



City of Alameda

Staff Report

File Number:2014-672

City Council

Agenda Date: 7/29/2014

File Type: Joint Agenda Item

Agenda Number: 5-C

SUMMARY: Approve External and Internal Financing Not to Exceed \$5 Million for the Construction of a New Fire Station 3

Recommendation to Approve External Financing Not to Exceed \$3 Million for the Construction of a New Fire Station 3 and Authorize the City Manager or His Designee to Negotiate and Execute All Related Financial Documents on Behalf of the City Consistent with the Terms Described in the Staff Report with I-bank or Another Financial Institution;

Adoption of Resolution of the City Council of the City of Alameda Authorizing the Submission of the Application to the California Infrastructure and Economic Development Bank (I-Bank) for Financing of the Construction of Fire Station 3, Declaration of Official Intent to Reimburse Certain Expenditures from Proceeds of Obligation, and Approving Certain Other Matters in Connection Therewith, Including the Authorization for the City Manager or His Designee to Execute All Related Financial Documents on Behalf of the City;

Adoption of Resolution of the City of Alameda Financing Authority Authorizing the Commencement of Proceedings in Connection with the External Lease Financing of a New Fire Station 3 and Authorizing the Executive Director to Negotiate, Execute and Deliver All Appropriate Financing Documents within Specified Parameters;

Adoption of Resolution of the City Council of the City of Alameda Authorizing the Commencement of Proceedings in Connection with the External Lease Financing of a New Fire Station 3 and Authorizing the City Manager to Negotiate, Execute and Deliver All Appropriate Financing Documents within Specified Parameters;

Approve an Interfund Loan for the Financing of a New Fire Station 3;

Authorize the Sale of the Property at 1703 Grand Street (Existing Fire Station 3); and

Appropriate \$400,000 from City Funds for the Financing of a New Fire Station 3. [CITY COUNCIL AND CAFA] (Fire 3205)

To: Honorable Mayor and Members of the City Council

From: John A. Russo, City Manager

Re: Approve External and Internal Financing Not to Exceed \$5 Million for the Construction of a New Fire Station 3

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Approve External Financing Not to Exceed \$3 Million for the Construction of a New Fire Station 3 and Authorize the City Manager or His Designee to Negotiate and Execute All Related Financial Documents On Behalf Of the City Consistent With the Terms Described in This Staff Report with Ibank or Another Financial Institution

Approve A Resolution Of The City Council Of The City Of Alameda Authorizing The Submission Of The Application To The California Infrastructure And Economic Development Bank (Ibank) For Financing Of The Construction of Fire Station 3, Declaration Of Official Intent To Reimburse Certain Expenditures From Proceeds Of Obligation, And Approving Certain Other Matters In Connection Therewith, Including The Authorization For The City Manager or His Designee To Execute All Related Financial Documents On Behalf Of The City

Adoption of Resolution Authorizing the Commencement of Proceedings in Connection with the External Lease Financing of a New Fire Station No. 3 and Authorizing the Executive Director to Negotiate, Execute and Deliver All Appropriate Financing Documents Within Specified Parameters

Adoption of Resolution Authorizing the Commencement of Proceedings in Connection with the External Lease Financing of a New Fire Station No. 3 and Authorizing the City Manager to Negotiate, Execute and Deliver All Appropriate Financing Documents Within Specified Parameters

Approve an Interfund Loan for the Financing of a New Fire Station 3

Authorize the Sale of the Property at 1703 Grand Street (Existing Fire Station 3)

Appropriate \$400,000 from City Funds for the Financing of a New Fire Station 3

BACKGROUND

In March 2014, Council approved a financing plan for the construction of a new Fire Station 3. The current station is temporarily located at 1709 Grand Street in a leased home and primarily serves the central areas of Alameda's Main Island. The original Station 3 at 1703 Grand Street was built in 1924 and had to be closed in 2001 when the building was deemed seismically unsafe. Rehabilitation or re-building 1703 Grand Street is not a viable option. Even if 1703 Grand Street were to be rehabilitated, the building would remain too small to house current standard fire trucks and equipment. A new, City-owned site at the corner of Hibbard Street and Buena Vista Avenue has been identified on which to construct the replacement of Fire Station 3.

The projected cost to design and construct Fire Station 3 is \$5 million. In order to fund this project, staff is recommending obtaining financing through a combination of one-time funds, an internal loan and external financing.

