



Staff Report

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Yountville Town Council Staff Report

DATE: May 5, 2020

TO: Mayor and Town Council

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

TITLE

Consider Adoption of Resolution Number 20-3984 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).

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.

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 transactions costs. In contrast to the 2013 Bonds where the bonds were offered to the market via a competitive auction, the purchaser of the 2020 Bonds is recommended to be a bank. By placing the bonds with a bank, the Town and the Authority avoid the costs (and the time commitment) associated with securing a bond rating and producing an offering document. Given the negative impacts of the COVID-19 crisis on the municipal bond market in recent weeks, a bank placement also provides the Town and Authority with certainty of execution. The resolution authorizes the Mayor and Town staff to execute all required documents to affect the financing.

Town 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 Town 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 an annual budgetary savings of \$6,000 to \$7,000 per

year. Columbia Capital recommends the Town and the YFA 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 YFA's/Town'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 Town 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 Town 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? Debt Service 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

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 Town with certainty of execution and a firm savings result.

RECOMMENDATION

Receive staff report and direct questions to staff.

Receive public comment.

Discuss proposed refinancing of the 2013 Lease Revenue Bonds.

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