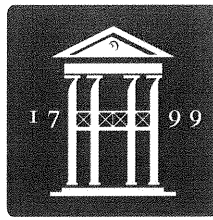


Attachment G:

Financing Options for the
Consolidated Public Works Facility

ADMINISTRATION

Russell B. Truell
Assistant City Administrator, CFO
Finance



Dr. Ken Moore
Mayor

Eric S. Stuckey
City Administrator

H I S T O R I C
F R A N K L I N
T E N N E S S E E

August 18, 2011

TO: Board of Mayor and Aldermen
FROM: City Administrator Eric S. Stuckey
Assistant City Administrator Russ Truell
SUBJECT: Financing of Public Works Facility

Estimates for the amount of capital outlay for a centralized Public Works Facility at the proposed site run from \$4 million to \$5 million. There is reason to believe that substantial savings can be obtained in both the operational aspects of a single location for all public works departments, and in the potential for sharing equipment. Coordination of multi-department tasks and projects can result in lower labor costs from scheduling efficiencies and reduction of overtime. Over a period of year, equipment sharing may reduce the required quantity of, and extend the life of, rolling stock and equipment.

Another consideration for financing the proposed facility is the sale of existing facilities. The current site of the Water & Wastewater departments and our Fleet operations would be available for sale upon moving to the new facility. Similarly, a later transfer of Street Department operations would make the Southeastern Parkway site surplus and available for sale. Proceeds from these sites could be used to reduce the initial cost of purchase and renovation of the proposed facility.

At this point, department directors & staff are reviewing budget forecasts to estimate the potential savings from consolidation. While we can obtain appraisals on the existing sites, only the actual sale of the properties will determine the amount that would be available for reduction of cost on the new site.

Given this uncertainty on the timing and value of asset sale and savings from consolidation, I would recommend that we set a term of twelve years for the financing of the new facility. That would provide a two-year period for purchase of the property, to make the necessary site improvements, and transfer the operations of water, wastewater and fleet maintenance. The remaining ten years would allow time to recoup the upfront costs through operational efficiencies and savings from reduction in capital equipment purchases.



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TENNESSEE

Establishing a twelve year payout also allows a choice in financing methods. Of course, one choice is always the use of fund balance reserves. A more customary choice would be a competitive bond sale with a twelve year maximum maturity and level debt service. Included with this memo is an estimate of those payments. A third avenue of financing would be a three year capital outlay note, renewable for up to twelve years. An example of a six-year capital outlay note is also attached.

It is usually unwise to use only reserves for a large capital purchase with potential long-term savings. Given the prospect of lump sum payments upon sale of existing assets, it may be possible to recoup some of the original outlay in a short time period; but it is not something that I would rely upon to rebuild fund balances. Keeping reserves at a high level is more valuable in the current environment than the avoidance of borrowing for a project like this one.

A twelve-year bond issue is very practical and, at current interest rates, affordable. A schedule of payments on the attached exhibit shows that annual payments for the total project would run approximately \$500,000 per year. By assigning responsibility for that debt service to the department utilizing the proposed facility, it would require water and wastewater to absorb about \$85,000 per year per department; utility administration, \$85,000; fleet operations would absorb \$64,000; other street department divisions (maintenance, traffic, storm water) would be charged \$64,000 each.

A third approach, and the one that perhaps best fits the circumstances, would be to issue short term capital outlay notes. These notes would have a three year maturity, with the option to renew for up to nine additional years. Because the maturities are short, the interest rates would be less than 1% in today's environment; that makes it the least costly means of financing. At the end of the third year (or any subsequent renewal period), any proceeds from the sale of "the hill" or the current Street Department facility could be applied to principal to reduce the debt. My best estimate is that this method would reduce the annual payments to approximately \$400,000 per year.

As further information about renovation and improvements to the property becomes available, as well as potential asset sales and operational savings, I will be pleased to update the numbers and provide additional exhibits regarding funding methods.

\$5,000,000 Level Debt Schedule, 12 years, Listed Coupon Rates

Yr	Year	Coupon	Beg Bal	Principal	Interest	Total Payment	End Bal
1	6/30/2012	2.00%	5,000,000	360,000	152,350	512,350	4,640,000
2	6/30/2013	2.00%	4,640,000	365,000	145,150	510,150	4,275,000
3	6/30/2014	3.00%	4,275,000	375,000	137,850	512,850	3,900,000
4	6/30/2015	3.00%	3,900,000	385,000	126,600	511,600	3,515,000
5	6/30/2016	3.00%	3,515,000	395,000	115,050	510,050	3,120,000
6	6/30/2017	3.00%	3,120,000	405,000	103,200	508,200	2,715,000
7	6/30/2018	3.00%	2,715,000	420,000	91,050	511,050	2,295,000
8	6/30/2019	3.00%	2,295,000	430,000	78,450	508,450	1,865,000
9	6/30/2020	3.00%	1,865,000	445,000	65,550	510,550	1,420,000
10	6/30/2021	3.00%	1,420,000	460,000	52,200	512,200	960,000
11	6/30/2022	4.00%	960,000	470,000	38,400	508,400	490,000
12	6/30/2023	4.00%	490,000	490,000	19,600	509,600	0
			5,000,000		1,125,450	6,125,450	

