



REPORT TO CITY COUNCIL

**TO: HONORABLE MAYOR
AND MEMBERS OF THE CITY COUNCIL**

**FROM: GRANT YATES
CITY MANAGER**

DATE: APRIL 12, 2016

SUBJECT: The Issuance of Lease Revenue Bonds to Finance La Laguna Resort Improvements

Recommendation

- 1) adopt A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE PROVIDING CONCEPTUAL APPROVAL FOR PROCEEDING WITH THE ISSUANCE OF LEASE REVENUE BONDS, APPOINTING A FINANCING TEAM WITH RESPECT TO THE PROPOSED FINANCING AND APPROVING CERTAIN ACTIONS IN CONNECTION THEREWITH; and,
- 2) adopt A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE REGARDING ITS INTENTION TO ISSUE TAX EXEMPT OBLIGATIONS

Background

The City staff has developed a conceptual site master plan that will include the amenities listed below in the discussion section that will dramatically improve the overall infrastructure since acquiring the property from the State of California in the early 1990's. Essentially, full hookups campsites with a new entrance and a variety of amenities will help support creating an opportunity to develop a City asset into a destination focused use of the Lake.

On April 12, 2016, the City Council will consider approval of a contract to hire STK Architecture, Inc. to provide architectural and design services related to the La Laguna Resort Improvements Project (the "Project").

Discussion

As discussed at prior Council meetings, one of the City's goals is to better utilize the City's existing assets to provide better amenities to its residents, business community, and visitors. The City Council had identified the development of La Laguna Resort and Boat Launch as a priority. The development of La Laguna Resort would include the construction of the following improvements:

- New main entry at Riverside Drive and Lincoln & gate house
- Check-in building
- Office space
- Laundry facility
- Snack & concessions stand
- Dump station
- Club house
- Campsites (approximately 236)
 - o Extended-stay spaces (100)
 - o Double pull through spaces (20)
 - o Class A & B spaces (116)
 - o Sewer and Water main improvements
- Lift station
- Security Lighting
- Activity squares (4)
 - o Gazebo with Wi-Fi
 - o Tot-lot with cover
 - o Dog park
 - o Horseshoe pit
 - o Half basketball courts
 - o Outdoor checkers/chess
 - o Putting green
- R.V. & boat parking
- Bait & tackle shop
- Picnic/barbeque/shade structures
- Restroom/shower building with trash enclosures
- Cabins (6) (future)
- Amphitheater* (phased in based upon available funding)

() The amphitheater would be constructed after initial improvements were completed.*

Financial Feasibility

Over the past year, City staff has studied the feasibility of developing and financing the Project. The project will be funded from revenues generated from the campground. As noted in the following proforma table, several scenarios were developed of projected occupancy based upon a conservative rate model at 40%, 60%, 80%, and 100%. Revenues are expected to cover anticipated operating costs as well as debt service costs with some room even at 40% occupancy.

Lease Revenue Bonds to Finance La Laguna Resort & Boat Launch Improvements

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CITY OF LAKE ELSINORE, CALIFORNIA				
FISCAL IMPACT ANALYSIS (CASH BASIS PROFORMA)				
LA LAGUNA RESORT & CAMPGROUND				
DESCRIPTION	ANNUALIZED			
	SCENARIO 1 (40%)	SCENARIO 2 (60%)	SCENARIO 3 (80%)	SCENARIO 4 (100%)
REVENUES				
RV CAMPING	\$ 1,519,648	\$ 2,279,472	\$ 3,039,296	\$ 3,799,120
FACILITIES	96,720	145,080	193,440	241,800
OPEN CAMPING	94,744	100,260	100,260	100,260
ANCILLARY REVENUES	99,050	99,050	99,050	99,050
BOAT & RV PARKING	38,400	57,600	76,800	96,000
Total revenues	<u>1,848,562</u>	<u>2,681,462</u>	<u>3,508,846</u>	<u>4,336,230</u>
EXPENDITURES				
OPERATIONS & MAINTENANCE	758,000	831,000	911,000	921,000
DEBT SERVICE	645,503	645,503	645,503	645,503
LAKE COSTS	-	-	-	-
Total expenditures	<u>1,403,503</u>	<u>1,476,503</u>	<u>1,556,503</u>	<u>1,566,503</u>
Net Change in Position	<u>\$ 445,059</u>	<u>\$ 1,204,959</u>	<u>\$ 1,952,343</u>	<u>\$ 2,769,727</u>

