



KENSINGTON FIRE PROTECTION DISTRICT

DATE: February 9, 2022

TO: Board of Directors
Kensington Fire Protection District

RE: **Agenda Item 6c**
Public Safety Building Renovation – NHA Financial Analysis Update

SUBMITTED BY: Bill Hansell, General Manager

Background

The following addendum to my PSB Progress Update was received late on Tuesday, February 8, 2022. It is a revision by NHA Advisors of the analysis they presented at the Board of Directors meeting on November 10, 2021. The changes include the following:

Page 3 - Interest Rates Reference Chart showing changes from 2002 to 2022.

Page 4 – Assumptions: Note on construction inflation and feasibility pending project delay.

Page 5 – Cash Flows Chart for Alternative 01 showing revenues/bond proceeds (blue line) over expenses, including building outlays (orange bars), operating expenses (dark gray bars), rolling stock outlays (light gray bars), and debt service amount (green bars)

Page 6 – Cash Flows Chart for Alternative 02 showing revenues/grant proceeds (blue line) over expenses, including building outlays (orange bars), operating expenses (dark gray bars), rolling stock outlays (light gray bars), and debt service amount (green bars)

Page 7 – Reserves Chart for Alternative 01 showing reserves projections.

Page 8 – Reserves Chart for Alternative 02 showing reserves projections.

Page 9 – Conclusions: Pros and Cons of Alternative 01 vs. Alternative 02.

