STAFF REPORT

OVERSIGHT BOARD OF THE SUCCESSOR AGENCY TO THE SOUTH TAHOE REDEVELOPMENT AGENCY

MEETING OF JUNE 16, 2017

To: Honorable Chair and Members of the Oversight Board to the Successor Agency to the South Tahoe Redevelopment Agency

From: Nancy Kerry, Successor Agency Executive Director

Re: Resolution of the Oversight Board of the Successor Agency to the South Tahoe Redevelopment Agency Approving the Successor Agency's Issuance of Tax Allocation Notes and Transient Occupancy Tax Notes to Refund Outstanding Indebtedness Incurred in 2007 and Taking Certain Related Actions

RECOMMENDATION:

Staff recommends that the Oversight Board Adopt the attached Resolution (Attachment 1)

BACKGROUND:

In the early 1980s, the City of South Lake Tahoe began efforts to substantially improve blighted and deteriorated areas in the Stateline/Tourist Core area of the community. In 1988, the redevelopment plan for Redevelopment Project Area No. 1 (the "Project Area") was adopted. The Project Area primarily includes Highway 50 from Stateline Avenue to Ski Run Blvd (see map, Attachment 2).

Two large "anchor resort" projects were planned near each end of the Project Area. In the Stateline area, the former South Tahoe Redevelopment Agency (the "Former Agency") acquired and demolished 526 dilapidated and underutilized motel rooms. The new hotel (former Embassy Suites, now Lake Tahoe Resort Hotel) opened in 1991 with 400 high quality rooms. The Former Agency assisted that project with approximately $28 million in bond proceeds. At the other end of the Project Area was the Ski Run Marina Village area, for which, in 1997 and 1998, the Former Agency provided approximately $9 million in assistance for Ski Run Marina improvements, development of a 184 time share vacation resort (Lake Tahoe Vacation Resort/Diamond Resort), public and environmental improvements.

Between 2000 and 2005, the Former Agency provided approximately $50 million in assistance (through bond proceeds and other funding sources) for the development of Heavenly Village, a 17-acre project site. The Former Agency acquired the entire site, demolished the improvements, and sold the land to the developer. The construction included 199 Marriot Grand Residence Club and 261 Marriot Timber Lodge time share lodging units, a multi-screen cinema, retail and commercial space, an outdoor public space utilized for winter ice skating and summer miniature golf and an inter-modal transit center.

Total Indebtedness

Multiple series of bonds were issued to fund the redevelopment projects. At the time of Former Agency's dissolution, there were five series of tax allocation bonds outstanding, issued in 1999, 2003, 2004, 2005 and 2007, respectively. In 2014 and 2015, the Successor Agency successfully refunded all but the 2007 Bonds, which are not callable until October 1, 2017. As of today, the total indebtedness (including principal and interest to maturity on the 2007 Bonds, the 2014 Bonds and the 2015 Bonds) is as follows.

	Principal	Interest to Maturity	Total Indebtedness
2007 Bonds	$18,520,000	$15,040,778	$33,560,778
2014 Bonds	27,955,000	14,321,016	42,276,016
2015 Bonds	26,310,000	10,510,016	36,820,016
Total	**$72,785,000**	**$39,871,810**	**$112,656,810**

Structure of Debt Repayment

Pursuant to the bond documents (described below), debt service of the Bonds are secured by a portion of property taxes, known as "tax increment", generated in the Project Area. The debt service is further secured by transient occupancy taxes ("TOT") collected in the Project Area. If tax increment is insufficient, and there are no other Successor Agency revenues available, TOT revenues are provided as a secured and pledged source of revenue to ensure the debt service payments are made.

In 2008-09, tax increment was nearly sufficient to cover the annual debt service payment of all outstanding tax allocation bonds. However, due to the impact of the Great Recession on reduced property values, along with delayed construction in the Project Area, the amount of tax increment generated by the Project Area has decreased. The amount needed in 2016-2017 from other revenues (selling of assets, TOT, etc.) is estimated to be $2.15 million.

	2008-09	2016-17
Tax Increment	$5,716,035	$3,247,375
Bond Debt Service	5,751,813	5,394,692
Shortfall	$(35,778)	$(2,147,317)

Value of Redevelopment Properties

In large part due to the Great Recession, taxable value in the Project dropped from $914.3 million in 2009-10 to $514.3 million in 2015-16. For 2016-17, the taxable value of the Project Area has stabilized and is approximately $515.2 million.

