STAFF REPORT

MEETING DATE:	**2/24/15**
SUBJECT:	**Lender and Finance Terms for the 1255 East Street Building**
AGENDA ITEM:	**14**
STAFF CONTACT:	**Dave Wallace, Chief Fiscal Officer**

STAFF RECOMMENDATION:
It is recommended that the board of directors review options to finance $1.354 million for purchase of the 1255 East Street building, and related expenses.

DISCUSSION:
In January 2015, the board authorized purchase of the entire 1255 East Street building for $1,001,511. Due diligence has been performed and the total cost, inclusive of all improvements and other fees, equals $1.354 million (see attached - Financing Needs Summary). This is slightly refined from the estimate provided to the board in January. SRTA would occupy the upstairs portion along with another potential leasee, and the downstairs would continue to be leased to a private company: Stifel Nicolaus.

A placement agent circulated credit information packages to sixteen different lending institutions to obtain bids for public financing. Three institutions responded with quotes as attached. Umpqua Bank and Redding Bank of Commerce provided the best terms with a combination of tax-exempt financing (upstairs portion) and taxable financing (downstairs portion). There is no down payment required. A 15.5-year term through Umpqua Bank would have taxable financing at a 4.28% interest rate and tax-exempt financing at a 2.98% rate. Redding Bank of Commerce is offering the best 20-year term option at a higher variable interest rate as shown in Table 1 of the attachment. Staff is continuing discussion to determine the best option balancing cash flow needs with overall savings.

Though implied, SRTA has no explicit statutory authority to own real property. Legal counsel has advised that SRTA enter into a joint powers authority (JPA) with another organization formed to act as a conduit for the funds. Such entities have been set up by the League of California Cities and the California State Association of Counties (www.cacommunities.org) for this purpose. Under these arrangements, the JPA retains title to the building and also has the corresponding debt. The JPA's board would be comprised of SRTA board members only. The enabling partner agency is silent in the JPA with no voting rights. SRTA will lease the building from the JPA under a lease-finance agreement. The terms of the lease coincide directly with the loan agreement.

Staff intends to present a JPA with the related lease agreement, and the final financing package for board of directors' approval at a special meeting in March. Escrow on the building will close subsequent to board approval of the above-mentioned documents. The escrow deadline is April 17, 2015.

FINANCING:
Funds to finance the building would be reimbursed through existing SRTA planning revenues and revenues from other leases in the building. Purchase would result in long-term savings compared to the cost of leasing similar space. Detailed analysis was provided in prior board of directors meeting materials and is available on request.

Daniel S. Little, AICP, Executive Director

Attachments: SRTA Building Financing Needs Summary
February 18, 2015, Memorandum: Summary of Bank Bids

SRTA Building
Financing Needs Summary

Building Purchase	
Building	1,021,950
2% Realtor Fee Credit	(20,439)
Net Building Purchase	1,001,511
Improvement Estimates	
Remodel	200,000
ADA Corrections	67,176
Building Repairs	18,176
	285,352
Estimated Escrow Costs	13,000
Bond Counsel	19,000
Placement Agent	7,500
Financial Consultant	7,500
Bank Loan Fee	10,000
	57,000
Fees Paid to be Financed	
Inspections	6,579
Appraisal	3,200
	9,779
Total Financing Needs (Rounded)	1,354,000

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MEMORANDUM

To: David Wallace, Chief Fiscal Officer, Shasta Regional Transportation Agency

From: Mark Northcross

Date: February 18, 2015

RE: Summary of Bank Bids for Acquisition of Office Building

Introduction

We have retained Mike Cavanaugh of Southwest Securities to act as placement agent to obtain bids from banks for a private placement of $1,345,000 in lease purchase debt to fund the acquisition and improvements for Shasta Regional Transportation Agency's ("SRTA") office building at 1255 East Street in Redding. The purpose of this memo is to summarize the results of this bid process and provide preliminary recommendations.

The Bid Process

We prepared a credit information package for Southwest Securities regarding SRTA and the office building. This package was submitted to the following banks and other potential funding sources:

- Arizona Business Bank
- Bank of America
- Bank of the West
- BBVA Compass Bank
- Capital One Bank
- JP Morgan Chase
- GE Capital
- Municipal Finance Corporation
- Pinnacle Public Finance Bank
- Rabobank
- Redding Bank of Commerce
- Umpqua Bank
- Westamerica Bank
- Western Alliance Bank
- Zions Bank

Bids were received from three banks: Redding Bank of Commerce, Umpqua Bank, and Western Alliance Bank.