KENSINGTON FIRE PROTECTION DISTRICT

FACILITIES FUNDING DISCUSSION

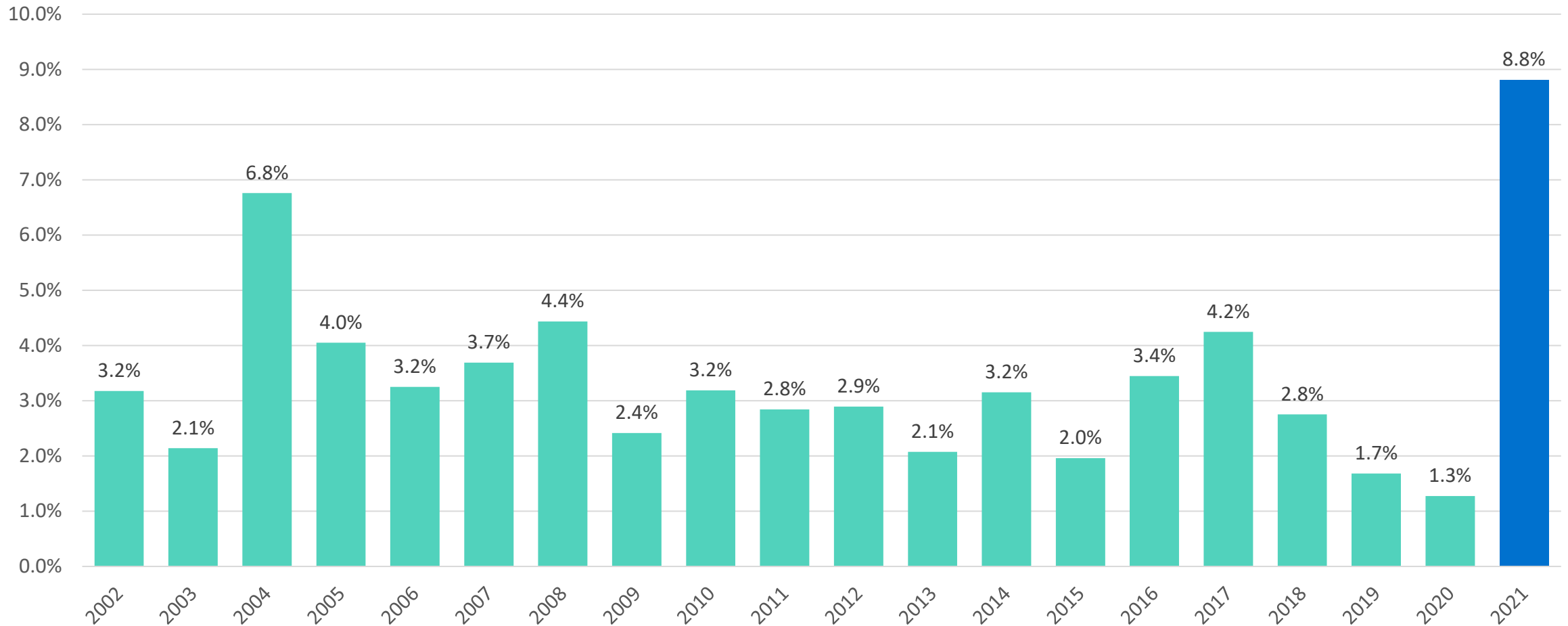


