MAIN LIBRARY FINANCING OPTIONS

Finance Department

City Council
February 5, 2019

FINANCING OPTIONS

1. Traditional bond financing secured with collateral
2. Traditional bond financing no collateral – capitalized interest
3. Internal borrowing from City cash pool – interfund loan

TRADITIONAL BOND FINANCING

1. Variable or fixed rate debt tied to current market conditions
   a. Current market conditions fixed rate total interest cost is approximately 3.5%
2. Fixed term tied to the asset's useful life
3. Collateral pledge required to secure bonds
   a. City Hall and Mission Square buildings
4. Cost of financing is approximately $600,000
5. Takes several months to complete
6. Disclosure, reporting, and accounting requirements are for the life of the bonds

BOND FINANCING – CAPITALIZED INTEREST

1. Similar to traditional financing but no collateral required
2. Repayment for interest on debt obligation during construction built into the financing
   a. Use debt proceeds to make interest payments until 6 months after project completion
3. Construction period interest becomes project cost (Capitalized)
   a. Adds $4-5 million to a project of this size

INTERNAL BORROWING – INTERFUND LOAN

1. Funds borrowed from City cash pool
   a. Lower interest rate
   b. Shorter payment term results in lower interest cost
      i. Higher annual payments
   c. Significant financing cost savings (Millions)
   d. Loan can be executed quickly
   e. Debt obligation phased-in, lowering overall interest costs
      i. Funds drawn down as needed
   f. No prepayment penalty

INTERFUND LOAN FINANCING

Loan Amount	$ 40,000,000					
Current Cash Pool Rate is ~ 1.9%						
	Scenario 1	**Scenario 2**	**Scenario 3**	**Scenario 4**	**Scenario 5**	**Scenario 6**
Term (Years)	17	17	17	9	9	9
Interest Rate	2.00%	2.50%	3.00%	2.00%	2.50%	3.00%
Annual Payment	$ 2,798,794	$ 2,917,111	$ 3,038,101	$ 4,900,617	$ 5,018,276	$ 5,137,354
Total Interest Cost	$ 7,579,492	$ 9,590,884	$ 11,647,720	$ 4,105,557	$ 5,164,480	$ 6,236,189
Total Cost of Loan	$ 47,579,492	$ 49,590,884	$ 51,647,720	$ 44,105,557	$ 45,164,480	$ 46,236,189
Interest Savings over Traditional Financing Scenario	**$8,716,390**	**$6,704,998**	**$4,648,161**	**$12,190,324**	**$11,131,401**	**$10,059,693**

COST COMPARISON

	Traditional Financing with Collateral	Traditional Financing with Capitalized Interest	Interfund Loan - 9 Year Term with Current Estimated Pool Rate (1.9%)
Amount Borrowed	$40,000,000	$42,783,103	$40,000,000
Issuance Costs (Consultants)	$583,870	$599,113	$0
Term (Years)	17	17	9
Projected TIC (Interest)	3.53%	3.53%	1.90%
Annual Payment (Average)	$3,187,195	$3,433,591	$4,877,257
Total Financing Cost	$18,467,908	$20,332,188	$3,895,317
Total Project Cost	$54,442,926	$58,652,982	$43,895,317

BENEFITS/DRAWBACKS

Traditional Financing with Collateral	Traditional Financing with Capitalized Interest	Interfund Loan - 9 Year Term with Current Estimated Pool Rate (1.9%)
Benefits		
Longer payback term - to end of Measure Z		Lowest cost of financing
Cost of construction tied to useful life		Less ongoing administrative requirements
Maintains cash reserves for unforseen circumstances		
Lowest annual payment	No collateral required	No prepayment penalty, can pay down if Measure A fund balance increases
Drawbacks		
Significant financing and interest costs		Reduction in cash liquidity over life of loan, reduces ability to overcome fiscal challenges
Highest overall project cost		Could reduce credit rating, making future traditional debt financing more costly
Prepayment and refunding penalties make it difficult to refund or prepay the debt		Locked into loan for full term unless repaid
Continuing disclosure, reporting and accounting requirements		Highest annual payment

RECOMMENDATIONS

That the City Council:

1. Receive and provide input on the financing options, presented herein, for construction costs related to the Main Library project; and
2. Direct staff to move forward with the traditional bond financing option with collateral as recommended by the Chief Financial Officer.