

Presentation on Financing Options

Civic Center Project Financing



Table of Contents

Section I. Pubic Agency Financing Basics

Section II. Certificates of Participation (COPs) & Private Placement Loans

Section III. The Financing Process

Section IV. Atherton Civic Center Project Financing Options

Public Agency Financing Basics

Public Agency Financing Basics

Primary Uses of Financing Proceeds

- **Traditional:**

- Infrastructure (Streets, roads, bridges, etc.)
- Buildings / Parking lots (City hall, library, police/fire, etc.)
- Other public infrastructure (utility undergrounding, etc.)

- **Contemporary:**

- Finance solar or energy efficiency improvements
- Fund pension obligations
- Finance operating capital



Public Agency Financing Basics

Defining Features

■ Par Amount

- Principal or face amount of borrowing

■ Coupon

- Rate at which interest is paid
- Fixed rate: set at time of pricing
- Variable rate: may be reset daily, weekly, monthly...
- Interest is usually paid semi-annually

■ Yield

- Market return
- Varies over time

■ Maturity

- Date at which principal is repaid
- **Serial bond:** principal is due on a particular date
- **Term bond:** principal is amortized over several years, may have sinking funds

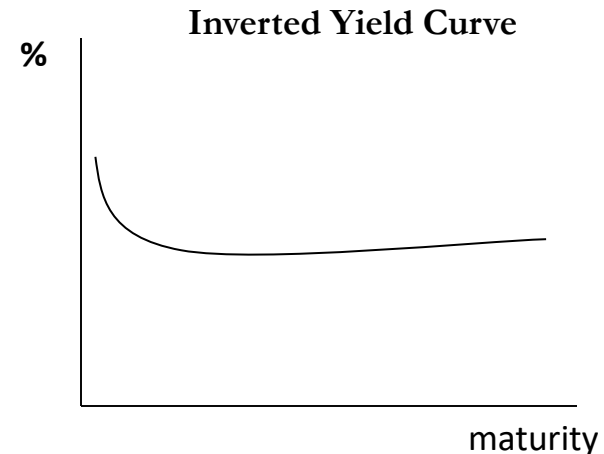
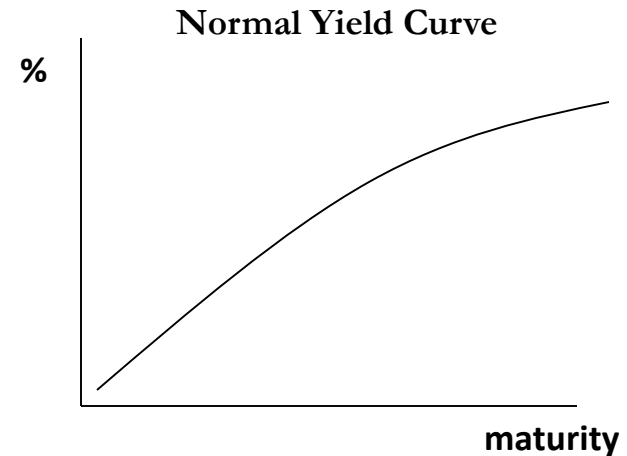
■ Call Features

- Allow bonds to be retired before scheduled maturity
- Specify period of call protection and prepayment penalty (if any)

Public Agency Financing Basics

Interest Rates

- Interest rates vary for many reasons
 - Level of risk
 - Time period for pay back
 - Market supply & demand
 - Comparative prices
 - Taxable versus tax-exempt
- Yield Curve
 - Compilation of interest rates paid for different maturities
 - Varying investor interests
 - Short term vs. long term rate



*Certificates of Participation (COPs) &
Private Placement Loans*

Certificates of Participation (COPs) & Private Placement Loans

What are COPs?

- COPs are not bonds and function as a Lease-Purchase Financing Structure
- Town issues tax-exempt COPs, using an existing unencumbered City asset (e.g. City Hall, Library, etc.) to facilitate the lease
- COP proceeds are used to construct the Civic Center Project
- By using the General Fund in a lease with an essential Town asset, the Town can obtain a high rating and the most likely chance at a bond insurance policy and/or debt service reserve surety (if economically beneficial)
- COPs are considered a liability to the General Fund

