank loan
 - Finance \$2 million through cash
- Staff Alternative:
- Lock in \$18 million loan
 - Keep full loan if needed or desired, or
 - Downsize once construction bids received, or
 - Downsize upon completion of construction

Advantages of Using More Cash

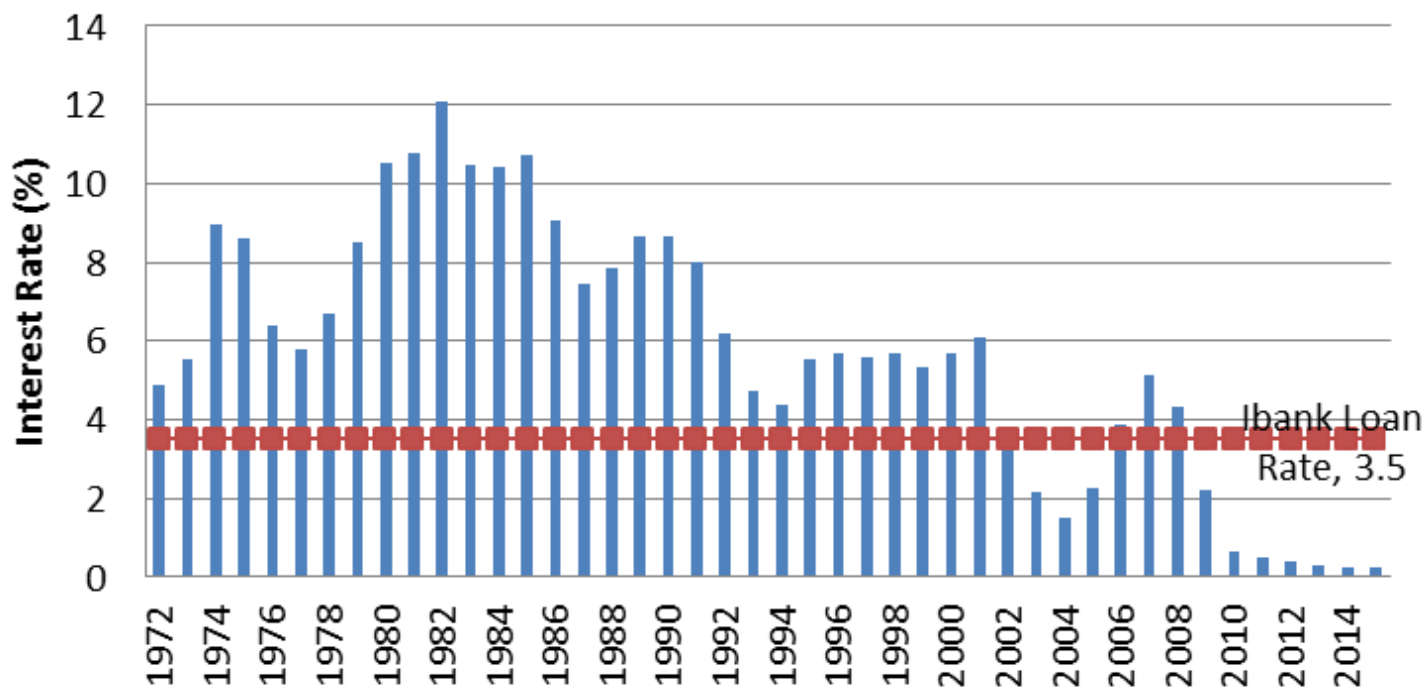
- Saves cost of issuance
- Saves on annual debt service
- Saves on total debt service
- More free cash flow each year could be used for additional projects, or additional financings

Advantages of Larger Loan

- City can defer the decision on how much to borrow until construction bids come in, or until construction is complete
- Can possibly make the best decision once project cost is finalized
- If a larger loan is desired:
 - Excellent time to borrow
 - Asset and liability matching – payments for the project are better stretched over its useful life
 - City has often earned more on its cash than the current loan rate

Advantages of a Larger Loan

Current Loan Rate vs. Historic City Interest Earnings Rates (LAIF)



Cost of Deferring Loan-Size Decision for Two Years

	<u>100% Loan</u>	<u>Loan + Cash</u>	<u>Net Cost Difference</u>
Construction Funding - Loan	\$ 17,845,443	\$ 15,845,443	
Construction Funding - Cash	<u>0</u>	<u>\$ 2,000,000</u>	
	\$ 17,845,443	\$ 17,845,443	
Cost of Issuance	\$ 178,454	\$ 158,454	\$ 20,000
Year 1 Interest	583,974	518,526	65,448
Year 2 Interest	572,169	508,044	64,125
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Year 1 Annual Fee	54,072	48,012	6,060
Year 2 Annual Fee	<u>52,979</u>	<u>47,041</u>	<u>5,937</u>
Total	\$ 1,441,648	\$ 1,280,078	\$ 161,570

Leased Asset Plan

- IBank loan is a typical lease revenue financing
- Most common type of municipal financing (and used by the City for the Shores loan refinancing)
- Involves use of a City asset, which is leased to IBank
- Asset is then subleased back to City – and lease payments constitute debt service payments

Leased Asset Plan

- Leased asset is the security for the loan
- In case of default:
 - The IBank could try to re-lease the asset in order to be able to make the debt service payment
 - The ownership of the leased asset itself is not at risk
- The City carries a AAA rating in its most recent bond rating, and Standard & Poor's characterized the City as having "good financial management"

Leased Asset Plan

- Staff proposes that the City Hall/Town Hall project be used as the primary leased asset for the loan
- Staff proposes that the Powerhouse Community Center be used as the leased asset during construction to avoid capitalized interest
- If the project is used as the leased asset, it technically has no leasable value during construction, as it cannot be used during this time
- Therefore, the debt service payments which would be due during construction need to be paid out of the loan proceeds
- They are “capitalized” or added to the size of the loan

Leased Asset Plan

- Capitalized interest would increase the loan size by \$1.23 to \$1.39M depending upon the size of the loan
- Net present value increased costs between \$141,000 and \$159,000

Ibank

- Next Steps:
 - Prepare Financing Resolution for Council consideration and approval
 - Resolution will authorize the City Manager to execute the financing documents
 - Application to be approved by the Ibank Board of directors
 - IBank to prepare financing documents

Council Decisions

- Initial Loan sizing:
 - Full project (\$18 million) or
 - \$16 million with \$2 million in cash
- Leased Asset Choice
 - City Hall with Powerhouse for first two years (staff recommendation)
 - City Hall only with capitalized interest during construction

- End

Capitalized Interest Comes at a Cost

Full Project Loan			
	City Hall with Powerhouse First 24 months	City Hall as Sole Leased Asset	Increased Cost of Not Using Powerhouse
Loan Amount	\$ 18,023,897	\$ 19,412,011	\$ 1,388,114
Highest Annual Debt Service	\$ 1,002,394	\$ 1,123,353	\$ 120,959
Net Present Value Debt Service*	\$ 18,712,462	\$ 18,871,425	\$ 158,962
\$16 Million Loan			
	City Hall with Powerhouse First 24 months	City Hall as Sole Leased Asset	Increased Cost of Not Using Powerhouse
Loan Amount	\$ 16,003,897	\$ 17,236,441	\$ 1,232,543
Highest Annual Debt Service	\$ 890,052	\$ 997,455	\$ 107,403
Net Present Value Debt Service*	\$ 16,615,292	\$ 16,756,439	\$ 141,147
*Discounted at Loan Interest Rate			