January 17, 2012

To: Board of Supervisors, El Dorado County

From: John Upton, staff to the S. Lake Tahoe Recreation Facilities Joint Powers Authority (JPA)

Subject: Refinancing of JPA Bond

Background:
a. In order for a private contractor to operate a public facility financed with a tax-exempt bond, certain operational and contractual provisions that comply with IRS regulations must be met.
b. The private contractor agreement for the ice arena negotiated between the City of South Lake Tahoe and the contractor does not comply with those regulations.
c. The private contractor is currently operating the ice arena under an IRS-compliant agreement, but both the City and the contractor desire to implement the original agreement as soon as possible. In order to do so, the JPA's bond must be refinanced to a taxable bond.
d. On its own initiative and using a financial advisor in Florida, the City attempted unsuccessfully to find a bank loan solution to the need for a taxable financing. In early December, further inquiry resulted in finding that one bank had indicated willingness to reconsider this financing method.

December 13 report to the Board: Mark Northcross reported that the refinancing was being pursued on two tracks: A traditional underwriting refinancing, and a private placement bank refinancing. Both would be required to result in known debt service costs over the 19 year remaining period of the bond and of the JPA. Both would be required to have a debt service reduction, either by being at a lower debt service based on the rates quoted, or by some cash contribution from an entity other than the JPA. (Note: Mark Northcross, who was the original financial advisor on the Measure S bond, and who made the City aware of the tax exempt/taxable bond issue, is handling the refinancing for the JPA. The Stradling-Yocca law firm was the original bond counsel, and is also working on the refinancing.)

There are a number of good reasons for supporting the City's need for a taxable refinancing, provided that certain JPA conditions are also met.

Reasons – The refinancing will:
a. Immediately largely reduce, or eliminate, the $150,000 operating deficit the City had on the ice arena last year. The City has already made drastic budget cuts, which were reduced by the $150,000 that the City plans to save on the elimination of the ice arena subsidy. Without the refinancing, an additional $150,000 in budget cuts will be needed. The City has additional duties under the successful Measure R, which would be made difficult with added budget cuts.
b. Unlike other JPA facilities, the JPA has provided no operating support to the ice arena.
c. The private operator agreement has financial incentives to increase ice arena gross revenues. If successful, these effects will have corresponding economic benefits to other businesses in the community. Those financial incentives have not existed with city staff ice arena operation.
d. The taxable refinancing will give the city total flexibility now and in the future as to how the ice arena is operated.

JPA conditions for supporting the refinancing adopted by the JPA on December 5 included:
a. The JPA's annual debt service would not change from what it is under the existing bond.
b. If the refinancing results in greater debt service, the City would be obligated to pay the JPA that difference. Bond counsel will create the necessary agreement and manner for assured collection.
c. The City would make whatever cash contribution is required to create the legally required refinancing savings. With an underwriting, that cash contribution in December was estimated at $415,000. With that cash contribution, the annual debt service would be unchanged.
d. A bank loan refinancing was likely to have lower rates, and have less or no cash contribution requirements, but that option needed further investigation.

<u>Status as of January 17, 2012</u>: Calendar to close before March 1, 2012:

1. The JPA has received two bank loan private placement offers. Both comply with the statutory requirement that there be a debt service reduction, and do so with no outside cash contribution. The overall net debt service with both proposals, which are approximately 75% taxable, 25% tax exempt, is about $10,000/year less than the tax exempt debt service was for the original financing in 2001. Current very low interest rates are creating a favorable solution to the refinancing issue.

<u>The bank loan proposals are summarized as follows</u>:
* Alliance Bank: Rates – 3.4% tax exempt, 4.8% taxable, $82,000 in closing costs.
* Compass Bank: Rates – 3.25% tax exempt, 4.75% taxable, $70,000 in closing costs.(Note – the amount on closing costs is being confirmed.)

Pending confirmation of closing costs, the debt service with the Compass Bank proposal appears to be slightly less.

The loans both capitalize the closing costs.

Both loans allow for refinancing after ten years.

2. The net community benefit of the refinancing will be $150,000 to the City, plus $10,000 to the JPA, a total of $160,000.

3. If the JPA were to do a tax-exempt only refinancing, debt service would be $50,000 less than currently, but the City financial benefits would not be realized. The net community benefit would be $50,000 to the JPA, but a $150,000 loss to the City, a net loss of ($100,000.)

4. The net cost difference between the proposed 75% taxable/25% tax-exempt and a totally tax exempt refinancing is $40,000. $150,000 saving to the City, less the $40,000 is a net difference between the two financing options of $110,000 in favor of the proposed refinancing.

5. Mark Northcross presented the refinancing status to the City Council in the morning of January 17. The Council approved closing with either bank, with Alliance slightly preferred.

6. In December, Mark was scheduled to present to the Board of Supervisors in the afternoon, but has found that the next Board meeting will be January 24. Tahoe Paradise Resort Improvement District, the other member of the JPA, will hear the item on January 26.

7. The JPA will meet on January 20 for the purpose of adopting the resolution approving the bond documents and directing completion of necessary items to accomplish the refinancing. *The JPA approval would be made subject to the matter being approved by the Board of Supervisors on January 24, and the Board of Tahoe Paradise Resort Improvement District on January 26.*

8. Mark Northcross will present the refinancing to the Board of Supervisors on January 24, and will be able to update them on the status of refinancing efforts. All draft legal documents have been completed, but will need to be made final with the lending institution.

9. The refinancing will close before, but very near to, March 1, 2012.

10. After the refinancing closes, the City will complete its original agreement with the private ice arena operator.