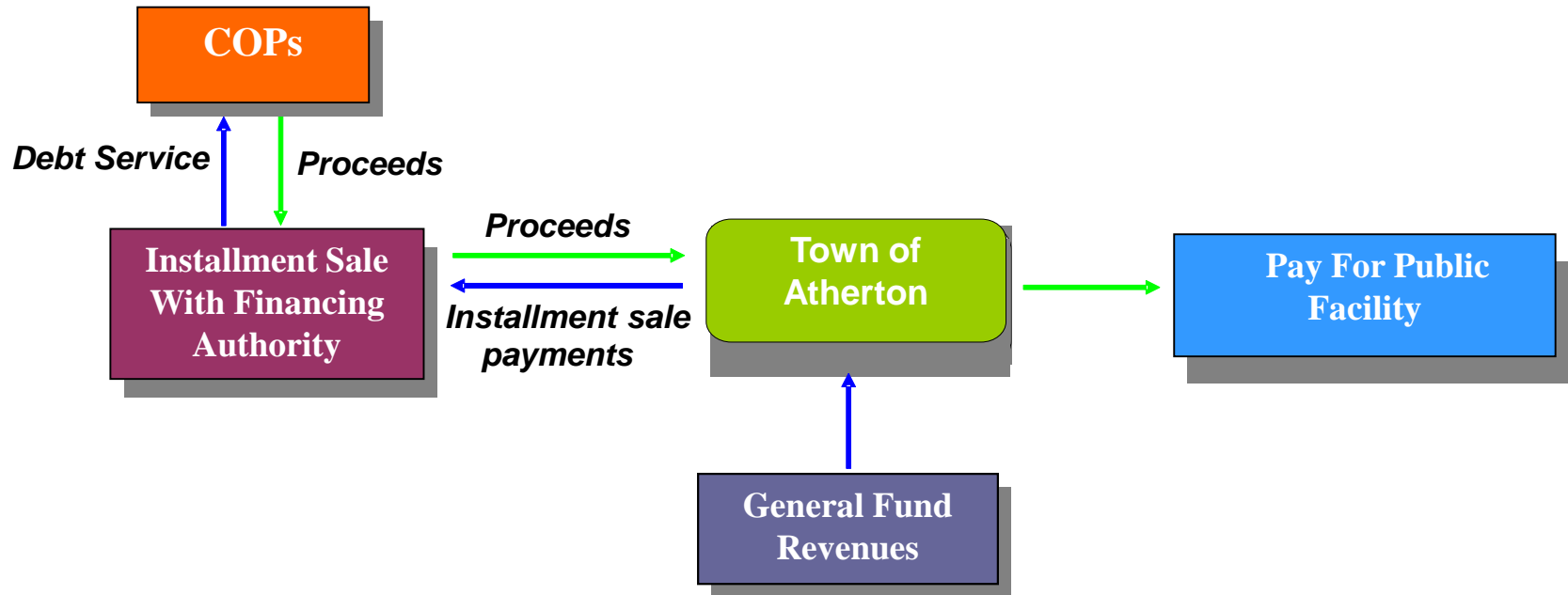
Certificates of Participation (COPs) & Private Placement Loans

Public Offering Structure of a Lease-Purchase Financing

- Public offering to multiple “lenders,” similar to bond issue
- Lower interest rate, higher transaction expenses than private placement
- Up to 30-year fixed rate term for building improvements with optional redemption after no-call period (5-10 years)
- Not always cost-effective for small projects or shorter borrowing terms
- Lease-purchase must be subject to annual renewal and appropriation to avoid creating debt
- Public contracting requirements still apply with respect to lease-purchased property (competitive bidding, performance bond, retainage)
- Required Council authorization of financing terms (maximum principal amount, maximum interest rate, term)

Certificates of Participation (COPs) & Private Placement Loans

Flow of Funds



Certificates of Participation (COPs) are issued under “installment sale” structure not lease structure

COPs do not require voter-approval

✓ “Special fund” doctrine applied

Certificates of Participation (COPs) & Private Placement Loans

Private Placement Structure of a Lease- Purchase Financing

- **Qualifying Conditions of a Private Placement**
 - Generally sold to a single or limited number of accredited investors
 - Offering must not be made through any form of general solicitation or advertising
 - Underwriter acts as Placement Agent on the transaction
 - Purchaser must have access to issuer information
- **Direct Purchases structured more like a commercial loan than a security**
 - Specific rate secured for specific maturity rather than varying serial/term rates through life of borrowing for fixed rate transactions
 - No underlying ratings necessary
 - No public disclosure or offering statements for the Certificates – No POS/OS
 - No purchase contract
 - Limited transferability and secondary market trading

