



LEXINGTON

Government Center Financing Options

Budget, Finance, and Economic Development Committee

October 29, 2024





Methods to Finance Capital Construction

- Cash
- Bonding
- Public-Private Partnership (P3 Financing)
- Historic Tax Credits





Cash is King!

- Cash can be used as financing mechanism in any of the following scenarios.
- Using cash upfront as a down payment, for direct project costs, or to cash-flow payments reduces the amount you need to borrow.
 - Lowers future payments by reducing interest costs.





Bonding

- Most frequently used financing vehicle for municipal government capital projects.
- Usually tax-exempt if issued locally.
 - Taxable bonds have a higher interest rate but are more flexible in use.
- Shorter term = lower interest rate.
- Large bond issues could impact ability to borrow for other projects in the future.
 - Debt service is currently 10.5% of recurring revenue.
- LFUCG issues “vanilla” bonds.
 - Fixed rate, tax-exempt, simple, low risk.
 - Other bond structures are available but more complex and riskier.





P3 Financing

- A long-term contract between a private partner and a public agency.
- Covers some combination of design, construction, financing, operations, and maintenance.
 - The more the private partner covers, the greater their risk, which leads to higher costs for LFUCG.

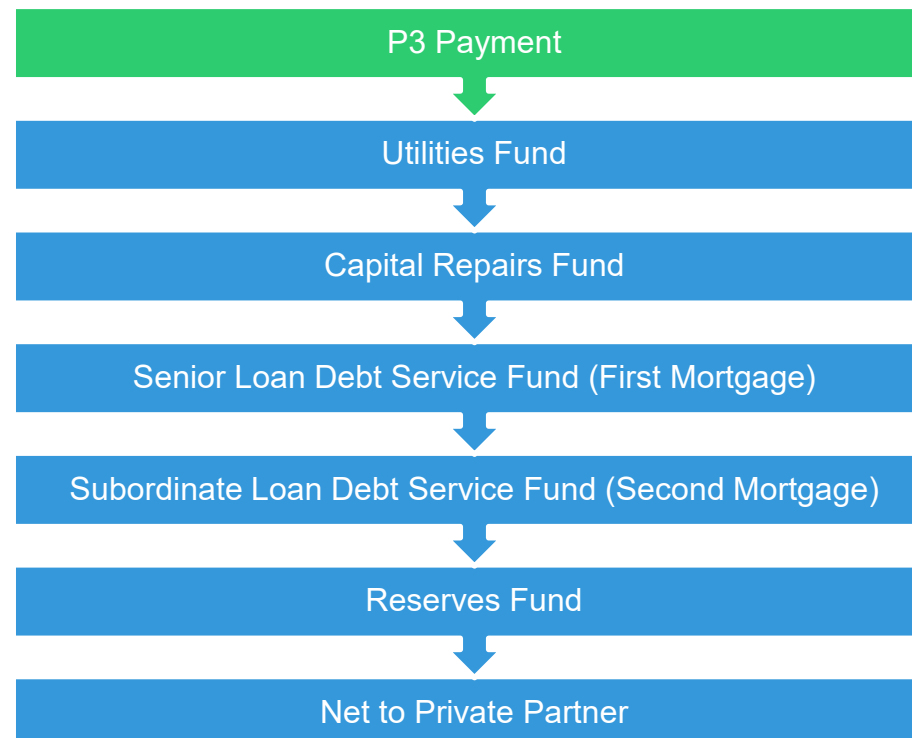




P3 Financing

- Would involve a payment to the private partner on a regular basis.
 - Reserves are typically funded up front – setting aside money for future expenses – reducing risk throughout the project.

