

# ***City Hall Financial Feasibility Report and Update***



**Presentation to City Council  
October 7, 2009**

# ***City Council Direction Received on July 1***

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- Obtain firm construction price
- Council approval on moving forward with plans review and bids
- Council approval to proceed with COPs process per schedule
- Required identifying feasible financing

# Overview

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- Permitting & Bid Update
- Development Budget/GMP Recap
- Financial Options Analysis

# ***Design and Development Update***

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- Design complete
- Plans review pending civil plans approval
- Civil plans pending actions at today's meeting (easements)
- Main St garage financing/design/bid process well underway
- FC securing GMP based on progress to date

# ***Expense Recap – City Hall Construction***

| <b><u>Uses</u></b> (\$ 000's)                         | <b>Estimate<br/>June 2009</b> | <b>GMP Est.<br/>Sept 2009</b> | <b>Variance<br/>(reduced)</b> |
|-------------------------------------------------------|-------------------------------|-------------------------------|-------------------------------|
| <b>Forest City Mgm't (5%)</b>                         | <b>\$6,460</b>                | <b>\$6,339</b>                | <b>(\$122)</b>                |
| <b>A/E/Reimb/Soft Costs</b>                           | <b>\$12,920</b>               | <b>\$12,364</b>               | <b>(\$556)</b>                |
| <b>Utility Relocation</b>                             | <b>\$4,099</b>                | <b>\$4,099</b>                | <b>\$0</b>                    |
| <b>Construction</b>                                   | <b>\$107,934</b>              | <b>\$105,623</b>              | <b>\$(2,311)</b>              |
| <b>FFE</b>                                            | <b>\$11,000</b>               | <b>\$11,000</b>               | <b>\$0</b>                    |
| <b>Improv. Tax (\$2.2 mil.<br/>actual/net of RDA)</b> | <b>\$0</b>                    | <b>\$879</b>                  | <b>\$879</b>                  |
| <b>Land Carry</b>                                     | <b>\$4,644</b>                | <b>\$4,644</b>                | <b>\$0</b>                    |
| <b>Total</b>                                          | <b>\$147,056</b>              | <b>\$144,948</b>              | <b>\$(2,108)</b>              |

# ***Funding Recap – City Hall Construction***

|                           |                      |
|---------------------------|----------------------|
| COP's                     | \$137,000,000        |
| Int. Service Funds/Grants | \$6,000,000          |
| UP Phase 1 Bonds          | \$5,100,000          |
| Capital Fund Balance      | \$4,000,000          |
| General Fund Balance      | \$5,000,000          |
| Total Sources of Funds    | <u>\$157,100,000</u> |
| Less GMP/Cost Estimate    | <u>\$144,948,000</u> |
| Budget Savings            | \$12,152,000         |

# ***Project Timeline - Prior Steps***

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April, 2008

- Approved MOU with FC

May, 2008

- City Council approved MDA with FC
- Authorized FC to start design; approved \$5 mil.

Sept, 2008

- FC selected Whiting Turner via publicly advertised process

November, 2008

- City Council amended MDA; added \$5.1 for further design

January, 2009

- Res. R-2003-09 approved sending COPs to DMC

February, 2009

- DMC approved COPs sale, debt limit of \$267M
- City Council public hearing regarding COPs, debt limit of \$267M

April, 2009

- Department of Taxation approved COPs

July, 2009

- Presented project update at City Council

# ***Financing Approval Status – Next Steps***

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November 4 or 18

- Introduce COPs Ordinance

November 17 or Dec 1

- Recommending Committee for COPs

November 18 or Dec 2

- Approval of COPs Bond Ordinance
- Final Approval of Financing Contingency
- Final Approval of Transaction Documents & OPA

Early to mid Dec

- Close COPs

# ***Financial Options Analysis***

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- DMC Approved COPs
  - Lowest Upfront Payments – years 1 - 7
  - Highest Payments – after year 7
- GO/Revenue Bonds
  - lowest total financing cost
  - puts property tax rate at risk (GO obligation)
- COPs Natixis
  - Bypass need for underwriting
  - Variable rate structure carries higher risk
- COPs as Build America Bonds (BABs)
  - Low total financing costs
  - No GO obligation
  - May require supplemental financing after year 3
- Hold / Do Nothing