Certificates of Participation (COPs) & Private Placement Loans

Private Placement Versus Public Offering

Advantages

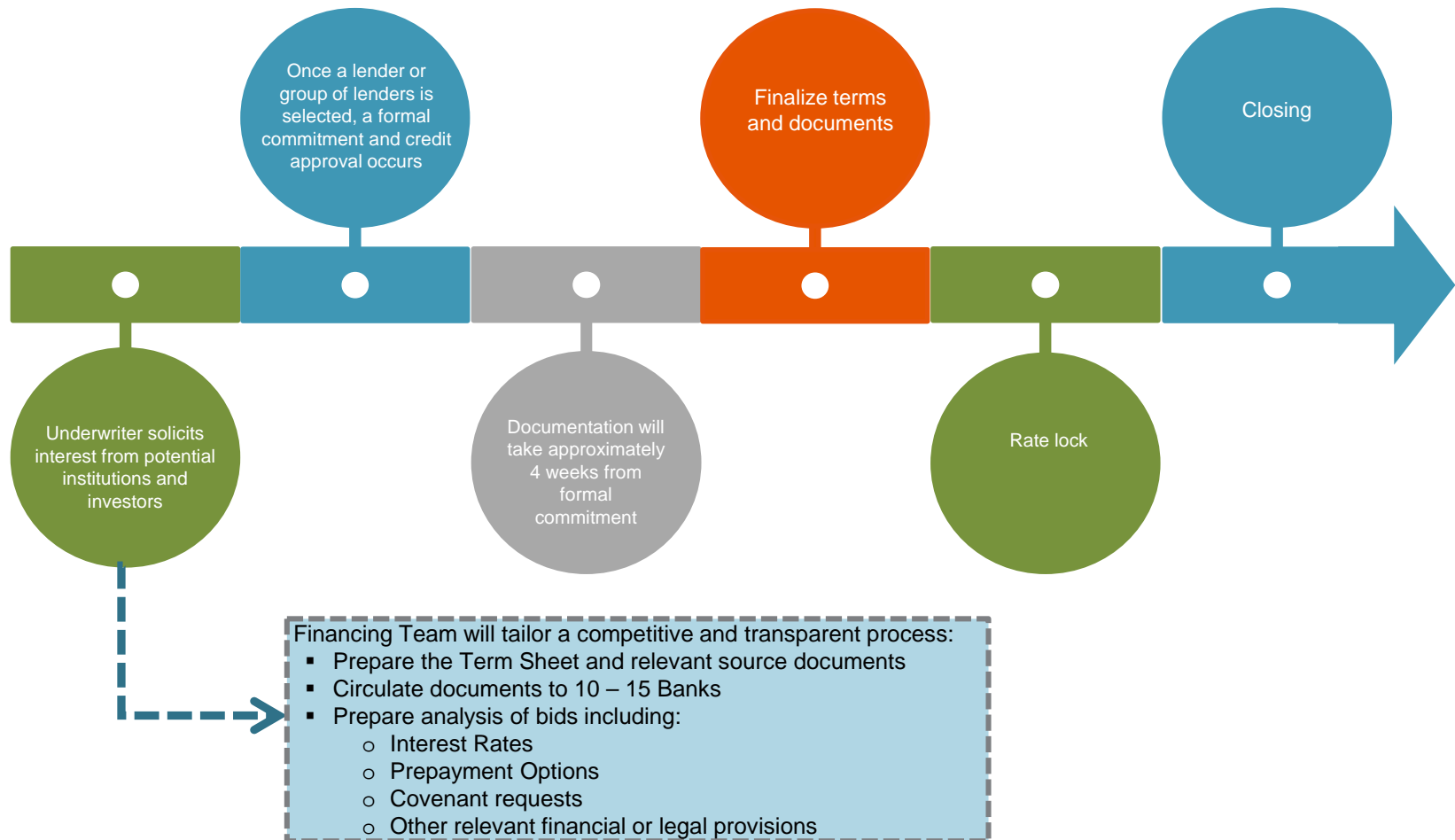
- No ratings required
- Limited on-going disclosure requirements which reduces liability of non-compliance
- Lower issuance cost (no POS/OS preparation costs, underwriter's counsel fees and rating agency fees)
- Generally more negotiable and flexible with respect to payment frequency, call features, reduction or elimination of DSRF, covenant modifications, fees and term
- Faster execution (30 – 45 days) /less staff time required
- Less involvement of staff time and resources
- Rate locks (usually 30 – 60 days) mitigate interest rate risk