Before the Recession, the value of the three projects described above (former Embassy Suites, Ski Run Village and Heavenly Village) totaled approximately $585 million demonstrating a favorable return on the Agency's investment of approximately $90 million. The value for two of the projects (Ski Run Village and Heavenly Village) dropped by $228 million through 2014-15, while the value for the former Embassy Suites has remained constant. Property values are expected to improve with the economic recovery and new construction in the Project Area.

The TOT from the Project Area generated approximately $5.8M in revenue 2015-16.

ISSUE AND DISCUSSION:

The 2014 refunding yielded annual debt service savings that range from $178,968 to $431,405 (totaling over $5.0 million through the final maturity of the bonds). The 2015 refunding yielded annual debt service savings that range from $32,100 to $486,750 (totaling over $3.9 million through final maturity of the bonds).

Staff recommends that the Board adopt the attached resolution, approving a refunding of the remaining 2007 Bonds. Similar to the prior refundings, the Successor Agency will execute supplements to certain existing agreements (described under "REFUNDING DOCUMENTS" below) to provide for the incurrence of refunding debt (the "2017 Refunding Bonds"). As stated in the attached resolution, the principal amount of the 2017 Refunding Bonds will not exceed $20.0 million. The Redevelopment Dissolution Law provides that the issuance of the 2017 Refunding Bonds must meet the following conditions:

(i) The total interest cost to maturity on the 2017 Refunding Bonds, plus the principal amount of the 2017 Refunding Bonds, must not exceed the total remaining interest cost to maturity on the 2007 Bonds, plus the principal amount of the 2017 Refunding Bonds; and

(ii) The principal amount of the 2017 Refunding Bonds must not exceed the amount necessary to pay off the 2007 Bonds, plus the amounts for the establishment of customary debt service reserves and payment of costs of issuance.

Attached is the analysis prepared by the Public Financial Management, the Successor Agency's Financial Advisor (Attachment 3), which shows that the 2017 Refunding Bonds are expected to satisfy these conditions.

Process

On June 6, 2017, the Successor Agency Board of Directors adopted its resolution approving the refunding (Attachment 4). After the Oversight Board adopts the attached resolution, it will be forwarded to the State Department of Finance (the "DOF") for approval. Before the sale of the 2017 Refunding Bonds, Staff will return to the Successor Agency Board (without need for any additional Oversight Board action) for approval of additional documents, including a preliminary official statement (an offering disclosure document) and a bond purchase agreement to be executed with Stifel Nicolas & Company, the bond underwriter. Staff will work with the financing team to seek a rating for the 2017 Refunding Bonds as well as bids for bond insurance based on that rating.

Financing Team

The Successor Agency will be assisted by the same team which worked on the 2014 and 2015 refundings. Stifel Nicolas & Company (Eileen Gallagher) is the bond underwriter. Public Financial Management (Robert Gamble) serves as the Municipal Advisor. Richards, Watson & Gershon (Teresa Ho-Urano) serves as Bond Counsel. Jones Hall (David Fama) serves as Disclosure Counsel. Fraser & Associates (Don Fraser) serves as the fiscal consultant. Each of these team members has been sole-sourced due to their unique knowledge of the bonds as well as post-redevelopment era financial and legal transaction requirements.

REFUNDING DOCUMENTS:

The structure of the 2017 refunding will be the same as that for prior bond issues. The South Tahoe Joint Powers Financing Authority (the "Authority") will assist the Successor Agency by issuing the Authority's Refunding Revenue Bonds (South Tahoe Redevelopment Project Area No. 1) 2017 Series A (the "2017 Authority Bonds"), to provide funds to refund the 2007 Bonds.

The 2017 Authority Bonds will be issued pursuant to a Trust Agreement, as supplemented and amended, by and between the Authority and The Bank of New York Mellon Trust Company, N.A, as trustee (the "Bond Trustee"). In connection with the issuance of the 2017 Authority Bonds, the Successor Agency will incur loans under two agreements, the TA Loan Agreement and the TOT Loan Agreement (both defined below). The loans will be evidenced by Tax Allocation Notes and Transient Occupancy Tax Notes to be executed by the Successor Agency. The Successor Agency's repayments under the Tax Allocation Notes and Transient Occupancy Tax Notes will be used to pay debt service on the 2017 Authority Bonds.

Attached to this Staff Report are the supplements to the Trust Agreement, the TA Loan Agreement and the TOT Loan Agreement, to be executed in connection with this 2017 refunding. Below is a description of these documents.

