



REPORT TO CITY COUNCIL AND LAKE ELSINORE FACILITIES FINANCING AUTHORITY

To: Honorable Mayor and Members of the City Council

From: Jason Simpson, City Manager

Prepared by: Shannon Buckley, Assistant City Manager

Date: May 10, 2022

Subject: Authorize the issuance of Lease Revenue Bonds by the Lake Elsinore Facilities Financing Authority to Finance New City Hall

Recommendation

For the City Council:

adopt A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE AUTHORIZING THE EXECUTION AND DELIVERY BY THE CITY OF A GROUND LEASE, LEASE AGREEMENT, INDENTURE, CONTINUING DISCLOSURE CERTIFICATE AND A BOND PURCHASE AGREEMENT IN CONNECTION WITH THE ISSUANCE OF LAKE ELSINORE FACILITIES FINANCING AUTHORITY LEASE REVENUE BONDS, SERIES 2022A, APPROVING THE ISSUANCE OF SUCH BONDS IN AN AGGREGATE PRINCIPAL AMOUNT OF NOT TO EXCEED \$27,000,000, AUTHORIZING THE DISTRIBUTION OF AN OFFICIAL STATEMENT IN CONNECTION WITH THE OFFERING AND SALE OF SUCH BONDS AND AUTHORIZING THE EXECUTION OF NECESSARY DOCUMENTS AND CERTIFICATES AND RELATED ACTIONS

For the Facilities Financing Authority:

adopt A RESOLUTION OF THE BOARD OF DIRECTORS OF THE LAKE ELSINORE FACILITIES FINANCING AUTHORITY, LAKE ELSINORE, CALIFORNIA, AUTHORIZING THE EXECUTION AND DELIVERY BY THE AUTHORITY OF A GROUND LEASE, LEASE AGREEMENT, AN INDENTURE, AN ASSIGNMENT AGREEMENT, AND A BOND PURCHASE AGREEMENT IN CONNECTION WITH THE ISSUANCE OF LAKE ELSINORE FACILITIES FINANCING AUTHORITY LEASE REVENUE BONDS, SERIES 2022A, AUTHORIZING THE ISSUANCE OF SUCH BONDS IN AN AGGREGATE PRINCIPAL AMOUNT OF NOT TO EXCEED \$27,000,000, AUTHORIZING THE DISTRIBUTION OF AN OFFICIAL STATEMENT IN CONNECTION WITH THE OFFERING AND SALE OF SUCH BONDS AND AUTHORIZING THE EXECUTION OF NECESSARY DOCUMENTS AND CERTIFICATES AND RELATED ACTIONS

Background

To address the current needs and future growth demands of the City, staff has proposed the expansion of the existing City Hall to include the acquisition and reuse of certain properties on Main Street to Graham Street. Staff has investigated various funding options and determined that the best method of financing would be through the issuance of lease revenue bonds (the "2022 Bonds").

Over the past several years, the City has acquired parcels adjacent to City Hall for public facilities expansion necessary to meet the current and expected growth of the City while also meeting the expectation of service excellence to the public. To this end, on March 8, 2022, the City Council acted by approving a contract to engage STK Architecture, Inc. to provide schematic, development, and construction design services related to the City Hall expansion. Staff has developed a conceptual site plan, consisting of a 35,000 square feet public facility, including the amenities listed below designed to dramatically improve the overall service delivery from City Hall staff. Essentially, adding a full-service “one-stop-shop” counter to assist with development activities, the inclusion of the city council chambers, and a variety of amenities will help support creating an opportunity to develop a City asset into a destination within the downtown area of the City.

Below is a summary of the 35,000 S.F. 3-story building with the following amenities:

- Open two-story glass entrance steel moment frame with wood stud walls/roof.
- Fire engine in the lobby.
- Sliding glass entrance doors with metal detectors.
- Interior elevator.
- Public counters.
- Council Chambers on the 3rd floor with a view of the lake.
- Use red thin brick on exterior walls.
- Conference Room.
- Connection to existing City Hall.