# Financial Options Analysis

|            | Net Payment (\$'000,000) |         |        |                 |              |         |    |         |
|------------|--------------------------|---------|--------|-----------------|--------------|---------|----|---------|
|            | DMC COPs                 |         | GO/Rev | Natixis COP (1) | BABs COP (1) |         |    |         |
|            | 7.00%                    |         | 4.00%  | 7.20%           | 4.74%        |         |    |         |
| Issue Amt  | \$                       | 267.000 | \$     | 158.000         | \$           | 233.200 | \$ | 205.100 |
| Yr 1 Pymt  | \$                       | -       | \$     | -               | \$           | 0.975   | \$ | -       |
| Yr 2 Pymt  | \$                       | -       | \$     | -               | \$           | 0.997   | \$ | -       |
| Yr 3 Pymt  | \$                       | -       | \$     | -               | \$           | 1.004   | \$ | -       |
| Yr 4 Pymt  | \$                       | 2.000   | \$     | 9.677           | \$           | 1.120   | \$ | 0.974   |
| Yr 5 Pymt  | \$                       | 2.000   | \$     | 9.677           | \$           | 1.889   | \$ | 1.948   |
| Yr 6 Pymt  | \$                       | 2.000   | \$     | 9.677           | \$           | 2.541   | \$ | 1.963   |
| Yr 7 Pymt  | \$                       | 2.000   | \$     | 9.677           | \$           | 3.233   | \$ | 1.963   |
| Yr 8 Pymt  | \$                       | 23.337  | \$     | 9.677           | \$           | 21.792  | \$ | 13.969  |
| Yr 9 Pymt  | \$                       | 23.338  | \$     | 9.677           | \$           | 23.340  | \$ | 15.693  |
| Yr 10 Pymt | \$                       | 23.340  | \$     | 9.677           | \$           | 23.340  | \$ | 15.683  |
| Total      | \$                       | 78.016  | \$     | 67.737          | \$           | 80.231  | \$ | 52.194  |
| Yr 10 Bal  | \$                       | 251.600 | \$     | 131.510         | \$           | 213.350 | \$ | 187.840 |

(1) Includes short-term financing to preserve Fiscal Stabilization Fund.

# ***DMC Approved COPs Option***

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- 30 yr term assuming a 7.00% rate
- Deferred interest & principal over 7 years creating a deferred interest balance of about \$121M
- Annual payment capped at \$23.3M
- Pros:
  - Low up-front payments for 7 years
- Cons:
  - High interest cost
  - High payments starting in year 8 if not refinanced
  - Loan/Value ratio too high making the bonds difficult to market to investors

# ***GO/Revenue (Benchmark)***

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- 30 yr term assuming a 4.00% rate
- 3 yrs of capitalized interest
- \$9.7M annual payment starting in year 4
- Pros:
  - Lowest total cost option (no need to refinance)
  - Revenue pledge from C-Tax and the City GO simplifies the approval process
- Cons:
  - No non-appropriation clause (City GO pledged)
  - Can't be absorbed in near-term budget
  - Requires DMC/State approval to be redone

# ***COPs/Natixis Option***

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- 30 yr term
- Fixed / Variable structure equates to about 7.20%
- Includes a short-term taxable lease supplement
- \$23.3M annual payment w/Taxable Lease pymts
- Pros:
  - Avoids need for underwriting
  - Doesn't burden General Fund (no GO pledge)
- Cons:
  - Variable rate exposes city to risk and rewards
  - NRS limitations and variable rate structure require higher up front payments with hope of interest reserve after 10 years

# ***COPs/BABs Option***

- 30 yr term
- 35% BABs credit delivers GO-like rate (4.74%)
- \$15.7M annual payment w/ Rev Bonds
- Pros:
  - Very low interest cost; may not need refinancing
  - Doesn't burden General Fund (no GO pledge)
  - \$86M of ARRA interest tax credits on BABs
- Cons:
  - Underwriter needs to market and sell bonds
  - May issue supplemental Revenue Bond
    - RDA to cover supplemental bonds +

