Financing Options in General

City of Moreno Valley and
Moreno Valley Utility (MVU)

Moreno Valley Townhall Meeting
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Project Funding Considerations

- Useful life of assets or facilities being constructed
- Timeline for completion
- Project completion, operational, and timing risks
- Availability of existing funds to cash-fund project(s)
  - Must consider alternative uses for the available cash
- Availability of revenues to repay potential borrowing
  - Consider strength and continuity of revenue stream available to repay debt
- Existing capital funding policies or preferences

Types of Financing / Funding Overview

- Pay-As-You Go or Cash Funding
- Short Term Debt
  - Bonds/Notes/Loans/Lines of credit
- Long Term Debt
  - Publicly Sold Bonds (Municipal Bond Market)
  - Private Placements or Direct Bond Purchases
- Alternative / Private Financing
  - Including Public Private Partnerships (P3)

Selecting Most Cost-Effective Financing

- Pay-As-You Go or Cash Funding
  - Smaller projects
  - Shorter useful life projects
  - Longer project spending timelines (e.g. more than 3 years)
  - Recurring project types or major maintenance items
  - Existing funding available or available in the near future
  - Consistent with policies identifying Pay-Go project types
- Moreno Valley Experience: Pay-As-You Go Funding
  - Heacock Street widening, sidewalks, ADA compliance, storm drains, Police Camera Project, Transportation Mgt Project
  - Grant funded projects and those with a dedicated revenue source (Measure A, Gas Tax, SCAQMD funded, DIF funded)

Selecting Most Cost-Effective Financing

- Short-Term Debt: Loans / Lines of Credit
  - Smaller to medium-sized projects
  - Projects with shorter expenditure timeframes
  - Interim or short-to-medium term financing typical (1-5 years)
  - Cash flow borrowings of one year or less
  - Existing full funding not available but expected in near term
  - Sufficient revenues to cover short to medium term repayment
- Moreno Valley Experience: Short Term Loans/Lines of Credit
  - Typically short term internal borrowing
  - Nason Street South Extension (borrowed from DIF funds)
  - Funds to start MV Utility and Funds to buy land for the Substation Project borrowed against General Fund line of credit

Selecting Most Cost-Effective Financing

- Long-term Debt: Publicly Sold Bonds
  - Medium to large projects
  - Useful life of project of 20+ years
  - Finite near-term expenditure period (e.g. 1-3 years)
  - Long-term, fixed-rate repayment period (e.g. 15 – 30 years)
  - Sufficient revenues / annual funding to repay borrowing
  - Strong repayment source credit quality and transparency
  - May meet policies guidelines to match useful life to payments
  - Project is well-understood with minimal operational or construction risks

Selecting Most Cost-Effective Financing

- Moreno Valley Experience - Long-term Debt: Municipal Bond Issuance
  - Certificates of Participation issued in 1994 for City Hall Building purchase and tenant improvement (scheduled to be paid off in 2017)
  - Lease Revenue Bonds issued in 1997 for the Public Safety Building project (scheduled to be paid off in 2019)
  - Lease Revenue Bonds issued in 2007 for MVU system expansion (allowed the utility to expand and become financially strong)

Selecting Most Cost-Effective Financing

- Long-term Debt: Private Placements or Direct Bond Purchase
  - Repayment source with weaker credit quality or inability in providing public market initial and continuing disclosures
  - Revenues for bond repayment may face some uncertainty
  - Project may have some potential operational or construction risks
  - Medium to large projects
  - Useful life of project of 10+ years
  - Finite near-term expenditure period (e.g. 1-3 years)
  - Long-term, fixed-rate repayment period (e.g. 10 – 30 years)

Selecting Most Cost-Effective Financing

- Moreno Valley Experience - Private Financing
  - Refinanced City Hall and Public Safety Building debt directly with Bank of America
  - Less than 10 years remaining on both debt issues made the financings attractive for BofA's investment portfolio
  - Recession and a bond rating "watch" rating made refinancing in Muni market less feasible
  - BofA took the time to review the City's financial situation and provided a very favorable proposal to refinance the remaining debt with significant savings

