

December 6, 2011

To: Board of Supervisors, El Dorado County

From: John Upton, staff to the S. Lake Tahoe Recreation Facilities Joint Powers Authority (JPA)

Subject: JPA background and potential refinancing of JPA Bond – updated December 6, 2011

Background to the South Lake Tahoe Recreation Facilities JPA:

The voters of South Lake Tahoe (City & County Tahoe Basin unincorporated area) approved Measure S by a 2/3 vote on September 19, 2000. The three-member JPA has representatives from each of the Board of Supervisors, the City of South Lake Tahoe, and Tahoe Paradise Resort Improvement District, which owns and operates Tahoe Paradise Park.

Measure S was very specific in limiting the allowed uses and naming exact locations where its funds could be spent.

A \$5,815,000 tax-exempt bond was issued to construct the ice arena on Rufus Allen Blvd; accomplish improvements to Tahoe Paradise Park; and build three new fields adjacent to Lake Tahoe Community College. Changed conditions reduced this to one synthetic turf field for soccer. The City of South Lake Tahoe has operated the ice arena with its own staff until September 2011. In 2010-11, it had an operating subsidy of about \$150,000, but has negotiated a private contractor operating agreement that will relieve the City of any subsidy.

Measure S also provided the following maintenance funding:

- \$50,000 per year for the athletic fields built with the bond.
- \$50,000 per year for Tahoe Paradise Park.
- Bicycle trail maintenance funds in the amount of \$5,000 per year per mile for up to 25 new miles of bicycle trails, to a maximum of \$125,000. The maintenance funding was limited to new bicycle trails in order to attract state funds for their construction. It was expected that 25 new miles would be built by year 2008. Tax revenue now annually provides \$125,000 in maintenance funding, but it can only be used on bicycle trails constructed after September 19, 2000. Due to state budget problems, only 8 new miles, requiring \$40,000/year, have been built. The other \$85,000 (of the annual \$125,000) has been accumulating. It is unspendable because there is no allowable use for this money without voter approval of the change.

To address fields not built for baseball, Measure B was proposed in 2009. It failed when bicycle advocates sought funds for pre-Measure S trails. Opponents indicated willingness to seek a compromise Measure. After many public meetings, Measure R was proposed by the JPA.

Measure R will equally split an estimated \$470,000 available in summer 2012 among both pre-Measure S bicycle trails and ballfields. By year 2020, it will have provided a maximum \$500,000 for field improvements, and a minimum of \$500,000, and potentially much more, to pre-Measure S bicycle trails. Overall, old and new bicycle trails will receive approximately \$2.7 million in maintenance and renovation funding by year 2030, which is 50% more than new bicycle trails only are likely to receive under the original Measure S. Measure R also requires advisory committees for bicycle trails and fields to be formed to advise on the best use of funds.

Summary:

- \* Measure R will not affect maintenance funding for new bicycle trails that have or will be built, nor will it affect funding for the field at the Community College, or for Tahoe Paradise Park.
- \* The current single family home pays \$18 per year special tax. No special taxes will change.
- \* Measure R will accomplish bicycle trail and fields improvements with no increase in taxes.

Measure R was approved by the voters of South Lake Tahoe on November 8, 2011 (70.2%)

Potential refinancing of the JPA bond:

Background:

- a. In order for a private contractor to operate a public facility financed with a tax-exempt bond, certain operational and contractual provisions that comply with IRS regulations must be met.
- b. The private contractor agreement for the ice arena negotiated between the City of South Lake Tahoe and the contractor does not comply with those regulations.
- c. The private contractor is currently operating the ice arena under an IRS-compliant agreement, but both the City and the contractor desire to implement the original agreement as soon as possible. In order to do so, the JPA's bond must be refinanced to a taxable bond.
- d. On its own initiative and using a financial advisor in Florida, the City attempted unsuccessfully to find a bank loan solution to the need for a taxable financing.

Current situation: The need now is to pursue a traditional underwriting refinancing, which would result in known debt service costs over the 19 year remaining period of the bond and of the JPA. Mark Northcross, who was the original financial advisor on the Measure S bond, and who made the City aware of the tax exempt/taxable bond issue, is handling the refinancing. The Stradling-Yocca law firm was the original bond counsel, and is also working on the refinancing.

There are a number of good reasons for supporting the City's need for a taxable refinancing, provided that certain JPA conditions are also met.

Reasons – The refinancing will:

- a. Immediately largely reduce, or eliminate, the \$150,000 operating deficit the City had on the ice arena last year. The City has already made drastic budget cuts, which were reduced by the \$150,000 that the City plans to save on the elimination of the ice arena subsidy. Without the refinancing, an additional \$150,000 in budget cuts will be needed.
- b. Unlike other JPA facilities, the JPA has provided no operating support to the ice arena.
- c. The private operator agreement has financial incentives to increase ice arena gross revenues. If successful, these effects will have corresponding economic benefits to other businesses in the community. Those financial incentives have not existed with city staff ice arena operation.
- d. The taxable refinancing will give the city total flexibility now and in the future as to how the ice arena is operated.

JPA conditions for supporting the refinancing should at least include:

- a. The JPA's annual debt service will not change from what it is under the existing bond.
- b. If the refinancing results in greater debt service, the City will be obligated to pay the JPA that difference. Bond counsel will create the necessary agreement and manner for assured collection.
- c. The City will make whatever cash contribution is required to create the legally required refinancing savings. That cash contribution is currently estimated at \$415,000. With that cash contribution, the annual debt service will be unchanged.

Refinancing Action Steps – Current calendar is to close before March 1, 2012:

- a. Monday, December 5: Mark Northcross briefed the JPA on potential refinancing plan and options for CFD bonds. A second option is now a private financing bank loan. Mark Northcross has been retained by the JPA as Financial Advisor for the refinancing.
- b. December 13: Morning – Mark Northcross presentation to City Council of the City of South Lake Tahoe on potential refinancing plan. Afternoon – Mark Northcross presentation to the Board of Supervisors on potential refinancing plan.
- c. December 21 – January 15: Refinancing work, including draft legal documents, draft preliminary official statement (POS), S & P credit review, and bond insurance, and staffs and advisors meet to review legal documents and POS.
- d. January 17: City Council, El Dorado County Board, then JPA (January 20) consider proposal and take actions to formally approve refinancing. Note: This is the JPA's bond, not that of either the City or the County, and the JPA's special tax is solely responsible for its payments.
- e. Month of February: Rating, bond insurance, preliminary official statement, negotiated sale.
- f. Tuesday, February 28: Bond closing.