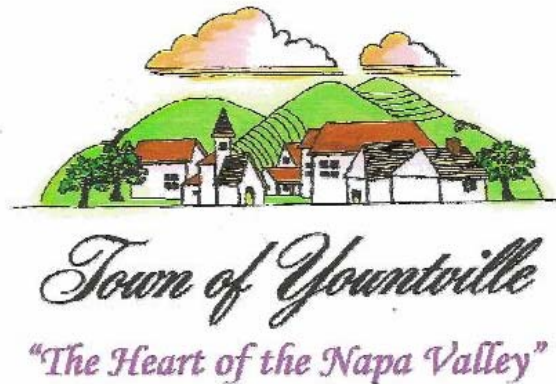



Town of Yountville

Community Center TOT Revenue Bonding Analysis



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Background and Assumptions

- In 2003, KNN Public Finance assisted the Town with the \$2.8 million bond that provided funds to build the flood wall around the Town's mobile home parks.
- The Town recently asked KNN to help determine the amount of construction funds that can be generated from bonds secured by 2% of the Town's share of Transient Occupancy Taxes.
- Funds from the potential bond issue would be used to construct the Town's new Community Center.
- KNN evaluated the feasibility of three different bond structures.

Overview of Financing Options

- Option 1: Issue Revenue Bonds secured solely by Town TOT revenues.
- Option 2: Issue General Fund backed Certificates of Participation (COPs).
 - a. Payable only from a portion of General Fund revenues limited to available TOT revenues – credit characteristics similar to Revenue Bonds.
 - b. Payable from all available General Fund revenues but carefully sized so that the Town could internally rely upon TOT revenues for debt service payment.

Revenue Bonds and Certificates of Participation

Revenue Bonds

- Revenue bonds are exempt from the California constitutional debt limit because they are secured solely by a Special Fund.
- The General Fund of an issuing entity is not the source of repayment or the credit rating.

Certificates of Participation (COPs)

- COPs are exempt from the California constitutional debt limit because they are a contingent lease obligation.
- COPs require the pledge of an asset and are subject to abatement.
- The essentiality of the asset pledge is an important credit feature; the more essential the pledged asset, the more favorably the transaction is viewed by the market.

Option 1: Revenue Bonds

- TOT revenues are a General Fund revenue source and therefore do not qualify as a “special fund” under the California constitutional debt limit (refer to Appendix).
- Therefore, there is no legal basis for issuing revenue bonds secured solely by the TOT revenue stream.
- The legal analysis has been confirmed by a leading municipal finance law firm.

Option 2a: COPs Payable from a Portion of GF Revenues

- Under this second bond structure, the Town would issue COPs that are payable only from a portion of the General Fund equivalent to available TOT revenues. Though legally different, these would have the same credit features as Revenue Bonds.

- KNN does not recommend this approach for several reasons:
 - ❑ TOT revenues are generally not viewed favorably by the bond market as a sole source of repayment, making investment-grade ratings and bond insurance procurement difficult to achieve. This would result in higher interest rates, reducing the amount of proceeds generated by a bond.

 - ❑ Investors would require that the bonds be sized with significant debt service coverage in order to protect bondholders from the potential volatility of the TOT revenue stream, significantly reducing the amount of proceeds generated by a bond.

Option 2b: COPs Payable from all General Fund Revenues

- Under this third bond structure, the Town would issue COPs that are payable from all General Fund revenues, although the annual debt service associated with the bonds will be sized to match currently available TOT revenues.

- KNN recommends this option for several reasons:
 - First, it will be the most favorably received in the market because the credit of the bonds would be based upon the credit of the Town's General Fund, including TOTs. This would likely qualify for an investment-grade rating and interest from bond insurers, resulting in the most favorable interest rates.

 - Second, it allows for Town to size the bonds with whatever amount of debt service coverage it feels is appropriate based on its history of TOT revenues. Lower levels of coverage will help maximize net bond proceeds.

Bonding Assumptions

- For our Bonding analysis, we assumed that the Town would issue tax-exempt Certificates of Participation backed by the Town's General Fund and sized so that annual debt service does not exceed available TOTs.
- Town staff and KNN analysis project "available TOT" revenues to be \$669,000 in FY 2008-09. This figure is based upon an average annual growth rate of 2.7% over the 2006-07 figure for existing rooms as well as a 75% occupancy rate and an average room rate of \$300 per night for 72 rooms currently under construction.
- The Town would commit the Community Center to be built as the pledged asset to the transaction, assuming a 1-year construction period and 18 months of borrowed, or "capitalized" interest.
- 30-year COPs with level debt service in each year after the end of the capitalized interest period. California COP insured interest rates as of November 30, 2007. Results are subject to change based on movements in tax-exempt interest rates between now and pricing.

