

January 21, 2016

Ms. Jeanette Contreras
Library Director
Placentia Library District
411 E. Chapman Avenue
Placentia, California 92870

RE: FUNDING OPTIONS FOR LIBRARY IMPROVEMENTS

Dear Ms. Contreras:

Per your request, we have reviewed options available to the Placentia Library District to fund capital improvements in the approximate amount of \$2,000,000. The following represents our analysis.

Option 1 – Lease Purchase through CSDA Finance Corporation

The California Special District Association Finance Corporation (CSDAFC) was established in 1988 as a 501(c)(4) public benefit corporation with its purpose to assist special districts and other local government agencies by providing tax-exempt financing solutions for capital improvements, equipment, land purchases and refinancing of prior debt. The CSDAFC is partnered with the California Special District Association (CSDA) and the Special District Risk Management Authority (SDRMA), and is part of the California Special Districts Alliance. The CSDAFC currently outsources the financial advisor services to Municipal Finance Corporation.

The type of financing to be used would be a lease-purchase arrangement. This type of financing allows for: (1) low closing costs; (2) no upfront costs or fees; (3) simplified documentation; (4) tax-exempt interest rates; and (5) flexible payment terms. The advantage of this type of financing is that it preserves the Library's liquidity by spreading the cost of the asset out over future years. The disadvantage is that lease payments will need to be budgeted each year throughout the lease term. Lease terms can range from 10 to 20 years. Since the asset being acquired is a building that will have a useful life greater than 20 years, it would be preferable to have a lease term of 20 years. Should the Library desire, the lease can be paid off early with no penalty, but the markets generally dictate a period of approximately 7 years before any prepayments can be made.

Based upon other recent financings of the CSDAFC, the following represents annual costs to the Library over 10 and 20 year terms.

Assumptions:

- Estimated principal = \$2,000,000
- Interest rate = 3.50% to 4.50%
- Term = 10 years and 20 years

Using the above assumptions, the estimated annual lease payments would be as follows. The actual terms will be determined when the financing occurs and CSDAFC reviews the creditworthiness of the Library.

<u>Interest Rate</u>	<u>Annual Lease Payment</u>	
	<u>10 Years</u>	<u>20 Years</u>
3.50%	\$240,483	\$140,722
4.50%	252,758	153,752

The lease-purchase also allows for the Library to incur the costs, then in essence reimburse itself through the financing. This allows for the financing process to work independently from the capital improvement process.

The process of executing the financing is as follows:

- The Board provides direction to the staff that it desires to pursue a lease-purchase financing with the CSDAFC.
- Staff notifies CSDAFC of the Library's intent to proceed with a lease-purchase financing.
- The CSDAFC will prepare a resolution for the Board to consider at a future meeting which will formally authorize the Library to enter into a lease-purchase financing.
- The Board will determine the principal amount to be borrowed.
- The CSDAFC will prepare the financing documents associated with the financing.
- The Library's General Counsel will need to provide a legal opinion on the financing documents.
- The Library will provide evidence of its creditworthiness to the CSDAFC. This will include the three prior years' financial statements and the current year budget.
- The Board will execute the financing documents and agree to budget the lease payments.

Option 2 – Pay Cash

A second option available to the Board to fund the capital improvements is to utilize its existing reserves and unrestricted funds. The advantage of this approach is that the capital improvements will be owned free and clear. The disadvantage is that a cash outlay of this size may weaken the Library's financial condition.

Option 3 – Seek Grant Funding

A third option involves the research for potential grant funding. It may be possible to find grant funding for improvements that may be required by the Americans with Disabilities Act (ADA). The scope of our review did not extend to the research required for any grants that may be available.

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We do not believe that the total cost of the project can be funded entirely by grants, but there may be funds available for a portion of the project.

Option 4 – Combination of Other Options

Probably the most realistic approach for the Library is to fund the capital improvements through a combination of the three previous options. The Library should determine whether any grant funds are available. Once that has been determined, then it should utilize some of its existing cash, preferably the restricted impact fees if a nexus can be made that the improvements to be made are an allowable use of the fees. The finally, enter into a lease-purchase arrangement with the CSDAFC for the balance.

Should you have any questions or need additional information, please call me at (949) 783-1750, or email me at mdavis@davisfarr.com.

Sincerely,



Marcus D. Davis, CPA
Partner