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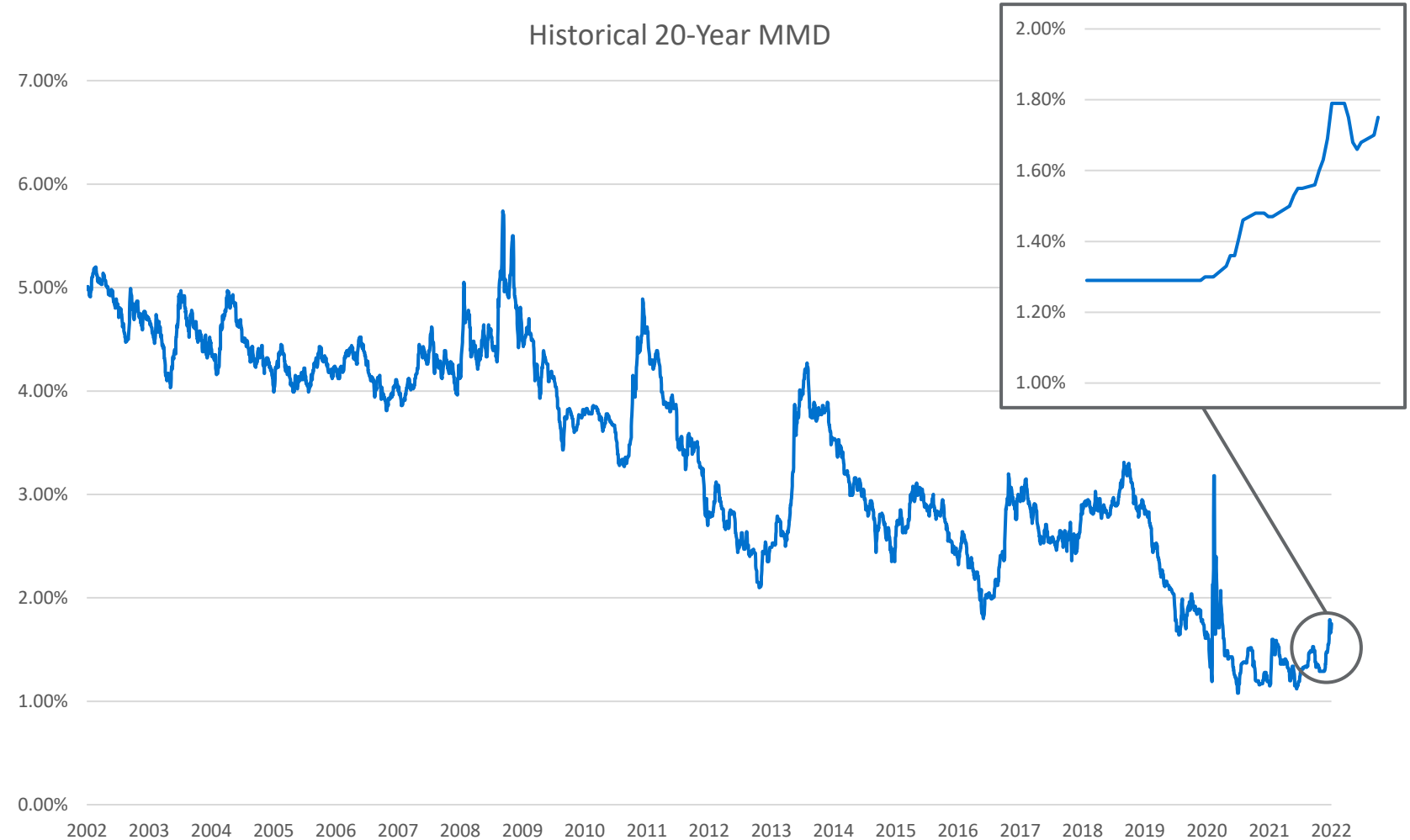
ENR Construction Cost Index (September - August)

