

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)

STAFF REPORT

INFRASTRUCTURE STATE REVOLVING FUND (ISRF) PROGRAM DIRECT FINANCING AMENDMENT

EXECUTIVE SUMMARY

The County of San Luis Obispo (County) is requesting a substitution of the leased asset under IBank Agreement No. ISRF 17-116, dated as of October 1, 2016 (Financing Lease). The current leased asset is a portion of the New Government Center located at 1055 Monterey Street, San Luis Obispo. The proposed leased asset is the San Luis Obispo County Public Library and Office Building (Library) located at 6555 Capistrano Avenue, Atascadero.

BACKGROUND

IBank and the County entered into the Financing Lease for the amount of \$6,000,000 which provided financing for a portion of San Luis Obispo County's Regional Airport Project. The current balance of the financing is \$5,636,169. The lease matures on August 1, 2046.

The County has requested a substitution of current leased asset, a portion of the New Government Center, for a new leasehold interest on the Library. Section 2.06 of the Financing Lease permits IBank to substitute the current leased asset for a new leased asset if certain conditions are met, as discussed below.

The County seeks to have the New Government Center free of any security interests to allow for greater flexibility in future County financings.

ANALYSIS OF PROPOSED MODIFICATION

Section 2.06 of the Financing Lease, titled "Substitution or Release of Leased Asset", sets forth the conditions for substitution of the Leased Asset. Section 2.06 (b) requires the County to deliver the following: (i) a Certificate that describes the proposed substituted property and states that the annual fair rental value of the substituted asset is at least equal to the amounts of Base Rental Payments and Additional Rental Payments remaining under the Financing Lease, (ii) an opinion of legal counsel that the substitution was duly authorized and binding, that the substitution will not impact the tax-exempt nature of the financing, and that the substitution will not create or permit any exception to title insurance that would interfere with the IBank's beneficial use and occupancy of the property, and (iii) new title insurance and general liability insurance policies for the substituted property, as required by the Financing Lease.

The Financing Lease requires that annual fair rental value shall be determined on the basis of an appraisal of the Leased Asset by a member of the American Institute of Real Estate Appraisers or the American Society of Appraisers, or an appraiser otherwise acceptable to IBank in its reasonable discretion (or on such other basis and with such other evidence of annual fair rental value as may be approved by IBank, in writing, in its reasonable discretion). The County has delivered this appraisal or other evidence of fair rental value to the satisfaction of IBank, as discussed below.

The County provided IBank with a copy of an appraisal on the Library. The appraisal company, Christopher Smith & Associates Real Estate Appraisers and Consultants, provided a report dated September 20, 2019 to the County. IBank staff reviewed the appraisal and conclude that the estimated fair rental value is \$348,557 per year. The maximum annual Base Rental Payment and Additional Rental Payment is \$339,309. Therefore, the annual fair rental value of the Library is greater than the maximum annual Base Rental Payment and Additional Rental Payment currently due, and the proposed new leased asset qualifies for substitution under the Financing Lease.

The County will deliver the required legal opinions and insurance certificates prior to closing of this substitution transaction, as required by the Financing Lease.

Impacts of this Modification to IBank

This modification involves a substitution of real property interests by IBank. For this reason IBank will be required to execute a new Site Lease for the new substituted property, along with a related Financing Lease for the same property. These leases will then be recorded.

Compliance with the ISRF Revenue Bonds 2014 Indenture

This modification has no impact on the 2014 Indenture.

APPROVAL AUTHORIZATION

This substitution requires IBank Board approval because it is beyond the scope of delegated authority granted pursuant to IBank Resolution 16-07, adopted on March 22, 2016. While the Executive Director has delegated authority to amend or modify financing documents associated with the ISRF Program Loans, this authority expressly excludes “any change in the security pledged to repay the ISRF Program Loan.” For this reason the request for substitution can only be approved by the IBank Board.

STAFF RECOMMENDATION

Staff recommends approval of Resolution 19-22 authorizing the release of the current Leased Asset under the Financing Lease and substituting it with the proposed leased asset, the San Luis Obispo County Public Library and Office Building located at 6555 Capistrano Avenue, Atascadero.