# ***“HOLD” Option***

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- City could take no action on moving forward
- Pros:
  - Buys time relative to economy and revenue capacity
  - May yield lower rates on financing (unlikely given BABs credits)
- Cons
  - City doesn't realize gain on sale of P-Q to Forest City
  - Loss of BAB credits
  - Rising construction costs
  - May lose Forest City as a development partner

# Financial Options Analysis

|            | Net Payment (\$'000,000) |                      |                      |                          |                       |
|------------|--------------------------|----------------------|----------------------|--------------------------|-----------------------|
|            | DMC COPs<br>7.00%        |                      | GO/Rev<br>4.00%      | Natixis COP (1)<br>7.20% | BABs COP (1)<br>4.74% |
| Issue Amt  | \$<br><u>267.000</u>     | \$<br><u>158.000</u> | \$<br><u>233.200</u> | \$<br><u>205.100</u>     |                       |
| Yr 1 Pymt  | \$ -                     | \$ -                 | \$ 0.975             | \$ -                     |                       |
| Yr 2 Pymt  | \$ -                     | \$ -                 | \$ 0.997             | \$ -                     |                       |
| Yr 3 Pymt  | \$ -                     | \$ -                 | \$ 1.004             | \$ -                     |                       |
| Yr 4 Pymt  | \$ 2.000                 | \$ 9.677             | \$ 1.120             | \$ 0.974                 |                       |
| Yr 5 Pymt  | \$ 2.000                 | \$ 9.677             | \$ 1.889             | \$ 1.948                 |                       |
| Yr 6 Pymt  | \$ 2.000                 | \$ 9.677             | \$ 2.541             | \$ 1.963                 |                       |
| Yr 7 Pymt  | \$ 2.000                 | \$ 9.677             | \$ 3.233             | \$ 1.963                 |                       |
| Yr 8 Pymt  | \$ 23.337                | \$ 9.677             | \$ 21.792            | \$ 13.969                |                       |
| Yr 9 Pymt  | \$ 23.338                | \$ 9.677             | \$ 23.340            | \$ 15.693                |                       |
| Yr 10 Pymt | \$ <u>23.340</u>         | \$ <u>9.677</u>      | \$ <u>23.340</u>     | \$ <u>15.683</u>         |                       |
| Total      | \$ <u>78.016</u>         | \$ <u>67.737</u>     | \$ <u>80.231</u>     | \$ <u>52.194</u>         |                       |
| Yr 10 Bal  | \$ 251.600               | \$ 131.510           | \$ 213.350           | \$ 187.840               |                       |

(1) Includes short-term financing to preserve Fiscal Stabilization Fund.

# ***Factors to Consider***

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- Debt capacity shows level of debt City can afford
- Current cost of borrowing has dropped, no guarantee what future borrowing cost will be
- One time use of stimulus bill with BABs
- Risk of pledging future General Fund tax revenues
- RDA funds or land sale revenues may not cover full payments
- Proceeding with COPs and land swap keeps Forest City vested in development downtown
- Will a delay cause redevelopment backslide?

# ***Public Purpose – Development Impact***



# ***Fiscal/Economic Impact – Timing is Issue***

| <b><u>Project</u></b> | <b><u>Private Invest.</u></b> | <b><u>Annual TIF</u></b> | <b><u>Perm. Jobs</u></b> |
|-----------------------|-------------------------------|--------------------------|--------------------------|
| Parcel P-Q            | \$1.2 B                       | \$5 – 6 M                | 1,000                    |
| LiveWork LV           | \$0.9 B                       | \$3 – 4 M                | 5,068                    |
| CIM/Lady Luck         | \$1.2 B                       | \$5 – 6 M                | 4,013                    |
| City Hall/Arena Site  | <u>\$0.8 B</u>                | <u>\$3 – 4 M</u>         | <u>3,360</u>             |
|                       | \$4.1 B                       | \$16 – 20 M              | 13,441                   |

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