- ▶ Construction inflation has been hard to predict historically
- ▶ The election and COVID delayed a lot of projects
- ▶ This has led to the current supply and demand imbalance and elevated construction inflation



Interest Rates

- ▶ Interest rates are near historical lows, but rates have risen significantly since mid-December 2021
- ▶ Market projecting multiple rate increases by the Fed in 2022



Assumptions

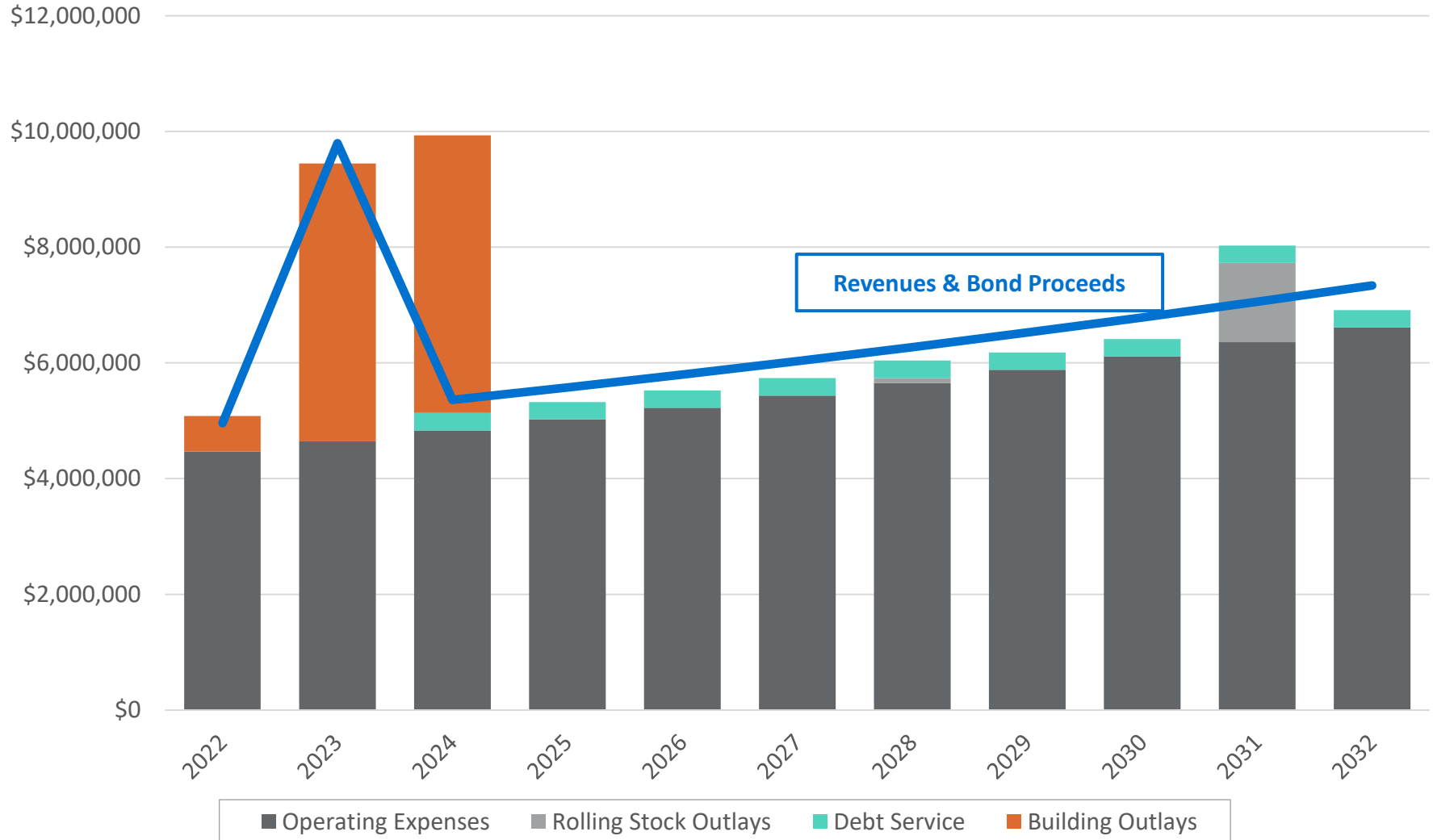
- ▶ If construction is delayed, we would assume an 8% construction inflation rate
 - ▶ Depending on the length of the delay, the project could become infeasible
- ▶ Beginning revenues and expenditures from the FY 2021-22 budget
- ▶ 4% inflation factor for revenues, expenditures, and rolling stock
- ▶ 30-year financing
- ▶ 4% interest rate



