



CITY COUNCIL AGENDA REPORT

MEETING DATE: JUNE 21, 2016

ITEM NUMBER: NB-2

SUBJECT: LIONS PARK PROJECTS AND FIRE STATION 1 UPDATED FUNDING PLAN

DATE: JUNE 10, 2016

FROM: STEPHEN DUNIVENT, INTERIM FINANCE DIRECTOR

PRESENTATION BY: STEPHEN DUNIVENT, INTERIM FINANCE DIRECTOR

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RECOMMENDATION:

1. Review and approve in concept the updated funding plan (Attachment 1).
2. Authorize staff to assemble a financing team to finalize the funding plan.

BACKGROUND:

On November 17, 2015 the City Council reviewed and approved the recommended option to build a new library building; renovate the existing Donald Dungan Library to serve as the new Neighborhood Community Center (NCC); demolition of the NCC; and proposed parking and landscape improvements. These are now referred to as the Lions Park projects.

The City Council also reviewed and approved in concept for further development funding option 3 including funding for Fire Station 1.

ANALYSIS:

With the review and input from City staff, Orange County Public Library and Dungan Library staff and community stakeholders, consultants identified three projects required to address program needs and community goals. The Lions Park projects include the following three projects:

1. **LIBRARY:** A new or renovated library totaling approximately 20,000 SF.
2. **COMMUNITY MEETING CENTER:** A renovated community meeting center including the following: one meeting/event room seating 300 in either banquet or lecture format with a stage; one 700 SF meeting room seating 40 and a catering kitchen to support events.
3. **PARK IMPROVEMENTS:** Park improvements include expansion of park open space in order to better connect all facilities to the surrounding park. With more efficient street-front parking and efficient building areas, park open space is increased by one acre. Improvements are to include plantings to reduce water usage and to replace impermeable building area and site area with permeable open space to facilitate improved storm water management.

Two options emerged for completing the three projects for consideration with the recommended option being demolition of the NCC and construction of a new library building and renovation of the Dungan Library to become the new community center; expansion and improvement of existing park space and street front improvements to include new on-street parking. Total project cost for this option (including estimated project soft costs) was \$34,500,000. Soft costs included fixtures, furnishings and equipment for both buildings, professional services fees, project management fees, permit costs and City contingencies and costs. Since the November report, the total project cost has been revised to \$36,000,000 to account for potential cost increases, unanticipated change orders and further contingencies.

The Feasibility Study concluded that the project must be implemented in at least two and possibly three phases. A multi-phased construction project provides the city flexibility to implement the individual projects in a time frame that suits political will and financial capability. This approach also ensures that no building is demolished before its replacement is completed.

The construction of a temporary station, demolition of the existing station and reconstruction of Fire Station 1 was also included in the November funding plan in the amount of \$8,500,000. The total cost has been revised to \$10,000,000 to account for potential cost increases, unanticipated change orders and further contingencies.

FISCAL REVIEW:

The November 17, 2015 plan assumptions included a total project cost of \$43,000,000 including Fire Station 1. The plan called for current year budgeted funds plus FY 16-17 budgeted funds in the combined amount of \$10,918,070. Debt financing of \$32,081,930 would have been required. The annual payment on this amount of debt for 30 years at 4.5% interest would be \$1,950,653.

In order to reduce debt and the corresponding interest cost, staff made modifications to the November 17, 2015 funding plan as follows:

- Cost estimates were updated as noted above.
- Three additional years of planned City budgeted capital funds were added.
- Projected Park Development Fees were re-evaluated.
- The term of debt financing was reduced from 30 years to 25 years.
- Set a goal of reducing the annual payment at or below the current annual payment on the 2003 Certificates of Participation (\$1,240,250)

The City Finance Advisory Committee reviewed the updated funding plan on May 31, 2016. The Committee generally supported the plan and recommended the following changes:

- Move the budgeted capital funding to the Fire Station 1 project as that project will require funding sooner than the Lions Park projects. Some of the Committee members consider the Fire Station 1 project the top priority of this project group.
- Plan to borrow less by using any projected FY 15-16 general fund surplus funds to reduce debt. The updated plan could be updated for this recommendation at the time the actual FY 15-16 surplus is known but it is likely that the surplus will be over \$3,000,000.
- Time the first debt payment to the availability of funds currently used to pay the 2003 Certificates of Participation (COP). These funds would be available by FY 19-20.

The updated funding plan assumptions are now based on a total project cost of \$46,000,000 including Fire Station 1. The plan calls for current year budgeted funds plus four additional years of City budgeted capital funds in the combined amount of \$27,446,402. Debt financing of \$18,553,598 would be required. The annual payment on this amount of debt for 25 years at 4.5% interest would be \$1,237,523. This payment is slightly lower than the current annual payment on the 2003 COP. Any surplus from FY 15-16 applied to the estimated debt financing amount of \$18,553,598 would further reduce the interest cost and annual debt payment.

In order to further refine this funding plan and begin its implementation, the establishment of a financing team is recommended to ensure this funding plan is designed and executed in the best way for the City. This team would include representatives from City departments, an outside financial advisor, legal counsel and possibly other consultants depending on the type of financing chosen. The certificates of participation (COP) mechanism using the City's existing Public Financing Authority may be the best fit at the present time.

A COP is a type of lease-purchase agreement. A government seeking to acquire an asset makes a series of lease payments that are considered installments toward the purchase of the asset. The participants in a lease-purchase agreement are (1) the lessee, which is a government, (2) the lessor, which may be a private firm, vendor, or another governmental entity, and (3) investors. COPs are a widely used type of lease-purchase financing mechanism. Each certificate signifies that the investor owns a proportional interest in the lease payments to be made by the governmental entity. In a typical COP transaction, the lessor assigns the lease and lease payments along with its rights and obligations to a trustee, who executes the certificates.

<http://www.treasurer.ca.gov/cdiac/debtpubs/handbook.pdf>

ALTERNATIVES:

Alternatives include changing the type or scope of the projects, increasing debt financing to free up more annual funds for other projects, decreasing debt financing to further lower the annual payment and total interest cost. The updated funding plan is designed to fully fund the entire set of projects and achieve a balance between using annual funds and debt financing for these projects.

CONCLUSION:

This updated funding plan provides systematic way to accumulate annual available funds for these projects and use debt financing in an amount that keeps the City's annual payment about level.

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Interim Finance Director

Attachment 1: [Updated Lions Park Projects and Fire Station 1 Funding Plan](#)