



**MEMORANDUM**

**DATE:** December 16, 2008  
**TO:** Don F. Williams, City Manager *DFW*  
**THROUGH:** Rod Wensing, Assistant City Manager & Downtown Loveland Team Lead  
**FROM:** Alan Krmarik, Finance Manager *AK*  
**SUBJECT:** **Financing Options for Downtown Projects**

In the following pages, three options for financing downtown projects are presented for the City Council's information and to support further discussion. The three options are:

1. **Cash payment** for downtown projects based on the current capital project schedule;
2. General obligation **bond financing** based on a citywide property tax mill levy; and
3. Financing downtown projects through a **line-of-credit financing** through the Downtown Loveland Urban Renewal Authority.

Each option is based on several assumptions about the immediate future. The first assumption is the set of cost estimates for the projects. Based on information available at this time, the following list provides the likely projects and their estimated costs:

<u>Project</u>	<u>Range of Cost Estimates</u>	
*4 <sup>th</sup> Street streetscape (Street reconstruction, sidewalks, signals, landscaping, furnishings, includes contingency) *The Streetscape estimates all depends on final design.	\$ 6.4 million	\$ 9.1 million
Utility upgrades (Electric undergrounding, water main)	2.1 million	3.4 million
Pedestrian Connectivity (midblock passages near Rialto)	.4 million	.9 million
Plaza Improvements (south of Museum)	1.3 million	1.5 million
Wayfinding / Signage / Entryways	.4 million	.5 million
Parking Garage (including Office and Retail space)	<u>6.5 million</u>	<u>7.8 million</u>
Total Project Cost for purpose of analysis	\$17.1 million	\$ 23.2 million

The amount of funding estimated to be available in the 2009-2013 Capital Improvement Plan is shown in the table below:

2008	\$ 1,800,000 unspent for parking land.
2009	3,572,300
2010	2,132,940
2011	2,218,030
2012	2,309,320
2013	1,560,280

The total available is about \$13.6 million. Additional money will come from tax increment in the Downtown URA. Current and anticipated economic conditions will likely have an impact on the amount of money available. Staff has also made assumptions that are specific to each option.

## 1. Cash Payment Option

**Brief Overview:** According to the Capital Improvement Program adopted for 2009, current (2008) and future funding is budgeted (2009) and planned (years beyond 2009) to be budgeted for the list of Downtown Improvements. In this option, money becomes available during the annual budget process and is held for improvements if not spent in the first budgeted year. For example, the 2008 Budget included appropriation for land acquisition for the future parking structure. The acquisition has not occurred, but the funds are available and can be reserved for the original purpose.

Using the cash payment option would mean that some of the downtown improvement projects would not get underway until 2013 or 2014 and would not be finished until 2015 or later.

**Source of Funding:** To pay for the improvements listed on page 1, the City and the Loveland Urban Renewal Authority would use revenue received and accounted for in the Capital Improvement Plan. Future revenue from the Downtown property tax and sales tax increment could also be applied to the projects.

### Advantages

- Of the three options considered, this option is the least complex; it is a continuation of current capital improvements programming. In essence, the list of downtown projects would be constructed as money from the capital improvement program and tax increment from the project area becomes available.
- This approach means that projects will be phased over several years. Contracts would begin when the City and the LURA have accumulated sufficient funds to back the contract.
- This option probably has the least disruption to existing downtown businesses.

### Disadvantages

- The list of projects will be accomplished over a longer period of time.
- Depending on price inflation in the construction industry, there is risk that the projects, if delayed over a long period of time, will be more costly.
- Development in the downtown will be slower and corresponding private development projects will also be slower to come to the market.
- The growth in the downtown tax increment will be delayed and the Downtown URA may not attain its original objectives.

## 2. General Obligation Bond Financing

**Brief Overview:** In this option, the primary method of paying for downtown improvements would be the issuance of general obligation bonds to be repaid from property taxes levied on all property in the City. It would be similar to the financing packages presented by the school district to build schools. To issue bonds would require an election in which the voters would be asked to approve the issuance of the bonds *and also* to increase the property tax mill levy to cover the anticipated debt service.

Using the high end estimates and based on a 20 year bond issue, the annual debt service on the bonds would be about \$1.8 to \$1.9 million. The final number would be determined when the bond issue goes to market; interest rates at the time of the issue would impact the debt service.

