



Project Financing Committee

A subcommittee of the Los Altos Finance Commission

TASK

Determine options for financing \$10M for the Community Center by contacting local banks.

BACKGROUND

Council has requested guidance on options available to assist in funding the additional capital needed to build the Community Center. The City approved a budget of \$35M, but has available fund of \$25M. Thus, there is a borrowing need of \$10M.

PRESUMPTIONS

--Revenue over expense about \$2.5M annually

For funding CIP, future debt service and future CalPERS payments

RISKS

--Community Center budget based on cost estimate by architect

No bid yet, no allowance and no current market cost escalation

--Very uncertain amount due to CalPERS unfunded liability (at least \$30M)



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INITIAL RESULTS

- 1) Who to borrow from – At this stage, we have made contact with six banks who are interested in financing the proposed debt. All banks came back with favorable comments. In addition, we will explore a loan through the State of California funding program, [IBank](#) (California Infrastructure Economic Development Bank).
- 2) Terms of the loan – Most banks are suggesting a 15 year loan. But, a 20 year loan is also possible.
- 3) Interest rate – The current rates being quoted range between 2.9% to 3.5%. These rates cannot be guaranteed and change daily. Rates are anticipated to increase in the future.
- 4) Type of loan – Fixed or variable.
- 5) When to borrow – The decision on when to borrow will be dependent on the status of interest rates. Assuming an upward trend in interest rates, it may be to the City's best interest to borrow at the beginning of construction to obtain a lower interest rate.



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FINANCING OPTION EXAMPLE #1

Loan amount - \$10,000,000

Interest rate – 3.5% (example)

Payment terms – amortized over **15 years** (180 months)

Monthly payment - \$71,488

annual debt service - \$857,856 (about equal to the expected budget for debt service of \$800,000)

Total cost of borrowing - \$12,867,886



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FINANCING OPTION EXAMPLE #2

Loan amount - \$10,000,000

Interest rate – 3.5% (example)

Payment terms – amortized over 20 years (240 months)

Monthly payment - \$57,996

Annual debt service - \$695,952

Total cost of borrowing - \$13,919,040



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NEXT STEPS

- 1) Determine timeline of construction
- 2) Determine the timing of the need to borrow – beginning, middle or end of the project.
- 3) Gather details on financing options from the banks
- 4) Narrow the number of financing proposals to three or four
- 5) Request quotes from the selected banks
- 6) Present the proposals to the City for final selection