CITY OF LAKE ELSINORE
DREAM EXTREME

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

To: **Honorable Agency Chairman and Members of the Successor Agency**

From: **Grant Yates, Executive Director**

Prepared by: Jason Simpson, Assistant Executive Director

Date: **October 13, 2020**

Subject: **Approving the Form of the Preliminary Official Statement for the 2020 Bonds to deem it final under Rule 15c2-12 and authorizing certain other actions in connection therewith**

Recommendations

adopt A RESOLUTION OF THE SUCCESSOR AGENCY OF THE REDEVELOPMENT AGENCY OF THE CITY OF LAKE ELSINORE, CALIFORNIA, APPROVING THE FORM OF THE PRELIMINARY OFFICIAL STATEMENT FOR THE 2020 BONDS TO DEEM IT FINAL UNDER RULE 15C2-12 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.

On October 10, 2017, the Successor Agency authorized the issuance of tax allocation bonds to finance payments to Civic Partners and McMillin Summerly under the DDA. Both the Oversight Board and DOF subsequently approved the tax allocation bonds.

On March 20, 2018, the Successor Agency issued the Third Lien Tax Allocation Bonds, Series 2018A (the “2018A Bonds”) and the Third Lien Tax Allocation Bonds, Series 2018B (Federally Taxable) (the “2018B Bonds” and together with the 2018A Bonds, the “2018 Bonds”).

On July 14, 2020 the Successor Agency approved the issuance of Third Lien Tax Allocation Bonds, Series 2020B and Series 2020C (Federally Taxable) (together, the “2020 Bonds”), approved the form of a First Supplemental Indenture of Trust, Bond Purchase Contract, Continuing Disclosure Certificate and related documents and certain other actions. Subsequent to these actions, both the County Oversight Board (July 16, 2020) and the Department of Finance (September 25, 2020) approved the 2020 Bonds.

Tonight, the Successor Agency is being asked to approve the preliminary official statement for the 2020 Bonds and authorize certain other actions. If the Successor Agency approves the Resolution this evening, then the bonds would price in late October, assuming market conditions remain favorable.

Discussion

The DDA requires the Successor Agency to pay tax increment revenues within the Summerly area to McMillin Summerly and 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 bonds to finance the Successor Agency’s obligation under the DDA to make these payments to McMillin Summerly and Civic Partners.

Pursuant to the DDA, the 2018 Bonds and 2020 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 (more specifically, the Successor Agency’s 2015 Bonds, 2019A Bonds, 2019B Bonds, 2020 Project Area No. I and II Loans, the obligation under the DDA to pay certain “Pledged Housing Funds” to Civic Partners and certain pass-through payments).

The DDA requires the 2020 Bonds to be sized to generate proceeds that result in annual debt payments equal to the annual payments paid to McMillin Summerly and Civic Partners, respectively, under the DDA. Annual McMillin Revenues and Civic Revenues are projected by HdL Coren & Cone, the Successor Agency’s Fiscal Consultant, over the term of the DDA.

In order to protect the Successor Agency and to ensure that debt payments do not exceed the McMillin Revenues and Civic Revenues generated in future years (accounting for potential reductions in property assessed values within the Summerly area), the 2020 Bonds will be structured so that annual McMillin Revenues and Civic Revenues provide 1.25% coverage on debt payments of both the 2018 Bonds and 2020 Bonds.

Additionally, the 2020 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 2019-20 will be due to McMillin Summerly and Civic Partners on February 1, 2021). Similarly, the 2018 Indenture of Trust and 2020 First Supplement to the Indenture of Trust pursuant to which the 2020 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.

Approval of the Resolution will authorize the execution of the following document:

- *Preliminary Official Statement*: The offering document that provides a description of the Successor Agency, the 2020 Bonds, and the sources of payment. It allows prospective investors to make an informed investment decision about the purchase of bonds. Federal securities laws require the Preliminary Official Statement to include all facts that would be material to an investor in the 2020 Bonds. "Material" information is information that there is a substantial likelihood would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the 2020 Bonds. The resolution authorizes the Underwriter to distribute the Preliminary Official Statement to prospective investors.

Fiscal Impact

The 2018 Bonds and 2020 Bonds will be secured by tax increment revenues from Project Area No. II and Project Area No. III (specifically, the 'earned' McMillin Revenues and the Civic Revenues), net of amounts due under senior obligations (more specifically, the Successor Agency's 2015 Bonds, 2019A Bonds, 2019B Bonds, 2020 Project Area No. I and II Loans, the obligation under the DDA to pay certain "Pledged Housing Funds" to Civic Partners and certain pass-through payments).

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 2020 Bonds.

Exhibits

A - Successor Agency Resolution
B - Form of Preliminary Official Statement