Cash Flows – Alternative 1 (Financing – \$300K Annual Debt Service)

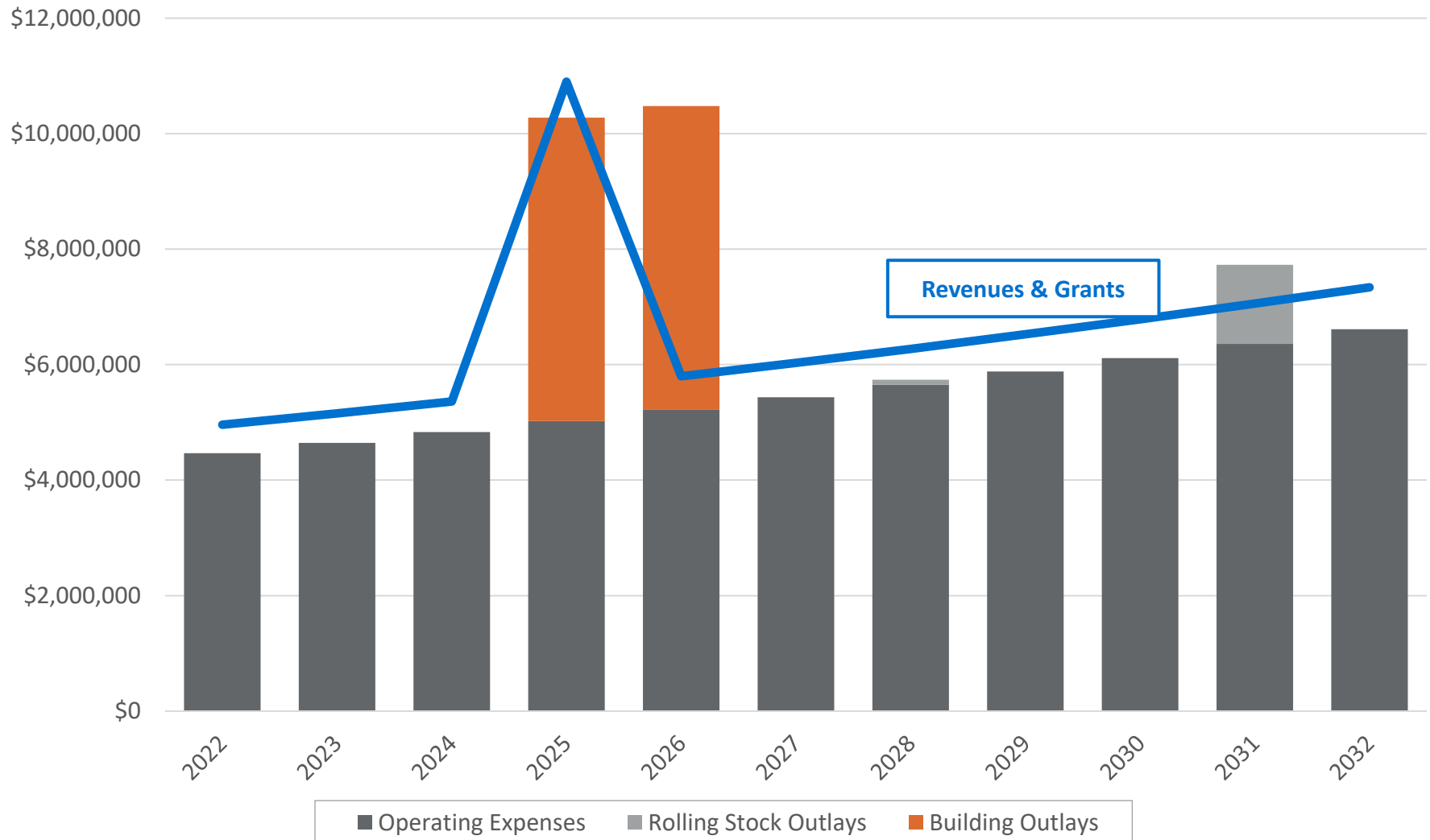
▶ \$300K of annual debt service is estimated to generate \$4.64M for projects

