



City Hall Financing

Del Mar City Council
March 21 2016

Background

- Previous Council presentation on February 1, 2016 and received direction to apply for financing for the full estimated \$17.8 million estimated project cost with the goal that the City would use \$2 million in cash to reduce the loan size to \$16 million
- Subsequent discussions with IBank have indicated that the downsizing of the loan is not guaranteed
- If additional funds are required, IBank recommends a loan application which can be an update of documents previously provided
- Staff will apply for additional funding if directed by Council

Background

- Council direction sought on selection of leased asset
- Staff recommendation was to use the Powerhouse as interim leased asset during construction, substitute City Hall/Town Hall upon completion
- Council concurred with the staff recommendation on condition that the Friends of the Powerhouse be consulted
- Staff and Council representatives met with representatives of the Friends - agreed but expressed concern that the substitution could not be guaranteed by IBank

Asset Substitution

- IBank would honor request for asset substitution but cannot guarantee it because:
- Lease financings require:
- Documentation of leasehold value at the time of substitution, by:
 - Appraisal; or
 - Verification of project construction costs
- New title insurance policy
- Future status of these items cannot be determined by the City or by the IBank, so IBank cannot guarantee the substitution

Asset Substitution

- City Attorney has achieved agreement from IBank General Counsel to include the following language in the financing agreement:
 - A request for substitution will not be unreasonably withheld by the IBank

Asset Substitution

- Interim use of Powerhouse is staff recommendation:
 - Very common municipal financing procedure
 - Saves money
 - Preserves debt capacity

Loan Costs

	With Capitalized Interest	Without Capitalized Interest	Variance
Loan Size	\$ 17,511,218	\$ 16,161,616	\$ 1,349,602
Maximum Annual Debt Service	\$ 1,006,982	\$ 893,171	\$ 113,811

Council Action

- Approve one of two resolutions:
- Resolution authorizing the City Manager to execute a loan for \$16,161,616; or
- Resolution authorizing the City Manager to execute a loan for \$17,511,218

- End

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

		Earliest Funding		Latest Funding	
Bank Staff Report Due	Bank Board Meeting	Earliest Effective Date*	Earliest Funds Availability Date	Latest Effective Date*	Earliest Funds Availability Date
2/18/2016	3/22/2016	5/1/2016	6/1/2016	9/1/2016	10/1/2016
3/24/2016	4/26/2016	6/1/2016	7/1/2016	10/1/2016	11/1/2016
4/21/2016	5/24/2016	7/1/2016	8/1/2016	11/1/2016	12/1/2016
*Documents are usually executed about one week prior to the effective date. Depending upon the amount of time our City Attorney takes to review the documents, review time could slip beyond 30 days, which could push the effective date into the next month.					

- 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			