Preliminary Assumption: Facility is 1/2 Water & Sewer, 1/2 Streets

16.7%	16.7%	16.7%	12.5%	12.5%	12.5%	12.5%	12.5%	100.0%
Wtr Dist	WW Coll	Util Adm	Street-M	Street-T	Street-F	Street-St	Total	
85,392	85,392	85,392	64,044	64,044	64,044	64,044	512,350	
85,025	85,025	85,025	63,769	63,769	63,769	63,769	510,150	
85,475	85,475	85,475	64,106	64,106	64,106	64,106	512,850	
85,267	85,267	85,267	63,950	63,950	63,950	63,950	511,600	
85,008	85,008	85,008	63,756	63,756	63,756	63,756	510,050	
84,700	84,700	84,700	63,525	63,525	63,525	63,525	508,200	
85,175	85,175	85,175	63,881	63,881	63,881	63,881	511,050	
84,742	84,742	84,742	63,556	63,556	63,556	63,556	508,450	
85,092	85,092	85,092	63,819	63,819	63,819	63,819	510,550	
85,367	85,367	85,367	64,025	64,025	64,025	64,025	512,200	
84,733	84,733	84,733	63,550	63,550	63,550	63,550	508,400	
84,933	84,933	84,933	63,700	63,700	63,700	63,700	509,600	
1,020,908	1,020,908	1,020,908	765,681	765,681	765,681	765,681	6,125,450	

SOURCES AND USES OF FUNDS

Franklin, City of
 2011 Capital Outlay Note
 Rates as of 8-11-11 +20bps
 COI and UWD at \$8 per bond

Sources:

Bond Proceeds:	
Par Amount	4,190,000.00
Premium	131,609.85
	<u>4,321,609.85</u>

Uses:

Project Fund Deposits:	
Project Fund	4,250,000.00
Delivery Date Expenses:	
Cost of Issuance	33,520.00
Underwriter's Discount	<u>33,520.00</u>
	67,040.00
Other Uses of Funds:	
Additional Proceeds	4,569.85
	<u>4,321,609.85</u>

BOND SUMMARY STATISTICS

Franklin, City of
 2011 Capital Outlay Note
 Rates as of 8-11-11 +20bps
 COI and UWD at \$8 per bond

Dated Date	11/01/2011
Delivery Date	11/01/2011
Last Maturity	05/01/2017
Arbitrage Yield	1.018387%
True Interest Cost (TIC)	1.264349%
Net Interest Cost (NIC)	1.285059%
All-In TIC	1.513041%
Average Coupon	2.000000%
Average Life (years)	3.274
Duration of Issue (years)	3.181
Par Amount	4,190,000.00
Bond Proceeds	4,321,609.85
Total Interest	274,400.00
Net Interest	176,310.15
Total Debt Service	4,464,400.00
Maximum Annual Debt Service	811,800.00
Average Annual Debt Service	811,709.09
Underwriter's Fees (per \$1000)	
Average Takedown	
Other Fee	8.000000
Total Underwriter's Discount	8.000000
Bid Price	102.341047

Bond Component	Par Value	Price	Average Coupon	Average Life	PV of 1 bp change
Bond Component	4,190,000.00	103.141	2.000%	3.274	1,355.80
	4,190,000.00			3.274	1,355.80

	TIC	All-In TIC	Arbitrage Yield
Par Value	4,190,000.00	4,190,000.00	4,190,000.00
+ Accrued Interest			
+ Premium (Discount)	131,609.85	131,609.85	131,609.85
- Underwriter's Discount	-33,520.00	-33,520.00	
- Cost of Issuance Expense		-33,520.00	
- Other Amounts			
Target Value	4,288,089.85	4,254,569.85	4,321,609.85
Target Date	11/01/2011	11/01/2011	11/01/2011
Yield	1.264349%	1.513041%	1.018387%

BOND PRICING

Franklin, City of
 2011 Capital Outlay Note
 Rates as of 8-11-11 +20bps
 COI and UWD at \$8 per bond

Bond Component	Maturity Date	Amount	Rate	Yield	Price	Premium (-Discount)
Bond Component:						
	05/01/2012	365,000	2.000%	0.400%	100.798	2,912.70
	05/01/2013	735,000	2.000%	0.500%	102.238	16,449.30
	05/01/2014	750,000	2.000%	0.620%	103.418	25,635.00
	05/01/2015	765,000	2.000%	0.770%	104.239	32,428.35
	05/01/2016	780,000	2.000%	1.100%	103.940	30,732.00
	05/01/2017	795,000	2.000%	1.440%	102.950	23,452.50
		4,190,000				131,609.85

Dated Date	11/01/2011	
Delivery Date	11/01/2011	
First Coupon	05/01/2012	
Par Amount	4,190,000.00	
Premium	131,609.85	
Production	4,321,609.85	103.141047%
Underwriter's Discount	-33,520.00	-0.800000%
Purchase Price	4,288,089.85	102.341047%
Accrued Interest		
Net Proceeds	4,288,089.85	

BOND DEBT SERVICE

Franklin, City of
 2011 Capital Outlay Note
 Rates as of 8-11-11 +20bps
 COI and UWD at \$8 per bond

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
05/01/2012	365,000	2.000%	41,900	406,900	406,900
11/01/2012			38,250	38,250	
05/01/2013	735,000	2.000%	38,250	773,250	811,500
11/01/2013			30,900	30,900	
05/01/2014	750,000	2.000%	30,900	780,900	811,800
11/01/2014			23,400	23,400	
05/01/2015	765,000	2.000%	23,400	788,400	811,800
11/01/2015			15,750	15,750	
05/01/2016	780,000	2.000%	15,750	795,750	811,500
11/01/2016			7,950	7,950	
05/01/2017	795,000	2.000%	7,950	802,950	810,900
	4,190,000		274,400	4,464,400	4,464,400