REPORT TO SUCCESSOR AGENCY OF THE REDEVELOPMENT AGENCY OF THE CITY OF LAKE ELSINORE

To: **Successor Agency Board**

From: **Grant Yates, Executive Director**

Prepared by: **Jason Simpson, Assistant Executive Director**

Date: **August 14, 2018**

Subject: **Tax Allocation Refunding Bonds, Series 2018C**

Recommendation

adopt A RESOLUTION OF THE SUCCESSOR AGENCY OF THE REDEVELOPMENT AGENCY OF THE CITY OF LAKE ELSINORE, CALIFORNIA, APPROVING THE FORM OF A PRELIMINARY OFFICIAL STATEMENT IN CONNECTION WITH THE SUCCESSOR AGENCY'S SUBORDINATED TAX ALLOCATION REFUNDING BONDS, SERIES 2018C, AND AUTHORIZING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH

Background

In January 2010, the Lake Elsinore Public Financing Authority issued the $15,435,000 Tax Allocation Revenue Bonds (1999 Series C Refunding) 2010 Series A (the "2010A Bonds"), of which $12,475,000 is currently outstanding. Given the relatively high interest rate environment at the time of issuance, there is an opportunity to refinance the 2010A Bonds for debt service savings in today's market.

The Successor Agency of the Redevelopment Agency of the City of Lake Elsinore (the "Successor Agency") assumed responsibility of all debt management with respect to the Former Redevelopment Agency in 2012. Under AB 1484 and the California Health and Safety Code Section 34177.5(a), the Successor Agency may refinance outstanding bonds, with approval from the Oversight Board and the California Department of Finance (DOF), provided that the total interest cost, principal amount, and final maturity on the refunding bonds do not exceed that of the prior (outstanding) bonds. In other words, there must be debt service savings created by the refinancing.

On June 28, 2018, the Successor Agency authorized the issuance and sale of tax allocation refunding bonds to refinance the outstanding 2010A Bonds for debt service savings. With the authorization to move forward, the DOF 65-day review process was initiated roughly 30 days ago, and staff and the Agency's financing team are ready to present the Preliminary Official Statement to the Successor Agency for consideration and approval prior to pricing the refunding bonds.

Discussion

The proposed Subordinated Tax Allocation Refunding Bonds, Series 2018C (referred to herein as the “2018 Bonds”) is estimated to have a par amount of $11.41 million with a final maturity of 2033, which is the same as the final maturity as the 2010A Bonds. As proposed, the current maturities of the 2010A Bonds would not be extended and no new debt would be issued.

The final interest rate structure will be determined when the 2018 Bonds are priced and sold. The pricing date would be targeted for some time in September, assuming that the refunding is still economically viable. The bond closing is expected to occur in October and the 2010A Bonds will be redeemed on September 1, 2019. Although not yet rated by Standard & Poor’s, it is expected that since the 2018 Bonds will be issued on parity with the Subordinated Tax Allocation Refunding Bonds, Series 2015, they will be assigned a similar rating of “A+.”

Based on current market conditions, the refinancing would result in debt service savings of approximately $2 million. However, the total level of savings will depend upon market conditions at the time of sale. Estimated annual savings will become available after the payment of enforceable obligations as approved on the Recognized Obligation Payment Schedule (“ROPS”) and will be distributed among various taxing entities such as Riverside County, school districts, and the City.

The table below highlights the identified savings based on current market conditions.

Summary of Savings Results for 2018 Bonds*	
2018 Bonds	
Net Present Value Savings ($)	$374,347
Net Present Value Savings (% of Par Value Refunded)	3.0%
Avg. Savings Through 2033 (Maturity of 2010A Bonds)	$133,333
Total Debt Service Savings	$2 million

**Projected savings are based on current interest rates assuming the 2018 Bonds have an “A+” underlying rating and are sold with “AA” bond insurance. These rates are subject to change based on market conditions at the time of sale.*

Documents to be Approved

Approval of the Resolution, approving the Form of a Preliminary Official Statement in connection with the Successor Agency’s Tax Allocation Refunding Bonds, Series 2018, and authorizing certain other actions with respect thereto will authorize the execution of the following documents which are not included with the document due to their length, but are available for review in the City Clerk’s Office.

Preliminary Official Statement Stradling Yocca Carlson & Rauth, the Successor Agency’s Bond Counsel and Disclosure Counsel, has prepared the form of a Preliminary Official Statement (the “POS”) to be used in marketing the Bonds. The POS was prepared based on information provided by and in coordination with Urban Futures, Incorporated (Financial Advisor), HdL Coren and Cone (Fiscal Consultant), Stifel, Nicolaus & Company, Incorporated (Underwriter), Leibold McClendon & Mann, P.C., as the Successor Agency’s General Counsel, and Successor Agency staff. Copies of the POS have been made available to the members of the City Council and the Successor Agency’s Governing Board.

The POS is the "offering document" for the Bonds. The Successor Agency Board has an obligation to ensure that the POS includes all information that would be material to a prospective investor's decision whether to purchase the Bonds. While the Successor Agency's legal counsel, consultants, and the Underwriter have participated in preparing the POS, the Successor Agency Board and staff are ultimately responsibility for ensuring that the POS is accurate, contains no misleading information and does not omit any information necessary to make the POS not misleading to investors.

Fiscal Impact

As illustrated in the table above, an estimated $374,347 in net present value savings and $2 million in total debt service savings would be generated by refinancing the 2010A Bonds. Savings would be distributed among various taxing entities, one of which will be the City. The level of savings will depend upon market conditions at the time of sale.

The 2018 Bonds would not be an obligation of the City, but rather the Successor Agency. Debt Service on the 2018 Bonds will be supported by tax revenues collected by the County and deposited into the Successor Agency's Redevelopment Property Tax Trust Fund. Costs (related to time spent on the refunding) of the Successor Agency can be recovered through the proceeds of the 2018 Bonds at the time of issuance.

Exhibits

A –Resolution
B –Preliminary Official Statement