Alternative Bonding Scenarios

- KNN examined several COP bonding capacity based upon several “coverage” ratios. A bond structured with 1.0x coverage means that average annual bond debt service is equal to the full amount of available annual TOT revenues.

	30-Year COP Structure with Coverage (General-Fund Backed Transaction)			
	Scenario 1 TOT as Max Debt Service 1.0x Coverage	Scenario 2 TOT as Max Debt Service 1.1x Coverage	Scenario 3 TOT as Max Debt Service 1.25x Coverage	Scenario 4 TOT as Max Debt Service 1.5x Coverage
Par Amount ¹	\$10,610,000	\$9,640,000	\$8,475,000	\$7,055,000
Dated Date	7/1/2008	7/1/2008	7/1/2008	7/1/2008
Final Maturity	7/1/2037	7/1/2037	7/1/2037	7/1/2037
All-In-T.I.C.	4.54%	4.54%	4.54%	4.54%
Total Project Draws	\$9,729,723	\$8,823,842	\$7,735,952	\$6,409,826
Net Project Fund Deposit	\$9,542,753	\$8,654,257	\$7,587,247	\$6,286,572
Capitalized Interest Fund Deposit	\$649,794	\$590,432	\$519,056	\$432,149
Surety Bond Cost ²	\$13,379	\$12,159	\$10,703	\$8,915
Bond Insurance ³	\$154,804	\$140,671	\$123,668	\$102,978
Average Annual Net Debt Service	\$666,516	\$605,670	\$532,461	\$443,383
Available Annual TOT Revenues ⁴	\$669,000	\$669,000	\$669,000	\$669,000
Annual Excess TOT Revenues	\$2,484	\$63,330	\$136,539	\$225,617
Total Net Debt Service	\$18,688,438	\$16,982,383	\$14,929,657	\$12,432,003

¹ Based upon insured COP market conditions as of November 30, 2007, numbers are subject to change based on market conditions and investment returns of various bond funds. Costs of issuance assumed at \$175,000, Underwriter's Discount assumed at \$7.00 per bond, Capitalized Interest and Project Funds invested at assumed interest rate of 4.00%.

² Surety bond cost assumed at 2% of reserve fund requirement.

³ Bond insurance based upon 80 basis points of total principal and interest.

⁴ 2% of the 12% Transient Occupancy Tax. \$550,000 for FY 08 and \$669,000 for FY 09 and on after an additional 62 rooms become available.

Alternative Bonding Scenarios with Town Contribution

- We then assumed that accumulated funds on hand are used to pay various costs associated with the borrowing directly and that the TOT revenues during the 2008-09 fiscal year will provide for additional project construction funds.

	30-Year COP Structure with Coverage (General-Fund Backed Transaction)			
	Scenario 5 TOT as Max Debt Service 1.0x Coverage	Scenario 6 TOT as Max Debt Service 1.1x Coverage	Scenario 7 TOT as Max Debt Service 1.25x Coverage	Scenario 8 TOT as Max Debt Service 1.5x Coverage
Par Amount ¹	\$10,610,000	\$9,640,000	\$8,475,000	\$7,055,000
Dated Date	7/1/2008	7/1/2008	7/1/2008	7/1/2008
Final Maturity	7/1/2037	7/1/2037	7/1/2037	7/1/2037
All-In-T.I.C.	4.54%	4.54%	4.54%	4.54%
Total Project Draws	\$9,900,972	\$8,979,459	\$7,872,773	\$6,523,759
Net Project Fund Deposit	\$9,710,936	\$8,807,088	\$7,721,619	\$6,398,466
Capitalized Interest Fund Deposit	\$649,794	\$590,432	\$519,056	\$432,149
Surety Bond Cost ²	\$0	\$0	\$0	\$0
Bond Insurance ²	\$0	\$0	\$0	\$0
Accumulated TOT Revenues ³	\$669,000	\$669,000	\$669,000	\$669,000
Total Funds Available for Project	\$10,569,972	\$9,648,459	\$8,541,773	\$7,192,759
Average Annual Net Debt Service	\$666,516	\$605,670	\$532,461	\$443,383
Available Annual TOT Revenues ⁴	\$669,000	\$669,000	\$669,000	\$669,000
Annual Excess TOT Revenues	\$2,484	\$63,330	\$136,539	\$225,617
Total Net Debt Service	\$18,688,438	\$16,982,383	\$14,929,657	\$12,432,003

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² Assumed that cost of surety bond (estimated at 2% of reserve fund requirement) and bond insurance premium (estimated at 80 basis points of total principal and interest) is paid directly by the Town and not from bond proceeds.

