Memorandum

To: The Honorable Mayor and Members of City Council

From: Cindy Epperson, Director of Finance and Budget

Tara Lewis, Financial Services Manager

Date: 10/26/2015

Re: Yakima Sports Complex Financing

In addressing the strategic priority Built Environment, the citizens authorized a City Charter amendment to spend an additional $750,000 per year on Parks capital improvements. At their April 7, 2015 meeting, City Council entered into an agreement with SOZO Sports of Central Washington to collaborate in the design, development and operation of a world-class Yakima Sports Complex. The April 7 agreement only contemplated the purchase of about 42 acres, with the City providing $4.1 million for the purchase and development. Subsequent to this action, SOZO is proposing to purchase approximately an additional 60 acres. Council agreed to the concept, and currently there is a tentative agreement under consideration between the parties as to how the cost will be shared. Because the price of the second acreage has not been agreed upon, we set the language in the bond ordinance at "not to exceed" $5 million, which leaves up to $900,000 available to accomplish the purchase of the 2nd 40 acres. If the purchase price is less than the $900,000, then the City can use the remaining bond proceeds for other park and recreation capital projects.

In order to issue tax-exempt bonds, the IRS have a number of requirements whereby we would have to avoid excessive private use for the life of the bond. Because there is a "private party" (i.e. SOZO) using and benefitting from the transaction, it would have been burdensome to verify compliance with these rules. For that reason, we chose to go with a taxable Limited Tax General Obligation (LTGO) Bond. Debt service of $400,000 was budgeted for 2016 with the anticipation of budgeting approximately $400,000 per year over a 20 year amortization. A taxable bond maintains maximum flexibility for the business decisions regarding the property.

Several types of financing tools are available for Washington cities. Whenever the City needs to finance a project, an analysis is done to determine the most effective method to use. Cost of the financing, risk and repayment terms are key factors that affect the debt-vehicle best suited to the City's needs.

Generally, the City can self-fund a project through reserves and/or interfund loans, issue bonds on the market or privately, participate in a State bond issue or obtain a loan from a banking institution. For equipment, capital leases and/or corporate financing are also used from time to time, although these tend to be more costly.

The repayment terms anticipated in the Budget exclude interfund loans as state law requires such loans to be fairly short in duration (recommendation of 3 years or less). Participation in a State bond issue as was done for our recent purchases of new police cars and fire apparatus is also not an option in this case because the State will not finance infrastructure (they require an asset they can foreclose and sell in the event of default).

The remaining options are bond issue or bank financing. A bond issue is very expensive by nature. The City must employ an underwriter as well as bond counsel to work through the complex process of offering bonds for sale on the public bond market. SEC regulation drives much of that cost. For our $5 million, the cost of underwriter and bond counsel are estimated to be between $40,000 and $50,000. Interest rates on a public long term issue are likely to be fairly high -- in the neighborhood of 5%. These costs combine to make bond financing unattractive for this sort of project where other alternatives are available to us.

Bank financing is available with a bit of a twist. The bank offers a loan for which the City issues a single bond at a much more desirable interest rate for a short (5 year) term. At the end of that term, the bank is allowed to reset the rate to accommodate market changes that have occurred. The reset is based on the U.S. Treasury bill rates using a predetermined formula equal to the Interest Rate Swap for a 5-year term, as published by the Federal Reserve's Board of Governor's H.15 Statistical Release plus 1.75%. The City will be exposed to only three reset dates over the entire life of the debt in the 20 year amortization period.

Bank financing is generally much less expensive than issuing bonds for sale. The bank treats the financing as a loan and the City issues a single bond to be held by the bank for the duration of the financing term. While bond counsel is still a necessary component, due to the substantially lower risk of a bank financing, the fee for bond counsel is approximately 40% lower. The use of an underwriter is not necessary. We estimate that the City will save about $40,000 in direct costs as well as use fewer staff resources, as preparation of an official statement is time-consuming.

In the process we approached several banks about our financing needs. Cashmere Valley Bank was flexible and willing to work with our Bond Counsel to revise language and terms to meet the City's needs. The Cashmere Valley Bank proposal was attractive, both in terms of cost and risk for several reasons. The Bank has waived their standard loan origination fee. It has waived the bank counsel fees in that the bank is willing to rely on City's Bond Counsel for legal issues. It also agreed not to include a "put" option in the offer, which would have given the bank the option to discontinue financing at any of the three reset dates, rather than resetting the rate for the next five year term. They also agreed to allow the City to pay off or "call" the bond at any time during the term of the agreement with only 15 days written notice, with no prepayment penalty. These factors distinguished Cashmere Valley Bank as the clear choice for this Project financing.