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To: Steven R. Sarkozy
Village Manager

From: Lisa Griggs Roberson, CPA
Finance Director

Date: November 16, 2018

Subject: **Financing Alternatives for Debt required to complete Estero on the River Land Purchase**

As approved in Resolution 2018-16, the Village has established its intent to maintain a large set-back on both sides of the Estero River and other environmentally significant portions of the property for public use with access to be more specifically identified after the purchase is complete, subject to a public planning process. The Village understands that it may be required to acquire title to portions of the property which are not environmentally sensitive, viable for recreational use or suited for other municipal purposes. In that event, those portions of the property not considered environmentally sensitive may be utilized for storm water retention, rights-of-way, recreation, buffering, mitigation and other public facilities, or declared as surplus and offered for sale.

As appropriated in the 2018-2019 Budget, debt will be required in order to fund the Estero on the River Land Purchase. Estero on the River is listed in the budget as Land Purchase A with total project cost of \$26,000,000 funded by a down payment of \$5,000,000 from the general fund and debt providing the remainder of \$21,000,000.

In keeping with the concept of government lite and as provided in Purchasing Ordinance 2015-06 Section 7(B), we have selected the following team to provide professional services for the bank loan:

- **Florida Municipal Loan Council (FMLC).** This financial program is administered by the Florida League of Cities and provides administrative services for various local government debt programs. Molly Button is the Senior Analyst working on our loan.
- **Public Resources Advisory Group (PRAG).** As an independent registered municipal advisor working with the Florida League of Cities, PRAG will assist the Village with evaluation of financing options. The PRAG staff providing services for us are Marianne Edmonds, Senior Managing Director, and Michael “Mickey” Johnston, Vice President.
- **Bryant Miller Olive.** This firm serves as the Florida League of Cities bond counsel and will function as the Village bond counsel with Jason Breth working on our debt issue.

Alternatives and Constraints on Debt Issue.

- **Required prepayment in the event of the sale of surplus land.** Bond counsel has communicated a requirement that the proceeds received from the sale of surplus property be applied to the loan within six (6) months of the sale. This could place significant limits on the amount of time the bank can assure the debt will be outstanding. Generally speaking for a bank to offer a lower interest rate, they want a period under which debt will be outstanding with no prepayment permitted.

- **Optional prepayment from Village future surplus funds.** Financial projections indicate a potential to pay off the debt within approximately seven (7) years based upon current economic conditions and revenue projections. These forecasts do not include increases in the level of service or additions to the types of services provided by the Village beyond those included in the 2018-2019 budget; therefore, if these occur, the length of time to repay the loan will be extended. It should be noted that the financial projections do not include funding from grants or sale of surplus property which could reduce the length of time to repay the debt. In anticipation of paying the debt earlier than the 10 year term, we are requiring the banks provide a prepayment option.
- **Taxable vs Tax-exempt debt.** While governments typically have the option for tax-exempt debt, preserving the ability to sell surplus property will disqualify the debt as a tax-exempt borrowing. Proceeds from tax-exempt debt are typically restricted to non-private activity such as public use. In order to qualify any portion of the debt as tax-exempt, the public use portion would need to be known at time of purchase with appraisals by type of use. As use of the property will be identified in a future public planning process, it is not possible to complete an allocation to tax-exempt debt.

Financial considerations.

- **Budgeted Debt Service.** The 2018-2019 budgeted debt service estimate of \$1,600,000 was developed based upon a \$25 million taxable loan as follows: a) 30 year term at 4.4% interest and b) 10 year term with 25 year amortization at 4.3% interest rate. The interest rate is subject to change based upon debt market conditions at the time of the real estate closing which will be the anticipated date of the loan.
- **Annual Cash Flow/Debt Coverage Ratio.** Banks typically require a minimum annual debt coverage ratio. This means the Village is required to maintain a certain level of annual cash flow based upon the debt service payments. Our projected debt coverage ratio for 2018-2019 budgeted fiscal year is 3.9 as compared to the frequently used minimum of 1.5. For 2017-2018 the ratio is estimated at 4.5 and for 2016-2017 it was 5.0. These ratios are significantly above the required minimum and should assist the Village in obtaining financing.
- **Certificate of Achievement for Excellence in Financial Reporting (CAFR).** The Village has applied for and received a CAFR award for each year since its inception. This level of reporting will assist in the procurement of debt as it provides the banks consistent audited financial data. The CAFR provides both economic and financial data and is easily comparable to other local governments.
- **Strong Financial Operating Reserves.** The Village operating reserves are \$5,124,700, or 10 months of general fund operating expenditures. This level of reserves provides a considerable amount of protection for the Village against unanticipated financial challenges, such as a response to a natural disaster, revenue stabilization following a significant economic downturn or to ensure stable tax rates.

Responses and Status of the Request for Proposal to provide Bank Loan.

- **Responses.** We are very excited to announce that we received nine (9) responses to the request for proposals for a bank loan.
- **Presentation.** Our consultants are currently evaluating the responses and Marianne Edmonds, Senior Managing Director, and Michael “Mickey” Johnston, Vice President, with PRAG will be making a presentation to Council.