**OVERSIGHT BOARD TO THE
SUCCESSOR AGENCY OF THE REDEVELOPMENT
AGENCY OF THE CITY OF LAKE ELSINORE**

To: **Chairperson Kelley and Members of the Oversight Board**

From: **Grant Yates, Executive Director**

Prepared by: Jason Simpson, Assistant Executive Director

Date: **October 23, 2017**

Subject: **Issuance and Sale of Third Lien Tax Allocation Bonds and Related Documents, Civic Partners, LLC and McMillin Summerly LLC**

Recommendation

It is recommended that the Oversight Board approve and adopt:

Resolution No. OB-2017-00_ A RESOLUTION OF THE OVERSIGHT BOARD TO THE SUCCESSOR AGENCY OF THE REDEVELOPMENT AGENCY OF THE CITY OF LAKE ELSINORE APPROVING THE ISSUANCE AND SALE OF THIRD LIEN TAX ALLOCATION BONDS BY THE SUCCESSOR AGENCY OF THE REDEVELOPMENT AGENCY OF THE CITY OF LAKE ELSINORE AND AUTHORIZING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH

Background

In 2002, the Redevelopment Agency of the City of Lake Elsinore (Former Agency) entered into a Disposition and Development Agreement (DDA) with Civic Partners-Elsinore LLC (Civic Partners) and Laing-CP Lake Elsinore LLC relating to the acquisition and development of certain property located within the East Lake Specific Plan commonly known as 'Summerly'. The DDA was amended and restated in 2011 by and among the Former Agency, the Civic Partners and McMillin Summerly, LLC (McMillin Summerly) as the successor in interest to Laing following McMillin Summerly's acquisition of the property and entitlements for the Summerly project.

Since the dissolution of the Former Agency, the irrevocable pledge of property tax increment in the DDA has been listed on the Successor Agency's Recognized Obligation Payments Schedule (ROPS) and recognized as an enforceable obligation. In 2015, the Department of Finance (DOF) issued a final and conclusive determination regarding the DDA, finding the ROPS items to be enforceable obligations.

On January 23, 2017, the Successor Agency and the Oversight Board approved an Implementation Agreement that confirms the Successor Agency's commitment to the Civic Partners and McMillin Summerly to consider the issuance of bonds secured by the pledge of property tax increment as defined in the DDA and in accordance with Health & Safety Code

Section 34177.5(a)(4). DOF subsequently approved the Implementation Agreement on January 31, 2017.

The Successor Agency is now being asked to authorize the issuance of tax allocation bonds to finance payments to Civic Partners and McMillin Summerly under the DDA (see Exhibit E). To accomplish this, the Successor Agency proposes to issue its Third Lien Tax Allocation Bonds, Series 2017A and Series 2017B (Federally Taxable) (together, the "2017 Bonds"). The financing team, with assistance from staff, has produced the form of certain legal documents which were approved by the Successor Agency at its regularly scheduled meeting of October 10, 2017. The proposed financing is now subject to approval by both the Oversight Board and DOF (up to a 65-day review process). Assuming both the Oversight Board and DOF approve the financing, a Preliminary Official Statement will be prepared for the Successor Agency's consideration and approval prior to pricing the 2017 Bonds (currently estimated to be sometime in November, depending on the timing of DOF approval).

Discussion

The DDA requires the Successor Agency to pay tax increment revenues generated by certain properties within the Summerly area to McMillin Summerly, and certain tax increment revenues generated by other properties within the Summerly area to Civic Partners. These site-specific tax increment revenues are referred to in this report as the "McMillin Revenues" and the "Civic Revenues," respectively. Now that the McMillin Revenues and Civic Revenues have been "earned" by McMillin Summerly and Civic Partners under the DDA, the DDA requires the Successor Agency to cooperate with McMillin Summerly and Civic Partners to issue the 2017 Bonds to finance the Agency's obligation under the DDA to make these payments to McMillin Summerly and Civic Partners. Pursuant to the DDA, the 2017 Bonds will be secured by tax increment revenues from Project Area No. II and Project Area No. III, net of amounts due under senior obligations (specifically, the Agency's 2010 Series B Bonds, 2010 Series C Bonds, 2015 Bonds, the obligation under the DDA to pay certain "Pledged Housing Funds" to Civic Partners, and pass-through payments).

The DDA requires the 2017 Bonds to be sized to generate proceeds in an amount equal to the cumulative amount of the payments the Agency's independent financial consultant estimates will be paid to McMillin Summerly and Civic Partners, respectively, under the DDA, i.e. the cumulative amount of the McMillin Revenues and the Civic Revenues through the termination of the DDA. Thus, the 2017 Bonds will be structured to produce net proceeds in the amount of the McMillin Revenues and the Civic Revenues that are projected by HdL Coren & Cone, the Successor Agency's Fiscal Consultant, to be generated during the term of the DDA. In order to protect the Successor Agency and to ensure that the debt service on the 2017 Bonds does not exceed the amounts of the McMillin Revenues and the Civic Revenues actually generated in future years (taking into account potential reductions in assessed values of property within the Summerly area), debt service on the 2017 Bonds will be structured to equal 0.75% of the projected amounts of the McMillin Revenues and Civic Revenues over the term of the financing.