DISCUSSION

While the optimal source of capital to construct Fire Station 3 is grant funding, staff conducted thorough research and no viable grant sources are available. The alternative is to use as much as possible in the way of one-time available funds and bridge the balance of necessary capital through internal and external debt financing. In order to incur the least amount of debt and to minimize the cost of funds and annual debt service

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payments, staff is recommending using the following financial sources to fund the construction of Fire Station 3, as previously indicated at the March 2014 Council Meeting.

Source	Amount
One-Time Funds	
Facility Maintenance Fund (Fund 706) and/or Successor Agency Unspent Bond Proceeds (Fund 207.4)	\$400,000
FY 13-14 Capital Project 91344 (Emergency Operations Center and Fire Station 3)	\$341,000
Internal Loan from Equipment Replacement Fund and Sale of Property at 1703 Grand Street	\$1,259,000
External Financing	\$3,000,000
Total Cost of Fire Station 3	\$5,000,000

Staff worked with the City's financial advisor, Public Financial Management, Inc. (PFM), to determine the best options for external financing. The options include private placement funding with a private financial institution/bank or through other less traditional means. Based upon this review, staff has determined that California State Infrastructure and Economic Development Bank (IBank) offers the most competitive financing option. Its estimated annual interest rate as of June 2014 of approximately 4% for a twenty year loan is lower than similar twenty year offerings in the private placement financial markets.

The IBank was created, in part, to provide accessible low-cost financing to public and quasi-public agencies for a wide range of infrastructure projects, including public safety facilities. Generally, interest rates are below those typically available on the open market, depending on the project and the applicant's credit rating. Other bond financing tools, similar to the refinancing done in late 2013, are not viable because the dollar amount necessary for the project is below the threshold typically needed to make it cost effective for the issuance of debt.

FINANCIAL IMPACT

The budget for this project will be accounted for in a new Fire Station 3 Capital Improvement Fund. The General Fund will pay the projected debt service on the internal loans and external financing over a twenty year period. Exhibit 1 shows the estimated appraisal value of the current Fire Station 3 of approximately \$475,000. The debt service on the internal loans, assuming the City receives \$450,000 of proceeds from the sale of the property, will be approximately \$55,000 annually, but will not exceed \$82,000 annually, based upon an annual interest rate of 3%.

The debt service on the external financing is estimated to be approximately \$231,000 annually based upon an effective interest rate of 4.5%, but will not exceed \$251,000 annually, based upon an effective interest rate of 5.5%. The total expected annual debt service of approximately \$300,000 represents approximately 0.4% of the 14-15 General Fund Budget.

The total expected cost to the General Fund over the twenty year period is projected to be approximately

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\$8.10 million (\$1.19 million of one-time funds plus \$6.91 million of debt service payments, based upon an external financing rate of 4.5% for a loan of \$3 million, and an internal loan rate of 3% for an internal loan of \$809,000). These costs are anticipated to be offset by approximately \$50,000 of savings annually resulting from lease payments no longer needed for fire staff housing quarters and from anticipated energy savings from the new Fire Station 3.

MUNICIPAL CODE/POLICY DOCUMENT CROSS REFERENCE

There is no impact on the Municipal Code.

ENVIRONMENTAL REVIEW

Approving Internal and External Financing Options for Fire Station 3 is not a project under CEQA as it is a creation of a government funding mechanism that, while it does involve the commitment to a specific project, the project will not result in a potentially significant physical impact on the environment. CEQA Guidelines, Section 15378 (b) (4).

RECOMMENDATION

Approve external and internal financing not to exceed \$5 million for the construction of a new Fire Station 3

Approve external financing not to exceed \$3 million for the construction of a new Fire Station 3 and authorize the City Manager or his designee to negotiate and execute all related financial documents on behalf of the City consistent with the terms described in this staff report with Ibank or another financial institution

Approve a resolution of the City Council of the City of Alameda authorizing the submission of the application to the California Infrastructure and Economic Development Bank (IBank) for financing of the construction of Fire Station 3, declaration of official intent to reimburse certain expenditures from proceeds of obligation, and approving certain other matters in connection therewith, including the authorization for the City Manager or his designee to execute all related financial documents on behalf of the City

Adoption of Resolution Authorizing the Commencement of Proceedings in Connection with the External Lease Financing of a New Fire Station No. 3 and Authorizing the Executive Director to Negotiate, Execute and Deliver All Appropriate Financing Documents Within Specified Parameters

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Respectfully submitted,

City Council

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Fred Marsh, Finance Director
Mike D'Orazi, Fire Chief
Bob Haun, Public Works Director

Exhibit:

1. Fire Station 3 Appraisal Report