MOUNTAINS RECREATION & CONSERVATION AUTHORITY
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MEMORANDUM

TO: The Governing Board

FROM: Joseph T. Edmiston, FAICP, Hon. ASLA, Executive Officer

DATE: August 7, 2019

SUBJECT: **Agenda Item VIII: Consideration of a resolution authorizing and approving an $8 million Revolving Credit Agreement to finance grants and annual operating costs, including the issuance of three promissory notes in the respective amounts of $3,000,000, $3,000,000 and $2,000,000, a Deed of Trust, a Pledge Agreement, and certain other documents in connection therewith, and authorizing certain related actions.**

Staff Recommendation: That the Mountains Recreation and Conservation Authority (MRCA) authorize and approve an $8 million Revolving Credit Agreement and the issuance of three promissory notes in the respective amounts of $3,000,000, $3,000,000 and $2,000,000, a Deed of Trust, a Pledge Agreement, and certain other documents in connection therewith, and authorize certain related actions.

Legislative Authority: Section 6500 et seq.

Background: Most of the grants utilized by MRCA to complete projects are reimbursable grants - that is, the MRCA must pay vendors and then request reimbursement from grantor agencies, rather than having cash advanced at the time of the grant award – thus lines of credit are essential to the Authority's ability to manage cash flow and operate in a consistent manner. In 2006, the MRCA entered into an agreement with Zions First National Bank which established two revolving lines of credit. The first line of credit was in the amount of $1,000,000 to cover ongoing operational costs and the second was for $3,000,000 for the purpose of construction and other capital projects.

Pursuant to the 2006 agreement, these lines of credit were secured by (a) the MRCA's collateral assignment of a deed of trust for the Trebek Open Space (undeveloped open space owned by MRCA in the Nichols Canyon area of the Hollywood Hills), (b) the pledge by the MRCA of applicable future grant revenues, and (c) a pledge of the MRCA fund balance and general fund revenues.

The 2006 agreement was modified and renewed in 2009 and 2014 under largely the same terms. The MRCA's ability to draw down on these lines under the 2014 modifications is expiring on September 1, 2019.
In anticipation of the 2014 Zions Lines of Credit expiration, staff together with a Municipal Advisor, Columbia Capital, issued an RFP to restructure, increase and extend the credit facility. This modification includes: an operating line in the amount of $2,000,000 (up from $1,000,000), a $3,000,000 capital line, (mirrors the existing capital line), and a new working capital projects line of $3,000,000, which funds grants that do not lead to capital projects or preliminary expenditures and feasibility activities for proposed capital projects. The RFP was sent to five banks active in the

municipal private placement market including City National Bank, Opus Bank, JP Morgan Chase. Due to the very specialize nature of the MRCA's financing requirements, 2 of the banks responded – Zions and BBVA USA. Zions' proposed interest rates were significantly higher (over 1.5%) than BBVA USA which proposed lower interest rates and a lower origination fee. BBVA USA does require some added financial reporting not required by Zions. The interest rates for the proposed BBVA USA lines of credit are also significantly lower than the interest rates on the current, expiring Zions lines of credit. After further discussion with both banks, it is recommended that MRCA move forward with BBVA USA proposal. The credit facility has been approved by BBVA credit committee. These lines of credit will be secured by (a) a deed of trust for the Trebek Open Space (undeveloped open space owned by MRCA in the Nichols Canyon area of the Hollywood Hills), (b) the pledge by the MRCA of applicable future grant revenues, and (c) a pledge of the MRCA fund balance and general fund revenues.

Senate Bill 450 (effective January 1, 2018) requires that certain financial estimates be provided in connection with approval of proposed debt by a local public entity. SB 450 may not have fully contemplated variable rate revolving bank debt, such as the proposed BBVA lines of credit, which bear interest rates tied to one month LIBOR and are reset on a monthly basis. To meet the SB 450 "good faith" estimate requirement, the Municipal Advisor has assumed that all three credit lines totaling $8 million are outstanding for the 5 year term of the credit facility. This is a conservative assumption for a revolving credit line.

The interest rate assumptions used in the good faith financial estimates provided below are based upon one month LIBOR as of July 18, 2019, and for each proposed line of credit are calculated as follows:

$2 million taxable operating line – one month LIBOR plus .87% (or 3.17%)

$3 million taxable projects grant line – one month LIBOR plus 1.82% (or 4.12%)

$3 million tax exempt capital grant line – 79% of one month LIBOR plus 1.48% (or 3.30%)

Interest rates based on one month LIBOR are subject to change on a monthly basis and may be higher or lower over time. Current one month LIBOR is 2.30%. Since 2000, one month LIBOR has been under 3% with the exception of the periods January 2000 to September 2001 and from April 2005 through October 2008. One month LIBOR is below its recent peak of 2.52% in December of 2018.

Based on the assumptions described, the following are the good faith estimates from MRCA's Municipal Advisor pursuant to SB 450:

(A) The true interest cost of the entire credit facility, assuming current one month LIBOR and all the principal is drawn at closing to be repaid at the end of year 5, is estimated at 4.07% per annum.

(B) The finance charge of the debt (i.e., the sum of all fees and charges paid to third parties including bank fees) is estimated to be $192,000.

(C) The amount of proceeds of the debt, less the finance charge of the debt described in item (B) and any reserves or capitalized interest paid or funded with proceeds of the debt, is estimated to be $7,808,000.

(D) The total payment amount (i.e., the sum total of all debt service payments on the debt), plus the finance charge of the debt described in item (B) not paid from debt proceeds is estimated to be $9,429,550.

The firm of Richards, Watson & Gershon is providing legal advice and is serving as bond counsel on the new lines and will issue certain legal opinions required by BBVA. On the advice of bond counsel, each of the member agencies of the MRCA is required to hold a public hearing and find that the lines of credit will provide a significant public benefit.

It is important to note that by holding the public hearings and making the required findings, the member agencies will not incur any liability under the promissory note and will not be responsible for further securing or repayment of the MRCA's lines of credit.

Rancho Simi Recreation and Park District and Conejo Recreation and Park District held their public hearings on July 18, 2019. Following each public hearing, the Board of Directors of each District approved and adopted its respective resolution making the requisite finding of significant public benefit.

The Santa Monica Mountains Conservancy will hold its public hearing on August 26, 2019. The proposed action before the Governing Board is expressly contingent on the Conservancy holding its public hearing and making the required finding.

The documents necessary to set up the new lines of credit and the promissory notes are attached for reference.