**Source of Funding:** Under this option, the source of funding would be the voter approved property tax. The property tax would be between 2½ and 3 mills citywide. Tax increment from the Downtown Urban Renewal project could also be used to supplement the property tax.

### Advantages

- The whole list of Downtown projects would be built sooner, within the next three years. Bond proceeds have a requirement to be substantially used through construction of improvements within three years of issuance.
- Downtown projects would have an approved and dependable source of payment, the citywide property tax, for needed improvements.
- The construction of the public downtown projects could be coordinated, which may offer some efficiency in contractor pricing.
- Interest rates are at historically low levels, and the interest component of the financing plan would be low compared to other periods of time
- Construction of the projects would likely stimulate additional private investment in the Downtown area on a much faster timeframe.
- The City of Loveland would benefit from a “renewed” Downtown area, in terms of new infrastructure and the aesthetics of new private investment in the Downtown.
- The mill levy would not be very high – probably between 2½ and 3 mills in the first year.
- As the total assessed value of the City increases over the next 20 years, the mill levy to pay for the bonds could be decreased or applied to the maintenance or operation of the improvements

### Disadvantages

- The election to authorize bonds and the increased property tax would be citywide and in the current economic climate, voters may be reluctant to support a tax increase, thereby lowering the chances for a successful financing package.
- Despite the low interest rates, the interest costs are substantial over the life of the bonds.
- Some voters or even areas of the City may not think it is fair to pay for downtown improvements with a citywide tax.
- Construction of the full set of improvements in a three year period could lead to a higher level of disruption (and possible failures) of existing downtown businesses.
- Issuing bonds incurs costs which are added into the financing. For an issue of \$23.2 million there would be about \$800,000 in costs of issuance.

### 3. Line-of-Credit through the Loveland Downtown Urban Renewal Project

**Brief Description:** Using the powers that an urban renewal authority has under the state enabling legislation, the City and LURA could negotiate with a bank or other financial institution a line-of-credit. This financing technique has been used in other Colorado cities. The Loveland Downtown Team visited Golden, Colorado, in July and learned how the urban renewal authority there used a negotiated line-of-credit to pay for downtown improvements. Members of the finance and planning departments have checked with local and regional banks to determine if there would be interest for such financing and the response has been generally positive. Selection of a financial institution would be done through a competitive request for proposal process.

The line-of-credit works like a flexible loan. The Downtown URA project could draw money when necessary and pay interest only on the money drawn. As money is available to the URA, either from the City's planned capital improvement projects, or from property and sales tax increment in the downtown, repayment of the draw on the line-of-credit would be made. At the least, the financial institution would expect payment of interest on a negotiated time frame, probably quarterly or semi-annually. There would be a set term, no longer than the planned existence of the Downtown Urban Renewal Area project, about 18½ years.

**Source of Funding:** This option would use the programmed amounts, \$13.6 million in the City's Capital Improvement Program. To cover the payments on the line-of-credit, staff used projected property tax increment from the Downtown project area, future property tax increment from the Lincoln Place Project, and interest on unspent funds. Contributions from the possible financial assistance from financial institutions under the Community Reinvestment Act and sales tax increment from the Downtown project area could also be added support for payment.

#### Advantages

- The line-of-credit approach has been successfully used by other cities.
- This technique offers a great deal of financial flexibility to the Downtown URA.
- Based on current market conditions, historically low interest rates and financial institutions looking for high credit quality projects, interest rates would likely be very low. The legal and administrative costs of this approach are much lower than a bond issue.
- The construction schedule for the list of projects would be quicker than the cash payment option of financing.
- The carrying cost of the financing could be offset by interest earned on unspent capital improvement funding. For example, an account would be set up and the remaining money from 2008 parking garage land acquisition would be placed in the account and be invested. The earning could lower the effective interest rate to less than one percent; it is possible that the invested fund could gain more interest than needed for annual payment.

#### Disadvantages

- Compared to bond financing option with a dedicated property tax, the financing would have somewhat more risk as it would be dependent on money available in the capital improvement program and future tax increment from the Downtown project area.
- The construction schedule for the list of projects would be more drawn out than the bonding option. The project costs would be exposed to construction cost inflation. The line-of-credit would likely begin with a \$10 million limit. Once the revenue flows were documented a second financing could occur and eventually a third to complete the projects.
- The flexibility adds complexity; City Council, the LURA Board, and staff would have to monitor the line-of-credit transactions very closely.