



TOWN OF APPLE VALLEY

TOWN COUNCIL STAFF REPORT

To: Honorable Mayor and Town Council **Date:** August 14, 2018

From: Douglas B. Robertson, Town Manager
Town Manager's Office **Item No:** 7

Kofi Antobam, Director of Finance
Finance Department

Subject: APPROVE THE INITIAL SELECTION OF JPMORGAN AS THE PROVIDER OF A REVOLVING LINE OF CREDIT, AUTHORIZE THE TOWN MANAGER TO NEGOTIATE TERMS WITH JPMORGAN, AND AUTHORIZE BANK COUNSEL FEES TO DEVELOP THE FINANCING DOCUMENTS

T.M. Approval: _____ **Budgeted Item:** Yes No N/A

RECOMMENDED ACTION:

Staff recommends that the Town Council approve the initial selection of JPMorgan as the provider of a revolving line of credit, authorize the Town Manager to negotiate terms with JPMorgan, and authorize bank counsel fees to develop the financing documents.

SUMMARY:

As brought to Council on July 24, 2018, staff is seeking to put in place a 5-year revolving line of credit (RLC) with a qualified bank to provide the Town with financial flexibility. Approval of the actions referenced in the Recommendation above is the second step in a three-step process that began with the approval of the taxable tax and revenue anticipation note ("Taxable Note") issuance at the prior Council Meeting.

On July 24, 2018, the Town issued a Taxable Note in the principal amount of \$10,000,000 to the Apple Valley Public Financing Authority (the "Authority") to secure the RLC between the Authority and the bank. Although the Resolution adopted on July 24, 2018 allows the Town to issue tax-exempt and/or taxable tax and revenue anticipation notes (with a combined aggregate principal amount not to exceed \$10,000,000), the Town ultimately

issued a Taxable Note of \$10,000,000 for Fiscal Year 2018-19 in order to provide better flexibility for the use of proceeds and to avoid any potential tax issues.

At tonight's meeting, staff is recommending that Council approve the initial selection of JPMorgan as the provider of the RLC, authorize the Town Manager to negotiate terms with JPMorgan and its counsel, and authorize the estimated bank counsel fee of \$25,000 to negotiate terms and develop financing documents. Should Council approve these actions, staff will return to Council and the Authority in September to approve the execution of an agreement with JPMorgan on the RLC and to approve the financing documents.

At the expiration of the Taxable Note on October 1, 2019, the Town will either issue another tax and revenue anticipation note (which would keep the RLC in place and drawn amount outstanding), issue long-term debt to take out the RLC, or pay back the drawn amount and interest from General Fund revenues (and choose to keep the RLC or terminate).

DISCUSSION:

On July 25, 2018, the financing team sent out a Request for Proposal to 15 banks to provide a 5-year revolving line of credit for \$10,000,000. Staff also conducted a pre-bid call to answer any questions from the banks and to discuss the plans of the Town to build reserves back up through controlled spending and consideration of additional revenue sources. Ultimately, 3 bids were received while the other solicited banks declined based on credit, size of the RLC, and/or structure of the financing.

Bids were received by JPMorgan, Citibank, and Umpqua Bank. Citibank's proposal did not meet the requirements of the Town, only offering an availability period for drawing down on the facility of 2 years (rather than 5 years). Umpqua Bank's proposal requires that the Town establish a material banking relationship with them. This would essentially require the Town to switch over its banking relationship from MUFG Union Bank to Umpqua Bank, which staff does not recommend at this time.

Staff believes that JPMorgan has significant experience in providing liquidity and credit facilities to municipal issuers, currently managing a portfolio of over \$17.2 billion in commitments across more than 130 issuers, of which \$6.1 billion are in the form of revolving lines of credit. Staff also believes that JPMorgan's taxable rate is reasonable, at 1-month LIBOR + 1.85% per annum on the drawn amount and 0.35% on the undrawn amount. Should the Town choose to issue a tax-exempt tax and revenue anticipation note in the future, JPMorgan would charge tax-exempt interest of 79% of 1-month LIBOR + 1.50% per annum.

Additionally, JPMorgan expects Chapman and Cutler LLP to serve as bank counsel for this transaction, and their estimated legal fee is \$25,000, non-contingent on closing of the

financing. As mentioned previously, other terms and covenants are subject to negotiation, and staff is requesting that Council authorize the Town Manager to complete these negotiations and authorize payment of the bank counsel fees on a non-contingent basis.

FISCAL IMPACT:

To estimate the fiscal impact of the RLC, the following assumptions have been used: 1) not-to-exceed facility of \$10 million for taxable advances; 2) 1-month LIBOR remains constant over the next 5 years; 3) 1-month LIBOR of 2.08% (as of 8/6/18) + 1.85% = 3.93% on the drawn amount; 4) 0.35% on the undrawn amount; 5) interest calculated on an ACT/360 basis; 6) draw schedule of \$4.2 million at closing, \$1 million at the beginning of Year 2, and \$1 million at the beginning of Year 3; 7) no early termination of the RLC and principal repayment of all drawn amounts on October 1, 2023.

Based on the assumptions above, the Town would receive total proceeds of \$6.2 million and repay a total of approximately \$7.4 million by October 1, 2023. The draws include an estimated \$170,500 of fees and charges paid to third parties (or costs associated with the financing) through the estimated expiration date of October 1, 2023.

The following schedule summarizes the draws and interest expense for the RLC over 5 years.

Date	First Draw: \$4.2 MM		Second Draw: \$1.0 MM		Third Draw: \$1.0 MM		Undrawn Fees	Total
	Principal	Interest (3.93%)	Principal	Interest (3.93%)	Principal	Interest (3.93%)	Interest (0.35%)	
10/1/2018	-	5,502.00	-	-	-	-	676.67	6,178.67
10/1/2019	-	167,352.50	-	-	-	-	20,581.94	187,934.44
10/1/2020	-	167,811.00	-	39,955.00	-	-	17,080.00	224,846.00
10/1/2021	-	167,352.50	-	39,845.83	-	39,845.83	13,484.72	260,528.89
10/1/2022	-	167,352.50	-	39,845.83	-	39,845.83	13,484.72	260,528.89
10/1/2023	4,200,000.00	167,352.50	1,000,000.00	39,845.83	1,000,000.00	39,845.83	13,484.72	6,460,528.89
Total	4,200,000.00	842,723.00	1,000,000.00	159,492.50	1,000,000.00	119,537.50	78,792.78	7,400,545.78