



Legislation Text

File #: 19-686, **Version:** 2

Ordinance No. 19-100 Authorizing the Execution and Delivery by the City of Colorado Springs of a Site Lease Between the City, as Lessor, and DNT Asset Trust, a Wholly Owned Subsidiary of JPMorgan Chase Bank, N.A., as Lessee, and, in Connection Therewith, a Lease Purchase Agreement Between the City, as Lessee, and DNT Asset Trust, a Wholly Owned Subsidiary of JPMorgan Chase Bank, N.A., as Lessor, with Respect to Certain Real Property for the Purpose of Refinancing Current Obligations of the City; Authorizing Officials of the City to Take All Action Necessary to Carry Out the Transactions Contemplated Hereby, and Providing for Related Matters

Presenter:

Charae McDaniel, Chief Financial Officer
Thomas J. Florczak, Deputy City Attorney

Summary:

Attached is an ordinance authorizing a lease/lease purchase agreement with DNT Asset Trust, a Wholly Owned Subsidiary of JPMorgan Chase Bank, N.A. ("Chase"), to refinance the City's 2013 Building Lease and Lease Purchase Agreement with U.S. Bank National Association for the City Administration Building (the "CAB") in an amount not to exceed \$4,750,000 including costs associated with the transaction.

Also attached are the Site Lease and Lease Purchase Agreement which are referenced in the ordinance.

Background:

The City seeks to take advantage of low interest rates to amortize a 2020 scheduled balloon lease payment through a directly placed lease/lease purchase agreement with Chase.

Under the current U.S. Bank lease/lease purchase agreement, a balloon payment of \$4,022,419.99 is due on or before September 1, 2020.

Under the proposed transaction, the City, as lessor, will enter into a site lease with Chase, as lessee, for the CAB property in exchange for a lump sum payment from Chase, which the City will use to make the balloon payment to U.S. Bank. The City will simultaneously lease back the CAB from Chase in exchange for annual rentals paid by the City to Chase. As with the prior refinancings, the City will have the option to purchase back Chase's interest in the leased property.

The amounts due to Chase will be payable from annually appropriated base rentals and additional rentals in accordance with the lease purchase agreement, which the City intends to pay from the City's general fund. The lease purchase agreement and all rental payments in years subsequent to the current budget year (2019) will be subject to annual appropriation. The transaction will not legally constitute debt under the Taxpayer's Bill of Rights.

Previous Council Action:

On September 25, 2007, Council passed Resolution No. 170-07 authorizing a lease/lease purchase agreement with an option to purchase between the City and CitiCapital Municipal Finance (“CitiCapital”) for the CAB. This transaction refinanced the City’s 2002 loan with Colorado Springs Utilities to purchase the CAB.

On August 27, 2013, Council passed Resolution No. 76-13 authorizing the refinance of the City’s lease/lease purchase agreement with CitiCapital’s successor, Capital One Public Finance, LLC (“Capital One”), to include funding of needed CAB improvements. This transaction involved exercise of the City’s option to purchase the lease from CitiCapital and simultaneous execution of a ground lease and building lease and lease purchase agreement with an option to purchase between the City and U.S. Bank National Association (“U.S. Bank”).

Financial Implications:

When this item was introduced to City Council at their Work Session on November 7, 2019, the not to exceed net effective interest rate stated in the Ordinance was 2.00%. However, since that time the rates have increased slightly. Therefore, the not to exceed net effective interest rate has been increased slightly to 2.50%. The proposed lease/lease purchase agreement with Chase remains at an 8 year maximum term, with the aggregate amount of the principal component of base rentals not to exceed \$4,750,000.

The annual lease payment would be approximately \$624,000. An amount of \$626,980 is included in the proposed 2020 Budget to accommodate the payment due in 2020.

City Council Appointed Board/Commission/Committee Recommendation:

This item was presented to the City Council Budget Committee on October 8, 2019.

Stakeholder Process:

N/A

Alternatives:

City Council could deny this authorizing Ordinance and instruct Administration to pay the balloon payment of \$4,022,420. As this is currently not included in the 2020 Budget, this would be accomplished by a Supplemental Appropriation from the fund balance of the General Fund.

Currently, the unrestricted fund balance of the General Fund is estimated at \$55.9 million, or 16.9% of 2020 budgeted expenses. If the \$4.02 million balloon payment was paid from the fund balance, the fund balance would fall to \$51.9 million, or 15.7% of 2020 budgeted expenses. Of the amount currently budgeted in 2020, to finish the current lease there would be, in addition to the balloon payment, a payment of \$470,069, leaving \$156,911 of budget appropriation remaining. In 2021 through 2026, the budget would not need to accommodate the \$624,000 lease payment.

Based on the current interest rate being received at COLOTRUST, the City is earning 2.05% interest on funds invested with them. While the City’s portfolio as a whole is not earning this rate, it would be reasonable to assume that over the long term, City funds invested now could earn this rate.

Proposed Motion:

Move to approve the attached Ordinance Authorizing the Execution and Delivery by the City of Colorado Springs of a Site Lease Between the City, as Lessor, and DNT Asset Trust, a Wholly Owned Subsidiary of JPMorgan Chase Bank, N.A., as Lessee, and, in Connection Therewith, a Lease Purchase Agreement Between the City, as Lessee, and DNT Asset Trust, a Wholly Owned Subsidiary of JPMorgan Chase Bank, N.A., as Lessor, with Respect to Certain Real Property for the Purpose of Refinancing Current Obligations of the City; Authorizing Officials of the City to Take All Action Necessary to Carry Out the Transactions Contemplated Hereby, and Providing for Related Matters

An ordinance authorizing a lease/lease purchase agreement with DNT Asset Trust, a Wholly Owned Subsidiary of JPMorgan Chase Bank, N.A., to refinance the City's 2013 Building Lease and Lease Purchase Agreement with U.S. Bank National Association for the City Administration Building (the "CAB") in an amount not to exceed \$4,750,000 including costs associated with the transaction