Agenda Item No. 14

File Code No. 210.05

CITY OF SANTA BARBARA
SANTA BARBARA FINANCING AUTHORITY

AGENDA REPORT

AGENDA DATE: December 10, 2013

TO: Mayor and Councilmembers; Chairperson and Boardmembers

FROM: Administration Division, Finance Department

SUBJECT: 2014 Waterfront Refunding Revenue Bonds

RECOMMENDATION:

A. That the Board adopt, by reading of title only, A Resolution of the Board of Directors of the Santa Barbara Financing Authority Authorizing the Execution and Delivery by the Authority of an Installment Sale Agreement, a Trust Agreement and a Letter Agreement for Purchase in Connection With the Execution and Delivery of Santa Barbara Financing Authority Waterfront Refunding Revenue Bonds, Series 2014, Authorizing the Execution and Delivery of Such Bonds in an Aggregate Amount Not to Exceed $14,000,000, and Authorizing Related Actions;

B. That Council introduce and subsequently adopt, by reading of title only, An Ordinance of the Council of the City of Santa Barbara Authorizing the Execution and Delivery by the City of an Installment Sale Agreement and a Letter Agreement for Purchase, and Approving the Execution of a Trust Agreement by the Authority in Connection with the Execution and Delivery of Santa Barbara Financing Authority Waterfront Refunding Revenue Bonds, Series 2014, and Authorizing Related Actions; and

C. That Council approve and authorize the City Administrator to execute a Commitment Letter between the City and Compass Bank.

EXECUTIVE SUMMARY:

While the decline in interest rates has had a material impact on the City's earnings on its investment portfolio, the current interest rate environment offers the City an opportunity to refinance existing long-term debt sold prior to the recession, thereby reducing its interest costs. Refinancing existing debt would generate substantial savings over the remaining life of the debt.

Staff has recently completed a refinancing of the 2002 Water Refunding Certificates of Participation (COPs), as well as one of the Water department's State Revolving Fund loans under the Safe Drinking Water program. That refunding resulted in combined present value savings of over $2.2 million (or over 8.5% of the refunded amount) over the remaining life of the obligations, or cash flow savings of over $180,000 per year. Staff is now proposing refinancing the 2002 Waterfront COPs.

In addition, staff is recommending a private placement of the bonds, which would substantially reduce the time and effort typically associated with a traditional refinancing transaction as well as reducing transaction and interest costs.

DISCUSSION:

Proposed Financing Structure

To facilitate the refinancing of the 2002 Waterfront Refunding COPs, the Santa Barbara Financing Authority will issue the 2014 Waterfront Refunding Revenue Bonds, which will be secured by installment payments to be made by the City's Waterfront Fund to the Santa Barbara Financing Authority pursuant to an Installment Sale Agreement.

The detailed financing structure is as follows:

a. The original debt issued in the 1980's, which was refinanced in 1992 and again in 2002 with the issuance of the 2002 Waterfront Refunding COPs, was used to finance improvements to Waterfront facilities.
b. The City of Santa Barbara (Waterfront Fund) will sell those improvements, hereafter referred to as the "Project", to the Santa Barbara Financing Authority (Authority) for an amount not to exceed $14 million. The proceeds of this sale will be used by the City to prepay the 2002 Waterfront Refunding COPs.
c. The Authority will concurrently sell back to the City the Project pursuant to an Installment Sale Agreement. In accordance with that Agreement, the Waterfront Fund will make semi-annual installment payments to the Authority in amounts corresponding to the debt service requirements on the new 2014 Waterfront Refunding Revenue Bonds.
d. The Authority will make the debt service payments funded from the installment payments received from the City to the purchaser of the bonds, in this case, as discussed below, a bank.

This type of financing structure is very common, particularly for enterprise-type operations. A similar financing structure was used in connection with the recent sale of the 2013 Water Refunding COPs.

Authorizing Documents

Authority Resolution

The accompanying resolution to be adopted by the Board of the Santa Barbara Financing Authority will accomplish the following:

- Approve and authorize the execution of the Installment Sale Agreement between the City and the Authority. The Installment Sale Agreement provides for installment payments to be made by the Waterfront Fund from its operating revenues to the Santa Barbara Financing Authority in amounts corresponding to the debt service requirements of the 2014 Refunding Bonds.

- Approve and authorize the execution of the Trust Agreement between the Authority and U.S. Bank National Association. The trustee will hold and invest the debt service reserve fund to be established in connection with this transaction and required by the investor; and will perform administrative and fiduciary duties.

- Approve and authorize the issuance of Bonds by the Authority in amount not to exceed $14,000,000.

- Approve and authorize the execution of the Letter Agreement for Purchase between the Authority and Compass Mortgage Bank.

City Ordinance

The accompanying ordinance, subject to adoption on December 17, 2013 by the City Council of the City of Santa Barbara, will accomplish the following:

- Approve and authorize the execution of the Installment Sale Agreement between the City (Waterfront Fund) and the Santa Barbara Financing Authority.

- Approve the execution of the Trust Agreement by the Financing Authority and authorizing the Authority to deliver the bonds.

- Approve and authorize the execution of the Letter Agreement for Purchase.

Letter of Commitment

The Letter of Commitment provides assurances to Compass Bank that the City will follow through with the proposed sale of the Authority's Bonds to Compass Bank. If approved, the City also agrees to pay legal costs associated with the transaction incurred by Compass Bank, estimated to be $15,000.