Disadvantages

- Less uniform and clearly defined terms and covenants
- Short Tenor of Loans (generally less than 20 years)
- Constraints on amounts banks may be willing to loan may also be limiting
- Issuer must understand regulatory expectations for banks that offer direct lending
- Ancillary business requirements of some lenders
- Execution risk
- Premium may be paid compared to public offering

Certificates of Participation (COPs) & Private Placement Loans

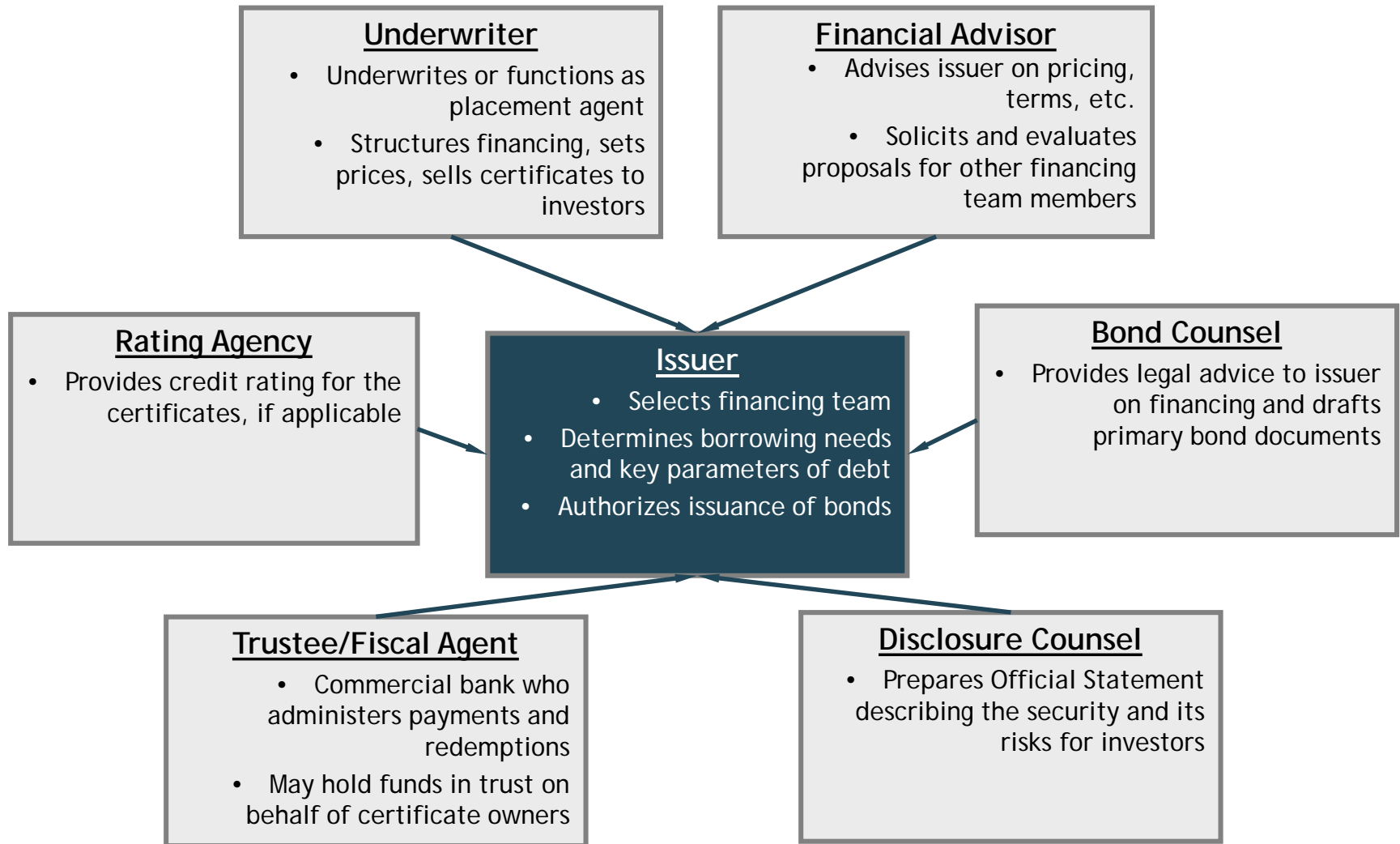
Private Placement Process



The Financing Process

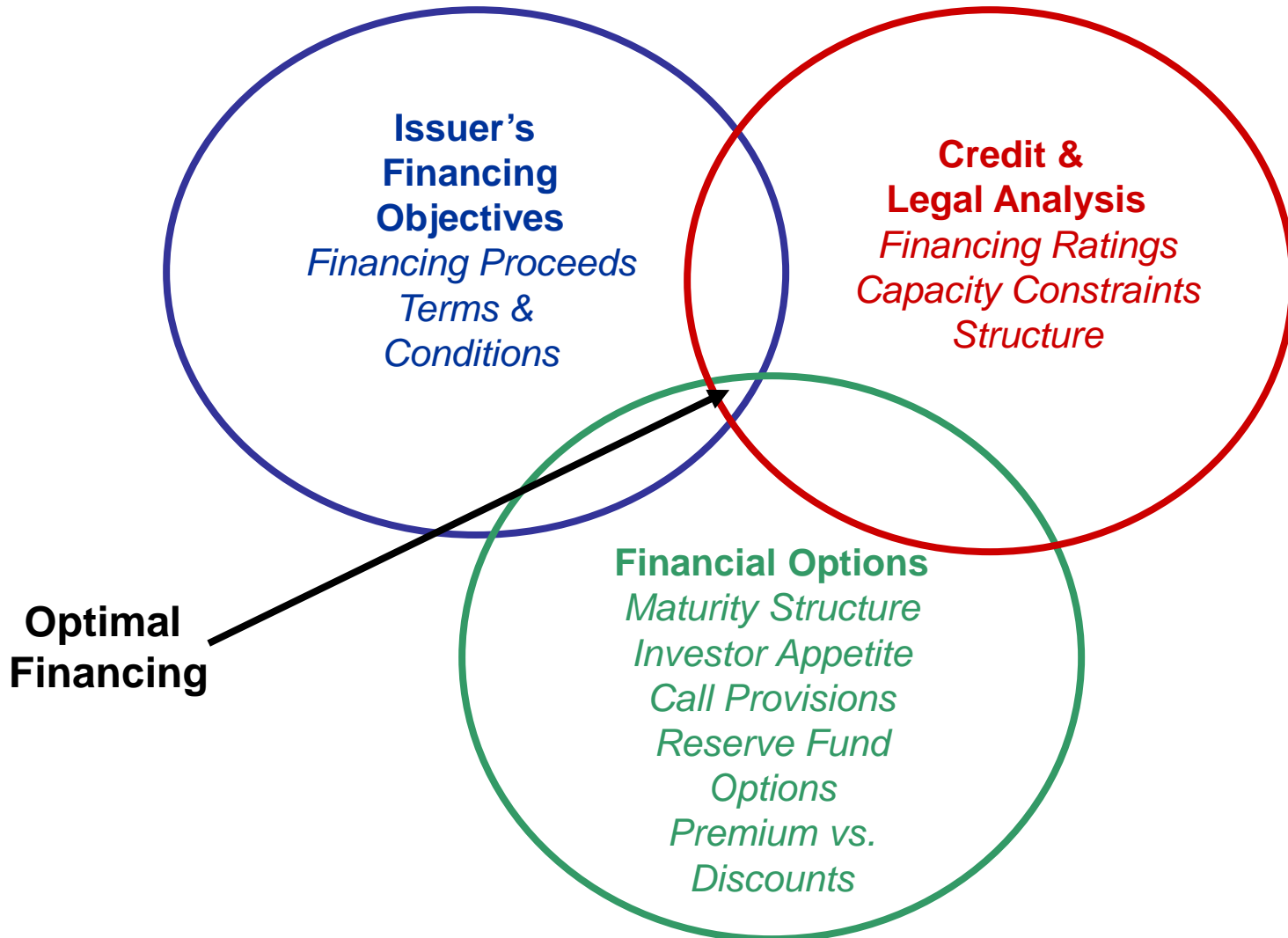
The Financing Process

Who's Who on the Financing Team?



The Financing Process

The Financing Goal



The Financing Process

Structuring Considerations

- **Size of Financing**
 - How much in financing proceeds are needed...or what can repayment source support?
- **Financing Structure**
 - Public Offering or Private Placement
- **Flow of Funds**
- **Debt Payment Structure**
 - Level or escalating payments
 - Term of financing
- **Debt Service Reserve Fund**
 - Legal maximum is the lesser of: 100% of maximum annual debt service, 125% of average annual debt service or 10% of par
- **Prepayment Options/Call features**

