

TO: Mayor Richard C. Irvin

FROM: Martin Lyons, Chief Financial Officer/City Treasurer

DATE: June 5, 2020

SUBJECT: Debt Planning update

It has been one year since the City first approved \$20 million in Line of Credit (LOC) Funding for Economic Development Funding. The City has completely obligated this line of credit, but has not drawn down all of the funds as of this date. It is our plan to draw all funds, and to pay some funds back.

The COVID 19 Pandemic has necessitated our exploration of an additional \$20 million line of credit. This taxable line of credit is being explored with both of our current banks involved in the original line of credit.

While this may seem like a lot of debt, please keep in mind the City planned to issue a similar amount of debt for capital projects in 2020, all of which are on hold due to the COVID 19 Pandemic. As such, the issuance of the new line of credit will not negatively impact our debt to equity or other ratings measures. This being said, ratings agencies may re-evaluate all municipal debt based on the incredible stress placed on City resources.

Depending on the duration of the COVID 19 impact on City revenues, I have also prepared a preliminary analysis that would allow the City to re-finance approximately \$7.0 million in debt that is due in December of 2020 to further preserve cash flow. This memorandum will provide a summary of our debt picture for the remainder of 2020.

Renewal of 2019 LOC

We are currently in the process of renewing the current LOC for Economic Development purposes. This LOC with both Old Second Bank and Fifth Third Bank is a one year renewable term. This term does not prevent the City from paying off any amount of the LOC at any time during the annual period. The table on the next page provides a summary of our current LOC commitments and draws as of today's date.

CITY OF AURORA LINE OF CREDIT SUMMARY				
DRAFT AS OF 5/31/20				
	OLD SECOND NATIONAL BANK- LINE OF CREDIT			
	PROJECT	DATE	DRAW	BALANCE
				10,000,000.00
	TERMINAL	6/7/2019	1,195,408.24	8,804,591.76
	BILTER	7/29/2019	4,800,000.00	4,004,591.76
	AVALON/COPLEY	8/28/2019	1,500,000.00	2,504,591.76
	KEYSTONE	1/7/2020	475,000.00	2,029,591.76
	DRAWN TO DATE		7,970,408.24	2,029,591.76
	KEYSTONE 2020	PER RDA	950,000.00	1,079,591.76
	Stolp Island Social	2/6/2020	96,510.38	983,081.38
	Stolp Island Social	2/6/2020	103,489.62	879,591.76
	80 S RIVER	TBD	566,666.66	312,925.10
	CRAFT URBAN/STOLP	TBD	600,000.00	(287,074.90)
	TOTAL APPROVED LOC USAGE		10,287,074.90	(287,074.90)
	FUNDS USED FOR LOANS		1,995,408.24	
	FUNDS USED FOR GRANT		3,491,666.66	
	FUNDS USED FOR LAND PURCHASE		4,800,000.00	
	Payoff of LOC/Gaming Tax	4/1/2020	(500,000.00)	212,925.10
	Payoff of LOC/Gaming Tax	7/1/2020	(500,000.00)	712,925.10
	Payoff of LOC/Gaming Tax	10/1/2020	(500,000.00)	1,212,925.10
	Payoff of LOC from FTC and HTC Terminal		(1,195,408.24)	2,408,333.34
	Payoff of LOC from Sale of Bilter or bonds		(4,800,000.00)	7,208,333.34
	PROJECTED OUTSTANDING LOC		2,791,666.66	7,208,333.34

As noted in the above table, the City has fully obligated the Old Second Line of Credit. The City has not drawn the entire line and as noted above will payoff part of the LOC through Gaming tax funds in order to stay under the total limit during 2020. In the lower half of the above table is the current plan (COVID reimbursements or other financial changes could impact this plan) for the payoff of the LOC. Please note that approximately \$2.8 million would be converted into long term taxable General Obligation debt, which covers a large portion of the "grant" usage of these funds in the

development projects. The table below provides the same information for the Fifth Third LOC.