Proposed Private Placement Strategy

Normally, when a government agency sells bonds, COPs or other types of long-term indebtedness, the underlying debt instruments are sold to an investment bank and are subsequently made available and sold to private individuals and institutional investors. This type of sale is defined as “public offerings.”
Alternatively, staff is proposing the issuance of refunding revenue bonds that would be sold in their entirety to a qualified institutional buyer. This type of approach is referred to as a “private placement” since the underlying debt instruments would not be available for purchase by general investors. In the past several years, such direct lending to municipalities has increased as banks seek new ways to put their capital to work.

While not as common, there is nothing substantively different between a private placement issuance versus a traditional public issuance of bonds or other securities from a legal perspective. However, one of the benefits of a private placement is that it requires significantly less time and effort by City staff to prepare disclosure documents that meet federal securities laws.

Specifically, with a public offering, the City would be required to prepare an “official statement.” The official statement, which is prepared by disclosure counsel, contains a large amount of information about the City and the specific fund issuing the debt (in this case, the Waterfront Fund). The information that goes into the official statement is compiled and/or prepared by City staff and is intended to present a clear picture of the City’s and Waterfront Fund’s financial condition so that prospective investors can make an informed investment decision.

With a private placement offering, the City would not have to prepare an official statement. This is expected to save the City approximately $45,000 in consultant fees as well as save City staff many hours of work that would otherwise be necessary to prepare an official statement.

Similarly, unlike a public offering, a private placement wouldn’t require obtaining a rating on the refunding obligations. Even a single rating would cost $15,000-$18,000 at a minimum, as well as further staff time and effort.

Another potential advantage of a private placement is that banks will sometimes accept credit structures that would not be welcomed in the public bond markets. The current Waterfront COPs are an obligation of the Waterfront Fund. In the current market, a refunding COP offered publically would have to be secured by a lease and leaseback of an unrelated City facility, and secured by the General Fund (although it would be paid back from Waterfront revenues). This restructuring, required by changes in the bond market, would add additional complexity to a refunding.

From a cost perspective, while transaction costs are typically lower with a private placement, the interest rates are typically higher than securities sold in “public offerings”, reflecting the fact that private placement investments lack the liquidity in the secondary market that bonds offer. However, some banks are now offering aggressive interest rates that rival the interest rates on publicly offered bonds. The bid received by the City from Compass Bank (Compass) comes with a lower interest rate than what would likely be secured through a public offering transaction.

Potential Risks Associated With a Private Placement

There is some risk associated with a private placement that differs from the typical risk assumed through a public COP offering. The bid received from Compass includes a provision indicating that in the event that the bonds become taxable (lose their tax exempt status) for reasons other than a change in federal tax law, the tax exempt rate would be subject to “gross-up” so that the investor’s after-tax return would not be affected by the loss of tax exemption. This would only occur in the unlikely event that the City violated its tax covenants. In that event, like a public offering, the City would have to remedy the issue and in the context of a private offering, the City would be subject to increased interest rates.

Another minor risk associated with the Compass offer is the requirement that the City pay the bank’s legal fees in an amount not to exceed $15,000 whether or not the transaction is executed.

Staff and the City’s financial and legal advisors do not believe either of the concerns outlined above pose significant risks.

Selection Process

Compass Mortgage Bank was selected through a formal request for bids (RFB) process. The RFB was sent to thirteen qualified institutional banks and three brokers, and only two proposals were received. Given that Compass’ bid represented the lowest cost of funds and is within a reasonable range of what would be expected through a publicly offered deal (and likely lower), the bid is considered responsive and responsible.

As typical in such circumstances, the interest rate in Compass’ bid is indicative and subject to change pursuant to an index-based formula specified in their submittal. The City has the option to lock in the interest rate (subject to a breakage fee) and will consider this option based on discussions with the City’s financial advisors..

Based on the bid received from Compass and current market conditions, the Waterfront Fund would realize annual savings of approximately $80,000, which equates to approximately $1.2 million in total savings over the remaining fourteen years of the bonds and represents approximately $1 million in savings in today's dollars (i.e., on a present value basis).

Next Steps

Staff is working with the State Department of Boating and Waterways to seek their consent to retain a subordinate position of their loans which financed certain Waterfront improvements. Once the State's consent is obtained, a minor amendment of the loan documents will be circulated.
The proposed ordinance will require a second reading on December 17 related to Installment Sale Agreement, which will become effective thirty days later, on January 17, 2014. Shortly thereafter, the transaction will be fully executed and will close.

BUDGETARY/FISCAL IMPACT

The proposed refunding of the 2002 waterfront COPs would generate overall savings to the Waterfront Fund of approximately $1.2 million and annual debt service savings of approximately $80,000 through the remaining term of the bonds which have a final maturity date in Fiscal Year 2028.