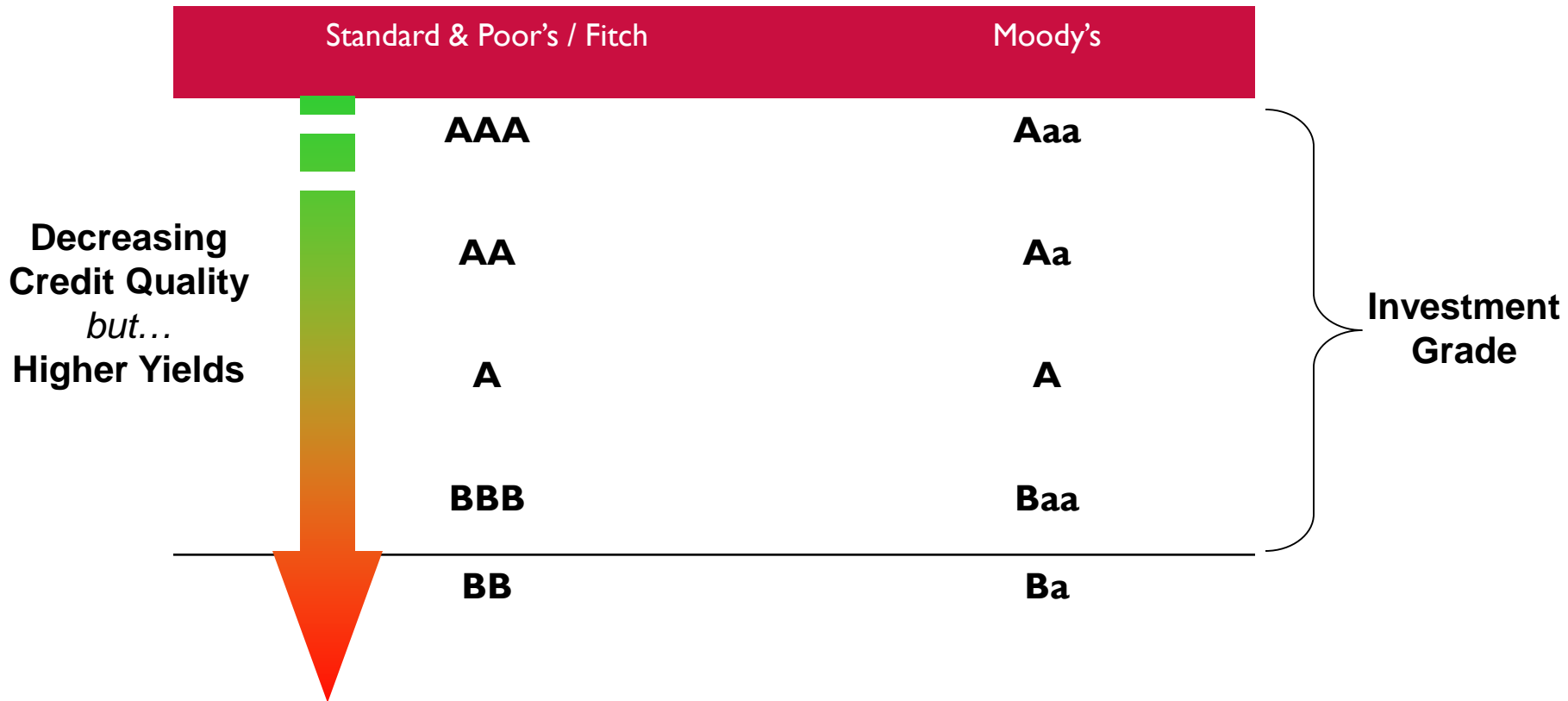
The Financing Process

Credit Ratings

- **Rating Agencies**
 - Analyze credit quality of certificates and assign rating
 - Standard & Poor's, Moody's, Fitch
- **Purpose of Ratings**
 - Assess issuer's ability to make lease payments through maturity
- **Rating Timing**
 - Initially determined prior to debt issuance
 - Continuously reviewed to help investors determine certificate value
 - May be amended over time to reflect changes in the credit quality of the debt

The Financing Process

Bond Ratings / Credit Quality



Atherton Civic Center Project Financing Options

Atherton Civic Center Project Financing Options

Civic Center Financial Plan

Civic Center Project Funding Plan	
Item/Fund	Amount
Design Cost Estimate (100% Design Development)	\$3,305,255
Construction Cost Estimate (100% Design Development)	\$22,253,000
Total Design & Construction Cost	\$25,558,255
Atherton Now Donation	(\$7,000,000)
Remaining Requirement	\$18,558,255
Application of Revenue from Building Fees	(\$2,935,000)
Remaining Requirement	\$15,623,255
Allocation of FY 2016/17 ERAF	(\$1,103,185)
Allocation of FY 2017/18 ERAF (Estimated)	(\$1,066,958)
Allocation of FY 2018/19 ERAF (Estimated)	(\$1,000,000)
Remaining Requirement	\$12,453,112
Existing Unallocated General Fund Available	(\$6,861,653)
Remaining Requirement	\$5,591,459
Existing CIP Unallocated Funds	(\$4,423,138)
Remaining Requirement	\$1,168,321
Remaining Requirement to be met by a combination of Additional Donation Receipts, Annual Budget Revenues over Expenditures, and Short-term Certificates of Participation – without the addition of new tax burdens	