CITY OF AURORA LINE OF CREDIT SUMMARY			
DRAFT AS OF 5/31/20			
FIFTH THIRD- LINE OF CREDIT			
PROJECT	DATE	DRAW	BALANCE
			10,000,000.00
BILTER	7/30/2019	5,000,000.00	5,000,000.00
AVALON/COPLEY	8/28/2019	1,500,000.00	3,500,000.00
TERMINAL 2019	20-Jan	200,000.00	3,300,000.00
HOBBS GRANT	Multiple	800,000.00	2,500,000.00
		7,500,000.00	2,500,000.00
CEDARWOOD 2020	TBD	200,000.00	2,300,000.00
HOBBS 2020 LOAN	TBD	1,500,000.00	800,000.00
HOBBS 2020 GRANT		700,000.00	100,000.00
TERMINAL 2020	TBD	400,000.00	(300,000.00)
TOTAL APPROVED LOC USAGE		10,300,000.00	(300,000.00)
LINES OF CREDIT USED FOR LOANS		1,500,000.00	
LINES OF CREDIT USED FOR GRANT		8,600,000.00	
Payoff of LOC	4/1/2020	(500,000.00)	200,000.00
Payoff of LOC	7/1/2020	(500,000.00)	700,000.00
Payoff of LOC	10/1/2020	(500,000.00)	1,200,000.00
Payoff of LOC from FTC and HTC Keystone			1,200,000.00
Payoff of LOC from FTC and HTC Terminal			
Payoff of LOC from FTC and HTC Hobbs		(1,500,000.00)	2,700,000.00
Payoff of LOC from Sale of Bilter or bonds		(5,000,000.00)	7,700,000.00
PROJECTED OUTSTANDING LOC		2,100,000.00	7,700,000.00

Combining this table with the Old Second Information results in a projected total General Obligation debt of \$4.9 million.

Interest on the LOC is variable rate and is not shown in the above tables since each draw starts a new interest calculation. That being said, based on current completion times for the various projects, and based on the delay in Farnsworth Bilter Road development plans due to COVID 19, the City will have a carrying interest cost on the LOC \$450,000 and \$550,000 for 2020. In the case of the Loans for Hobbs, Keystone, and Terminal, these funds are earning 5% interest, which would offset the above cost by \$220,000 if all funds were loaned for an entire year, and based on current balances will be closer to \$100,000 in 2020. These are rough estimates, that are again based on potential and current draw dates. Draw dates are based on project milestones which are in turn dependent upon the construction project.

The Old Second LOC is due for renewal now, and the renewal is also on the June 23, 2020 Council agenda. As is noted in this agenda item there are no changes to terms of this LOC and it will continue until the next renewal date or until paid down.

New LOC for COVID 19

The COVID 19 Pandemic has brought forth economic hardships too numerous to mention. For the City of Aurora, these hardships have translated in a projected major loss of revenues from economic sources. It is now June, and we have received March Sales tax data which is more favorable than expected. However, this data is based on 14 days of shelter in place/closed businesses and is not statistically credible to change our current approach to ensuring the City is in a stable cash position for the remainder of the fiscal year. We have also seen higher than anticipated building permit and fee activity during April and May. On the CARES Act front, the City has still not been notified as to the potential reimbursement from the Counties of Kane, Du Page, and Will (Kendall does not receive CARES Act funding). On a strict per capital basis, the City would be eligible for up to just over \$24 million in funds, but this would eliminate any County-wide health expenses, and is therefore not realistic. The City is requesting approximately \$21 million from all three counties in total based both on population and allowable COVID expenses (mainly Police and Fire Payroll costs).