NOTE: Due to their size, a copy of the following documents will be made available to the public for review in the City Clerk's Office and to the City Council in the Council reading file:

1. Trust Agreement
2. Installment Sale Agreement
3. Letter Agreement for Purchase

ATTACHMENT: Letter of Commitment Dated December 2, 2013 from Compass Bank

PREPARED BY: Robert Samario, Finance Director
Sarah Knecht, Assistant City Attorney

SUBMITTED BY: Robert Samario, Finance Director

APPROVED BY: City Administrator's Office

December 2, 2013

David Brodsly, Managing Director
KNN Public Finance
1300 Clay Street, Suite 1000
Oakland, CA 94612

Nedko Nedev
KNN Public Finance
1300 Clay Street, Suite 1000
Oakland, CA 94612

Dear Mr. Brodsly and Mr. Nedev:

Compass Bank, an Alabama banking corporation (the "Bank" or "Lender"), has reviewed the information provided for the City of Santa Barbara ("Borrower") in connection with the proposed refunding of the 2002 Waterfront Revenue Refunding Certificates of Participation. Based on the review to date and subject to the timely receipt of a signed copy of this letter as indicated below, and satisfying the conditions outlined herein, the Bank is pleased to commit to provide up to a $13,500,000 non-bank qualified, tax-exempt financing (the "Financing" or "Obligation") as outlined in this correspondence (this "Commitment Letter").

This Commitment Letter is being provided to the Borrower on a confidential basis. Except as required by law, neither this Commitment Letter nor its contents may be disclosed, except to individuals who are officers, employees or advisors of the Borrower who have a need to know of such matters and then only on the condition that such matters remain confidential.

The Borrower hereby represents and covenants (and it is a condition to the Bank's commitment hereunder) that all financial information and projections, and all other information and general economic or specific industry information (the "Information") that has been or will be made available to the Bank by Borrower and its representatives is or will be, when furnished, complete and correct in all material respects and does not or will not, when furnished, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein not materially misleading in light of the circumstances under which such statements are made. The Borrower agrees that if at any time prior to the closing of the Financing any of the representations in the preceding sentences would be incorrect if the Information were being furnished, and such representations were being made, at such time, then the Borrower will promptly supplement the Information, as the case may be, so that such representations will be correct at such time. The Borrower understands and acknowledges that in arranging the Financing the Bank may use and rely on the Information without independent verification thereof. Notwithstanding anything herein to the contrary, the Bank's obligation to provide the Financing shall be subject to the condition that from the date hereof to the date of closing the Financing, there shall not have occurred any: (i) material adverse change in the financial condition, operations or general affairs of the Borrower; (ii) event, court decision, proposed law or rule which may have the effect of changing the status of the Financing or the interest thereon or the transaction contemplated herein; or (iii) international or national crisis, suspension of stock exchange trading or banking moratorium materially affecting, in our opinion, the Bank's ability to close the Financing transaction.

By signing below, the Borrower acknowledges and agrees to the terms and conditions of this Commitment Letter and agrees to pay upon demand to the Bank all fees and expenses (including but not limited to all costs and fees of external legal counsel) in connection with this Commitment Letter and the negotiation, documentation and closing thereof of this Financing.

To accept this Commitment Letter, please execute it in the space provided below and return it to us by no later than 4:00pm, Pacific Time, on December 16, 2013. If this Commitment Letter is not accepted in the manner aforesaid, it shall expire and be of no further force and effect as of that date and time. If this Commitment Letter is accepted in the manner aforesaid, the closing and funding of the Financing must occur on or before January 31, 2014. These deadlines may be extended upon Bank's written approval.

We appreciate the opportunity to provide you this Commitment Letter and look forward to working with you to expeditiously close this transaction. Please do not hesitate to contact us if you have any questions or if we may be of further assistance to you at this time.

Sincerely,

James Manning
Senior Vice President

ACCEPTED and AGREED TO on ____________________, 2013:

City of Santa Barbara

By:______________________________

Name:____________________________

Title:_____________________________

Borrower: City of Santa Barbara, California (the "Borrower").

Lender: Compass Bank through Compass Mortgage Corporation (the "Lender" or the "Bank").

James Manning, Senior Vice President
Government & Institutional Banking
2850 E. Camelback Rd., Ste. 140
Phoenix, AZ 85016
Ph: (602) 778-0795
james.manning@bbvacompass.com

Obligation Type: Tax Exempt Non-Bank Qualified Agreement

Obligation Amount: Up to $13,500,000 (the "Obligation" or "Financing").

Purpose: Refund the existing Series 2002 Waterfront Revenue Refunding Certificates of Participation

Maturity: 10/01/27 or approximately 14 years from closing.

Repayment: The Obligation will amortize over 14 years consistent with the attached sample schedule, calling for semiannual principal and interest payments due on each 04/01 and 10/01 over the Obligation's tenor.

Interest Rate: Tax Exempt Fixed Rate of 3.42% fixed for the full tenor of the Obligation.** This rate is indicative and subject to change daily depending on market conditions. Upon formal acceptance of this commitment letter and at the Borrower's option, subject to break-funding, fixed rate may be locked up to 60 days prior to closing.

** Indexed to 199 bps over 65% of the prevailing 7-year LIBOR swap rate. Based on the current rate of 2.21% for the swap index as of 12/2/13, the interest rate on funded balances today would be 3.42%.

Upfront Origination Fee: None.

Targeted Closing: January 23, 2014 or as requested by the Borrower.

Prepayment: Obligation is not subject to optional redemption (at the proposed rate) prior to the 10th anniversary of loan closing, after which time the Borrower may prepay the loan without penalty. However, a par call option to prepay without penalty after the 5th or 7th anniversaries of loan closing is available at a 26 bps or 24 bps premium to the proposed interest rate, respectively. The par call option must be selected prior to rate lock.

Security: Parity 1st-position Net Revenue Pledge on the Borrower's waterfront enterprise system revenues.

Covenants:

- Parity Debt Test of 1.50x;
- Net Revenue Rate and Coverage Covenant of 1.25x; and
- ½ debt service reserve fund fully funded at closing based on ½ of the lesser of 1) 10% of par amount, 2) maximum annual debt service, or 3) 125% of average annual debt service.