Lease Revenue Bond Structure

The 2016 Lease Revenue Bonds (the “2016 Bonds”) will be structured as a lease-leaseback financing between the City and the Lake Elsinore Public Financing Authority. The use of lease revenue bonds is commonly used by cities in California to finance general fund supported projects.

Under a “lease revenue bond” financing, the City would lease certain City-owned assets to the Authority for a nominal amount (one dollar) who would lease these assets back to the City for a fixed annual rental payment. 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 City’s General Fund. Although the City’s General Fund would be liable for the payments, the intended source of repayment would be from income generated from the Project (i.e. campsite/RV/cabin rental, concession and boat storage fees & income), as discussed under the Financial Feasibility section above.

The 2016 Bonds are anticipated to be secured by a combination of city assets, including leases on Fire Stations No. 10 and No. 94, Summerlake Park, Rosetta Park, City Hall and the campground itself. The ultimate set of assets will be approved by the City Council at the times the leases and bonds are approved. However, based on a preliminary analysis, it is expected that this group of lease assets has sufficient rental value to support the lease financing structure.

The 2016 Bonds are currently anticipated to be structured with bond insurance and surety debt service reserve fund policy.

The City financing team anticipates drafting documents and bringing those financing documents for City Council approval in July or August 2016. The final interest rate structure will be determined when the bonds are priced and sold. The pricing date would

be targeted for some time in September 2016, assuming that interest rates remain attractive and bids have been opened for the Project. The closing is expected by October 2016 around the time the construction contract is awarded.

The first step is for the City to approve (i) a Resolution approving the to the hiring of the finance team and directing staff and the financing team to begin developing the bond structure and drafting the related bond documents and (ii) a resolution of intention to issue tax-exempt obligations (the "Reimbursement Resolution"). By adopting the Reimbursement Agreement, the City will be able to reimburse itself on a tax-exempt basis for expenditures on the Project prior to the issuance of the 2016 Bonds. Generally, speaking the City can only reimburse itself for costs incurred 60 days prior to the bond approval without adopting a Reimbursement Resolution. With a Reimbursement Resolution, the City can reimburse itself for 18 months after the expenditure of the funds to be reimbursed.

Directing staff to move forward does not authorize the issuance of the 2016 Bonds, but merely provides conceptual approval; City staff will bring forward draft bond documents at a future Council meeting in July or August 2016 for final approval of 2016 Bonds.

The City's financing team of Urban Futures, Inc. as financial advisor, Stradling Yocca Carlson & Rauth, a Professional Corporation, as bond counsel, Stifel, Nicolaus & Company, Incorporated, as bond underwriter, and Wilmington Trust, as trustee, are proposed. The fees of all firms will be entirely contingent upon a completion of the financing.

Fiscal Impact

Based on current rates, the City will issue up to \$11 million of 2016 Bonds to allow for the financing of \$10 million of capital improvements, 12 months of capitalized interest and to pay costs of issuance.

The 2016 Bonds will be structured with a thirty-one-year term and level annual debt service payments. The first year of payments will be interest only and paid 100% from capitalized interest. The City will be responsible for full principal and interest payments beginning in FY 2017-18. The final maturity is currently contemplated to be in 2047.

Average annual payments are projected to be about \$640,000. These figures are net of financing costs.

Prepared by: Jason Simpson
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Approved by: Grant Yates
City Manager

Exhibits:

- A. Resolution Issuance of Bonds
- B. Resolution Intention to Issue Tax Exempt Obligations