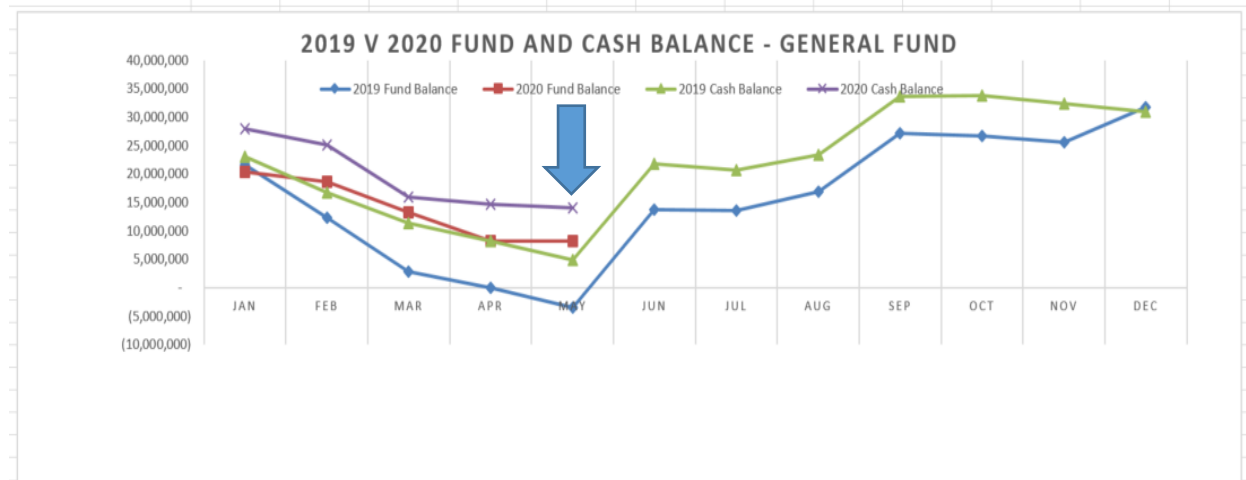
If the CARES Act funding is not provided by the Counties, either in a timely manner, or at all, the City may need to borrow during the short term to maintain cash flow for the remainder of this year. This borrowing is impacted by several factors including:

- 1) City Expenses and Revenues for the remainder of the year
 - a. Revenues were originally projected to be below budget by \$35 million, however sales and building permits have been better than expected
 - b. Expenses are well below budget due to expenses freezes
 - i. No new hires except Police/Fire academy processes and other mission critical positions
 - ii. 2020 Decision Packages held after March 15 ,2020
 - iii. Results in a May 31 2020 Treasurer's Report showing expenses 12% below straight-line year-to-date projections.
- 2) Potential for expense increases during the summer due to protest activities
- 3) Timing and amount of CARES Act distributions.

The City has been in discussions with both Old Second Bank and Fifth Third Bank to increase the LOC (actually separate LOCs) by \$10.0 million from each bank. The City is also looking to increase the Old Second Line of Credit by \$1.5 million to cover the pending amendment of the Fox Valley Development/Old Copley project. This increase will be brought forward to the Council in July. As noted in the May 31st Treasurer's report the City has made great progress in preserving General Fund cash to date and this graphic is also shown below.

2019 v 2020 Fund and Cash Balance - General Fund

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2019 Fund Balance	21,582,665	12,225,986	2,897,259	30,952	(3,488,050)	13,769,615	13,625,115	16,874,961	27,175,259	26,705,651	25,593,818	31,803,401
2020 Fund Balance	20,296,774	18,554,025	13,287,167	8,253,615	8,156,077							
2019 Cash Balance	23,035,260	16,697,068	11,387,639	8,163,115	4,827,511	21,804,335	20,691,500	23,357,033	33,655,768	33,840,849	32,302,763	30,988,432
2020 Cash Balance	27,998,289	25,036,413	15,968,167	14,612,766	14,023,168							



The General Fund cash balance is \$9.2 million higher than last year at this time (the result of the expense freeze to date), which is very important as we await the impact of COVID on sales tax, mitigated by the receipt of property taxes in June, July, and August.

Refinancing of 2020 G.O. Debt Service Payment

If revenues are as low as originally projected, and if we receive little or no CARES Act funding, then the City may also need to consider a one-time deferral/refinancing of 2020 General Obligation debt, due in December 2020. This refinancing could reduce cash flow needs by \$7.0 million, but does result in more interest costs into the future as the debt principal that would be paid is refinanced into a new 20 year bond issue. Preliminary estimates will be updated in October 2020 if this refinancing is needed.

Future Considerations

The City will examine the total debt portfolio as a part of the 2021 Budget and Capital Improvements Plan creation this fall. The 2020 Budget included the use of debt for Public Works facility and other projects, which have been put on hold at the present time. The need for replacement of these facilities only grows, and this 2020 analysis will be updated to determine funding sources for capital related debt.