Representations/ The documents will contain those representations and warranties and covenants customarily

Warranties/ Covenants:

found in transactions of this nature, and others appropriate to the transaction, including but not limited to:

- Standard representations including but not limited to: no adverse litigation and District has not defaulted or non-appropriated on past obligations.
- Default rate of 5.00% over the Obligation's proposed rate. Default rate to apply if payment is not made within 10 days of due date in addition to other events of default.
- No material adverse change in financial condition since fiscal year ended 6/30/12.
- Notices of (i) any default on any obligation, (ii) material litigation, (iii) material governmental proceedings and (iv) material adverse effect.
- Maintenance of standard levels of insurance naming the Bank as additional insured including a satisfactory business interruption insurance policy of not less than 12 months.
- Bank will sign a traveling "Big Boy" letter in form acceptable to Bank's counsel.
- Additional representations and warranties, and other affirmative and negative covenants that Bank considers customary and reasonably appropriate for the Credit Facility.

This Obligation is being purchased by BBVA Compass under the following conditions: (i) not being registered or otherwise qualified for sale under the "Blue Sky" laws; (ii) the Lender will hold as one single debt instrument; (iii) no CUSIP numbers will be obtained for the Obligation; (iv) no official Statement or similar offering document has been prepared in connection with the private placement of this Obligation; (v) the Obligation will not close through the DTC or any similar repository and will not be in book entry form. Obligation must be able to be classified as a loan or held-to-maturity security in order to be acceptable to the Lender.

**Note, all of the foregoing are subject to Lender's receipt and satisfactory review.*

Financial Reporting:

- Annual audited financial statements due within 210 days of fiscal year end.
- Annual approved operating budget due within 30 days of fiscal year end.
- Annual Certification of Borrower due within 210 days of FYE that District has met the 1.25x rate coverage covenant.
- Borrower shall furnish at Lender's request such additional information that Lender may from time to time reasonably request.

Annual disclosure information may be provided via EMMA.

Tax Exempt Status / Yield Adjustment Event:

The quoted tax exempt interest rate will be subject to gross-up upon an event of taxability.

Closing Costs:

Borrower will pay all reasonable, out-of-pocket costs and expenses incurred by Lender in connection with due diligence and the preparation of documentation, regardless of whether or not the Obligation is closed, including but not limited to, financial advisory fees if applicable, bond counsel, Lender's counsel and CDIAC fees. Lender's Counsel limited to $15,000.

Conditions Precedent:

Prior to the consummation of the Credit Facility, the following conditions precedent shall have occurred, all of which shall be in form and substance satisfactory to the Lender and its counsel.

- Opinion addressed to the Bank, from counsel to Borrower reasonably acceptable to the Bank, setting forth such opinions as the Bank may require, including opinions concerning the legal status of Borrower, the due authorization, execution and delivery of the Obligation documents, the enforceability of the private placement documents, no conflict with law, no litigation, and the receipt of all necessary governmental approvals.
- Tax Opinion addressed to the Bank from counsel reasonably acceptable to the Bank that interest payable with respect to the debt service payments is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Service

Code and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for purposes of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings.

- Properly executed documents in form and substance satisfactory to Bank and/or Bank's counsel evidencing or supporting the Obligation. In terms of service level commitment, Lender's counsel will respond with initial comments within 7 business days of receiving draft legal documents from bond counsel, and within 5 business days of receiving any subsequent iteration of the legal documents.
- Additional conditions precedent that Bank considers customary and reasonably appropriate for the Credit Facility, including further information disclosures.

Ancillary Business: The structure, pricing, and terms contained herein are conditioned upon the establishment of a banking relationship that includes the opportunity to reasonably bid on ancillary financial services in good faith.

Governing Law: This transaction shall be governed by and construed in accordance with the laws of the State of California.

BBVA Compass

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
04/01/2014	145,000.00	3.42%	79,416.97	224,416.97	
06/30/2014					804,775.11
10/01/2014	372,616.23	3.42%	207,741.90	580,358.13	
04/01/2015	372,616.22	3.42%	201,370.17	573,986.39	
06/30/2015					1,152,146.09
10/01/2015	383,161.28	3.42%	194,998.43	578,159.71	
04/01/2016	383,161.28	3.42%	188,446.37	571,607.65	
06/30/2016					1,153,440.82
10/01/2016	399,938.86	3.42%	181,894.31	581,833.17	
04/01/2017	399,938.86	3.42%	175,055.36	574,994.22	
06/30/2017					1,152,808.72
10/01/2017	409,598.10	3.42%	168,216.40	577,814.50	
04/01/2018	409,598.11	3.42%	161,212.28	570,810.39	
06/30/2018					1,148,057.60
10/01/2018	423,039.07	3.42%	154,208.15	577,247.22	
04/01/2019	423,039.08	3.42%	146,974.18	570,013.26	
06/30/2019					1,147,689.17
10/01/2019	437,935.70	3.42%	139,740.21	577,675.91	
04/01/2020	437,935.69	3.42%	132,251.51	570,187.20	
06/30/2020					1,147,174.07
10/01/2020	452,224.06	3.42%	124,762.81	576,986.87	
04/01/2021	452,224.06	3.42%	117,029.78	569,253.84	
06/30/2021					1,144,433.91
10/01/2021	465,883.32	3.42%	109,296.75	575,180.07	
04/01/2022	465,883.31	3.42%	101,330.14	567,213.45	
06/30/2022					1,141,667.47
10/01/2022	481,090.48	3.42%	93,363.54	574,454.02	
04/01/2023	481,090.48	3.42%	85,136.89	566,227.37	
06/30/2023					1,139,860.66
10/01/2023	496,723.04	3.42%	76,910.24	573,633.28	
04/01/2024	496,723.04	3.42%	68,416.28	565,139.32	
06/30/2024					1,137,913.74
10/01/2024	512,852.10	3.42%	59,922.32	572,774.42	
04/01/2025	512,852.10	3.42%	51,152.55	564,004.65	
06/30/2025					1,134,791.29
10/01/2025	528,403.87	3.42%	42,382.77	570,786.64	
04/01/2026	528,403.87	3.42%	33,347.07	561,750.94	
06/30/2026					1,129,420.85
10/01/2026	543,358.55	3.42%	24,311.36	567,669.91	
04/01/2027	543,358.54	3.42%	15,019.93	558,378.47	
06/30/2027					558,378.47
10/01/2027	335,000.00	3.42%	5,728.50	340,728.50	
06/30/2028					899,106.97
Total	**$12,293,649.30**		**$3,139,637.18**	**$15,433,286.48**	

