



City of South Lake Tahoe

"making a positive difference now"

December 8, 2011

El Dorado County
Board of Supervisors
330 Fair Lane
Placerville, CA 95667

On July 14, 2011, the South Lake Tahoe City Council approved a Management and Operation Agreement with Tahoe Sports Entertainment (TSE) to operate the Ice Arena for a term of ten years. At any time during the term of the Agreement, TSE had the right to terminate the Agreement upon 180 days written notice. The City had the right to terminate the Agreement upon 90 days written notice for cause.

The City's interest in contracting with TSE to manage and operate the South Lake Tahoe Ice arena was based on the City's required financial subsidy of the arena. Over the past three years the annual deficit of the Ice Arena has been \$97,272, \$96,790 and \$86,377 respectively. Equally importantly, TSE was committed to aggressive marketing and programming of the ice arena, as well as, inclusion of food, retail and capital investment into the ice arena. In addition, to eliminating the City's operating cost subsidy, TSE would guarantee the City \$24,000 in lease payments in the first year, and \$36,000 thereafter, as well as, 3% to 5% of gross operating revenue over a baseline amount of \$600,000.

In sum, the City is ensured a minimum of \$1.5 million in expense reductions and new revenue over the ten year life of the Ice Arena agreement with TSE. Shortly after execution of the agreement, the City was informed by outside bond counsel that Section 141 of the Internal Revenue Code of 1986 limits the amount of "private business use" that can take place in a facility financed with tax-exempt bonds. The Ice Arena was financed with \$4.6 million out of \$5.8 million Measure S tax-exempt bonds issued in 2001 by the JPA. To comply with the Internal Revenue Code private activity rules, the City could either reduce the written termination time frame from 90 days to 50 days, and/or refinance the outstanding Ice Arena bonds from tax-exempt to taxable debt.

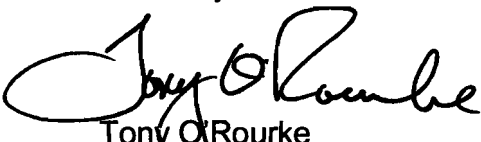
To that end, the City Council on August 23, 2011 amended the Ice Arena Agreement with TSE on an interim basis to a 50 day termination notice period, to conform with Internal Revenue Code regulations, and authorized staff to explore the feasibility of refinancing the Ice Arena's outstanding debt with taxable bonds.

We are now requesting Community Facilities District No 2000-1 of the South Lake Tahoe Recreation Facilities Joint Powers Authority (JPA), made up of members from El Dorado County, City of South Lake Tahoe and Tahoe Paradise Improvement District, to explore the viability of refinancing the Ice Arena and Measure S outstanding debt of \$5.6 million to taxable bonds. The JPA has authorized its Financial Advisor, Mark Northcross, to explore two methods of refinancing the Ice Arena debt. One method is traditional municipal bond refinancing, while the second method is private placement refinancing with a bank.

In either method, pursuant to Mello-Roos bond regulations, the refinancing must result in a net debt service savings over the outstanding life of the Measure S bonds, and the interest rate on the refinanced bonds must be a fixed-rate for the term of the outstanding bonds. Mr. Northcross has been authorized by the JPA to get a new bond rating on the outstanding Measure S debt in order to pursue a traditional municipal bond refinancing, as well as, submit materials for a private placement refinancing with Compass Bank of Phoenix, Arizona. The JPA will schedule a review of the preliminary results of Mr. Northcross' work in mid-January.

At no time shall the JPA, County of El Dorado, Tahoe Paradise Improvement District or City of South Lake Tahoe be subject to any cost associated with the Measure S/JPA refinancing. The Ice Arena operator and TSE, will need to bear any cost obligation associated with the refinancing of the Measure S debt from tax-exempt to taxable. Should the refinancing of the Measure S outstanding debt not proceed, the City of South Lake Tahoe and TSE can still continue their long-term management and operation of the Ice Arena partnership, so long as, the City has the right to terminate the Ice Arena Agreement upon 50 days notice to TSE. Such notice must be without penalty or cause. Even this option will still generate at least \$150,000 annually in expense reductions and new revenues to the City. The only drawback with this option is the disincentive for TSE to make substantial capital investment in the existing Ice Arena, or to expand the Ice Arena.

Sincerely,



Tony O'Rourke
City Manager



City of South Lake Tahoe

"making a positive difference now"

December 8, 2011

Tahoe Paradise Improvement District
P.O. Box 550575
South Lake Tahoe, CA 96155

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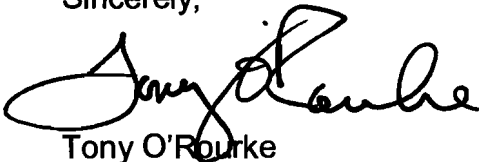
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Sincerely,

A handwritten signature in black ink, appearing to read "Tony O'Rourke". The signature is fluid and cursive, with a large initial "T" and "O".

Tony O'Rourke
City Manager



City of South Lake Tahoe

"making a positive difference now"

December 8, 2011

John Upton
954 Edgewood Circle
South Lake Tahoe, CA 96150

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Tony O'Rourke
City Manager