



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: July 16, 2013

TO: Mayor and Councilmembers

FROM: Administration Division, Finance Department

SUBJECT: Amendment To The Airport Promissory Note

RECOMMENDATION:

That Council authorize the Finance Director to execute, in a form acceptable to the City Attorney, an Amendment to the Airport Promissory Note dated July 14, 2012, in the original amount of \$7.3 million, to reduce the interest rate from 7% to 3.5% on the outstanding balance of \$5,603,519.97 for the remaining 16 years of the 20-year term.

EXECUTIVE SUMMARY:

In April 2009, the City Council authorized a \$7.3 million, 20-year Airport Promissory Note at an interest rate of the higher of 7% or the Local Agency Investment Fund (LAIF) rate, but not to exceed 9%. This note was issued for the purpose of financing the joint use rental car facility which was part of the Airport Terminal Project. The City Council also authorized the Finance Director to purchase the Airport's 20-year promissory note on behalf of the City's Investment portfolio.

Due to the significant decline in interest rates, Staff is recommending a reduction in the interest rate on the Airport Promissory Note from 7% to 3.5% for the remaining 16-year term.

DISCUSSION:

The Airport Terminal Project included the construction of a new joint use rental car facility for use by the rental car companies serving the Airport. This project was awarded in July 2008 and was completed in September 2009. Initially, the financing for the rental car facility was to be provided by long term taxable bonds as part of the overall Airport Terminal Project. In an effort to simplify the financing and provide the Airport with a cost effective financing at less than market rate for a taxable bond without the related transaction costs, the Council authorized issuance of a \$7.3 million Airport long term promissory note that the City purchased into its investment portfolio. At the time, the taxable bonds rates were in the range of 8.5% so the Airport Promissory Note was issued at a rate of 7% or the LAIF rate, but not to exceed 9%. This mechanism provided the

Airport with a lower cost financing option for the facility when compared to the taxable bond rates. It also provided the City with earnings of above-market return for the City's investment portfolio.

Due to a declining interest rate environment, Airport staff requested a refinancing of the promissory note in order to bring the interest rate more in line with current interest rates. Finance staff, with the assistance of the City's Financial Advisors, has determined that if taxable bonds were sold in today's market, the interest rate would be approximately 3.5%. In order to protect the City's investment portfolio from potential rising market interest rates in the future, Staff further recommends that the promissory note contain a provision setting the interest rate at 3.5% or the LAIF rate, whichever is higher, but not to exceed 9%. LAIF (Local Agency Investment Fund) is the money market fund run by the State Treasurer which Santa Barbara, like most cities throughout the State, uses for overnight investments. Currently, the LAIF rate is approximately .24%.

BUDGET/FINANCIAL INFORMATION:

Having the City amend the Airport's Promissory Note will continue to provide the Airport with lower cost financing without issuance costs which are incurred when taxable bonds are sold and also provide the City's investment portfolio with a secure investment at a rate of return well above the current market rates available to the City on its investments. Currently, the annual debt service payments, including principal and interest, for the Airport promissory note is \$587,714. The new annual debt service payments will be \$460,364. The reduction of interest earnings in the City's Investment portfolio will be \$195,015 in Fiscal Year 2014, which will be spread across all City funds. The General Fund portion of the reduction in interest earnings is approximately \$60,000.

ATTACHMENT: Airport Promissory Note Amortization Schedule

PREPARED BY: Genie Wilson, Treasury Manager

SUBMITTED BY: Robert Samario, Finance Director

APPROVED BY: City Administrator's Office

Loan Calculator

Enter Values	
Loan Amount	\$ 5,603,519.97
Annual Interest Rate	3.50 %
Loan Period in Years	16
Number of Payments Per Year	2
Start Date of Loan	6/30/2013
Optional Extra Payments	

Loan Summary	
Scheduled Payment	\$ 230,182.07
Scheduled Number of Payments	32
Actual Number of Payments	32
Total Early Payments	\$ -
Total Interest	\$1,762,306.43
FY 14 Annual Debt Service	460,364.15

Description: **CAR Dated 7/16/13 - Revised Interest Rate Schedule for Airport Terminal Project Joint Use Rental Car Facility**