Break-Funding Fee Calculation

If Borrower elects to not go through with the Financing after rate lock other than due to a Force Majeure Event (as defined below), Borrower shall pay to Bank a break-funding fee equal to the Annual Yield Differential (as defined below) multiplied by the Percent Being Prepaid (as defined below), multiplied by the Average Remaining Outstanding Principal Amount (as defined below) multiplied by the number of days the Financing was to be outstanding (the "Maturity Date"), divided by 360.

The "Annual Yield Differential" is the difference (but not less than zero) between the U.S. Treasury yield (from the Federal Reserve daily H.15 report) on the maturity closest to the final maturity of the note at time of rate lock, and the U.S Treasury yield (from the Federal Reserve daily H.15 report) on the maturity closest to the final maturity of the note at the date of notification of election to not enter into the Financing. The Average Remaining Outstanding Principal Amount of the loan is defined as the simple average of the original principal loan balance and the loan balance due at the maturity date. The Percent Being Prepaid shall be determined by dividing the principal amount being prepaid by the existing principal loan amount.

If treasury rates are equal or higher, the customer will incur no charge. The Federal Reserve H.15 report for treasury rates can be accessed from the Fed's website currently @
<**http://www.federalreserve.gov/releases/h15/current/default.htm**>.

Loan amount at origination: $5.0 million
Final maturity: 15 years
Amount Remaining at Maturity: $0.0
15-year US Treasury Rate at time of rate lock: 2.50%

Scenario: 15 days prior to closing and funding, the customer elects to not enter into the financing after previously locking the rate. 15-year Treasury rate at the time of notification is 2.45%.

Prepayment Fee Calculation:
Annual Yield Differential = 5 bps (2.50% - 2.45%)
Percent Being Prepaid = 100%
Average Remaining Outstanding Principal Amount = $2.5 million (average of existing $5.0 million and $0 at maturity)
Days to Maturity / 360 = 15.21 ((15 x 365)/360)
Break Funding Fee = .05% * 100% * $2.5 million * 15.21 = $19,010.42

"Force Majeure Event" means acts of God; acts of public enemies; orders of any kind of the government of the United States of America or the State of California or any political subdivision thereof, or any of their departments, agencies or officials; any outbreak of civil or military insurrections, riots or epidemics; landslides; lightning; earthquake; fire; hurricanes; tornadoes; floods; or any other cause or event not insurable or reasonably within the control of Borrower which makes Borrower unable to consummate the Financing or perform its obligations thereunder.