³ TOT revenues in the amount of \$669,000 are available for construction during the first year of the bonds since principal is deferred and interest is capitalized.

⁴ 2% of the 12% Transient Occupancy Tax. \$550,000 for FY 08 and \$669,000 for FY 09 and on after an additional 62 rooms become available.

Stability of TOT Revenue Stream

- The Town’s historical TOT revenues have shown steady growth in the past 15 years, averaging about 13% annually.
- There have been no new rooms added to the TOT calculation base since the fiscal year ending 1999.
- Only the fiscal year ending 2002 saw a dollar decline in revenues.

Fiscal Year Ending	Total TOT Revenues	Share Available for Debt Service (2%)	Percentage Growth
2007	3,216,573	536,096	5.33%
2006	3,053,759	508,960	7.43%
2005	2,842,489	473,748	17.89%
2004	2,411,097	401,850	15.36%
2003	2,090,041	348,340	5.07%
2002	1,989,132	331,522	-6.05%
2001	2,117,313	352,886	8.25%
2000	1,955,884	325,981	38.19%
1999	1,415,353	235,892	61.51%
1998	876,304	146,051	11.75%
1997	784,189	130,698	12.57%
1996	696,610	116,102	15.21%
1995	604,646	100,774	7.35%
1994	563,225	93,871	1.80%
1993	553,286	92,214	1.64%
1992	544,354	90,726	-

Debt Service Coverage Will Grow with TOT Growth

- The table to the right shows the annual debt service payments and coverage ratios for a COP issuance of approximately 1.0x and 1.1x coverage against the current level of TOT revenues.
- Since the COPs are structured with level debt service throughout the entire term, coverage ratios grow as the underlying TOT base increases.

Fiscal Year Ending	Estimated Debt Service with 1.0x Coverage	Estimated Debt Service with 1.1x Coverage	Town Share of TOT Revenues ¹	Coverage Factor for 1.0x Coverage	Coverage Factor for 1.1x Coverage
2009	453,504	412,190	669,000	1.48 x	1.62 x
2010	668,504	607,190	689,070	1.03 x	1.13 x
2011	666,560	605,892	709,742	1.06 x	1.17 x
2012	664,388	604,372	731,034	1.10 x	1.21 x
2013	666,940	607,586	752,965	1.13 x	1.24 x
2014	663,974	605,298	775,554	1.17 x	1.28 x
2015	665,670	607,686	798,821	1.20 x	1.31 x
2016	666,820	604,544	822,786	1.23 x	1.36 x
2017	667,434	606,060	847,469	1.27 x	1.40 x
2018	667,417	606,971	872,893	1.31 x	1.44 x
2019	666,749	607,255	899,080	1.35 x	1.48 x
2020	665,410	606,894	926,052	1.39 x	1.53 x
2021	668,449	605,930	953,834	1.43 x	1.57 x
2022	665,471	604,188	982,449	1.48 x	1.63 x
2023	666,756	606,739	1,011,923	1.52 x	1.67 x
2024	667,115	603,390	1,042,280	1.56 x	1.73 x
2025	666,556	604,364	1,073,549	1.61 x	1.78 x
2026	665,109	604,474	1,105,755	1.66 x	1.83 x
2027	667,784	603,724	1,138,928	1.71 x	1.89 x
2028	664,377	607,134	1,173,096	1.77 x	1.93 x
2029	665,120	604,482	1,208,288	1.82 x	2.00 x
2030	664,810	606,018	1,244,537	1.87 x	2.05 x
2031	668,470	606,534	1,281,873	1.92 x	2.11 x
2032	665,869	606,030	1,320,329	1.98 x	2.18 x
2033	667,235	604,502	1,359,939	2.04 x	2.25 x
2034	667,362	606,976	1,400,737	2.10 x	2.31 x
2035	666,255	603,221	1,442,760	2.17 x	2.39 x
2036	668,902	603,462	1,486,042	2.22 x	2.46 x
2037	665,074	607,469	1,530,624	2.30 x	2.52 x