If there are 2022 Bond proceeds available after paying for the costs of the new City Hall, such excess proceeds may be used on other City facilities, including a park, drainage, and road improvements.

Discussion

California cities commonly use a lease financing structure to pay for capital improvements through the General Fund. Under the “lease revenue bond” structure, the City would lease certain City-owned property to the Lake Elsinore Facilities Financing Authority (“Authority”), and the Authority would then lease the property back to the City for a fixed annual rental payment (rental payments). These rental payments would be pledged by the Authority toward repayment of annual bond payments (in a like amount). The City’s rental payments would be payable from the General Fund. The City utilized similar a structure for the 2016 Lease Revenue Bonds, proceeds of which were used to finance improvements to the Launch Pointe Project.

Initially, the City anticipates leasing to the Authority a combination of Swick-Match Park, Tuscany Hills Park, McVicker Canyon Park, Summerly Community Park, Launch Pointe Park, Fire Station No. 85, and Fire Station No. 94 (“Leased Property”). The documents presented for the proposed lease revenue bond financing allow for the addition, substitution, or release of all or a portion of such Leased Property in the future, including adding or substituting the new City Hall into the pool of Leased Property once it is complete and occupied.

The 2022 Bonds are expected to be rated “A+” by Standard & Poor’s, which is the same rating as the 2016 Lease Revenue Bonds. Should they qualify, the 2022 Bonds will be supported with municipal bond insurance and a debt service reserve fund insurance surety policy, both of which would lead to a lower cost of borrowing. The estimated economics of the 2022 Bonds are provided under the following section entitled, “Fiscal Impact.”

Issuance of Lease Revenue Bonds
May 10, 2022

Approval of the City's resolution by the City Council and the Authority's resolution by the Board of Directors of the Authority will authorize the issuance of the 2022 Bonds and the execution and delivery of the documents listed below, in substantially the forms presented.

- *Ground Lease.* Under this agreement, the City leases the Leased Property to the Authority.
- *Lease Agreement.* Under this agreement, the City leases the Leased Property from the Authority. The term of this agreement ends on the date on which the Indenture is discharged (payment of the 2022 Bonds). This agreement requires the City to make lease payments and to insure and maintain the Leased Property throughout the term of the Lease.
- *Assignment Agreement.* Under this agreement, the Authority is assigning certain of its rights under the Lease to the Trustee, including the rental payments under the Lease Agreement, for the benefit of the owners of the 2022 Bonds.
- *Indenture.* This agreement among the City, the Authority, and the Trustee contains terms of the 2022 Bonds including the payment and redemption provisions, pledge of revenues to pay the 2022 Bonds, rights and duties of the Trustee, remedies upon a default in the payment of the 2022 Bonds, and other related matters.
- *Bond Purchase Agreement.* This agreement provides for the purchase of the 2022 Bonds by Stifel, the Underwriter.
- *Preliminary Official Statement.* This is the offering document (similar to a prospectus) that provides a detailed description of the City, the 2022 Bonds, and the sources of payment. This document permits prospective investors to make an informed investment decision regarding the purchase of the 2022 Bonds. The distribution of the Preliminary Official Statement by the City is subject to federal securities laws, including the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. These laws require the Preliminary Official Statement to include all facts that would be "material" to an investor in deciding to purchase the 2022 Bonds. "Material" information is information that a reasonable investor would want to know when deciding whether to buy or sell the 2022 Bonds. The resolution authorizes the Underwriter to distribute the Preliminary Official Statement and authorizes either the City Manager or Assistant City Manager to deem the Preliminary Official Statement final for purposes of Rule 15c2-12 of the Securities and Exchange Commission, with such changes as such officer concludes are appropriate.
- *Continuing Disclosure Certificate.* A certificate executed by the City to provide listed event disclosures and annual financial information continuingly to investors under Rule 15c2-12 of the Securities and Exchange Commission.

As previously mentioned, if the resolutions are approved, staff and the City's finance team will finalize the documents and price the 2022 Bonds sometime in late May or early June. The City will receive bond proceeds approximately 2 weeks after the pricing date.

