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City Manager's Office

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Scott P. Johnson

SUBJECT: GOLF COURSE DEFEASANCE

DATE: September 1, 2011

Approved

Date

9/2/11

INFORMATION

Finance staff recently received a number of inquiries regarding golf course debt and the City's ability to pay off outstanding bonds. This memorandum responds to these requests for information.

Summary of Outstanding Golf Course Debt

The table on the following page provides a summary of the costs and assumptions necessary to fully pay down the debt attributable to the Rancho del Pueblo ("Rancho") and Los Lagos golf courses. A more detailed description of the debt associated with the golf courses is provided below.

The golf courses were financed by lease revenue bonds issued by the City of San José Financing Authority (the "Authority") and an Unsecured Promissory Note related to Rancho. The Authority's lease revenue bonds that originally financed both of the golf courses were subsequently refunded by the City of San José Financing Authority, Series 2007A Bonds (the "2007A Bonds"). Bondholders have "call protection" on the 2007A Bonds prior to August 2017. IRS regulations require that in the event the golf courses are sold, all of the bonds attributable to the golf courses be called. Due to the call protection on the 2007A Bonds, proceeds from the sale of one or both of the golf courses would need to be sufficient to pay the maturing principal and interest on the 2007A Bonds from the sale date until August 15, 2017 and to payoff the remaining principal outstanding after August 15, 2017.

The 2007A Bonds are secured only by Rancho and Los Lagos through a Project Lease and support additional facilities refinanced with the 2007A Bonds including Camden Park, Murdock Park, and the Berryessa Community Center. The Hayes Mansion was not directly financed by any of the bond series that the 2007A Bonds refunded. However, the City advanced funds for the Hayes Mansion and then paid for other eligible projects with tax exempt bonds. Because of this advance, the City allocates a share of the 2007A Bonds debt service to the Hayes Mansion.

Once sufficient sale proceeds are deposited into an irrevocable escrow to fully defease the bonds attributable to the golf courses, Rancho and Los Lagos can be released from the Project Lease in order complete the sale of the courses. To the extent that the bonds related to both golf courses

and/or the other facilities refinanced by the 2007A Bonds are not defeased, a substitute asset or assets will need to be identified, with written consent of the bond insurer (Ambac), to secure the remaining outstanding debt at the time of sale.

Golf Course Defeasance Analysis

	Notes	Rancho del Pueblo	Los Lagos
<u>CSJFA 2007A Bonds</u>	1,2		
Prinicipal and Interest 2012 Through 2017	3		
Principal		\$1,485,000	\$3,840,000
Interest		<u>1,249,000</u>	<u>5,113,000</u>
Subtotal		2,734,000	8,953,000
Remaining Principal after 2017		<u>3,930,000</u>	<u>16,860,000</u>
Subtotal		\$6,664,000	\$25,813,000
<u>Unsecured Promissory Note</u>	4		
Principal		\$2,500,000	NA
Interest as of June 30, 2011		<u>821,000</u>	<u>NA</u>
Subtotal		\$3,321,000	NA
Total		<u>\$9,985,000</u>	<u>\$25,813,000</u>

Notes:

1. The 2007A bonds financed several projects including Camden Park, Los Lagos, Rancho del Pueblo, Murdock Park and Berryessa Community Center. In the event that the sale proceeds of the golf courses is insufficient to defease all of the 2007A Bonds, then one or more substitute assets will need to be pledged.
2. If the entire bond issue is not defeased a substitute asset would need to be identified to provide sufficient value to cover the remaining lease revenue bonds outstanding.
3. Bondholders have "call protection" prior to August 2017. Proceeds of the sale of the golf courses would need to be sufficient to pay principal interest from the date the sale of the golf courses is closed and the bonds are called. The sale proceeds would be deposited in a defeasance escrow from which bondholders would be paid principal and interest through August 2017 and the remaining principal following August, 2017.
4. Unsecured Promissory Note between the City of San Jose Financing Authority and the City dated as of June 17, 1997 with a Maturity Date of August 15, 2034 and an interested rate of 7.5% compounded annually.

Rancho del Pueblo Golf Course

Rancho was originally funded by the City of San José Financing Authority, Series 1997A bonds (the "1997A Bonds") with an original par amount of \$6,875,000. Interest rates on the 1997A Bonds ranged from 5.30% to 5.60%.

Additionally, City advanced \$3,150,000 on or about June 17, 1997, to the Authority to acquire Rancho prior to the issuance of the 1997A Bonds. The Authority reimbursed the City \$650,000

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from bond proceeds of the 1997A Bonds. The Authority and the City entered into an Unsecured Promissory Note (the "Note") for the remaining \$2,500,000. The Note is subject to repayment annually commencing on August 15, 2006, from net profits derived from the operation of Rancho, but only to the extent that the City receives any net profit from the facility. The principal sum of the Note accrues interest at 7.5% compounded annually commencing on June 17, 1997, with the entire unpaid balance of interest and principal due on August 15, 2034. The Note is immediately due and payable, at the option of the City, upon the sale of the golf course.

In August 2007, the 1997A Bonds with an outstanding principal of \$ 5,965,000 were refunded with the 2007A Bonds to achieve debt service savings. The current outstanding principal amount of the 2007A Bonds related to Rancho is \$5,415,000 with a final maturity of August 2028. The 2007A Bonds related to Rancho pay interest at a rate ranging from 4.125% to 4.625%.

Los Lagos Golf Course

The City of San José Financing Authority, Series 2000B bonds (the "2000B Bonds") funded Los Lagos and also refunded the 1992 Certificates of Participation related to Camden Park. Of the total original par amount of \$22,635,000 of the 2000B Bonds, \$20,680,000 was attributable to Los Lagos. Interest rates on the 2000B Bonds ranged from 4.70% to 5.50%.

In August 2007, the 2000B Bonds, with an outstanding principal of \$20,390,000 related to Los Lagos, were also refunded with the 2007A Bonds to achieve debt service savings. The current outstanding principal amount of bonds related to Los Lagos is approximately \$20,700,000 with a final maturity of August 2031. The principal on the 2007A Bonds is slightly higher than the refunded bonds (2000B) due to additional funding requirements related to the reserve fund and costs of issuance for the 2007A Bonds. The 2007A Bonds related to Los Lagos pay interest at a rate ranging from 4.125% to 4.75%.

/s/
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For questions, please contact Scott P. Johnson, Director of Finance at (408) 535-7000.