▶ Increased interest rates since November 2021 reduces bond proceeds available for projects by ~\$300k



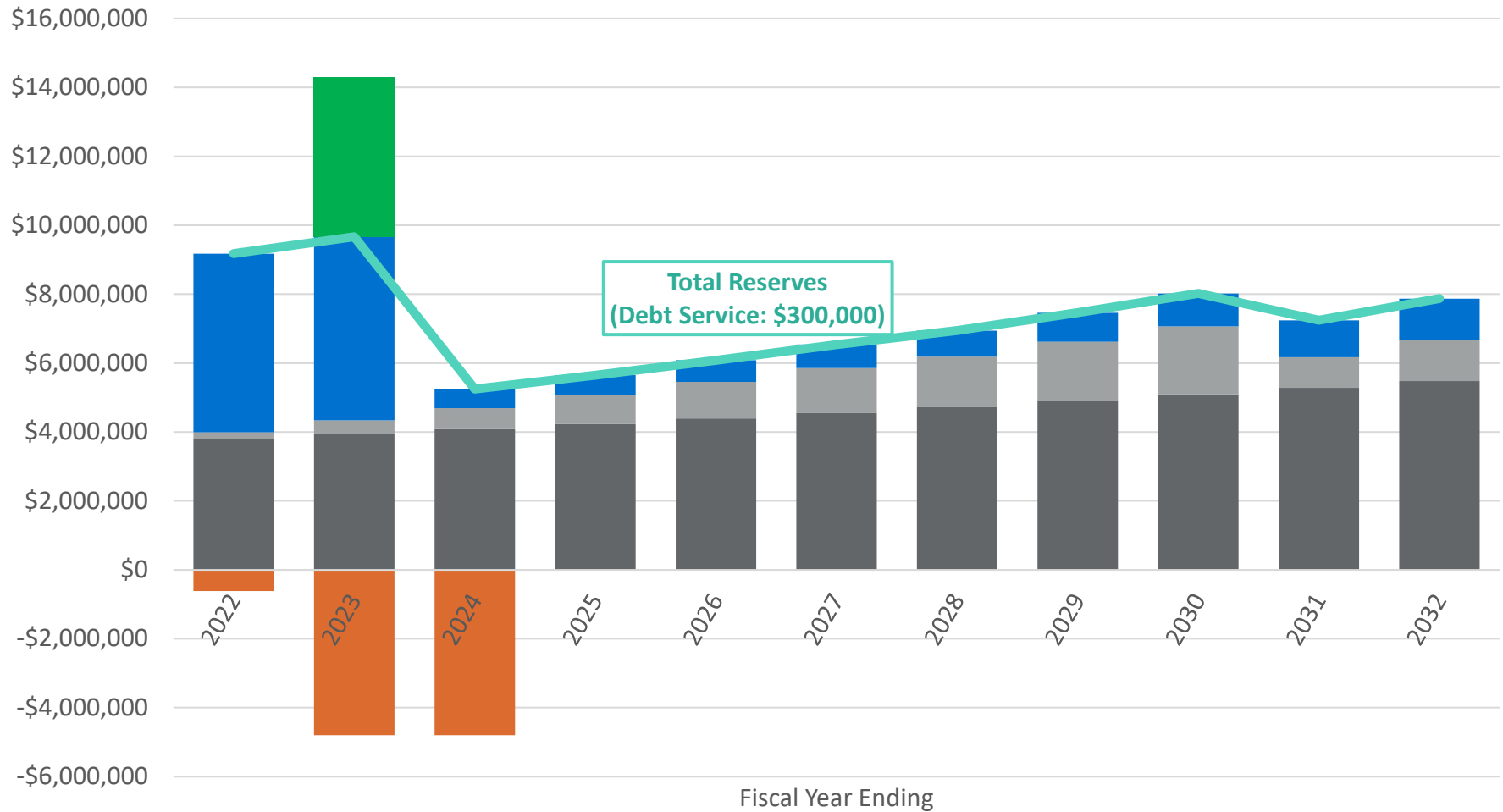
Cash Flows – Alternative 2 (Use of Reserves & FEMA Grant)

- ▶ FEMA Grant adds ~\$1M to the project cost and ~21 months or more to the schedule
- ▶ Project funding assumptions:
 - ▶ \$5.2M from reserves
 - ▶ \$5.3M from FEMA Grant



Reserves – Alternative 1 (Financing – \$300K Annual Debt Service)

- ▶ Annual debt service of \$300K would:
 - ▶ Fund \$4.64M of building projects
 - ▶ Higher interest rates require use of ~\$300k more reserves