Atherton Civic Center Project Financing Options

Sample Credit Considerations – Civic Center COPs

General Fund Credit Factors

- **Operational Factors**

- Management ability
- Condition of capital assets
- Regulatory compliance
- Budget Performance and Management Policies

- **Financial Data**

- Stability and Consistency
- Outstanding Debt and Other Liabilities
 - Pension and OPEB
- General Fund Reserves
- Local Economy
- Concentration of taxpayers

Atherton Civic Center Project Financing Options

Option 1: Funding Gap \$5M

▪ Financing Assumptions

- Public Offering
- Tax Exempt Certificates of Participation (COPs)
- Assumed Municipal Bond rating of “AA”
- Debt Service Not-To-Exceed 10 Years
- Level Debt Service
- No Bond Insurance or Debt Service Reserve Surety
- Existing Civic Center Complex as Lease Facility
- Cost of Issuance (estimate) of \$150,000

Term	10-Years
Bond Rating	AA
Assumed True Interest Cost (TIC)	2.914%
Est. Cost of Issuance	\$150,000 ⁽¹⁾
Est. Annual Debt Service	\$585,000
Est. Total Debt Service	\$5,848,404

▪ Analysis Provided Based On

- MMD Spread
- Recent market Comps

(1) Cost of Issuance does not include underwriters discount which is assumed at \$5/bond.

Atherton Civic Center Project Financing Options

Option 2: Funding Gap \$7.5M

▪ Financing Assumptions

- Public Offering
- Tax Exempt Certificates of Participation (COPs)
- Assumed Municipal Bond rating of “AA”
- Debt Service Not-To-Exceed 10 Years
- Level Debt Service
- No Bond Insurance or Debt Service Reserve Surety
- Existing Civic Center Complex as Lease Facility
- Cost of Issuance (estimate) of \$150,000

Term	10-Years
Bond Rating	AA
Assumed True Interest Cost (TIC)	2.727%
Est. Cost of Issuance	\$150,000 ⁽¹⁾
Est. Annual Debt Service	\$865,000
Est. Total Debt Service	\$8,683,392

▪ Analysis Provided Based On

- MMD Spread
- Recent market Comps

(1) Cost of Issuance does not include underwriters discount which is assumed at \$5/bond.

Atherton Civic Center Project Financing Options

Option 3: Funding Gap \$10M

■ Financing Assumptions

- Public Offering
- Tax Exempt Certificates of Participation (COPs)
- Assumed Municipal Bond rating of “AA”
- Debt Service Not-To-Exceed 10 Years
- Level Debt Service
- No Bond Insurance or Debt Service Reserve Surety
- Existing Civic Center Complex as Lease Facility
- Cost of Issuance (estimate) of \$150,000

Term	10-Years
Bond Rating	AA
Assumed True Interest Cost (TIC)	2.633%
Est. Cost of Issuance	\$150,000 (1)
Est. Annual Debt Service	\$1,150,000
Est. Total Debt Service	\$11,521,496

■ Analysis Provided Based On

- MMD Spread
- Recent market Comps

(1) Cost of Issuance does not include underwriters discount which is assumed at \$5/bond.

