



## **REPORT TO CITY COUNCIL**

**To: Members of the City Council**

**From: Grant Yates, City Manager**

**Prepared by: Jason Simpson, Assistant City Manager**

**Date: October 8, 2019**

**Subject: Acquisition of a Debt Service Reserve Fund Surety**

### **Recommendations**

1. Approve and authorize the City Manager to acquire from Build America Mutual Assurance Company ("BAM") a Debt Service Reserve Fund Surety for the Lease Revenue Refunding Bonds (Public Facilities Project) Series 2013, in final form as approved by Bond Counsel or City Attorney.
2. Adopt RESOLUTION NO. 2019-\_\_\_\_\_

**RESOLUTION OF THE OF THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE, CALIFORNIA AUTHORIZING THE SUBSTITUTION OF THE CASH DEPOSITED INTO THE RESERVE ACCOUNT WITH A MUNICIPAL BOND DEBT SERVICE RESERVE INSURANCE POLICY, APPROVING A DEBT SERVICE RESERVE AGREEMENT AND APPROVING CERTAIN DOCUMENTS AND TAKING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH**

### **Background**

In September 2013, the Lake Elsinore Recreation Authority (Authority) issued the \$14,460,000 Lease Revenue Refunding Bonds issued to provide funds to refund the Authority's Variable Rate Revenue Refunding Bonds, 2000 Series A and to fund a reserve account in the amount \$1,131,700. At the time of the issuance, the Authority was able to secure bond insurance from BAM but was unable to secure a surety for the debt service reserve.

Since the issuance of the bonds, the cash funded debt service reserve has been held in a money market account earning .50% to 2.08% on average. Because the City funded the current debt service reserve with financed cash, the City has been paying interest on the reserve well above its earnings in the money market account.

Over the past several years, the City has demonstrated its ability to make the lease payments securing the bonds issued under 2013 bond indenture. The current bonds are secured through certain public facilities as collateral, including three fire stations and certain parks. Furthermore,

the Residual Property Tax Trust Fund (RPTTF) revenues assigned to the Successor Agency reimburse the General Fund for the lease payments securing the 2013 bonds. As a result, the debt service obligation receives full funding through RPTTF with no impact to the General Fund.

### **Discussion**

Because the current cash funded debt service reserve is earning substantially less than the cost of borrowing, and based on second-quarter 2019 Turner Building Cost Index—which measures costs in the non-residential building construction market in the United States—has increased to a value of 5.51% yearly, it's staff recommendation to replace the cash with a surety and to allocate the remaining cash to eligible capital projects which support the City's economic development and capital improvement program goals. To achieve this recommendation, the City's financial advisor, Urban Futures, has solicited BAM to ascertain if there is a market for the debt service reserve fund surety to replace the current cash funded debt service reserve fund.

After negotiations with BAM, including credit approval by BAM, the City was recently offered a surety policy for 375bps equal to \$42,439. This price is a reduction of \$8,487.50 from BAM's initial offer of 450bps and represents a fair market price based on recent sureties purchased for similar bond issues. The cost of the surety, as well as other costs discussed below, will be paid from the \$1,131,700 held in the current debt service reserve fund.

The City's bond counsel has reviewed and approved certain reserve insurance documents required to move forward with the replacement of the cash funded reserve which were presented to the Budget Subcommittee and are presented on the City Council Agenda for consideration.

### **Fiscal Impact**

The cost to acquire the reserve fund surety is \$57,439, with the following details:

- Build America Mutual Assurance Company Surety Policy \$42,439
- Bond Counsel Document Review and Comment: \$5,000-\$7,500
- Financial Advisor: \$7,500

As discussed above, the funding of all costs associated with the acquisition of the surety is from the current cash funded reserve. The current cash reserve is \$1,131,700. After funding the cost of acquisition, \$1,074,261 will be available to fund eligible capital projects in the City FY2019-20 Capital Improvement Plan.

### **Exhibits**

A – Resolution 2019- \_\_\_\_\_

B - Debt Service Reserve Agreement