



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: OCTOBER 3, 2017**

FROM: FINANCE DEPARTMENT **WARDS: ALL**

SUBJECT: RETENTION OF THE FINANCING TEAM MEMBERS TO REFINANCE THE 2006 LEASE REVENUE CERTIFICATES OF PARTICIPATION

ISSUE:

Retain the debt financing team members to refinance the 2006 Lease Revenue Certificates of Participation (COPS) debt instrument; the refinancing transaction is scheduled for the City Council approval in November 2017.

RECOMMENDATIONS:

That the City Council:

1. Retain the various financing team members to refinance the 2006 Lease Revenue COPS debt, as outlined in the report below;
2. Authorize the City Manager, or his delegate, to execute individual agreements with each financing team member that will be negotiated closer to the actual refinancing transaction, for not to exceed amounts noted in the report below; and
3. Direct staff to return in November 2017 to hold a public hearing authorizing the refinancing of the 2006 Lease Revenue COPS.

BACKGROUND:

The City is in the process of soliciting proposals to form a panel of financial advisors. The evaluation of proposals will not be completed until November 2017. Once completed, the financial advisors will assist the City with the selection of financing teams for future relevant debt transactions. Financing teams typically include bond counsel, disclosure counsel, an underwriter, and in some cases, a special tax consultant.

On November 15, 2016, the City Council approved a preliminary financing team for the 2006 Lease Revenue COPS. Interest rates have recently decreased again; however, we anticipate these decreases to be temporary with interest rates rising in early 2018. As such, the financial market conditions are anticipated to allow for the refinancing of the 2006 Lease Revenue COPS

and save the City approximately \$160,000 to \$210,000 per year. Per existing agreement, these cost savings are passed along to General Growth Partners, owners of the Galleria at Tyler ("mall"), eventually benefiting Galleria businesses.

DISCUSSION:

As a condition of their expansion plans for the mall more than 10 years ago, the City imposed certain parking improvement requirements upon the previous owner of the Galleria at Tyler. To lessen the cost burden of such improvements, and with the expectation that the expansion would generate significant net sales and property tax revenues to the City, the City agreed to provide certain financing support to the 2006 project. The following is a summary of the improvements:

1. A 645 net parking space addition to the existing Hughes Alley parking structure of 906 parking spaces;
2. A 121,365 sf public plaza and adjacent public walkways, near the corner of Tyler Street and Hughes Alley with related improvements, water pools and fountains, landscaping, lighting and irrigation;
3. A surface parking field including approximately 419 public parking spaces (and related landscaping and lighting); and
4. Related storm drain improvements.

Although the 2006 COPS are secured by the City's General Fund, the City receives a reimbursement from General Growth Partners for payments under the agreement dated January 2005, as amended in December 2005 and February 2011.

Originally issued at \$19,945,000, the current outstanding amount of the 2006 Lease Revenue COPS debt is \$16,485,000. Under current market conditions, refinancing of the 2006 Lease Revenue COPS would lower interest rates from approximately 4.8% to approximately 4.1%. Additionally, with the recent upgrade to the City's lease obligation bond rating to AA-, the City would be able to reduce the size of the reserve needed, thereby reducing the amount of the total refinancing. A combination of lower rates and less money needed in reserve translates into annual average savings of \$160,000 to \$210,000. Over the outstanding terms of the certificates, from 2018 until 2036, this would generate savings of approximately \$3.0 million. The savings would lower the payments the Galleria at Tyler owners are making on these COPS. All savings estimates are net of transaction costs.

Given the complexity of the transaction and the current financing team members' familiarity with the City's current debt instrument structures, staff requests that an experienced financing team be used for this specific financing/refinancing effort. Staff recommends the following financing team members, whom have all worked for the City previously. The estimated fees are also listed for each firm.

1. CSG Advisors Inc. as the financial advisor - \$30,000
2. Stifel, Nicolaus & Co. as the investment banking firm - \$95,000
3. Stradling Yocca Carlson & Rauth as bond counsel - \$60,000

4. Jones Hall as bond disclosure counsel - \$40,000

These recommendations are a short term solution until a panel of Financial Advisors is established. Should additional refinancing opportunities present themselves prior to the panel selection, staff will return to the City Council at that time.

FISCAL IMPACT:

The estimated cost of \$225,000 for these services will be paid from the proceeds of the financing.

Prepared by: Adam Raymond, Chief Financial Officer/City Treasurer
Certified as to
availability of funds: Edward Enriquez, Controller
Approved by: Marianna Marysheva, Assistant City Manager
Approved as to form: Gary G. Geuss, City Attorney