Atherton Civic Center Project Financing Options

Civic Center Project Funding Gap Expanded Options Summary

	\$5 million project proceeds			\$7.5 million project proceeds			\$10 million project proceeds		
	10 yrs	15 yrs	20 yrs	10 yrs	15 yrs	20 yrs	10 yrs	15 yrs	20 yrs
Principal Amount	\$ 4,610,000	\$ 4,525,000	\$ 4,530,000	\$ 6,845,000	\$ 6,725,000	\$ 6,725,000	\$ 9,080,000	\$ 8,920,000	\$ 8,925,000
Project Fund	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 7,500,000	\$ 7,500,000	\$ 7,500,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000
All-in TIC	2.914%	3.383%	3.770%	2.727%	3.248%	3.662%	2.633%	3.181%	3.609%
Debt Service									
6/30/2017	\$ 15,754	\$ 16,863	\$ 17,554	\$ 23,392	\$ 25,054	\$ 26,092	\$ 31,046	\$ 33,229	\$ 34,604
6/30/2018	\$ 584,050	\$ 427,350	\$ 360,650	\$ 865,700	\$ 640,650	\$ 528,100	\$ 1,142,550	\$ 848,750	\$ 710,250
6/30/2019	\$ 581,150	\$ 432,850	\$ 362,650	\$ 864,000	\$ 638,850	\$ 533,800	\$ 1,147,150	\$ 849,750	\$ 709,350
6/30/2020	\$ 584,150	\$ 430,800	\$ 363,000	\$ 866,150	\$ 638,500	\$ 537,050	\$ 1,148,450	\$ 845,950	\$ 710,350
6/30/2021	\$ 581,700	\$ 428,600	\$ 358,200	\$ 867,700	\$ 637,850	\$ 535,000	\$ 1,149,000	\$ 846,850	\$ 711,050
6/30/2022	\$ 584,700	\$ 428,800	\$ 361,800	\$ 867,300	\$ 638,250	\$ 535,400	\$ 1,150,400	\$ 847,450	\$ 708,250
6/30/2023	\$ 581,900	\$ 428,600	\$ 360,000	\$ 865,900	\$ 638,050	\$ 535,400	\$ 1,150,400	\$ 847,250	\$ 710,050
6/30/2024	\$ 583,500	\$ 433,000	\$ 358,000	\$ 863,500	\$ 637,250	\$ 535,000	\$ 1,149,000	\$ 846,250	\$ 711,250
6/30/2025	\$ 584,500	\$ 429,000	\$ 359,000	\$ 868,000	\$ 641,750	\$ 536,500	\$ 1,151,750	\$ 849,000	\$ 708,250
6/30/2026	\$ 584,250	\$ 429,500	\$ 359,500	\$ 865,500	\$ 640,000	\$ 537,250	\$ 1,152,000	\$ 845,250	\$ 709,500
6/30/2027	\$ 582,750	\$ 429,250	\$ 359,500	\$ 866,250	\$ 642,250	\$ 537,250	\$ 1,149,750	\$ 850,250	\$ 709,750
6/30/2028		\$ 433,250	\$ 359,000		\$ 638,250	\$ 536,500		\$ 848,500	\$ 709,000
6/30/2029		\$ 431,250	\$ 363,000		\$ 638,250	\$ 535,000		\$ 850,250	\$ 707,250
6/30/2030		\$ 428,500	\$ 361,250		\$ 637,000	\$ 532,750		\$ 845,250	\$ 709,500
6/30/2031		\$ 430,000	\$ 359,000		\$ 639,500	\$ 534,750		\$ 848,750	\$ 710,500
6/30/2032		\$ 430,500	\$ 361,250		\$ 640,500	\$ 535,750		\$ 845,250	\$ 710,250
6/30/2033			\$ 357,750			\$ 535,750			\$ 708,750
6/30/2034			\$ 358,750			\$ 534,750			\$ 711,000
6/30/2035			\$ 359,000			\$ 532,750			\$ 711,750
6/30/2036			\$ 358,500			\$ 534,750			\$ 711,000
6/30/2037			\$ 362,250			\$ 535,500			\$ 708,750
Total	\$ 5,848,404	\$ 6,468,113	\$ 7,219,604	\$ 8,683,392	\$ 9,611,954	\$ 10,725,092	\$ 11,521,496	\$ 12,747,979	\$ 14,230,404

Atherton Civic Center Project Financing Options

Civic Center Project Private Placement \$5M Option

■ Financing Assumptions

- Private Placement
- Debt Service Not-To-Exceed 10 Years
- Level Debt Service
- No Bond Insurance or Debt Service Reserve Surety
- Existing Civic Center Complex as Lease Facility
- Cost of Issuance (estimate) of \$125,000
- Can be bid out to multiple banks

■ Analysis Provided Based On

- Indicative Rate from Western Alliance Bank
- Recent Market Comps

Term	10 Years
Bond Rating	N/A
Assumed True Interest Cost (TIC)	3.62%
Est. Cost of Issuance	\$125,000 ⁽²⁾
Est. Annual Debt Service	\$605,000
Est. Total Debt Service	\$6,123,323

(2) Cost of Issuance is all-in estimate.

Presentation on Financing Options

Civic Center Project Financing

Questions?