



REPORT TO MAYOR AND CITY COUNCIL

AGENDA ITEM

TO: THE HONORABLE MAYOR
AND CITY COUNCIL

DATE: November 27, 2007

SUBJECT: Opera House Loan Guarantee

Report in Brief

In 2006, the Woodland voters approved “Measure E” (MSE), and a companion advisory measure endorsing the use of MSE for Woodland Opera House improvements/expansion. A mandatory requirement of MSE is to provide the public with a detailed spending plan and annual report on revenues and expenditures.

In 2007, Council approved a spending plan which included a maximum of \$3 million to the Opera House; and, entered into a Memorandum of Agreement with the Opera House which defined the improvements to the Opera House and established a process by which the Council will review and approve disbursement of MSE funds for this purpose.

The Opera Board is ready to proceed with the project, but has not been able to secure financing with local banks. The Opera Board believes they can obtain credit approval if the City of Woodland guarantees the loan. The proposed loan is for \$2 million. While the total debt service (estimated at \$2.6 million) is well within the \$3 million project budget, the annual cash flow requirements may not necessarily correspond with the respective annual allocation (to the Opera House) of MSE revenues.

At this time, staff recommends Council provide conceptual approval on the loan guarantee, and direct staff to work with the Board and its respective bank to structure a loan which would minimize financial impacts, if any, to the City. Staff will return to Council with details of loan and final approval to sign as guarantor of the respective loan.

Background

In 2006, the voters of Woodland approved Measure E (MSE) and a companion advisory measure endorsing improvements/expansion of the Woodland Opera House. City Council has taken various actions toward project implementation:

- February 2007, Council approved MSE 12-year Spending and Implementation Plan which outlined principles on revenue allocation, distribution of funds, project timing and execution.

- April 2007, Council authorized Memorandum of Agreement with the Opera House on use and expenditure of MSE funds.
- September 2007, Council authorized the Parks and Recreation and Finance Directors to review and approve disbursement of MSE funds for the Opera House Expansion.

The Opera House has taken several actions toward project implementation:

- The Opera Board has retained the services of an Architect (McCandless & Associates) and a Project Manger (Ponticello Enterprises).
- Planning, design and environmental studies have or will begin in coordination with the City's Community Development Department and the State Parks Department.
- City staff has met with bank officials on clarification of MSE revenues and the respective spending plan.
- City staff has reviewed the Opera Board's annual cash flow projections of MSE revenue estimates and project expenses (including debt service) for reasonableness. However, staff has not met with bank officials to validate financing assumptions, provisions, or terms.
- The Opera Board has submitted loan applications to several banks. While the banks have denied loan approval, they have implied approval if the City guarantees the Loan.
- The Opera House has provided City staff copies of credit denials from two local banks.

Discussion

The Opera Board would like to proceed with their project, but cannot without financing. The Opera Board is seeking a \$2 million loan with repayment starting upon project completion and coinciding with the expiration of MSE (potentially an 8-year loan).

The City Council has taken formal action to allocate \$3 million to the Opera House Project. A loan guarantee would provide formal security to the bank that these funds will be disbursed for repayment of respective project loan. A critical element associated with the City guaranteeing the loan is structuring payment terms that are either consistent with the MSE Spending and Implementation Plan or has a minimal short term impact that will not unfavorably impact other MSE projects. Staff believes that collaborating with the Opera Board in their efforts to secure a loan is consistent with Council direction.

Fiscal Impact

The Council has approval a 12-year spending plan that allocates \$3 million to the Opera House Project. While the Opera House improvements/expansion is not a City project, Council has

appointed the Parks and Recreation and Finance Directors with the responsibility of overseeing the Opera House project, and reviewing and approving disbursement of MSE revenues.

With a fixed \$3 million budget, the Board feels it imperative to minimize inflationary risk on construction by completing the project as soon as possible. As noted above, while the overall debt service is well within the project budget, the structure could potentially impact to the City annual cash flow. Staff would like to work the Opera Board and its respective bank on alternatives, and structure a loan that minimizes the annual cash flow risks to the City.

Public Contact

The Opera Board President has met with City staff regarding this issue; the Opera Board has approved seeking City Council’s approval on a loan guarantee.

This communication will be posted on the City Council Agenda.

Recommendation for Action

Staff is recommends that the City Council provide conceptual approval on the loan guarantee, and direct staff to work with the Board and its respective bank to structure a loan which would minimizes financial impacts, if any, to the City. Staff will return to Council with details of loan and final approval to sign as guarantor of the respective loan.

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