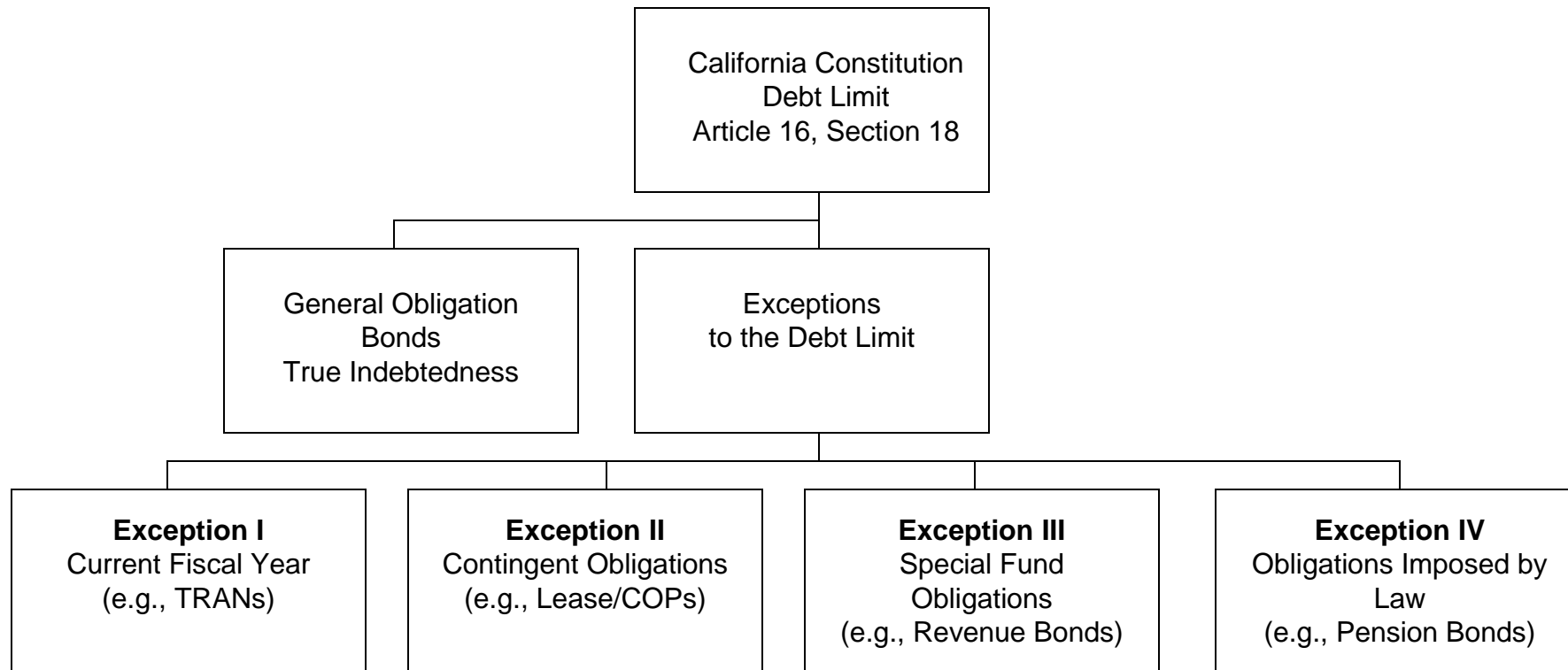
¹ Assumes 3.00% annual growth.

Recommendations and Next Steps

- KNN recommends that the Town issue General Fund backed COPs to finance the Community Center with whatever debt service coverage the Town believes appropriate based on historical and projected TOT revenues.
- If Town elects to move forward, KNN will evaluate and make recommendations regarding the best method of sale, including competitive sale, negotiated, pooled financing and private placement.
- Procure the services of a bond and/or disclosure counsel to assist the Town in drafting bond and disclosure documents.
- A typical financing process from the kick-off meeting to the closing of the bond issuance is approximately 3-4 months.

Appendix

Fundamental Legal Distinction: What is Debt and What is Not



Key Features of COPs

- COPs are contingent obligations and not “Debt” under the State Constitutional debt limit.
- Investors receive stream of lease payments on pledged assets (building or equipment).
- “Essentiality” and “useful life” of pledged assets are key security considerations.
- Covenants to “budget and appropriate” annual lease payments distinguish California COPs.
- “Abatement” occurs if leased asset is not usable by lessee (Town) due to fire, earthquakes, etc., issuer cannot be obligated to make lease payments if it does not have use and occupancy of pledged assets.
- Rental interruption insurance (typically covering 24 months of debt service) enables issuer to make lease payments during abatement while property and casualty insurance proceeds are used to re-construct pledged asset.

COP Legal Structure