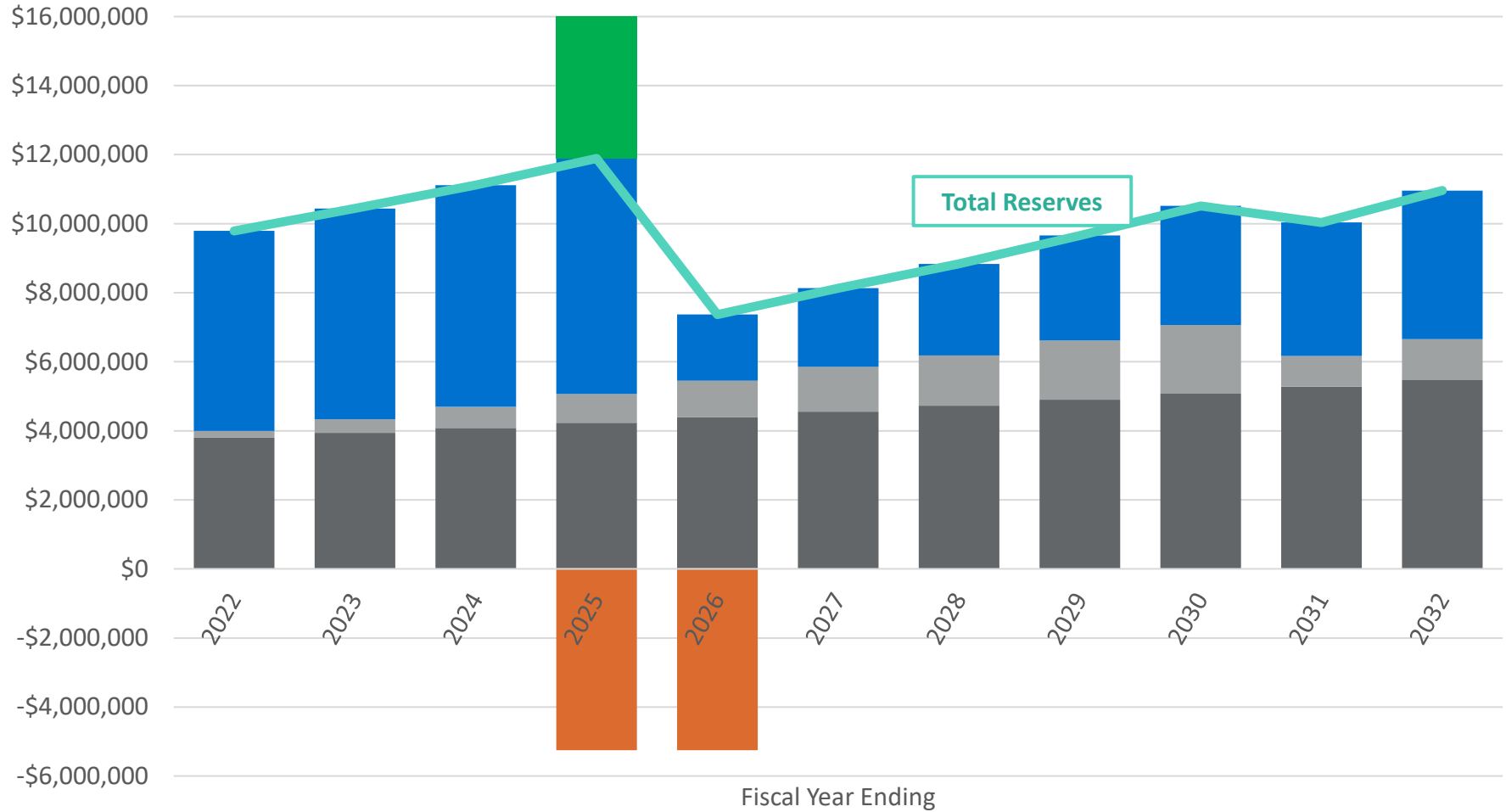


Emergency Operating Reserve
 Rolling Stock Reserve
 Building Reserve
 Bond Proceeds
 Building Projects



Reserves – Alternative 2 (Use of Reserves & FEMA Grant)

- ▶ \$5.3M FEMA Grant is expected to delay the project and increase project costs
- ▶ Grant would allow District to push an additional \$300k into reserves annually and maintain significantly higher reserves



Emergency Operating Reserve
 Rolling Stock Reserve
 Building Reserve
 Grants
 Building Projects



Conclusion

- ▶ **Alternative 01: Reserve Plus Loan**
 - ▶ **Pro:** Relatively quick process with standard timeline
 - ▶ **Con:** Higher borrowing costs than grants
- ▶ **Alternative 02: Reserve Plus Grant**
 - ▶ **Pro:** Free money
 - ▶ **Con:** Award uncertain; Lengthy process; Higher building cost due to Buy American Act
- ▶ Issuing debt is a tradeoff between annual budget surpluses and reserves
- ▶ Maintain sufficient reserves to cover:
 - ▶ Emergency Operating Reserve (El Cerrito Contract)
 - ▶ Rolling stock reserves
 - ▶ Additional reserves