Pmt No.	Payment Date	Beginning Balance	Scheduled Payment	Extra Payment	Total Payment	Principal	Interest	Ending Balance
1	12/31/2013	\$ 5,603,519.97	\$ 230,182.07	\$ -	\$ 230,182.07	\$ 132,120.48	\$ 98,061.60	\$ 5,471,399.49
2	6/30/2014	5,471,399.49	230,182.07	-	230,182.07	134,432.58	95,749.49	5,336,966.91
3	12/31/2014	5,336,966.91	230,182.07	-	230,182.07	136,785.15	93,396.92	5,200,181.76
4	6/30/2015	5,200,181.76	230,182.07	-	230,182.07	139,178.89	91,003.18	5,061,002.86
5	12/31/2015	5,061,002.86	230,182.07	-	230,182.07	141,614.52	88,567.55	4,919,388.34
6	6/30/2016	4,919,388.34	230,182.07	-	230,182.07	144,092.78	86,089.30	4,775,295.56
7	12/31/2016	4,775,295.56	230,182.07	-	230,182.07	146,614.40	83,567.67	4,628,681.16
8	6/30/2017	4,628,681.16	230,182.07	-	230,182.07	149,180.15	81,001.92	4,479,501.00
9	12/31/2017	4,479,501.00	230,182.07	-	230,182.07	151,790.81	78,391.27	4,327,710.19
10	6/30/2018	4,327,710.19	230,182.07	-	230,182.07	154,447.15	75,734.93	4,173,263.05
11	12/31/2018	4,173,263.05	230,182.07	-	230,182.07	157,149.97	73,032.10	4,016,113.08
12	6/30/2019	4,016,113.08	230,182.07	-	230,182.07	159,900.10	70,281.98	3,856,212.98
13	12/31/2019	3,856,212.98	230,182.07	-	230,182.07	162,698.35	67,483.73	3,693,514.63
14	6/30/2020	3,693,514.63	230,182.07	-	230,182.07	165,545.57	64,636.51	3,527,969.06
15	12/31/2020	3,527,969.06	230,182.07	-	230,182.07	168,442.62	61,739.46	3,359,526.45
16	6/30/2021	3,359,526.45	230,182.07	-	230,182.07	171,390.36	58,791.71	3,188,136.08
17	12/31/2021	3,188,136.08	230,182.07	-	230,182.07	174,389.69	55,792.38	3,013,746.39
18	6/30/2022	3,013,746.39	230,182.07	-	230,182.07	177,441.51	52,740.56	2,836,304.88
19	12/31/2022	2,836,304.88	230,182.07	-	230,182.07	180,546.74	49,635.34	2,655,758.14
20	6/30/2023	2,655,758.14	230,182.07	-	230,182.07	183,706.31	46,475.77	2,472,051.83
21	12/31/2023	2,472,051.83	230,182.07	-	230,182.07	186,921.17	43,260.91	2,285,130.66
22	6/30/2024	2,285,130.66	230,182.07	-	230,182.07	190,192.29	39,989.79	2,094,938.37
23	12/31/2024	2,094,938.37	230,182.07	-	230,182.07	193,520.65	36,661.42	1,901,417.72
24	6/30/2025	1,901,417.72	230,182.07	-	230,182.07	196,907.26	33,274.81	1,704,510.46
25	12/31/2025	1,704,510.46	230,182.07	-	230,182.07	200,353.14	29,828.93	1,504,157.31
26	6/30/2026	1,504,157.31	230,182.07	-	230,182.07	203,859.32	26,322.75	1,300,297.99
27	12/31/2026	1,300,297.99	230,182.07	-	230,182.07	207,426.86	22,755.21	1,092,871.13
28	6/30/2027	1,092,871.13	230,182.07	-	230,182.07	211,056.83	19,125.24	881,814.30
29	12/31/2027	881,814.30	230,182.07	-	230,182.07	214,750.32	15,431.75	667,063.98
30	6/30/2028	667,063.98	230,182.07	-	230,182.07	218,508.46	11,673.62	448,555.52
31	12/31/2028	448,555.52	230,182.07	-	230,182.07	222,332.35	7,849.72	226,223.17
32	6/30/2029	226,223.17	230,182.07	-	230,182.07	226,223.17	3,958.91	0.00

Total \$ 7,365,826.40 \$ - \$7,365,826.40 \$ 5,603,519.97 \$1,762,306.43