CITY OF SANTA BARBARA

Waterfront Enterprise Fund

Proposed Refunding of Waterfront Refunding Revenue Bonds
December 10, 2013

BACKGROUND

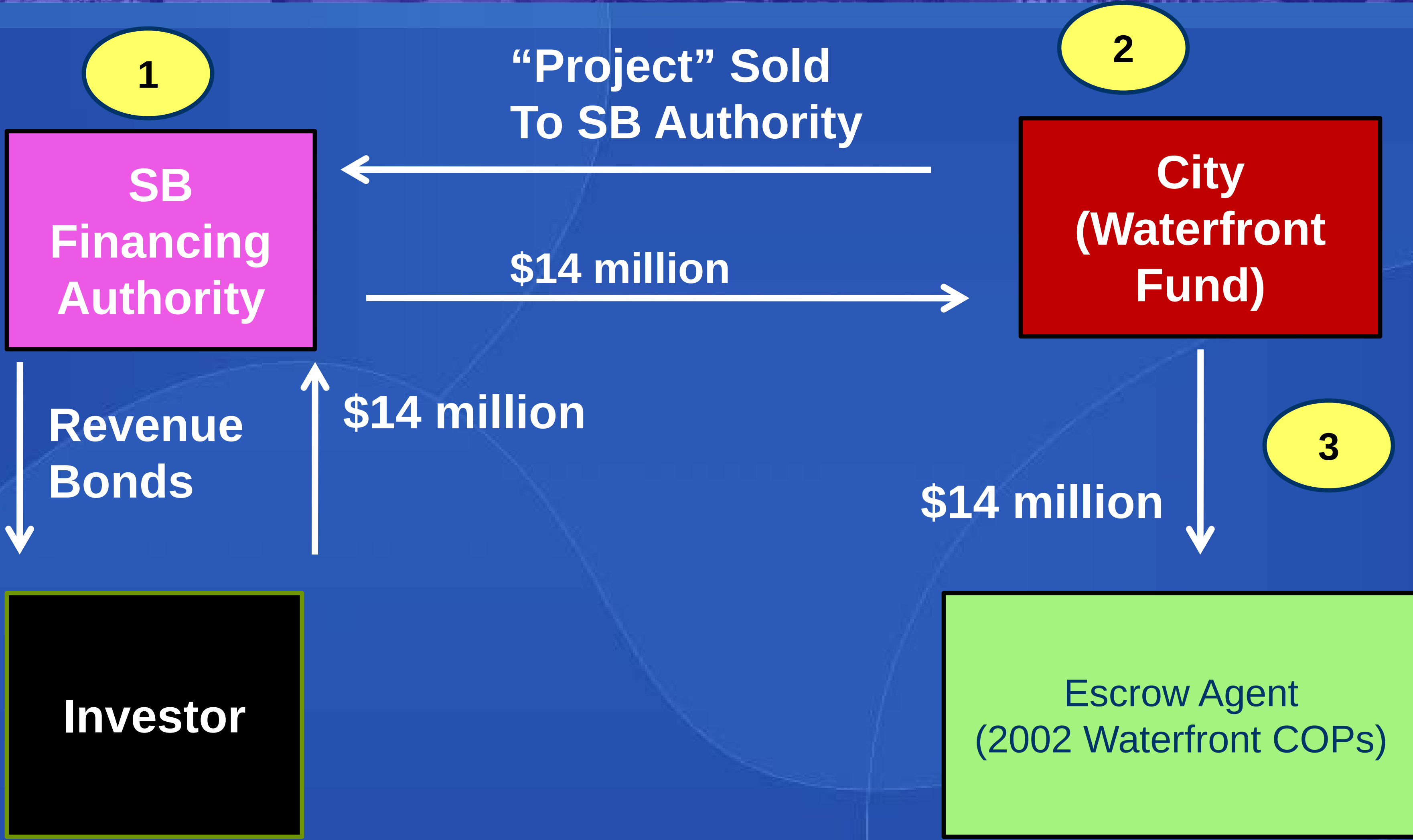
- Extremely low interest rate environment
- Existing debt reviewed for opportunities to reduce interest costs
- Recently refinanced Water Fund debt
  - 2002 Water COPs
  - 2003 State Revolving Loan
  - Combined annual savings of ~$180,000
- Opportunity to refund Waterfront COPs

FINANCING STRUCTURE

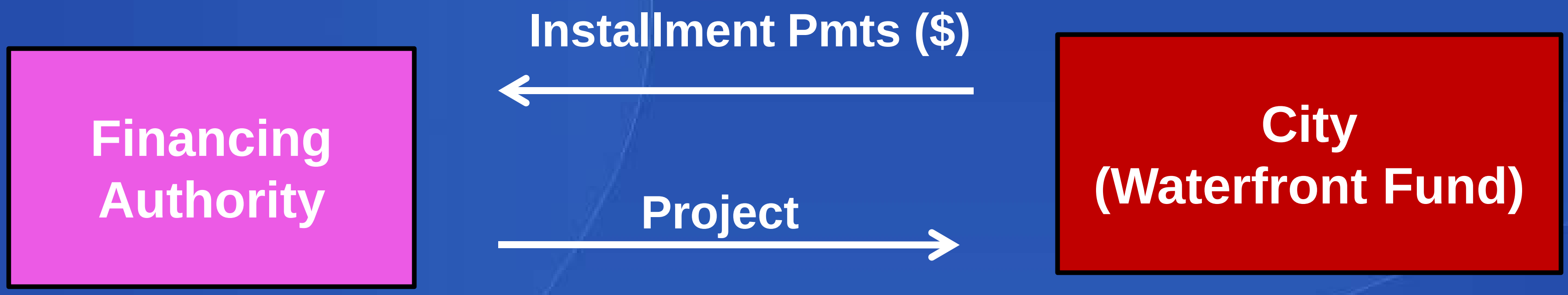
FINANCING STRUCTURE
State Law and Charter Provisions

- Enterprise Fund Revenue Bonds
  - City Charter requires majority vote approval
- Santa Barbara Financing Authority Bonds
  - Not subject to the City Charter and therefore does not require voter approval
  - Bonds are secured by payments made by the Enterprise Fund (i.e., Waterfront Fund) to the Authority
  - Requires establishing a legal mechanism for such payments

