



Date: November 12, 2009
To: Bob Morgan, Deputy City Manager
From: Rick Lusk, Finance Director *RL*
Subject: Financing Options for Aquatic Center

The City Council allocated \$12 million in general obligation bonds authorized by voters in 2008 for an aquatic center. Subsequently, several design concepts were identified that provided for regional and/or national competitive events with a range of estimated costs from \$15 million to nearly \$20 million. In the current low construction cost environment, a cost of \$16.7 million for the aquatic center has been negotiated, leaving a funding gap of \$6.1 million (based on construction costs of \$16.7 million and design costs/fees of \$1.4 million, for a total project cost of \$18.1 million).

Below are two options we have developed to finance the additional \$6.1 million in funds needed for the aquatic center.

Financing Options

Option 1

To fund the \$6.1 million gap, the City could consider issuing additional general obligation bonds using its two-thirds bond authority (see note 1) and/or cash reserves, including the General Fund Capital Reserve Account (see note 2).

The Greensboro/Guilford County Tourism Development Authority has recommended funding the \$6.1 million difference with their share of existing and future hotel/motel tax revenues, which would be used to repay the City for any money borrowed or loaned to fund this project. Currently the Authority sets aside approximately \$450,000 a year in a City Capital Projects Account. (This amount varies annually based on actual hotel/motel tax revenues.) This money would be committed long-term to repaying the City for any funds used and/or borrowed to finance the \$6.1 million gap, taking into consideration use of an additional \$1.35 million in funds in the City Capital Account over the three-year period ending FY 11-12 to cover the debt service funding gap in the Hotel/Motel Tax Fund (see note 3).

Option 1 Financing Plan

Issue additional general obligation bonds using two-thirds bond authority in the amount of \$3.96 million and loan \$2.14 million from the General Fund capital reserve account to the Aquatic Center Capital Project Fund. This would require suspension of the capital reserve policy limits, with the amount loaned being repaid by the Authority. The Authority would also pay the City any amounts required to cover principal and interest on the two-

thirds bonds over their 20-year term (estimated at \$5.4 million) and to fund the debt service requirement. Total payments of \$8.89 million are estimated as follows:

Two-thirds bonds (P & I)	\$5.40 million, averaging \$270,000 annually.
Capital Reserve loan	2.14 million
Debt Service Requirement	<u>1.35 million</u>
Total	\$8.89 million

Financing under option 1 can be accomplished by City Council within the shortest period of time. If two-thirds bonds are approved, it requires one meeting of Council to introduce a bond order and a second meeting to hold a public hearing and adopt the bond order. Subsequent action by the NC Local Government Commission is also required.

If the Council chooses to proceed with this financing plan, then a public hearing and adoption of a bond order would be required, as follows:

- 1) First City Council meeting – introduce bond order and set public hearing date. This action could be taken on November 17.
- 2) Publish bond order and public hearing date.
- 3) Second City Council meeting – hold public hearing 6 days or more after the date the bond order is published and vote on the bond order.

Option 2

To fund the \$6.1 million gap, the City could consider issuing certificates of participation (COP's) through the Greensboro Center City Corporation (see note 4 - GCCC) for a period of 20 years. (COP's are the debt instrument, similar to a revenue bond, used to fund previous Coliseum improvements and downtown parking garages; the debt is repaid from the City's hotel/motel tax revenue). As proposed by the Greensboro/Guilford County Tourism Development Authority, the debt would be paid from existing and future hotel/motel tax revenues set aside in the City Capital Account.

Option 2 Financing Plan

Issue COP's of \$6.1 million for a period of 20 years. The Authority would pay the City any amounts required to cover principal and interest on the COP's over their 20-year term (estimated at \$8.34 million) and to fund the debt service requirement. Total payments of \$8.89 million are estimated at as follows:

Two-thirds bonds (P & I)	\$8.34 million, averaging \$417,000 annually.
Debt Service Requirement	<u>1.35 million</u>
Total	\$9.69 million

Financing under option 2 can be accomplished by City Council within approximately 90 days. If certificates of participation are approved, it requires several actions by the GCCC and the City Council, including a public hearing, once legal documents are drafted. Subsequent action by the NC Local Government Commission is also required.

Note 1: Two-thirds Bonds – The City may issue up to two-thirds of the GO principal retired in the previous year, net of any GO debt issued. In FY 2009-10 the City has \$11.36 million in two-third bonds capacity. The City has previously discussed using \$7.40 million of that capacity for landfill closure and post-closure costs, leaving an available balance of \$3.96 million that could be used for the Aquatic Center.

Note 2: Capital Reserve Account – The capital reserve account in the General Fund increased from \$4.0 million as of June 30, 2008 to \$7.5 million as of June 30, 2009, primarily due to a reduction in the amount of cash required to be reserved at year-end by state statute, compared to the prior year amount reserved. City policy provides that a minimum of \$10 million be accumulated in the capital reserve fund, with amounts in excess of \$10 million available for "pay-as-you-go capital expenditures.

Note 3: Debt Service Requirement – Hotel/Motel tax revenue has been lower than expected over the past eight years due to varying economic conditions, resulting in a gap between revenue collected and debt service payments for coliseum improvements financed in 1995 and 1996. To fund this gap, the Authority, the City and the County have agreed to use money set aside annually for City Capital Projects in the Greensboro Convention and Visitors Bureau (CVB) budget. A subsidy of \$3.2 million has been received to date and up to an additional \$1.6 to \$2.1 million will be required over the three-year period ending FY 11-12. If approved, the CVB will fund \$1.35 million of the gap and the City will fund the remaining \$250,000 to \$750,000 balance, to be paid back from future hotel/motel tax revenues. (City hotel/motel tax revenue is approximately \$2.7 million annually and debt service is approximately \$3.3 million annually. The final debt payment on COP's issued in 1991 for Coliseum Improvements will be made in FY 11-12, with debt service payments declining to approximately \$1.8 million annually thereafter through FY 15-16. The final debt payment on COP's issued in 1995 and 1996 for Coliseum Improvements will be made in FY 15-16.)

Note 4: Greensboro Center City Corporation (GCCC) – This separate entity established by the City is used to issue COP's, in accordance with State law. The GCCC represents investors who own an interest in the installment payments to be made by the City in repayment of COP's issued pursuant to an installment purchase agreement between the City and the GCCC to construct the facilities financed.

Note: In addition to a low construction cost environment, we are experiencing historically low interest rates which make this a good time to borrow funds for capital projects. Interest rates would be in the 3% to 4% range on funds borrowed in the next several months.