Fiscal Impact

During much of 2020 and 2021, interest rates hovered at or near all-time low levels amid unprecedented stimulus and accommodative Federal Reserve policies implemented after the COVID-induced market disruption in March 2020. Since the start of 2022, however, inflationary pressures and Federal Reserve actions to taper market support and raise short-term borrowing rates have pushed interest rates higher. Despite a rapid rise since the start of the year, current interest rates in the municipal bond market remain favorable from a historical perspective. As of April 29, 2022, the 30-year "AAA Municipal Market Data" index yield (benchmark off which all tax-exempt municipal bonds are measured) is 3.05%.

Issuance of Lease Revenue Bonds
May 10, 2022

The Federal Reserve is widely expected to continue increasing short-term rates to combat a high rate of inflation, starting with an expected 50 basis point (+0.50%) adjustment in early May. Thereafter, policymakers are anticipated to make anywhere from 25 to 50 basis point (+0.25% to 0.50%) adjustments at each of its six remaining meetings in 2022.

In addition to the prospect of higher interest rates, construction costs are expected to continue increasing due to supply chain challenges, inflation, and labor shortages, among other issues. While construction costs have grown on average 3.3% per year since 1980 in California, they increased by 7.5% in 2021, and are estimated to continue increasing so long as the aforementioned challenges persist.

Due to these factors, the proposed financing is recommended to be undertaken as soon as possible to achieve the lowest possible cost, both in terms of interest rates and construction costs.

Stifel Nicolaus, the Underwriter, has provided estimates regarding certain financial aspects of the proposed financing based on market conditions as of April 29, 2022, which estimates have been reviewed by Urban Futures, Inc., the Municipal Advisor.

The estimates indicate that the principal amount of the 2022 Bonds will be approximately \$23.3 million. The principal and interest payments, together, on the 2022 Bonds will be approximately \$1.5 million in the fiscal year 2022-23 and approximately \$1.5 million each fiscal year thereafter until final maturity in the fiscal year 2052-53. The term of the Bonds will be 30 years.

According to Government Code Section 5852.1, the following good faith estimates (obtained from the Underwriter and the Municipal Advisor) must be disclosed at a public meeting before the Board authorizes the 2022 Bonds. The estimates are based on market estimates as of April 29, 2022:

<i>Information Disclosed per Government Code Section 5852.1:</i>	<i>Estimates as of April 29, 2022*</i>
True interest cost of the 2022 Bonds (the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the new issue of Bonds)	4.79%
Finance charge of the 2022 Bonds (the sum of fees paid to third parties):	\$457,650
Amount of proceeds received by the public body from the sale of the 2022 Bonds, less the finance charge of the bonds and any reserves or capitalized interest paid or funded with proceeds of the 2022 Bonds	\$21,855,383
The total payment amount (the sum of all debt service payments on the 2022 Bonds, plus the finance charge of the 2022 Bonds not paid from bond proceeds)	\$44,920,769

** These are good faith estimates only. Results will likely differ based on market conditions as of the actual sale date and other factors.*

Funding for annual debt service will be allocated from available and projected annual Launch Pointe surplus revenues and year-over-year increases in Bradley Burns Sale Tax and Property tax

Issuance of Lease Revenue Bonds

May 10, 2022

revenues. Currently, the Launch Pointe facility is generating roughly \$800,000 in annual profits. Staff recommends allocating \$500,000 of these revenues a pay 1/3 of anticipated debt service. The balance of debt service, equal to \$1 million, will be allocated from Bradley Burns Sale Tax and Property Tax revenues which have grown by 20% and 20% respectively on average over the past 5-years. Measure Z revenues are not anticipated to be allocated for annual debt service payments.

Exhibits

- A – City Council Resolution
- B – Lake Elsinore Facilities Financing Authority Resolution
- C – Good Faith Estimate
- D – Bond Purchase Agreement
- E – Lease Agreement
- F – Assignment Agreement
- G – Indenture
- H – Preliminary Official Statement
- I – Ground Lease
- J – Continuing Disclosure Certificate