Bid Results

Table 1 below summarizes the results of these bids:

Table 1
Comparison of 15.5 and 20.5 Year Amortization Bids for SRTA

	Redding Bank of Commerce	Redding Bank of Commerce	Umpqua Bank	Western Alliance Bank	Western Alliance Bank
Term	15.5 years	20.5 years	15.5 years	15.5 years	20.5 years
Tax Exempt Rate	3.75%	3.75% for first 15 years and then indexed with a cap of 4.875% for remaining 5.5 years	2.98%	3.85%	3.92%
Taxable Rate	4.00%	4% through 2021 and then indexed with a cap of 5.875% for remaining 3.5 years	4.28%	4.50%	4.75%
Reserve Fund	No	No	No	No	No
Call Features	Prepayable at any time	Prepayable at any time	Callable at 105% for first 5 years and gradually declining to 101% through final maturity	To be negotiated	To be negotiated
Rate Lock	Through 3/31/15	Through 3/31/15	No	To be negotiated	To be negotiated
Bank Fees	$10,000	$10,000	$11,000	$10,000	$10,000
Other Conditions	SRTA moves primary banking relationship to Redding	SRTA moves primary banking relationship to Redding	SRTA moves primary banking relationship to Umpqua	None stated	Nothing stated
Total Debt Service	$1,796,418	$2,002,483	$1,724,088	$1,815,728	$2,004,858
Average Annual Debt Service	$115,897	$97,682	$111,231	$117,143	$97,798

Umpqua Bank would only allow lease amortization to be over a 15.5 year period. Both Redding Bank of Commerce and Western Alliance Bank would allow amortization over a 20.5 year period, as well as a 15.5 year period. Consequently, there are five bids summarized in Table 1: two each from Redding Bank of Commerce and Western Alliance Bank, and one from Umpqua Bank.

Comparative Analysis of Bids

There are several key factors to take into consideration in evaluating the bids:

1) Financing term
2) Interest rate
3) Bank fees
4) Prepayment features
5) Rate lock through closing
6) Average annual debt service and total debt service
7) Other special conditions of the bidder

The lowest annual debt service for any of the bids, based on a total estimated financing cost of $1,345,000, is the Redding Bank of Commerce 20.5 year bid. Annual debt service would be $97,682 per year over 20.5 years, with no rate reset. Note that the Redding Bank of Commerce 20.5 year bid provides for a rate reset for both the taxable and tax-exempt bids, subject to a cap. In both cases, we assumed that the rate reset would be at the level of the interest rate cap. Consequently, these are conservative estimates of annual and total debt service for the Redding Bank of Commerce 20.5 year bid. A summary of how this level of average annual debt service with the Redding Bank of Commerce bid would work in SRTA's pro forma for the building acquisition is shown in Table 2 below:

Table 2 Draft Pro Forma for SRTA Acquisition of 1255 East Street (Revised) Assuming Redding Bank of Commerce 20.5 Year Amortization	
Stifel Nicholas Rental Income	51,276
Estimated Federal Gas Tax Reimbursement for 1255 East Street	70,745
Total Income for 1255 East Street	122,021
Estimated Operating Expenses	(30,400)
Debt Service on Lease Financing	(97,682)
Total Expenses for 1255 East Street	(128,082)
Total Net Cash Flow to SRTA 1255 East Street	(6,061)

Based on this analysis, using the Redding Bank of Commerce 20.5 year amortization bid, combined income from the Stifel Nicholas lease and Federal gas tax reimbursement would nearly cover all debt service and operating expenses for the building, with only a $6,000 per year annual deficit.

Redding Bank of Commerce's bid provides the best prepayment features of the bids submitted, allowing for both the taxable and tax exempt components to be prepayable at any time. Redding Bank of Commerce also provides the best rate lock of the bids - through March 31, 2015. Additionally, their fee cap of $10,000 is comparable to the other bids. The Redding Bank of Commerce bids would require the transfer of SRTA's banking business to Redding Bank of Commerce.

Should SRTA prefer the shorter 15.5 year amortization term, Redding Bank of Commerce's bid is the only bid with a rate lock through the end of March. All other bids are subject to change from changing market conditions. However, Umpqua Bank provides the lowest annual debt service, but again, their bid is not rate locked. Also, Umpqua's bid requires the transfer of SRTA's banking business to Umpqua. Table 3 on the following page shows how debt service with the Umpqua Bank bid works in SRTA's pro forma for the building acquisition:

Table 3 Draft Pro Forma for SRTA Acquisition of 1255 East Street (Revised) Assuming Umpqua Bank 15.5 Year Amortization	
Stifel Nicholas Rental Income	51,276
Estimated Federal Gas Tax Reimbursement for 1255 East Street	70,745
Total Income for 1255 East Street	122,021
Estimated Operating Expenses	(30,400)
Debt Service on Lease Financing	(111,232)
Total Expenses for 1255 East Street	(141,632)
Total Net Cash Flow to SRTA 1255 East Street	(19,611)

In this case, the net cost to SRTA after Federal gas tax reimbursement would be about $20,000 per year, compared with a net cost of approximately $600 per year under the 20.5 year amortization. However, total debt service paid under the 15.5 year Umpqua Bank amortization is $1,724,088, approximately $275,000 less than the $2,002,483 paid under the 20.5 year amortization with Redding Bank of Commerce.

Preliminary Recommendations

Based on this analysis, we believe that SRTA should accept the Redding Bank of Commerce 20.5 year bid. Note that since the lease purchase agreement would be prepayable at any time, SRTA can choose to set aside surplus cash flow in the future to pay of the lease purchase agreement early. It is important to note in this regard that Redding Bank of Commerce provides the most favorable prepayment terms of the bids received, as shown on Table 1. However, with the longer amortization, SRTA reduces its cash flow needs by approximately $13,000 per year.

Next Steps

Staff needs to make a decision on which bid to accept. SRTA's finance team can then notify the winning bidder and start the closing process.