FINANCING STRUCTURE
Initial Sale of Bonds



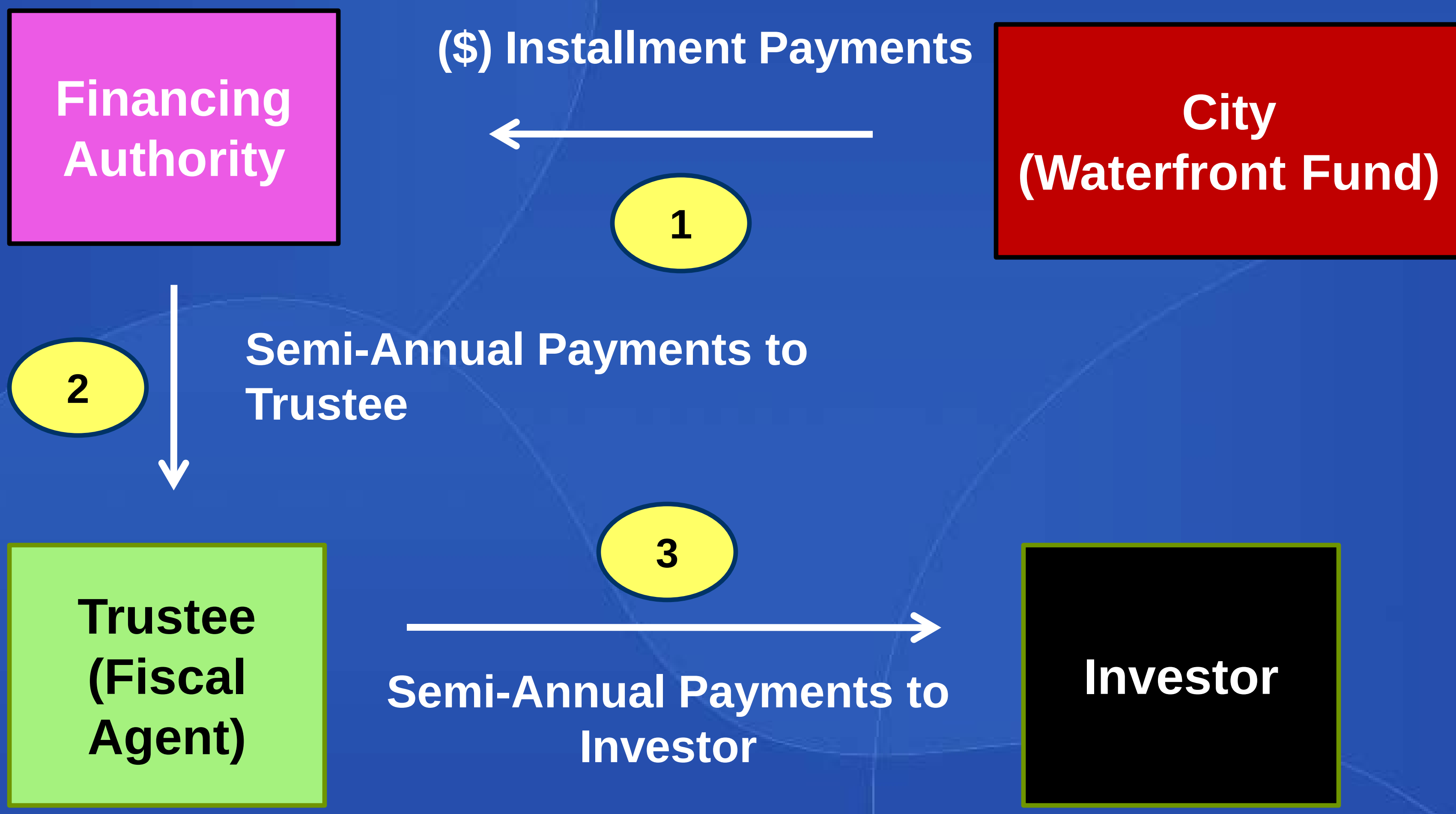
FINANCING STRUCTURE
Installment Sale Agreement



1. "Project" *instantaneously* Sold Back by Authority to Waterfront

2. Waterfront agrees to pay the purchase price in installments to match the timing and amount of the debt service required on the bonds

FINANCING STRUCTURE
Semi-Annual Installments



FINANCING STRUCTURE
Semi-Annual Installments

~~Financing Authority~~

($) Installment Payments

1

City
(Waterfront Fund)

2

Semi-Annual Payments to Trustee

~~Trustee (Fiscal Agent)~~

3

Semi-Annual Payments to Investor

Investor

PROPOSED PRIVATE PLACEMENT

PROPOSED PRIVATE PLACEMENT
Public Offering Vs. Private Placement

- Typically Issuance is a “Public Offering”
  - Underlying debt instruments (bonds, COPs, etc.) are sold to investment bank
  - Investment banker then sells debt securities to private and institutional investors

- Proposed Private Placement
  - Underlying debt instruments (bonds, COPs, etc.) are sold to “qualified institutional buyer” (e.g., a bank)
  - Securities are retained by the buyer – not sold to general investors