8th Supplemental Trust Agreement (Attachment 5)

The original Trust Agreement was executed in 1995. The Trust Agreement sets forth the terms of the Authority bonds issued to assist the Former Agency and, now, the Successor Agency, with the financing and refinancing of the projects. The original Trust Agreement has been supplemented and amended by seven supplements, in connection with prior bond issues. For the 2017 refunding, there will be an 8^{th} Supplemental Trust Agreement. Because the 8th Supplemental Trust Agreement will be executed by the Authority and the Bond Trustee (and not the Successor Agency), there is no need for the Successor Agency Board to formally approve this document. However, because it is a key component to the refunding, Staff is including it for the Board's information.

8th Supplemental TA Loan Agreement (Attachment 6)

Also attached is the form of an 8th Supplemental Loan Agreement to the Master Tax Allocation Loan Agreement. The Master Tax Allocation Agreement, as amended and supplemented, provides for the pledge and use of property tax revenues allocated to the Successor Agency's Redevelopment Property Tax Trust Fund, *i.e.*, formerly tax increment, for the repayment of loans under the TA Loan Agreement, so that such repayment amounts are used by the Bond Trustee to pay debt service on the Authority bonds outstanding under the Trust Agreement.

8th Supplemental TOT Loan Agreement (Attachment 7)

Also attached is the form of an 8th Supplemental Loan Agreement to the Master Transient Occupancy Tax Loan Agreement. The Master Transient Occupancy Tax Loan Agreement, as amended and supplemented, sets forth the pledge of TOT revenues. Together, the TOT Loan Agreement and the TA Loan Agreement provide for the use of TOT revenues to repay the loans under these loan agreements, in the event that tax increment is insufficient in any year.

FINANCIAL AND/OR POLICY IMPLICATIONS:

The purpose of refunding the callable bonds is to take advantage of lower interest rates in the current bond market to reduce debt service payments. At the time when tax increment revenues exceed the amount needed for enforceable obligations, the excess will be distributed to taxing entities. Given the current level of interest rates, and the expectation of increasing rates, this appears to be the appropriate time to capture the benefit of this refunding. The 2007 Bonds are callable at any time after October 1, 2017. Estimated refunding savings are summarized below:

Refunded Series		2007A
Refunded Principal		$ 18,520,000
Net Present Value Savings		$1,257,246
As % of Refunded Bonds		*6.4479%*
Gross Cash Flow Savings		$2,852,166
Average Annual Savings	Years 2018-2035	$93,697
	Years 2036-2037	$582,806

SIGNATURE:

By:

Nancy Kerry
Executive Director of the Successor Agency
of South Tahoe Redevelopment Agency

Attachments:

1. Resolution
2. Map of Project Area No. 1
3. Municipal Advisor's Savings Analysis
4. (Copy) Resolution No. 2017-__ adopted on June 6, 2017, by the Board of Directors of the Successor Agency
5. 8th Supplemental Trust Agreement
6. 8th Supplemental Tax Allocation Loan Agreement
7. 8th Supplemental Transient Occupancy Tax Loan Agreement

RESOLUTION NO. __________

RESOLUTION OF THE OVERSIGHT BOARD OF THE SUCCESSOR AGENCY TO THE SOUTH TAHOE REDEVELOPMENT AGENCY APPROVING THE SUCCESSOR AGENCY'S ISSUANCE OF TAX ALLOCATION NOTES AND TRANSIENT OCCUPANCY TAX NOTES TO REFUND OUTSTANDING INDEBTEDNESS INCURRED IN 2007 AND TAKING RELATED ACTIONS

WHEREAS, the South Tahoe Redevelopment Agency (the "Former Agency") was a duly constituted redevelopment agency pursuant to provisions of the Community Redevelopment Law (the "Redevelopment Law") set forth in Section 33000 et seq. of the Health and Safety Code ("HSC") of the State of California (the "State"); and

WHEREAS, the Former Agency undertook a program to redevelop a project area known as the South Tahoe Redevelopment Project No. 1 (the "Project Area"); and

WHEREAS, pursuant to AB X1 26 (enacted in June 2011) and the California Supreme Court's decision in *California Redevelopment Association, et al. v. Ana Matosantos, et al., 53 Cal. 4th 231 (2011)*, the Former Agency was dissolved as of February 1, 2012; the Successor Agency to the South Tahoe Redevelopment Agency (the "Successor Agency"), as the successor to the Former Agency, was constituted; and an Oversight Board to the Successor Agency (the "Oversight Board") was established; and

