6550 Yount Street
Yountville, CA 94599

Staff Report

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Yountville Finance Authority Staff Report

DATE: May 5, 2020

TO: President and Board of Directors of the Authority

FROM: Steven Rogers, Town Manager; Celia King, Finance Director

TITLE

Consider Adoption of Resolution Number 20-07 Approving the Form and Authorizing the Execution of Certain Lease Financing Documents in Connection with the Refunding of the Outstanding Yountville Finance Authority Lease Revenue Bonds, Series 2013, and Authorizing and Directing Certain Actions with Respect Thereto.

DISCUSSION/BACKGROUND

In February 2013, the Yountville Financing Authority issued 2013 Lease Revenue Bonds in the amount of $4,260,000 to fund a seismic retrofit for the historic Town Hall building, and the reconstruction of streets and replacement of sewers on Madison and Yount streets. The Town is obligated to pay the debt from existing General Fund revenue sources, and therefore budgets an annual General Fund transfer to pay principal and interest payments applicable to the Town Hall seismic retrofit. Principal and interest payments for the portion of the sewer line replacement are funded with an annual transfer from the Wastewater Collection Capital Improvement Fund (64).

Town staff and our Financial Advisor, Columbia Capital Management, regularly review the financial markets to see if refinancing could result in annual savings for the Town. Given the financial impacts of the COVID-19 pandemic it has become obvious that any cost reduction the Town may be able to achieve is helpful at this time.

The 2013 Bonds permit the Town to cause the Authority to refinance the 2013 Bonds. The Town desires to refinance the 2013 Bonds in order to take advantage of a more favorable interest rate environment than at original issuance. Based upon the formal proposal from Westamerica Bank, the Authority's financial advisor, Columbia Capital Management, LLC, indicates post-refinancing debt service savings (after all transaction costs) to be $45,000 in total over the remaining life of the bonds (in 2020 dollars and net of all costs). The 2013 Bonds reach final maturity in June 2027 and the refunding bonds will expire in the same year.

Due to the small size of the transaction, the Town's ability to generate material savings from the refinancing is heavily dependent upon certainty of execution of the refunding bonds and the ability to minimize transaction costs. By placing the bonds with a bank, the Authority avoids the costs (and time commitment) associated with securing a bond rating and producing an offering document. Given the negative impacts of the COVID crisis on the municipal bond market in recent weeks, a bank placement also provides the Town and authority with certainty of execution.

Authority staff authorized Columbia Capital to proceed to this point based upon estimates in early March that savings from the refinancing after all costs could be as much as $60,000 (in 2020 dollars). Columbia Capital coordinated with a placement agent to secure fully-credit approved quotes from one or more banks to purchase the bonds. As a result of the intervening COVID-19 crisis, the Authority received only one bank proposal, from Westamerica Bank. Fully-credit approved with a rate lock through early June, that proposal will result in savings of approximately $45,000 (in 2020 dollars) with annual budgetary savings of $6,000 to $7,000 per year. Columbia Capital recommends the Authority proceed with the financing for the following reasons, despite the lower-than-expected savings amount:

1. The interest rate on the 2013 Bonds is already very low, making it challenging to generate materially higher savings in *any* interest rate environment. Based upon the Westamerica proposal, the Authority's borrowing costs will decline from an average rate of 2.92% to 1.66%.
2. The short remaining term on the 2013 Bonds also makes it challenging to generate materially higher interest rate savings. These bonds will reach final maturity in June 2027.
3. Unless the Authority believes that its borrowing costs are likely to decline significantly in the near term, there is no economic advantage to waiting to refinance the 2013 Bonds.
4. Incredibly robust through February, the California bank purchase market is now suffering significant stress resulting from the COVID-19 crisis with major banks no longer participating at all and many others providing proposals only to their existing bank customers.
5. Given dislocations in the public municipal bond market due to COVID-19, the Authority could not produce any savings at all through a traditional financing at this time.
6. Unfortunately, given local impacts from the crisis in Yountville, the Town's financial condition is likely stronger now than it will be in coming months. Issuers with material exposure to tourism and travel are already facing increased scrutiny from investors and rating agencies.
7. The feedback Columbia Capital received from other banks that considered providing a proposal but did not includes concerns about the Town's heavy reliance on TOT revenues and increased challenges in getting internal approvals as the result of crisis impacts.

ENVIRONMENTAL REVIEW

Exempt per California Environmental Act (CEQA) Guideline, Section 15061(b)(3).

FISCAL IMPACT

Is there a Fiscal Impact? Yes

Is it Currently Budgeted? Yes

Where is it Budgeted? Fund 53-7000

Is it Mandatory or Discretionary? Discretionary

Is there a Staff Resource Impact? Nominal

STRATEGIC PLAN GOAL

Is item identified in Strategic Plan? Yes

If yes, Identify Strategic Goal and Objective. Responsible Fiscal Policy

Briefly Explain Relationship to Strategic Plan Goal and Objective. Refinancing debt at a lower interest rate will generate a saving to the General Fund, making funds available for other programs/projects or to strengthen reserves.

ALTERNATIVES

The Authority is not obligated to execute the transaction at this time, however, unless the Town anticipates a significant decline in municipal bond rates, there is no economic advantage to waiting. The bonds became callable in mid-2018, but at that time a refunding did not generate sufficient interest rate savings to warrant execution. With a significant decline in municipal market rates over the second half of 2019 and into the early months of 2020, Authority staff determined savings were sufficient to proceed. Although actual savings are approximately $15,000 less than hoped when staff started this process, given the weakness in the financial markets due to the COVID-19 crisis and the likelihood that Town's financial condition will weaken from the same, generating $45,000 in savings is preferable to not generating savings at all. Executing the financing with Westamerica Bank as proposed provides the Authority with certainty of execution and a firm savings result.

Not completing the transaction will result in the Town paying approximately $45,000 more the remainder of the existing term of the financing than will be the case if the Town does not choose to refinance the 2013 Bonds.

RECOMMENDATION

1. Receive staff report on the Refunding of the 2013 Lease Revenue Bonds.
2. Discuss the option to refinance the 2013 Lease Revenue Bonds.
3. Consider Adoption of Resolution Number 20-07 Approving the Form and Authorizing the Execution of Certain Lease Financing Documents in Connection with the Refunding of the Outstanding Yountville Finance Authority Lease Revenue Bonds, Series 2013, and Authorizing and Directing Certain Actions with Respect Thereto.