City of
LEMOORE
CALIFORNIA

Finance Department

119 Fox Street
Lemoore ◆ CA 93245
Phone ◆ (559) 924-6700
FAX ◆ (559) 924-9003

Staff Report

ITEM 7

To:	**Lemoore City Council**
From:	**Cheryl Silva, Finance Director**
Date:	**August 1, 2013**
Subject:	**Golf Course Debt Financing**

Discussion:

Since the Golf Course expanded from nine to eighteen holes more than twenty-one years ago, the City has had to supplement the direct expenditures and debt service payments in a majority of the years. In 2005, the Redevelopment Agency bought the notes receivable that had accrued on this augmentation from the City General Fund and has a repayment plan from the Golf Course to begin payments in the 2020/2021 fiscal year. With the dissolution of the Redevelopment Agency in February 2012, future advances from the Redevelopment Agency to augment the Golf Course debt payments are no longer available.

The City General Fund will have to augment the Golf Course debt payments until the 1995 Bonds are paid off in November 2020. The existing debt schedule has accelerated principal payments each year, making it difficult for the Golf Course to meet the required payments. Staff has reviewed various options available to the City to refinance the 1995 Bonds. The City General Fund has an estimated Fund Balance for 6-30-14 of $6.9 million. A majority of the cash is invested in the Local Agency Investment Fund (LAIF) and averaged less than .5% over the last four years. The City could loan the Golf Course the funds at an interest rate of LAIF plus 1%. This would increase the interest earnings the City is currently earning.

The base scenario is if the City takes no action at this time and continues to pay with the existing bond repayment schedule. The estimated expenses for the eight remaining years total $2,488,511. The amounts due each year will increase due to the accelerated principal payments.

Alternative #1 proposes for the General Fund to loan the Golf Course an estimated $1,440,000 to pay off the 1995 Bonds and other expenses associated with the transaction. The estimated expenses for the eight remaining years total $1,529,026.

Alternative #2 proposes for the General Fund to loan the Golf Course an estimated $1,412,260. The City would make a mandatory call of the Golf Course Bonds, have the bond documents amended to eliminate the reserve requirement, letter of credit requirement and revise the amortization schedule and then purchase the bonds with the loan proceeds. The estimated expenses for the eight remaining years total $1,701,697.

Alternative #3 proposes for the General Fund to loan the Golf Course an estimated $1,568,260. The existing bonds would stay in effect, but the loan proceeds would be used to fund the necessary reserves to avoid the letter of credit that is required on the bonds. The estimated expenses for the eight remaining years total $1,885,627.

Based on evaluation of the above proposals, it appears that Alternate #1 to pay off the 1995 Golf Course Bonds would be the best option for the General Fund and the Golf Course. The Golf Course operations should be able to pay the $191,128 annual payment to the General Fund. The Golf Course has contributed an average of $189,400 towards the debt payment over the last nine years. It would save all administrative expenses since the Finance Department staff would be administering the loan between the two funds.

Budget Impact:

The Golf Course could save $959,485 in expenses and the General Fund earn 1% additional revenue on the loan value over the next eight years.

Recommendation:

That the City Council, by motion, approve Alternative #1 for the General Fund to loan the Golf Course sufficient funds to pay off the 1995 Golf Course Bonds and related expenses as soon as possible and approve the repayment plan of the Golf Course to the General Fund over the next eight years.