

**Meeting Date:** 7/21/2015

**Report Type:** Staff/Discussion

**Report ID:** 2015-00622

**Title:** Refunding of the 2002 Certificates of Participation (California Musical Theater)

**Location:** Citywide

**Recommendation:** Pass a Motion approving in concept a proposal to refund the 2002 Certificates of Participation (California Musical Theater) and have the City back up 100% of the debt service on the refunding bonds if all other payment sources have been exhausted.

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**Presenter:** Russ Fehr, City Treasurer, (916) 808-5832, Office of the City Treasurer

**Department:** City Treasurer

**Division:** City Treasurer

**Dept ID:** 05001011

**Attachments:**

1-Description/Analysis

2-Background

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**City Attorney Review**

Approved as to Form

Joseph Cerullo

7/7/2015 5:29:59 PM

**Approvals/Acknowledgements**

Department Director or Designee: Russell Fehr - 6/25/2015 3:20:56 PM

## Description/Analysis

**Issue Detail:** Long-term interest rates are currently near historic lows and are anticipated to remain favorable in the near term. These favorable rates mean that refinancing the 2002 Certificates of Participation (“**2002 COPs**”) could reduce CMT’s future debt-service payments, thereby improving CMT’s financial flexibility and stability. The refinancing would be done through the Sacramento Public Financing Authority (the “**Authority**”), which would issue refunding bonds. CMT would be obligated to pay rent for the Wells Fargo Pavilion in an amount that covers 100% of the debt-service payments on the refunding bonds, just as it is on the 2002 COPs.

To facilitate the refinancing, staff recommends that the City back 100% of debt service on the refunding bonds, thus releasing Sacramento County from its current 50% backing of the 2002 COPs.

See the Background for a more-detailed description of the 2002 COPs and the proposed refinancing.

**Policy Considerations:** In an effort to continue support for invaluable existing arts-related programs and operations, the City desires to have the Authority undertake a refinancing that would get to the market as quickly as possible. The City benefits more than the County from CMT’s operations (i.e., shows and performances), as CMT patrons frequent nearby restaurants, bars, and nightclubs and often use City parking facilities or City on-street parking.

Under the proposed refinancing, CMT will still be obligated to pay rent that covers 100% of debt service, but the City alone will assume 100% of the risk (subject to abatement) that CMT might default. In effect, the City will assume the County’s current obligation under the 2002 COPs. That will enable the Authority to get to the market as quickly as possible with the refunding bonds. And time is of the essence, as interest rates are not likely to remain favorable for long.

CMT’s strong management and good stewardship of financial resources (despite the downturn in the economy in recent years) is shown by the following:

- CMT has made all debt-service payments as required, in full and in a timely manner
- CMT has never had to draw on the \$300,000 line of credit established by City Council in April 2011 to provide CMT with financial flexibility for handling cash-flow shortfalls
- CMT has complied with all financial-related requirements under the documents for the 2002 COPs, including the requirement that it satisfy cumulative contribution requirements from project-related revenues

**Economic Impacts:** Not applicable

**Environmental Considerations:** Not applicable

**Sustainability:** Not applicable

**Commission/Committee Action:** None applicable

**Rationale for Recommendation:** Reduced debt-service payments would improve CMT's financial flexibility and stability.

**Financial Considerations:**

Currently, the 2002 COPs have approximately \$12.47 million in principal outstanding with a final maturity of September 1, 2032. Based on preliminary projections by Stifel, Nicolaus & Company, an investment-banking firm that is part of the City's pool of investment banks and will serve as the private-placement agent for the refunding bonds, the refunding of the 2002 COPs could save CMT approximately \$80,000 a year, with a final maturity that does not extend past the maturity of the 2002 COPs. The actual amount of annual savings for CMT will not be known until the time of pricing.

The City would be required to step in and make contributions toward CMT's debt-service payments if, and only if, all other avenues for payment have been exhausted (e.g., draws on the line of credit, use of the reserve fund, reprioritization of expenses/projects).

It is expected that the City and the County will each continue to contribute \$66,000 annually to CMT through October 1, 2020, as required by the HTP Funding Agreement dated May 1, 1997, and amended and supplemented as of August 1, 2002.

**Local Business Enterprise (LBE):** Not applicable

## Background

### CMT

Once known as Sacramento Light Opera Association, California Musical Theater (“**CMT**”) is the City’s oldest professional performing-arts organization. CMT is currently the primary tenant of the Wells Fargo Pavilion; it also presents the Broadway Sacramento Series in the Sacramento Community Center Theater.

### 2002 COPs

The 2002 Certificates of Participation (“**2002 COPs**”)\* were issued in August 2002 by the Sacramento Regional Arts Facilities Financing Authority, a joint-powers agency formed by the County of Sacramento and the City (the “**Authority**”). The documents under which the Authority issued the 2002 COPs are complicated, and the following is a greatly simplified summary:

- The City and the County leased the site of the Wells Fargo Pavilion to the Authority, which agreed to pay one-time rental equal to the cost of constructing the Pavilion (the rental coming from the Authority’s sale of the 2002 COPs).
- The Authority simultaneously subleased the site back to the City and the County, which each agreed to pay rent covering 50% of the debt service on the 2002 COPs (subject to CMT’s obligation to pay rent, described in the next bullet).
- The City and the County then subleased the site to CMT, which agreed to construct the Pavilion and to pay rent equal to 100% of debt service on the 2002 COPs. By agreement, the rent is used to pay debt service directly.
- The City’s and the County’s obligation to pay rent to the Authority is offset by CMT’s payment of rent. But if CMT’s payment, together with specified other monies, is inadequate to pay debt service, then the City and the County each pay, as rent, 50% of the deficiency.
- Importantly, the City’s and the County’s obligation to pay rent to the Authority is subject to abatement should the Pavilion become unavailable for use. Abatement is required by the California Constitution.

The 2002 COPs have an overall borrowing cost of approximately 4.85%. As of the date of this report, long-term interest rates are such that refinancing the 2002 COPs would

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\* A *certificate of participation* looks a lot like a municipal bond. It is “[a]n instrument evidencing a pro rata share in a specific pledged revenue stream, usually lease payments by the issuer that are typically subject to annual appropriation. The certificate generally entitles the holder to receive a share, or participation, in the payments from a particular project. The payments are passed through the lessor to the certificate holders. The lessor typically assigns the lease and the payments to a trustee, which then distributes the payments to the certificate holders.” (Municipal Securities Rulemaking Board’s Glossary of Municipal Securities Terms ([www.msrb.org](http://www.msrb.org)).

reduce CMT's borrowing cost without extending the term of the debt. Although interest rates are anticipated to remain favorable over the next several months, this refinancing opportunity may end soon: many economists and analysts anticipate that rates will begin rising later in 2015.

### **Future Theater Operations**

The Music Circus in the Wells Fargo Pavilion will put on 53 performances during the 2015 summer season using the revamped format introduced in 2012, which proved to be popular with patrons and staff alike. Six shows will be produced. The first five shows will have nine performances each (including a Sunday matinee); the optional sixth show will have eight performances.

As of March 20, 2015, subscription sales are 114.6% and contributions are 107% of 2014 levels. For the 2015 season, ticket prices increased by \$3.00 a ticket for all sections except the green section, which increased by \$5.00 a ticket; in addition, the facility fee increased to \$7.00 a ticket. CMT continues to seek out potential rental opportunities for the Wells Fargo Pavilion.

CMT requested a \$300,000 line of credit from the City in 2011 as a safety net for potential cash-flow shortages. This line of credit was renewed on March 25, 2014, for an additional three years. CMT has never drawn on the line of credit.