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**DRAFT**

October 27, 2009

# Memorandum

**To:** Mr. Roland Loog

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

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

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As a follow up to the memorandum dated October 23, 2009 prepared by Public Financial Management (PFM) for the City of Newberry (the "City"), the Alachua County Visitors and Convention Bureau (the "Bureau") has requested additional financing options based on Alachua County (the "County") levying the 4th and 6th Cent Tourist Development Tax (the "4th and 6th Cent Tax") to be used to assist with the financing of Nation's Park in the City. In order to provide the additional information, 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 will implement the 4th and 6th Cent Tax and provide these funds to the City via an Interlocal Agreement
- 4th and 6th Cent Tax currently equates to $1,250,000 annually (estimated collection based on FY 2009)

Based on these assumptions, PFM has developed two (2) additional options available to the City to fund all of the cost of the Project.

**<u>Option 1 (Borrowing secured solely by the 4th and 6th Cent Tax):</u>**

The City would issue a bank loan secured solely by the 4th and 6th 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 |
|---|---|---|---|---|
| 10 Years | 5.25% | $925,000 | $7,000,000 | $325,000 |

Under this structure the lender would be secured solely by the 4th and 6th Cent Tax and no other General Fund revenues would be securing the loan repayment. This structure would allow the loan to be repaid over a period of 10 years.

**<u>Option 2 (Borrowing secured by the 4th and 6th Cent Tax with Fully Funded Debt Service Reserve Fund):</u>**

The City would issue a bank loan secured by the 4th and 6th Cent Tax collections received by the City. In addition, the City would set aside funds (provided by the Bureau) in the amount of 1 year's debt service as a reserve against future revenues declines (the "Debt Service Reserve Fund"). 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 |
|---|---|---|---|---|---|
| 8 Years | 5.25% | $1,100,000 | $7,000,000 | $150,000 | $1,100,000 |

Under this structure, if 4th and 6th 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 to fund any difference. As a result of the lower required coverage factor, this loan could be repaid over a period of 8 years.

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 and County's overall goals and objectives. The two additional scenarios outlined above are shown to demonstrate how levying the 6th Cent Tax along with the 4th Cent Tax reduces the term of the loan repayment. 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 County and City through this process.