

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-BANK)

BOND AMENDMENT STAFF REPORT

REQUEST

The Sage Hill School (Borrower or School) submitted a Request for Amendment on January 22, 2013 (see **Attachment 1**) in connection with the California Infrastructure and Economic Development Bank Refunding Revenue Bonds (Sage Hill School Project) Series 2010 (2010 Bonds). The Borrower requests an amendment to the Indenture dated December 1, 2010 (Original Indenture), by and between the I-Bank and The Bank of New York Mellon Trust Company, N.A. (Trustee) to facilitate an interest rate reduction for the 2010 Bonds. The Borrower also requests amending the Tax Certificate and Agreement dated December 20, 2010 (Original Tax Certificate) by and between the I-Bank and the Borrower to affect the resulting federal tax reissuance of the 2010 Bonds (collectively, Borrower Requests).

BACKGROUND

On May 20, 2008 the I-Bank Board approved Resolution Number 08-12 authorizing the issuance of up to \$20,000,000 in variable rate demand bonds to refund existing indebtedness incurred by the Borrower for the construction, furnishing and equipping of a performing arts center and related facilities and infrastructure improvements and to cover costs of issuance.

In June 2008, the School was party to the issuance of \$19,500,000 California Infrastructure and Economic Development Bank Variable Rate Demand Revenue Bonds (Sage Hill School Project) Series 2008 (2008 Bonds).

The School entered into interest rate swap agreements for the 2008 Bonds with Allied Irish Banks, p.l.c.

On December 14, 2010 the I-Bank Board approved Resolution 10-37 authorizing the issuance of \$24,000,000 in fixed rate bonds for a private placement to a Qualified Institutional Buyer for (1) refinancing the outstanding 2008 Bonds; (2) reimbursing certain additional costs of the construction, furnishing and equipping of a creative studies facility and (3) providing working capital for the School to terminate the swap agreements to mitigate interest rate risk associated with the recent credit rating downgrade of Allied Irish Banks, p.l.c.

On December 20, 2010 the I-Bank issued \$20,980,000 of refunding revenue bonds that were directly purchased by First Republic Bank (Lender). The Lender has submitted a letter dated January 21, 2013 indicating the Borrower's and Lender's request to lower the interest rate on the 2010 bonds from 4.625% to 3.375% for the term of the bonds. The Lender will charge the Borrower a modification and restructuring fee equal to 1.50%

of the outstanding bonds. Currently the 2010 Bonds are outstanding in the amount of \$20,980,000.

NEED FOR AMENDMENT

The Borrower plans to take advantage of lower interest rates currently offered by the Lender to reduce the interest rate on the 2010 Bonds, resulting in lower borrowing costs.

Lowering the interest rate will result in a “reissuance” of the 2010 Bonds under federal tax law but there will be no change or extension of maturity. Therefore the Borrower is seeking I-Bank approval of the Borrower Requests. It has been determined, by bond counsel for the 2010 Bonds, that a Tax Equity and Fiscal Responsibility Act (TEFRA) hearing is not required in connection with the federal tax reissuance of the 2010 Bonds because the amendment will not result in a change or extension of maturity.

BOARD DELEGATION AUTHORIZATION

I-Bank Board Resolution 12-08 delegates to the Executive Director, in connection with any proposed amendment of bond related documents (Amendment), the authority to execute and deliver all agreements, contracts, certificates, orders, appointments, notices, waivers, approvals, acknowledgements, consents, written directions, instruments and other documents necessary or convenient to effect such Amendment; provided that, the I-Bank receives an opinion of counsel to the effect (1) that the Amendment is in accordance with the associated transaction documents and (2) where bonds were issued as tax-exempt bonds, that the Amendment will not adversely affect the tax-exempt status of interest on the bonds.

Further, Resolution 12-08 delegates to the Executive Director the authority to take actions to effect the consummation of transactions or events contemplated in the original approving documents for I-Bank bonds. The Original Indenture and Original Tax Certificate include provisions that contemplate various actions to be taken by the I-Bank, including interactions with the IRS, in connection with preserving the tax-exempt status of the Bonds.

LEGAL REVIEW

The I-Bank’s General Counsel has reviewed the Borrower Requests and the associated documents and has determined that they satisfy the applicable requirements of Resolution 12-08.

RECOMMENDATION

Staff recommends approval of an amendment to the Indenture and Tax Certificate and Agreement of the 2010 Bonds for the purpose of reducing the interest rate of the outstanding 2010 Bonds.

ATTACHMENTS

Attachment 1	Amendment Request
Attachment 2	Letter from First Republic Bank

Prepared
by:


Elizabeth Hess, Public Finance Officer

2/20/13
Date

Reviewed
by:


Joel Tokimitsu, Bond Programs Manager
Comments:

2/22/13
Date

Reviewed
for
Delegation:


Marilyn Munoz, General Counsel
Comments:

2/20/13
Date

The amendment request falls within the authority delegated to the Executive Director. I-Bank Board consideration and approval is not required.

The amendment request does not fall within the delegated authority of the I-Bank Executive Director, and Board consideration and approval of the request is required.