PROPOSED PRIVATE PLACEMENT
Key Considerations

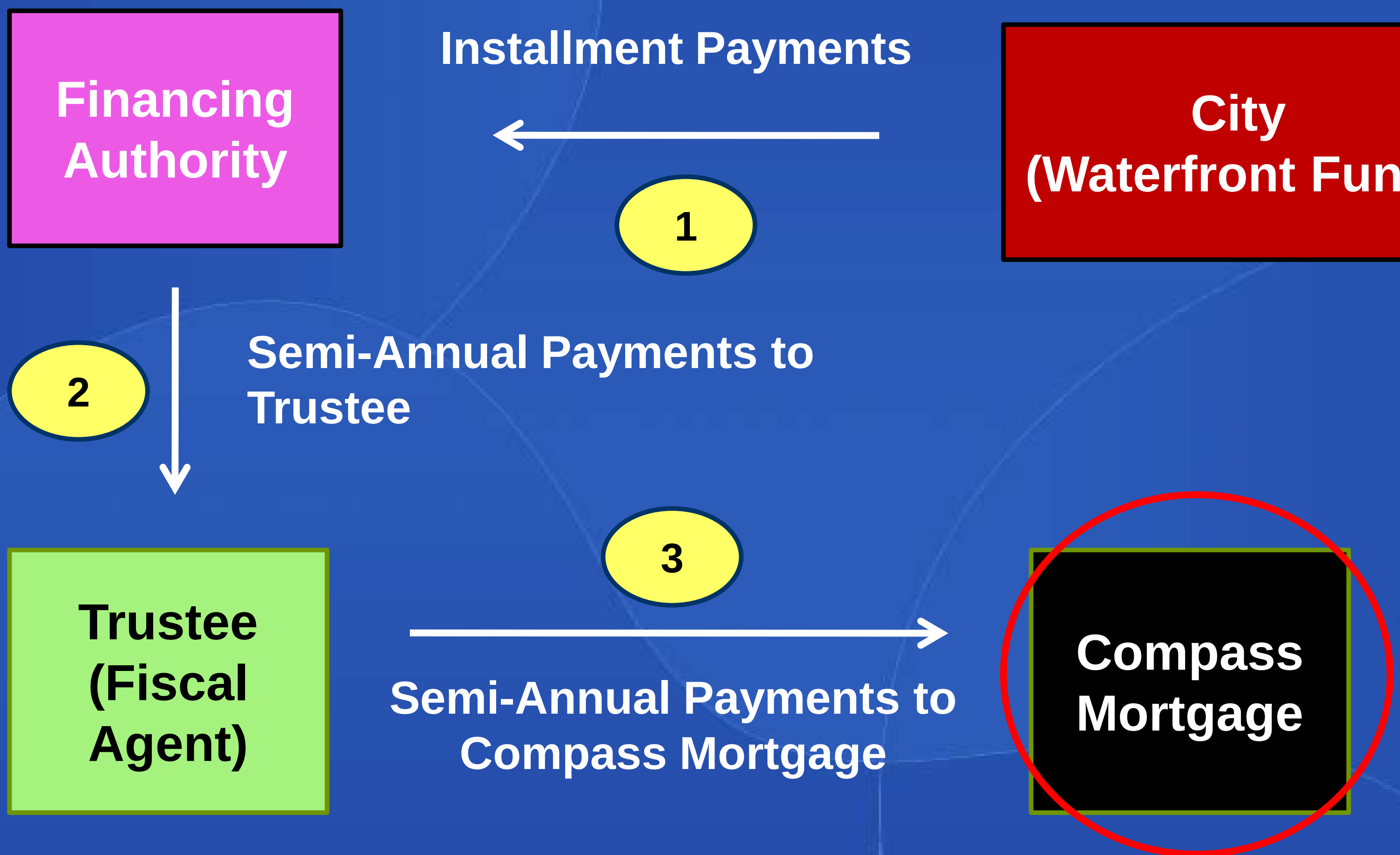
- Primary Reasons for Considering PP
  - Substantial reduction in staff time because there is no disclosure documentation
  - Reduction in transaction costs:
    - Financial Advisor
    - Bond Counsel
    - Rating Agency
- Other Considerations
  - Normally higher interest rates, but not in this case
  - Risks are slightly different but in totally the same
  - $15,000 in legal fees would be payable to bank even if transaction is not executed

PROPOSED PRIVATE PLACEMENT Selection Process

- Proposed selection of Compass Mortgage
  - Meets the “qualified institutional buyer” criteria
  - Selected through a competitive process
    - Request for bid sent to 13 institutions
    - Two proposals were received

- Compass Mortgage proposal offered the lowest overall costs
  - Interest rate slightly lower than what would be expected through public offering

PROPOSED PRIVATE PLACEMENT
How Does it Change the Picture?



FINANCING STRUCTURE
Public Offering vs. Private Placement

	Expected From Public Offering	Compass Mortgage Proposal
Transaction Costs - Consultants - Rating Agency - Bank legal fees	 $160,000 $0 $0	 $115,000 $15,000 – 18,000 $15,000
All- In Interest Rate	4.08%	3.69%
Total Savings	$989,160	$1,119,300
Net Present Value Savings	$799,935 (6.3%)	$987,900 (7.8%)
Annual Savings	FY 14 $160,000 FY 15-28 $60,000	FY 2014 - $170,000 FY 15 – 28 - $68,000

AUTHORIZING DOCUMENTS

AUTHORIZING DOCUMENTS
Resolution and Ordinance

- SB Financing Authority Resolution
  - Approves and authorizes the execution of the Installment Sale Agreement
  - Approves and authorizes the execution of the Trust Agreement
  - Approves and authorizes the execution of a Letter Agreement for Purchase
  - Approves the issuance of Bonds by the Authority
- City of Santa Barbara Ordinance (1st Reading)
  - Approves and authorizes the execution of the Installment Sale Agreement
  - Approves the execution by the Authority the Trust Agreement
  - Approves and authorizes the execution of the Letter Agreement for Purchase

AUTHORIZING DOCUMENTS
Letter of Commitment

- Between the City and Compass Bank
- Provides Compass Bank assurance that the City will sell the bonds to them at the specified price and terms
- Commits the City to paying bank fees of $15,000. whether or not the deal is executed

NEXT STEPS

Date	Activity
Tuesday, December 10th	1. SB Authority Adoption of Resolution 2. First Reading of City Ordinance
Tuesday, December 17th	Second Reading of Ordinance
Friday, January 17th	Effective date of ordinance (and related documents)
Friday, January 24th	Transaction Fully Executed

QUESTIONS?