Additionally, the 2017 Bonds will be structured so that debt service is paid in arrears, consistent with the payments to McMillin Summerly and Civic Partners under the DDA. The DDA provides that McMillin Summerly and Civic Partners are paid each February 1 from revenues generated during the prior fiscal year (e.g. revenues constituting the McMillin Revenues and Civic Revenues that were generated during Fiscal Year 2016-17 will be due to McMillin Summerly and Civic Partners on February 1, 2018). Similarly, the Indenture of Trust pursuant to which the 2017 Bonds will be issued will require that Redevelopment Property Trust Fund moneys distributed to the Successor Agency on each June 1 will be used to pay debt service coming due during the following calendar year.

The attached resolution approves the issuance of the 2017 Bonds, subject to the compliance of certain criteria, including that: (i) the aggregate principal amount of the 2017 Bonds does not exceed $10.5 million ($10,500,000); and (ii) the Underwriter's Discount does not exceed 1.25% of the aggregate principal amount of the 2017 Bonds. Preliminary pricing/cash flow schedules are attached (Exhibit F).

As an alternative to the sale of the 2017 Bonds through a proposed public offering (offer of securities to the general public), the resolution allows for the 2017 Bonds to be sold on a private placement basis (direct placement to one or a limited number of investors), if the private placement produces lower interest rates and is advisable by the financial advisor and agreed to by Successor Agency staff. The determination of whether to issue the 2017 Bonds pursuant to a public sale or private placement will be subject to prevailing market conditions at the time of the decision. If Successor Agency staff determines that a private placement is more beneficial to the Successor Agency, no further approvals by the Successor Agency Board will be required.

Forms of the following documents are included in the agenda package and the Successor Agency would be authorized to prepare, approve and execute these and such other documents as necessary pursuant to the attached resolution should the Oversight Board determine to move forward with the approval of the 2017 Bonds. The forms of these documents will be finalized upon the pricing and sale of the 2017 Bonds.

Indenture of Trust: This document is a contract entered into between the Successor Agency and Wilmington Trust, National Association, the appointed Trustee of the 2017 Bonds. This document contains terms of the 2017 Bonds including, but not limited to, the payment and redemption provisions, definition and pledge of revenues to pay the refunding bonds, rights and duties of the Trustee, remedies upon a default in the payment of the 2017 Bonds, and other related matters.

Bond Purchase Contract: Under this contract, the Successor Agency agrees to sell the 2017 Bonds to the underwriter and the underwriter agrees to purchase the 2017 Bonds, subject to typical closing conditions. Successor Agency staff, the financial advisor, and bond counsel will approve the final pricing prior to the execution of the Bond Purchase Contract.

Continuing Disclosure Certificate: Executed for the benefit of bondholders, the Continuing Disclosure Certificate obligates the Successor Agency to file an annual report which includes, among other things, the most recent audited financial statements of the City and financial data of the Successor Agency. The Successor Agency is also required to report certain events which are significant to bondholders if and when they occur.

The proposed resolution also appoints the financing team that includes a Financial Advisor (Urban Futures, Inc.), Fiscal Consultant (HdL), Bond and Disclosure Counsel (Stradling Yocca Carlson & Rauth, a Professional Corporation), Trustee (Wilmington Trust, National Association) and the Underwriter or Private Placement Agent (Stifel, Nicolaus & Company, Incorporated).

Assuming the 2017 Bonds are approved by both the Successor Agency and the Oversight Board, during the 65-day DOF review period the financing team and Successor Agency staff will work to prepare a Preliminary Official Statement (POS) for the 2017 Bonds. The POS is the offering document with respect to the 2017 Bonds and, if the 2017 Bonds will be sold by public offering, the POS must contain all material information to enable investors to determine whether to purchase 2017 Bonds. If the 2017 Bonds will be sold by public offering, the POS will likely be presented for approval by the Successor Agency Board sometime in November 2017. If Successor Agency approval is given at that time, the 2017 Bonds could be issued a few weeks afterwards.

Fiscal Impact

As previously mentioned, the 2017 Bonds will be structured to produce net proceeds equivalent to 0.75% of the amount of the McMillin Revenues and Civic Revenues protected to be generated during the term of the DDA. This conservative approach is intended to ensure that the debt service on the 2017 Bonds will be payable entirely from the McMillin Revenues and Civic Revenues actually generated in future years. All other aspects of the DDA have been incorporated into the bond sizing.

There is no payment to be made from the City's General Fund for debt service payments or any costs associated with the issuance of the 2017 Bonds.

The pledge of tax increment revenues from Project Area No. II and Project Area No. III in favor of the 2017 Bonds will be subordinate to the Successor Agency's (i) pledge of specific tax increment revenues to the repayment of the 2010B Bonds and the 2010 C Bonds, (ii) the pledge of all Redevelopment Property Tax Trust Fund moneys in favor of the 2015 Bonds, (iii) the payment of Pledged Housing Funds to Civic pursuant to the DDA, and (iv) payments to taxing agencies under the Pass-Through Agreements and the Statutory Pass-Through Amounts.

Exhibits

A-Resolution Approving Bonds
B-Indenture of Trust
C-Bond Purchase Agreement
D-Continuing Disclosure Certificate
E-Letter Requesting Bonds Pursuant to DDA
F-Preliminary Pricing/Cash Flows