Reviewed
by:


Roma Cristia-Plant, Assistant Executive Director as
Assignee of the Executive Director
Comments:

2/20/13
Date

ATTACHMENT 1 – AMENDMENT REQUEST



REQUEST FOR AMENDMENT OR OTHER POST-BOND ISSUANCE ACTIONS

In order to consider post-issuance modifications, substitutions, redemptions or other actions related to I-Bank bond financings (a “Request”), I-Bank staff must have complete information regarding the nature of the request. Upon receipt of the information listed below, I-Bank Bond Unit staff will provide a single point of contact and prepare a list of issues, further questions or additional information needed so that the applicant can address them in an organized fashion.

The I-Bank Bond Unit staffer assigned to the Request will also contact the I-Bank Legal Unit for a determination as to whether the Request falls within the scope of authority delegated from the I-Bank Board to the Executive Director and his assignees (the “Delegation”). Please note that I-Bank staff reserves the right to elect to present any Request to the I-Bank Board for its approval regardless of the Delegation authority. Upon receipt of a Delegation determination from the I-Bank Legal Unit, the Bond Unit staffer will advise the applicant of the determination and the next steps in the process.

The Request for Amendment or Other Post-Bond Issuance Actions may be submitted via email.

1. Date of Request:

January 22, 2013

2. Name/Title, Date, of Bond Issue

California Infrastructure And Economic Development Bank Revenue Bonds (Sage Hill School Project) Series 2010A – 2012 Reissuance

3. Description of why amendment(s), substitution(s) or other action(s) is/are needed/requested: (e.g., Issues relating to addition of credit support; substituting LOC provider, lender requirement to update financial covenants)

Bondholder agrees to rate reduction. See letter attached.

4. Proposed Timeline

Close as soon as possible after I-Bank execution of documents.

5. Identify the section numbers and the names of the original transaction documents that govern or relate to the Request. Please provide copies (preferably in an electronic format) of such documents.

Indenture – 9.01;

6. Identify any bond documents to be amended (please provide draft documents to implement the Request as soon as possible)

Indenture
 Loan Agreement
 Remarketing
 Agreement
 Other: Tax Agreement

7. Will this result in a reissuance for federal tax law purposes? If so, please provide a draft TEFRA notice, and, if required, a draft amendment to the Tax Agreement or No-Arbitrage Certificate (or similar tax document).

Yes, this will result in reissuance but no change or extension of maturity so no TEFRA required. Draft Tax Agreement to come.

8. Is Bond Counsel willing to provide an opinion to the effect that the Request is in accordance with the related transaction documents? If no, please explain.

Yes.

9. If the bonds associated with the Request were issued as tax-exempt bonds, is Bond Counsel willing to provide an opinion to the effect that the Request will not adversely affect the tax-exempt status of the bonds? If no, please explain.

Yes.

10. If the Request involves the substitution of a credit facility or a liquidity facility, will the applicant be able to provide written evidence, from the rating agencies specified in the transaction documents, to the effect that the Request will not result in a rating lower than the rating required by the transaction documents? If no, please explain.

N/A.

11. Distribution list with contact information:

Bond Counsel: **see attached.**

Borrower: **see attached.**

Borrower's Counsel: **see attached.**

Financial Advisor: **N/A.**

Other: **N/A.**

Questions? Please contact Tara Dunn by email (Tara.Dunn@ibank.ca.gov) or call (916) 322-2571.

BOND COUNSEL

Squire Sanders (US) LLP
555 South Flower Street, 31st Floor
Los Angeles, California 90071-2300
Tel (213) 689-5158
Fax (213) 623-4581
Attn: Harriet Welch
Harriet.welch@squiresanders.com

BORROWER'S COUNSEL

Nixon Peabody LLP
555 West Fifth Street, 46th Floor
Los Angeles, California 90013
Tel (213) 629-6069
Fax (213) 629-6001
Attention: Rudy S. Salo
rsalo@nixonpeabody.com

BORROWER

Sage Hill School
20402 Newport Coast Drive
Newport Coast, California 92657
Tel (949) 219-0100
Attn: Diane Shank
shankd@sagehillschool.org

ATTACHMENT 2 – Letter from First Republic Bank



FIRST REPUBLIC BANK
It's a privilege to serve you®

January 21, 2013

Ms. Harriet M. Welch, Partner
Squire Sanders
555 South Flower Street, 31st Floor
Los Angeles, CA 90071

Dear Ms. Welch,

First Republic Bank and Sage Hill School would like to lower the interest rate on the \$20,980,000 Revenue Refunding Bonds / Series 2010 from 4.625% to 3.375%. We will be charging restructuring and modification fees of 1.50% of the outstanding bonds. All other terms of the existing bond issue will remain the same.

Please let me know if you need any more information.

Regards,

A handwritten signature in blue ink that reads "Carolyn Powell".

Carolyn Powell
Senior Managing Director

cc: Diane Shank – Sage Hill School

San Francisco Palo Alto Los Angeles Santa Barbara Newport Beach San Diego Portland Boston Greenwich New York

3991 MACARTHUR BLVD., SUITE 300, NEWPORT BEACH, CALIFORNIA 92660. TEL (949) 756-8828 OR (888) 339-3088, FAX (949) 756-8848
CONVENIENT INTERNET BANKING AT www.firstrepublic.com • MEMBER FDIC