DRAFT
Tahoe Truckee Airport District
Installment Purchase and Sale Agreement – Summary and Background
7/20/17

Key Terms Summary:

- Parties – TTAD, Municipal Finance Corporation
- Assignee/Lender – Citizens Business Bank
- Closing/Funding Date – August 8, 2017
- Term – 20 years (TTAD may prepay after 4 years)
- Interest Rate – 3.50% simple fixed
- Principal Borrowed – $7,800,000
- Interest at Term - $3,176,000
- Total Debt Service at Term– $10,976,000
- Annual Debt Service – $549,000
- Security – 'Net Revenues' of TTAD. While the IPSA does contain a 'Net Revenues' pledge, it continues to be the case that the actual coverage of the $550,000 annual debt service will be paid from KTRK Hangar revenues.
- Cost savings – allowed as either a principal reduction or utilized to pay debt service.
- Cost overruns – responsibility of TTAD
- Tax Exempt Lease Requirement – "the District will not enter into any lease of space within any structure included in the 2017 Project that cannot be terminated without penalty or cause at the option of the District upon not less than fifty (50) days' notice unless such lease is (i) to a natural person or to the State of California or any department of agency or political subdivision thereof, (ii) prohibits the use of any such space for private business purposes and (iii) cannot be assigned or sublet to any person or entity other than one described in clause (i) above". This requirement does not obligate TTAD to provide a right to terminate to the lessee.

Background:

At a 2017 California Special Districts Association (CSDA) conference, Sally Lyon discussed potential financing needs (or was asked regarding) of TTAD with representatives of the CSDA Finance Corporation. Municipal Finance Corporation (MuniFinance) came as a recommendation and referral of the CSDA Finance Corp to assist in finding financing solutions for the potential construction of the Executive Hangar project.

In conjunction with performing financial feasibility relate to the Executive Hangar project, Mark Wasley, TTAD Finance and Feasibility Consultant, contacted Bill Morton, President MuniFinance President to provide KTRK background and discuss various financing alternative for the proposed Executive Hangar project. Bill Morton suggested utilizing Lease Purchase or Installment Purchase and Sale Agreement ("IPSA") as a form of tax-exempt financing to afford TTAD a lower interest rate and longer financing term relative to standard bank financing. An IPSA is a common financing tool for municipalities and special districts to purchase or construct assets by without having to issue public debt (ex. assessment bonds or revenue bonds). An IPSA provides financing based on the credit worthiness of the borrower and is commonly secured by revenue sources rather than real property or other assets. The terms of the IPSA were reached through negotiation between Kevin Smith and Mark Wasley and Bill Morton of MuniFinance. MuniFinance and TTAD executed a financing Term Sheet on May 1, 2017.

After TTAD board (tentative) approval of the Executive Hangar project and proposed financing at the May Board meeting, TTAD engaged Stradling Law (John Murphy) as TTAD Bond and Tax Counsel to assist in the preparation, and review of all required agreements related to the financing as well as to provide a tax opinion as the tax-exempt qualification of this financing. The tax-exempt qualification is critical to the interest rate and, therefore, cost of this financing. It is the determination of Stradling Law that the terms of the IPSA meet the requirements of tax-exempt financing and Stradling will execute an opinion letter as to such prior to closing.

The IPSA was drafted by John Murphy of Stradling Law at the request of TTAD. The IPSA has been reviewed by General Manager, Kevin Smith, District Counsel, Brent Collinson, District Feasibility and Finance Consultant, Mark Wasley.

A review of indicative rates for a public offering provided by Stradling showed the following

- <u>"A" Rated</u>
    - 20 Year – 3.40%
    - 30 Year – 3.95%
- <u>"BBB" Rated</u>
    - <u>20 Year – 3.55%</u>
    - <u>30 Year – 4.15%</u>

It is also important to note that a public offering would require additional time, additional expense and additional cost (underwriter fees, cost of issuance, rating determination, etc) while also being subject to rate risk prior to closing.

Lastly, TTAD has engaged Lewis, Young, Robertson, and Burningham (LYRB) as an Independent Financial Consultant to provide an additional fiduciary review of the terms and the ISPA relative to both public and private placement markets. Kevin Smith and Mark Wasley have discussed and reviewed both drafts and the final IPSA with Marc Edminster and Jason Burningham of LYRB. Based on review and discussion of the final IPSA, LYRB deemed the deal as "advantageous" in terms of both the 3.50% fixed interest rate and 20 year term in the private placement market and a very favorable deal relative to the market for a public offering (esp. when considering the additional cost of issuance and additional requirements of a public offering).

LYRB shared our challenge regarding the breadth of the security (i.e., Net Revenues of TTAD) despite the adequacy of coverage of Hangar revenues while at the same time acknowledging that the 115% coverage requirement for the additional debt, if any, as very favorable. LYRB also shared our challenge regarding the prepayment restriction (4 years), but acknowledged that anything less than 10 years is favorable to other market transactions.

LYRB has provided an opinion letter regarding their independent analysis of the IPSA.