



City of Grass Valley
City Council
Agenda Action Sheet

Title: Potential 2021 Lease Revenue Financing (Park Improvements / Refunding of OpTerra / Energy Project Lease)

Recommendation: Information Only

Prepared by: Andy Heath

Council Meeting Date: 11/9/2021

Date Prepared: 11/4/2021

Agenda: Administrative

Background Information: In 2018 the City's electorate passed Measure E increasing the City's existing one-half cent transaction and use tax to a full one cent for such General Fund purposes as enhanced police and fire services, greater parks and recreational services, and improving streets and sidewalks.

The City intends to use Measure E revenues to fund a conceptual Parks Improvement Project ("Park Project") consisting of the design and construction up to three combination softball / baseball / soccer fields and associated improvements (lighting, parking, restrooms). Due to the unpredictability of unseasonal droughts, the fields would be state of the art artificial turf with natural infill to allow for year-round use.

The fields would allow the City and other sport organizations to facilitate tournaments (Baseball, Soccer, Lacrosse, Softball) in the City and would allow the City to capture incremental economic activity resulting from hosting sports tournaments. The current total Park Project cost estimate is \$6 million.

The City anticipates financing the Park Project through a lease financing structure (Certificate of Participation "COP") sold to a bank through a private placement. The City has reviewed financing options for the Park Project and determined that funding through a private placement is an optimal method of financing. Given the size of the financing and the final maturity, this transaction will be very attractive for a bank to purchase and as such, the City's financing team expects to receive an aggressive bid for the proposed 2021 Lease Financing. The private placement method of sale will also allow the City to lock in a current rate in the next few weeks and to avoid interest rate risk associated with a longer financing process of a public offering bond sale.

As part of the COP financing process, the City will identify an asset to provide security for the 2021 Lease Bond owners. The asset or combination of assets will be

determined based on the cumulative insured value similar to the bonds being financed. The City is currently evaluating assets to be used for this purpose.

Analysis: It is anticipated that the repayment of the Park Project financing will be over a 10-year term through Fiscal Year 2031-32. Annual debt service for the \$6 million Park Project is expected to be approximately \$663,000, with the total debt service through maturity of approximately \$6.7 million. The COP financing instrument allows the City to embark on implementing the entirety of the Park Project over the next couple of years rather than piecemealing it over multiple budget periods. The ~\$663,000 annual debt service payment would be paid from the Measure E Fund forecasted annual \$2.9 million allocation towards Streets and Parks.

As part of the financing process, the City also reviewed its existing COP debt for refinancing opportunities given the current arena of very low interest rates. In December 2014, the City entered into a lease agreement with OpTerra Energy Services, Inc. for the acquisition and installation of a mechanical retrofit and energy management project (the "Solar Project"). The City financed the Energy Project through Municipal Financing Corporation with a loan in the amount of \$4,288,258, a 3.9% interest rate and a final maturity of September 24, 2035. The Lease can be prepaid on any payment date with a prepayment penalty equal to 1% of outstanding principal balance. The current outstanding balance is \$3,986,939.

It is anticipated the City can refinance the Energy Project lease to capture annual and present value savings, while maintaining the final maturity fiscal year of the current financing in Fiscal Year 2035-36. Annual savings are anticipated to be approximately \$35,000 with cumulative savings of approximately \$525,000 and present value savings estimated at \$475,000 or 11.9% of refunded principal. These savings will help to offset new interest incurred for the Park Project debt service each year, lowering the aggregate impact of new and refunded debt paid Citywide. Staff and the City's fiscal consultants continue to review various financing structures to determine the optimal financing solution for the City.

Anticipated Schedule: The preliminary schedule for the aforementioned financing contemplates the following dates:

- Introduction to City Council - November 9th
- Finalize financing structure and secure bank commitment - November 9-16th
- City Council Approval - November 23rd
- Lock Interest Rate - November 24th
- Closing and delivery of funds - Mid-December
- Redemption/Pre-Payment of Energy Project Lease - December 24th

Council Goals/Objectives: The financing of the Park Project using Measure E revenues maintains an intended use of the Measure E fund by enhancing parks and recreational services. The Park Project also allows the City to capture additional tax revenues from hosting sports tournaments.

Fiscal Impact: The financing of the Park Project results in estimated annual debt service over a 10-year period of \$663,000 with cumulative debt service paid of \$6.7 million through maturity. By including the refinancing of the Energy Project lease, the City can capture annual estimated savings of \$35,000 through fiscal year 2036 (current final maturity of the Energy Project lease). These savings offset the Park Project debt service through Fiscal Year 2032, lowering the impact of debt service paid by Measure E revenues.

Cumulative debt service savings on the refinancing of the Energy Project lease are estimated at \$35,000 with cumulative gross savings of \$525,000 and present value savings of \$475,000 or 11.9% of refunded principal.

Funds Available: N/A

Account #: N/A

Reviewed by: City Manager

Attachments: None