WHEREAS, the City of South Lake Tahoe (the "City") and the Former Agency executed and delivered a joint exercise of powers agreement, dated January 3, 1989 (the "Joint Powers Agreement"), by and between the City and the Former Agency, which Joint Powers Agreement created and established the South Tahoe Joint Powers Financing Authority (the "Authority"); and

WHEREAS, pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State and the Joint Powers Agreement, the Authority is authorized to issue bonds from time to time for the financing and refinancing costs of certain public capital improvements; and

WHEREAS, to assist with the financing and refinancing of redevelopment projects benefiting the Project Area, the Authority previously issued bonds, including the following currently outstanding bonds (the "Authority Bonds"):

(ii) Refunding Revenue Bonds (South Tahoe Redevelopment Project Area No. 1) 2007 Series A (the "Authority 2007 Bonds"),

(iii) Refunding Revenue Bonds (South Tahoe Redevelopment Project Area No. 1) 2014 Series A (the "Authority 2014 Bonds"), and

(i) Refunding Revenue Bonds (South Tahoe Redevelopment Project Area No. 1) 2015 Series A (the "Authority 2015 Bonds"); and

WHEREAS, the Authority Bonds were issued pursuant to the Trust Agreement, dated as of November 1, 1995 (the "Master Trust Agreement"), as supplemented and amended by the seven supplemental trust agreements, each by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as successor trustee (the "Trustee") (the Master Trust Agreement, as supplemented and amended, being referred to herein as the "Trust Agreement"); and

WHEREAS, the Authority 2014 Bonds and the Authority 2015 Bonds were issued to refund bonds previously issued under the Trust Agreement and effect the corresponding refunding of prior loans incurred by the Former Agency under the Loan Agreements (defined below); and

WHEREAS, in order to secure the repayment of the Authority Bonds, the Former Agency and, after the Former Agency's dissolution, the Successor Agency in connection with Authority 2014 Bonds and the Authority 2015 Bonds, did the following:

(i) incurred loans (the "TA Loans") and pledged tax increment revenues derived from the Project Area pursuant to the Master Tax Allocation Loan Agreement, dated as of November 1, 1995 (the "Master TA Loan Agreement"), as supplemented and amended by seven supplemental loan agreements (the Master TA Loan Agreement, as supplemented and amended, being referred to herein as the "TA Loan Agreement"), and

(ii) incurred loans (the "TOT Loans") and pledged certain transient occupancy tax revenues levied within the Project Area pursuant to the Master Transient Occupancy Tax Loan Agreement, dated as of November 1, 1995 (the "Master TOT Loan Agreement"), as supplemented and amended by seven supplemental loan agreements (the Master TOT Loan Agreement, as supplemented and amended, being referred to herein as the "TOT Loan Agreement"; and collectively, the TA Loan Agreement and the TOT Loan Agreement, being referred to herein as the "Loan Agreements"); and

WHEREAS, the TA Loans are evidenced by tax allocation notes (the "TA Notes") issued by the Former Agency or the Successor Agency, as applicable, pursuant to the TA Loan Agreement; and

WHEREAS, the TOT Loans are evidenced by transient occupancy tax notes (the "TOT Notes") issued by the Former Agency or the Successor Agency, as applicable, pursuant to the TOT Loan Agreement; and

WHEREAS, pursuant to HSC Section 34177.5(a), the Successor Agency is authorized to incur debt (the "Refunding Debt") to refund outstanding debt (the "Refunded Debt"), to provide savings to the Successor Agency, provided that:

(i) the total interest cost to maturity on the Refunding Debt plus the principal amount of the Refunding Debt shall not exceed the total remaining interest cost to maturity on the Refunded Debt, plus the remaining principal of the Refunded Debt to be refunded, and

(ii) the principal amount of the Refunding Debt shall not exceed the amount required to defease the Refunded Debt, to establish customary debt service reserves and pay related costs of issuance; and

WHEREAS, the Successor Agency desires to refund the outstanding TA Note and TOT Note relating to the Authority 2007 Bonds (such refunding transaction being referred to herein as the "Refunding"); and

WHEREAS, in conjunction with the Refunding, the Authority will issue refunding bonds (the "Authority Refunding Bonds") under the Trust Agreement, as supplemented and amended by a supplement to the Trust Agreement (the "Supplemental Trust Agreement"); and

