

March 31, 2009

FINANCE COMMITTEE MEETING
MONDAY, APRIL 6, 2009
IMMEDIATELY FOLLOWING
COMMITTEE OF THE WHOLE MEETING
HAGLER/MASON CONFERENCE ROOM
SECOND FLOOR, CITY HALL

Jewel Cannada-Wynn, Chair
Mike Wiggins, Vice-Chair
Maren DeWeese
Sam Hall
John Jerralds
Larry B. Johnson
Diane Mack
Megan B. Pratt
Ronald Townsend
P.C. Wu

ACTION ITEMS

1. Community Maritime Park – Financing

INFORMATION ITEMS

None

DISCUSSION ITEMS

None

NEW BUSINESS

If any person decides to appeal any decision made with respect to any matter considered at such meeting, he will need a record of the proceedings, and that for such purpose he may need to ensure that a verbatim record of the proceedings is made, which record includes the testimony and evidence upon which the appeal is to be based.

The City of Pensacola adheres to the Americans With Disabilities Act and will make reasonable accommodations for access to City services, programs and activities. Please call 435-1606 for further information. Requests must be made at least 48 hours in advance of the event in order to allow the City time to provide the requested services.

COMMITTEE MEMORANDUM

COMMITTEE: Finance
FROM: Alvin G. Coby, City Manager
DATE: April 6, 2009
SUBJECT: Community Maritime Park Financing Recommendation

RECOMMENDATION:

That City Council approve the issuance of a 30 year fixed rate Capital Improvement Revenue Bond to provide \$40 million net proceeds for the maritime park project pledging Tax Increment Financing (TIF) revenues with a covenant to budget and appropriate non-ad valorem revenues of the City.

SUMMARY:

Over the past year, financing options and updates have been presented to City Council on Community Maritime Park financing. On March 23, 2009 the Director of Finance, Richard Barker, Jr., the City's Financial Advisor, Mitch Owens of RBC Capital Markets (RBC), and the City's Bond Counsel Richard Lott, presented to Council the pros and cons of short term and long term financing.

The direction from City Council was for the City Manager to provide a recommendation for variable or fixed financing. The recommendation is for long term fixed financing secured with Tax Increment Financing (TIF) revenues with a *covenant to budget and appropriate* non-ad valorem revenues of the City. The back up pledge of a *covenant to budget and appropriate* adds additional security thereby benefiting from lower interest rates and a more affordable project. Projected TIF revenues are sufficient to meet anticipated principal and interest obligations on the bonds and are expected to be the only revenue stream needed to pay principal and interest.

TIF revenues are projected to shrink from the FY 2009 level by 5% for FY 2010 and FY 2011. From FY 2012 forward a five percent (5%) growth rate is assumed in projecting TIF revenues. Even with minimal growth, TIF revenues will be sufficient to meet debt service requirements for the 30 year term. However, the remaining revenues may not be sufficient to pay Community Redevelopment Agency (CRA) operations as currently structured. Capital project funding has been eliminated from CRA's budget and will not be restored in the near future if bonds are issued. Further, in the expense projections for CRA are annual payments to the Downtown Improvement Board (DIB) in the amount of \$209,442, \$300,000 for landscape maintenance and \$175,000 for community policing. It may become necessary to amend these Interlocal Agreements in the future in order to operate within annual TIF revenues.



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In April 2007, the CRA entered into an Interlocal Agreement with the Emerald Coast Utilities Authority (ECUA) to fund certain portions of the relocation of the Main Street Wastewater Treatment Plant (WWTP). A total of \$19,500,000 is obligated to ECUA by CRA with payments beginning in FY 2011 through FY 2027. The Agreement provides a means to reduce the amount of each annual payment, however the reduction could adversely affect the long term financial plan set forth by ECUA. The proposed alternative payment schedule is a level payment of \$1.3 million beginning in FY 2013 through FY 2027. This alternative would establish a defined payment to ECUA thereby avoiding years of no payments as legally provided in the current Agreement.

If a fixed rate borrowing is approved, only TIF revenues will be utilized to pay for the maritime park debt. The first priority will be to existing debt with remaining revenues after such payment is applied to WWTP and CRA operations. If in any year TIF revenues are not sufficient to pay the negotiated amount to ECUA, then revenues other than TIF will be used. In this situation, assuming general funds of the City are used for the shortfall, an Interlocal Agreement between the City and the CRA will be required to document the obligation of CRA to repay the City.

In FY 2013 the General Fund will pay its long term debt in full by use of a legally required sinking fund thereby alleviating a debt service payment of approximately \$3 million from that years' annual budget. While the \$3 million is currently programmed to be transferred to the Local Option Sales Tax Fund (LOST) in FY 2013, a restructure in the timing of that payment can be made to assure payment on the WWTP if TIF revenues are insufficient.

If this recommendation is approved, the next step is to identify a diversified financing team that can provide retail and institutional sales of the bonds. This task is typically facilitated by the City's Financial Advisor. Given the size of the issue it is expected that two to three reputable investment banking firms will be chosen as underwriters. The City's Debt Incurrence and Administration Policy provides that on all debt issuances City Council be informed of the nature of the financing and the proposed structure of the financing team.

The process of issuing bonds requires about 60-90 days. Richard I. Lott, the City's Bond Counsel, will prepare the necessary documentation and Bond Resolution. Richard J. Miller of Edwards, Angell, Palmer & Dodge LLP, the City's Disclosure Counsel, will begin preparing offering documents and the Preliminary Official Statement (POS). This will all occur simultaneously with the selection of the underwriting team. The documents, in substantially final form, will be presented to City Council for approval. Council will then delegate to the City Manager the authority to approve the bond issue within parameters established by City Council. The sequence of this process is necessary due to the timing of the sale and award of bonds which needs to occur within a 24 hour period. City Council will be notified of the final pricing at the next available Committee meeting.

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On October 6, 2006, City Council approved a Resolution of Intention to Finance to use the proceeds of not more than \$40 million from the issuance of tax-exempt revenue bonds to reimburse the CRA for expenditures related to the Community Maritime Park project. To date there has been approximately \$2 million paid by the CRA on park related expenses. The intention is that bond proceeds reimburse CRA for expenses already incurred and allocate the net amount for park construction.

PRIOR ACTION: October 6, 2006 – Resolution of Intention to Finance

FUNDING: Budget: \$ 0
Actual: \$ 92.6 million over 30 years (current estimate)

FINANCIAL IMPACT:

The bonds are secured with TIF revenues and a back up pledge of a covenant to budget and appropriate from non ad valorem City revenues. CRA, using TIF revenues, will pay the annual principal and interest debt service requirement. The cost of issuance of approximately \$1.5 million will be paid from net proceeds. Based on the current market a \$40 million project fund will cost approximately \$52.6 million for a total payback of \$92.6 million over 30 years with a levelized payment of approximately \$3.3 million per year.

ATTACHMENTS: None

STAFF CONTACT: Richard Barker, Jr., Director of Finance

PRESENTATION: None