

Request for City Council Action

Date Submitted: August 31, 1999		MOTION
Date Action Requested: September 20, 1999	X	RESOLUTION NO. 99-2199
Subject: A Resolution Authorizing the City to Borrow Money to Provide Permanent Financing for City Hall Improvements		ORDINANCE
		INFORMATION

RECOMMENDATION:

Adopt Resolution NO. 99-2199, authorizing the City to borrow money to provide financing for the costs of improving and expanding City Hall through a financing agreement in an amount not to exceed \$3,900,000 which includes the cost of issuance and reserves for a period not to exceed 20 years.

BACKGROUND:

Over the past year, the City Council has been reviewing and giving direction to the staff on what to do with City Hall. On February 1, the Council passed Resolution 99-2163 specifying the schematic design, limiting the expenditure of funds, authorizing the City Manager to pursue final design, and identifying the financing option. On September 7, the City Council adopted Resolution No. 99-2196 establishing the guaranteed maximum price for construction. The attached resolution authorizes the City to borrow sufficient funds to cover all the costs of the project.

The resolution sets forth the following:

1. Authorizes the City to borrow up to \$3,900,000 including issuance costs (\$102,000) and the required reserve (\$390,000). This is a maximum amount of the bond. Bond Counsel has recommended a "not to exceed" amount. It is doubtful that the bond amount will change since the GMP has been determined. The issuance costs include the financial advisor and bond counsel costs, costs for the official statement, the underwriter's discount and bond insurance.
2. Bond insurance is included at this point. Insuring the bonds will allow the City to receive a better interest rate (30 to 40 basis points) and will save interest payments over the 20 years. We will only insure the bonds if it is cost effective.
3. The bonds have been structured to allow pre-payment for the first five years. Consequently, the debt service payment will be higher in the first five years using the privilege tax as the pre-payment instrument. After five years, the annual debt

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service payment will drop approximately \$90,000 per year. The estimated interest savings over the life of the bonds is \$219,285.

4. The debt service reserve, equal to 10% of the face value of the bond, is required for this type of bond (certificate of participation) and will be used toward the last two payments. Annual interest earnings on the reserve (estimated at \$19,500) can be used to off set annual debt service payments.
5. The financing will be sold competitively. Bids may be rejected if they are found not to be in the best interest of the City.
6. The maximum interest rate is 7%. It should be noted that rates have increased but we do not anticipated any major market shifts between now and the bond sale. The staff anticipates a rate below 6%. The staff will continue to explore insuring the bonds if the effect is to decrease the interest rate.
7. The financing will be for 20 years. The financing agreement will have a call provision so that if the City has the funds available, the bonds could be paid off prior to 20 years.


FISCAL IMPACT:

Saving City Hall will commit the City to approximately \$3.9 million in debt and to an approximate \$314,500 in annual debt service (see No. 3 above). This amount is within the City's legal debt limits and the City will have sufficient funds available to pay the annual debt service.

SUBMITTED BY:


Katherine L. Tri
Finance Director

APPROVED BY:


Duane R. Cole
City Manager

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BOND COSTS AND PAYMENT SOURCES

Project Costs:	\$3,408,000
Bond Debt Reserve:	390,000
Cost of Issuance:	35,000
Underwriter's Discount:	39,000
Bond Insurance:	<u>28,000</u>
 Bond Proceeds:	 <u>\$3,900,000</u>
 Average Annual Payment:	 \$314,500
Less Interest on Reserve:	<u>(19,500)</u>
 Estimated Annual Budget Requirement:	 \$295,000

Annual Payment by Source:

General Fund	17.37%	\$ 51,242
Street Fund	12.20%	35,990
Utilities	39.30%	115,935
Permit Center (City Hall Fee)	25.50%	75,225
EDRLF	.74%	2,183
Projects	<u>4.89%</u>	<u>14,426</u>
 Total	 100.00%	 <u>\$295,000</u>

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