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DRAFT

October 23, 2009

Memorandum

To: Mr. Keith Ashby, City Manager

From: Jay Glover, Public Financial Management
Jeremy Niedfeldt, Public Financial Management

Re: City of Newberry Nation's Park – Financing Options

As financial advisor to the City of Newberry (the "City"), Public Financial Management (PFM) has had preliminary discussions with City staff about the options available for funding all or a portion of the cost of the Nation's Park Project (the "Project"). In order to provide preliminary information related to the financing options available, PFM has relied upon the following assumptions that are yet to be finalized:

- The Project can be funded/purchased with the proceeds of a tax exempt borrowing
- Alachua County (the "County") will implement the 4th Cent Tourist Development Tax (the "4th Cent Tax") and provide these funds to the City via an Interlocal Agreement
- 4th Cent Tax currently equates to $625,000 annually (estimated collection based on FY 2009)
- 4th Cent Tax will be collected by the County and available to the City for a period of at least 20 years

Based on these assumptions, PFM has developed three (3) options available to the City to fund all or a portion of the cost of the Project.

<u>Option 1 (20 Year borrowing secured solely by the 4th Cent Tax):</u>

The City would issue a bank loan with a term of 20 years secured solely by the 4th Cent Tax collections received by the City. This financing structure would require that the City provide for a 1.35 times coverage factor based on the current FY collection figures. The following table outlines the key figures associated with this structure:

Term	Interest Rate	Annual Debt Service	Project Funds Available	Projected Excess Annual Revenues
20 Years	5.25%	$460,000	$5,570,000	$165,000

Under this structure the lender would be secured solely by the 4th Cent Tax and no other General Fund revenues would be securing the loan repayment.

Option 2 (20 Year borrowing secured by the 4th Cent Tax with General Fund Back Up and Fully Funded Debt Service Reserve Fund):

The City would issue a bank loan with a term of 20 years secured by the 4th Cent Tax collections received by the City and would provide a covenant to budget and appropriate from other legally available non-ad valorem revenues to the extent the 4th Cent Tax is not sufficient to repay the loan. In addition, the City would set aside a portion of the loan proceeds in the amount of 1 year's debt service as a reserve against future revenues declines. Under this financing structure the City could reduce the required coverage factor to 1.10 times based on the current FY collection figures. The following table outlines the key figures associated with this structure:

Term	Interest Rate	Annual Debt Service	Project Funds Available	Projected Excess Annual Revenues	Debt Service Reserve Fund
20 Years	5.25%	$565,000	$6,275,000	$60,000	$565,000

Under this structure, if 4th Cent Tax collections declined to the point where insufficient funds were available to make loan repayments, the City would utilize funds from the Debt Service Reserve Fund (DSRF) to fund any difference. If both of these sources were insufficient due to a prolonged recession with decreasing TDT collections and liquidated reserves, the City would be required to identify another source of non-ad valorem revenues to make up the difference. The benefit of this structure is the additional amount of project proceeds that can be generated based on the reduced coverage requirement, which are somewhat offset by the funds set aside in the DSRF. Another potential benefit of this option could be a more attractive borrowing cost (interest rate), based on the increased credit strength/diversification of the pledged revenues and DSRF.

Option 3 (20 Year borrowing secured by the 4th Cent Tax with General Fund Back Up):

The City would issue a bank loan with a term of 20 years secured by the 4th Cent Tax collections received by the City and would provide a covenant to budget and appropriate from other legally available non-ad valorem revenues to the extent the 4th Cent Tax is not sufficient to repay the loan. Under this financing structure the City could reduce the required coverage factor to 1.10 times based on the current FY collection figures. The following table outlines the key figures associated with this structure:

Term	Interest Rate	Annual Debt Service	Project Funds Available	Projected Excess Annual Revenues
20 Years	5.25%	$565,000	$6,845,000	$60,000

Under this structure, if 4th Cent Tax collections declined to the point where insufficient funds were available to make loan repayments, the City would have to identify another source of non-ad valorem revenues to make up the difference. The benefit of this structure is the additional amount of project proceeds that can be generated based on the reduced coverage requirement. Another potential benefit of this option could be a more attractive borrowing cost (interest rate), based on the increased credit strength/diversification of the pledged revenues.

As the process moves forward and some of the assumptions are firmed up, PFM will be in a better position to present the optimal plan of finance that meets the City's overall goals and objectives. The three scenarios outlined above are shown to demonstrate the amount of proceeds the City can generate based on the level of exposure the City is willing to take on. Professional fees and other associated costs of issuance will be paid for at closing and funded with loan proceeds. Please note that all figures provided above are preliminary and based on current market conditions. As market conditions change and discussions with potential lenders commence, the financing structures will likely need to be modified to adhere to the lender's requirements/covenants. If you have any questions please feel free to contact either of us. We look forward to working with the City through this process.