

MEMO

To: Bob Kuntz, City Administrator

From: Denise Keller, Finance Officer

Subject: Funding Options for Pointe Energy/Mechanical Systems

Date: September 16, 2013

The cost to replace the mechanical systems at the Pointe will be \$3,975,326. Essentially, funding for this project will require outside financing. The amount to be financed can be minimized by paying in part with a draw from the City's unassigned fund balance.

The City's policy is to maintain a minimum unassigned fund balance no less than 25% of total operating expenditures at the end of each annual fiscal period. The fund balance projected for December 31, 2013 is \$7.6 million dollars, which is 42.6% of projected operating expenditures. After maintaining the required 25%, \$3.1 million would be available to spend on the mechanical systems. Rather than using all of this for funding, however, the recommendation is to divide the funding equally between financing and use of reserves.

Financing could be spread over a three or five year period. Preliminary interest rate and payment quotes have been obtained from three sources and are reflected in the tables below:

Three- year Term

Source	Interest Rate	Annual Payment	Total Payments
A	1.59%	\$683,135	\$2,049,405
B	1.96%	\$689,720	\$2,069,160
C	2.0%	\$692,972	\$2,078,916

Five-year Term

Source	Interest Rate	Annual Payment	Total Payments
A	2.05%	\$421,191	\$2,105,955
B	2.45%	\$427,442	\$2,137,210
C	3.0%	\$425,818	\$2,129,090

Actual payment amounts would be subject to the competitive bid process and subsequent Board award. Although it is impossible to predict actual interest rates until a formal bid process is conducted, based upon a preliminary analysis we would favor a three year term to minimize the total cost of financing.