CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK ("IBank")

STAFF REPORT

INFRASTRUCTURE STATE REVOLVING FUND ("ISRF") PROGRAM DIRECT FINANCING AMENDMENT EXECUTIVE SUMMARY

North Tahoe Fire Protection District (the "District") is requesting IBank approve a substitution of the Leased Asset under ISRF Financing Lease BC14-096 (the "Financing Lease" and together with the associate Site Lease, the "Leases"). The Leases currently encumber Station #52, 288 Northshore Boulevard, Kings Beach; Station #53, 5425 Westlake Boulevard, Homewood; Station #54, 159 Observation Drive, Tahoe City; and Station #55, 240 Carnelian Bay Road, Tahoe City (collectively, the "Existing Leased Assets"). The District is requesting IBank substitute the Existing Lease Assets for a new property, Station #51 located at 222 Fairway Drive, Tahoe City (the "Substituted Asset"). The District has provided sufficient evidence the fair rental value of the Substituted Asset exceeds the rent due under the Financing Lease.

BACKGROUND

IBank and the District entered into the Financing Lease as of May 3, 2010 in the amount of $10,000,000, which provided financing for the District's Public Safety Center Project. The current balance is $7,530,085 and the Financing Lease terminates on August 1, 2038.

The District requested that IBank substitute its leasehold interest in the Existing Leased Assets for a leasehold interest in the Substituted Asset. According to the District, it would prefer these stations be unencumbered. Section 2.06 of the Financing Lease describes the conditions under which IBank would agree to exchange the Existing Leased Assets for the Substituted Asset.

ANALYSIS OF PROPOSED MODIFICATION

Section 2.06 (b)(2) requires the District establish that the annual fair rental value of the Substituted Asset is at least equal to the maximum annual rent due under the Financing Lease. The annual fair rental value must be determined on the basis of an appraisal by a member of the American Institute of Real Estate Appraisers or the American Society of Appraisers.

The District ordered an appraisal of the Substituted Asset. The appraisal company, Johnson Valuation Group, Ltd., provided a report dated May 14, 2020 to the District. The appraisal concluded the estimated fair market rent of the Substituted Asset to be $50,698 per month, or $608,376 per year. IBank staff reviewed the appraisal and agrees with its conclusions. The maximum annual rent due under the Financing Lease is $581,914. On this basis the District has established the annual fair rental value of the Substituted Asset satisfies the Section 2.06(b)(2) requirement.

Section 2.06 (b) also requires the District to deliver certain documents to complete the substitution transaction. These include a new title insurance policy for the Substituted Asset, a legal opinion regarding the District's authority to amend the Financing Lease, no impact to tax exempt status, and compliance with title insurance policy requirements, and a certificate of the District that it has complied with requirements of the Financing Lease.

These requirements will be met by the District prior to closing. Upon approval an amended Financing and related Site Leases will be drafted, executed, and recorded. The title company will issue a title insurance policy on the Substituted Asset, and the District's legal counsel will provide the necessary legal opinions.

Compliance with the ISRF Revenue Bonds 2014 Indenture

This modification has no impact on the 2014 Indenture.

APPROVAL AUTHORIZATION

The request for substitution of any property leased under an IBank lease financing must be approved by the IBank's Board of Directors (the "Board"). The Board's delegation of authority to the Executive Director under Resolution 16-07 does not apply clearly to the substitution of an asset leased under a lease-financing transaction. Therefore Board approval is required to authorize this substitution.

STAFF RECOMMENDATION

Staff recommends approval of Resolution 20-16 authorizing the release of the Existing Leased Assets and substituting them with the Substituted Asset.