WHEREAS, proceeds from the sale of the Authority Refunding Bonds will be used to: (i) provide funds for the defeasance of all or a portion of the remaining outstanding Authority 2007 Bonds and the concurrent defeasance of the corresponding TA Note and TOT Note, and (ii) pay related costs of issuance; and

WHEREAS, as part of the Refunding, the Successor Agency will issue: (i) one or more additional notes (the "Refunding TA Notes") under the TA Loan Agreement, as supplemented and amended by a supplement to the TA Loan Agreement (the "Supplemental TA Loan Agreement"), and (ii) one or more additional notes (the "Refunding TOT Notes") under the TOT Loan Agreement, as supplemented and amended by a supplement to the TOT Loan Agreement (the "Supplemental TOT Loan Agreement"); and

WHEREAS, the Refunding TA Notes will be issued pursuant to, and will be secured by a pledge of property tax revenues as provided in, the TA Loan Agreement, as supplemented and amended by the Supplemental TA Loan Agreement; and

WHEREAS, the Refunding TOT Notes will be issued pursuant to, and will be secured by a pledge of transient occupancy tax revenues as provided in, the TOT Loan Agreement, as supplemented and amended by the Supplemental TOT Loan Agreement; and

WHEREAS, the Refunding TA Notes and the Refunding TOT Notes will be issued under the authority of HSC Section 34177.5 and Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (the "Refunding Bond Law"); and

WHEREAS, the Board of Directors of the Successor Agency adopted its Resolution No. ________ on June 6, 2017 (the "Successor Agency Resolution"), and thereby: (i) approved the Successor Agency's issuance of the Refunding TA Notes and the Refunding TOT Notes, each in an aggregate principal amount not exceeding $20,000,000; and (ii) authorized the Successor Agency's execution and delivery of the Supplemental TA Loan Agreement and the Supplemental TOT Loan Agreement, each substantially in the form attached to the Successor Agency Resolution; and

WHEREAS, the Oversight Board has received a copy of the Successor Agency Resolution; and

WHEREAS, there has been presented to the Oversight Board an analysis of the potential debt service savings that will accrue as a result of issuance of the Refunding; and

WHEREAS, pursuant to HSC Sections 34177.5(f) and 34180, the issuance of the Refunding TA Notes and the issuance of the Refunding TOT Notes are subject to the Oversight Board's prior approval; and

WHEREAS, the Oversight Board desires to adopt this Resolution to approve the issuance of the Refunding TA Notes and the Refunding TOT Notes;

NOW, THEREFORE, THE OVERSIGHT BOARD OF THE SUCCESSOR AGENCY TO THE SOUTH TAHOE REDEVELOPMENT AGENCY HEREBY FINDS, DETERMINES, RESOLVES AND ORDERS AS FOLLOWS:

<u>Section 1.</u> The above recitals are true and correct and are a substantive part of this Resolution.

<u>Section 2.</u> The Oversight Board hereby approves the Successor Agency Resolution, and the issuance of the Refunding TA Notes and the Refunding TOT Notes, each in the aggregate principal amount not exceeding $20,000,000, pursuant to the provisions of HSC Section 34177.5. The Oversight Board hereby approves the pledge of the property tax revenues to secure the Refunding TA Notes pursuant to the terms of the TA Loan Agreement, as supplemented by the Supplemental TA

Loan Agreement. The Oversight Board hereby approves the pledge of the transient occupancy tax revenues to secure the Refunding TOT Notes pursuant to the terms of the TOT Loan Agreement, as supplemented by the Supplemental TOT Loan Agreement.

Section 3. The Oversight Board approves the Successor Agency's execution and delivery of the Supplemental TA Loan Agreement and the Supplemental TOT Loan Agreement, in connection with the Refunding.

Section 4. The members of this Oversight Board and the officers and other staff members of the Successor Agency are hereby authorized, jointly and severally, to do all things, including but not limited to the execution and delivery of any escrow agreement, or other ancillary agreements or instruments in furtherance of the Refunding, which they may deem necessary or proper to effectuate the purposes of this Resolution.

PASSED AND ADOPTED by the Oversight Board of the Successor Agency of the South Tahoe Redevelopment Agency at a duly noticed meeting held on June 16, 2017, by the following vote:

AYES: Board members ______________________________

NOES: Board members ______________________________

ABSTAIN: Board members ______________________________

ABSENT: Board members ______________________________

ATTEST:

______________________ ______________________
Ellen Palazzo, Board Clerk Randy Vogelgesang, Chair