Selecting Most Cost-Effective Financing

- Alternative / Private Financing (Public Private Partnership)
  - Repayment source with weaker credit quality or possibly contingent upon revenues generated from project
  - Revenues for bond repayment face significant uncertainty and may not be available for initial repayment period
  - Projects with identified operational or construction risks
  - Medium to large projects
  - Useful life of project of 10+ years
  - Finite near-term expenditure period (e.g. 1-3 years)
  - Long-term, fixed-rate repayment period (e.g. 15 – 30 years)

Selecting Most Cost-Effective Financing

- Moreno Valley experience with P3s
  - Moreno Valley Utility contracts the operation and customer service and billing with Enco through 2020
  - Moreno Valley began contracting with LSSI to operate Library services in 2013
  - Capital Projects have typically been contracted with private firms for design or construction in partnership with private firms
  - Moreno Valley has not pursued a "Design-Build" approach or a more complex "Finance/Design/Build/Operate" project

Discussion - Public Private Partnerships

- Most simply put:
  - Public private partnerships (P3s)allow a public entity to leverage its revenues and a private entity's equity to fund major projects in some cases when the facts/criteria of the project make sense
  - A P3 is a legally binding contract between a public sector entity and a private company (often referred to as concessionaire)
  - The partners agree to share some portion of the risks and rewards inherent in an infrastructure project.

Public Private Partnerships

Different Levels of Private Sector Engagement in PPP Contracts

<table>
<tr><th></th><th>Identify Service/ Infrastructure Need</th><th>Propose Solution</th><th>Project Design</th><th>Project Financing</th><th>Construction</th><th>Operation/ Maintenance</th><th>Ownership</th></tr>
<tr><td>Operate/Maintain</td><td colspan="2">Public Sector</td><td>N/A</td><td>Public Sector</td><td>N/A</td><td>Private Sector</td><td>Public Sector</td></tr>
<tr><td>Bid/Build</td><td colspan="4">Public Sector</td><td>Private Sector</td><td colspan="2">Public Sector</td></tr>
<tr><td>Design/Build</td><td colspan="2">Public Sector</td><td>Private Sector</td><td>Public Sector</td><td>Private Sector</td><td colspan="2">Public Sector</td></tr>
<tr><td>Design/Build/Finance</td><td colspan="2">Public Sector</td><td colspan="3">Private Sector</td><td colspan="2">Public Sector</td></tr>
<tr><td>Design/Build/Finance/Operate/Maintain</td><td colspan="2">Public Sector</td><td colspan="4">Private Sector</td><td>Public Sector</td></tr>
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P3 Benefits

- **Benefits of a P3 approach**
  - Provides access to financial capital if an agency does not have the capacity to borrow (an alternative source of debt)
  - If project includes a substantial operating component – private firm pays lower operating costs, primarily lower pensions and benefits
  - If the project is structured where the public agency will never own the asset, prevailing wage may be avoided, resulting in lower capital cost of the project
  - Project is a design/build/finance/operate/maintain turnkey project, the private firm has many opportunities to make a profit and can subsidize overall costs project-wide

P3 Weaknesses

- **Weaknesses of a P3 approach**
  - Cost of capital and financing is typically higher
    - If the public agency has access to municipal bond markets with a strong credit rating, the public cost of capital is significantly lower
    - A turnkey project may allow a private entity to bid lower financing cost in exchange for a long-term operating profit component
  - If the public agency will own the project/asset when completed, the private firm must pay prevailing wage
  - Procurement process is complex, requires much more time to construct a very detailed RFP and detailed contract, making all deliverables and performance by the private firm explicit.
    - The private firm will only perform to the contract, since going beyond the contract will add additional cost to the firm

Financing Considerations Going Forward

- Generally, the City has considered financing projects using traditional dedicated funding available (Pay as you Go) or municipal financing
- P3s have not been a stated priority for the City Council
- City Council could consider amending the debt financing policy to include a reference to the intent to review P3 opportunities based on specific criteria of projects in the future
    - An example of an opportunity may be to manage and operate the City's storm drain system