

BOARD OF ALDERMEN

ITEM NO. B(2)

AGENDA ITEM ABSTRACT

MEETING DATE: May 25, 2004

TITLE: Public Hearing: Use of Installment Financing to Purchase the Adams Tract

DEPARTMENT: Management Services	PUBLIC HEARING: YES <u>X</u> NO <u> </u>
ATTACHMENTS: A: Resolution Awarding Financing to BB & T	FOR INFORMATION CONTACT: L. Bingham Roenigk, 918-7300

PURPOSE

The purpose of this agenda item is to hold a public hearing to receive public comment on the proposed installment financing for the Adams Tract, a 27-acre parcel of land that has been identified for preservation and public use purposes. Upon closing the public hearing, the Board is requested to adopt a resolution that allows the town to proceed with the financing for the property (Attachment A).

INFORMATION

A notice of the public hearing was posted at least ten days before the public hearing as required by law. The notice was posted on the town's website and published on May 14, 2004 in the Chapel Hill Herald. In addition, the Management Services Department sought proposals from banking institutions to get quotes on debt financing. The Town is not required by law to request proposals but does so to ensure competitive financing. Request for proposals were sent to 8 banking and financing institutions; three responded.

Of primary importance in evaluating the proposals were the proposed financing structures, interest rates offered, total financing costs and prepayment penalties required if the Town chooses to retire the loan early. Analysis of the proposals reveals that BB&T bank offers the most competitive financing arrangement. BB&T offered the most competitive interest rate and lowest out-of-pocket costs. In the event that the Town decides to exercise prepayment on the loan, no prepayment penalty will be assessed. In addition, BB&T offered the lowest interest rate and one-time costs. Given that the Town will not be able to conduct the financing in June as hoped, the interest rate offered may change but the bank's profit margin will not.

It is recommended that the Town, with Board approval and then with LGC approval, enter into a lease-purchase contract with BB&T for the installment financing of the property for the Adams Tract. The Board is requested to approve a resolution (Attachment A) authorizes town staff to award a contract with BB&T to finance up to \$600,000 for the purchase of the property (contingent upon LGC approval). The financing resolution acknowledges that the Town may consider a worse case scenario of 5%, meaning that the first annual debt payment could be as high as \$71,381.

The Board needs to be made aware, however, that the Town will miss the June LGC meeting to provide time for the Town and Orange County to obtain definitive agreements that are needed prior to closing on the purchase of the Adams Tract. The LGC needs a definitive sales contract with the owners of the Adams Tract property, and a definitive agreement between the Town and County as to the use of the property. The Town can still pursue this financing in the next LGC meeting in July or August if all the

agreements are in place. Should the Board act and approve the resolution tonight following the public hearing, all LGC requirements requiring Board action will be completed.

FISCAL IMPACT: The budgetary impact of financing the Adams Tract land purchase will result in an annual debt service payment, beginning in FY05-06, of approximately \$65,311 based on the current interest rate offered by BB&T. This cost estimate is based on a 4.10% interest rate, fixed principal amortization (required by LGC), and a loan term of 15 years. The impact of such an amortization schedule is that the payments decline over time. However, the Town will be financing at a later date and expects the interest rate to increase. The attached resolution allows for the worse case scenario of borrowing at 5%, meaning that the first year of debt service payment will approximate \$71,381, an increase of \$6,070. The first debt service payment will not be until FY05-06.

ADMINISTRATION'S RECOMMENDATION

The Board is requested to accept comments from the public hearing and approve a resolution approving the lease-purchase installment financing for the property with BB&T Bank (contingent upon LGC approval).