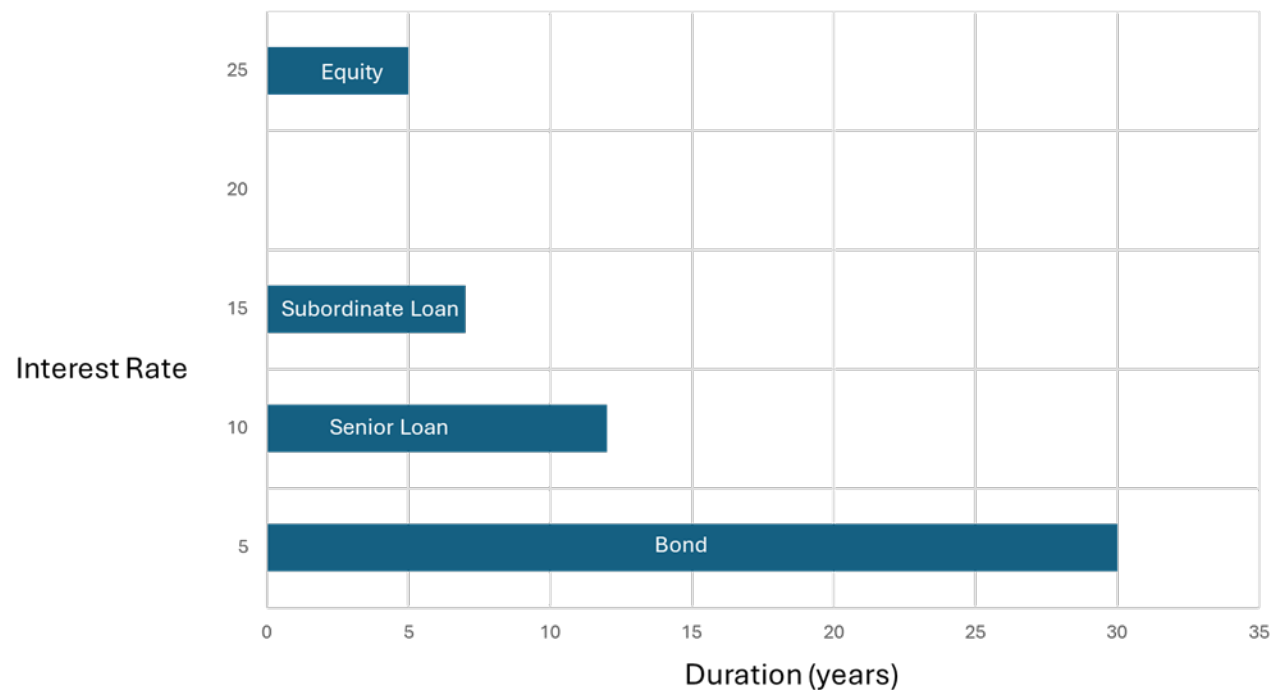
Example Flow of Funds Chart





P3 Financing

- Allows access to private capital.
 - Could be loans or equity payments from the private partner.
 - Actual project funding could be pieced together from a variety of sources by the partner.
 - Bank Loans, Subordinate Debt, Private Equity, Bonds, and Tax Credits.





Historic Tax Credits

- Available for rehabilitation of historic buildings.
 - Most eligible sites in Lexington are too small for Governmental operations in whole.
- Two Sources
 - Federal Historic Tax Credits
 - Would require LFUCG to occupy less than half of the building.
 - State Historic Tax Credits
- Generated through Qualified Reimbursable Expenses of a historic structure.
- Must meet federal guidelines for rehabilitation.





State Historic Tax Credits

- Cash payments over a fixed period.
- Calculated as 20% of the Qualified Reimbursable Expenses.
 - Maximum of \$10 million payment for \$50 million investment per project.
- Anticipated tax credit payments could be used to pay bond, loan, or lease payments.
- Must meet US Department of the Interior Standards.
- <https://heritage.ky.gov/historic-buildings/rehab-tax-credits/tax-exempt-other/Pages/default.aspx>





Financing + Funding = Capital Project

- Financing is the access to money to do a project.
- Funding is the ability to repay that money over time.





What can we afford?

- Two main questions guide that discussion:
 - Can LFUCG's cashflow support a project?
 - Can LFUCG's budget support a project?



Questions?



LEXINGTON

