PUBLIC FINANCING AUTHORITY AGENDA REPORT

City of Anaheim
FINANCE DEPARTMENT

DATE: MARCH 23, 2021
FROM: FINANCE DEPARTMENT
SUBJECT: APPROVING THE ISSUANCE OF NOT TO EXCEED $210,000,000 AGGREGATE PRINCIPAL AMOUNT OF LEASE REVENUE BONDS OF THE ANAHEIM PUBLIC FINANCING AUTHORITY
ATTACHMENT (Y/N): YES ITEM # 02-A

RECOMMENDATION:

That the Board of Directors of the Anaheim Public Financing Authority (Authority), by Resolution:

1) Approve an issuance of not to exceed $210,000,000 of Lease Revenue Bonds;
2) Authorize the execution and delivery of the Ground Lease, in the form submitted, by and between the City of Anaheim (City) and the Authority;
3) Authorize the execution and delivery of the Lease Agreement, in the form submitted, by and between the City and the Authority;
4) Authorize the execution and delivery of an Indenture, in the form submitted, by and among the City, the Authority and U.S. Bank National Association;
5) Authorize the execution and delivery of the Purchase Contract, in the form submitted, by and among the City, the Authority, and the Underwriter;
6) Authorize distribution of the Preliminary Official Statement, in the form submitted and the execution and distribution of the final Official Statement;
7) Authorize and direct Authorized Officers to apply for and accept, if economically advantageous, municipal bond insurance, a reserve surety or reserve insurance policy;
8) Approve the selection of the financing team, which include Goldman Sachs & Co. LLC as Underwriter, Orrick, Herrington & Sutcliffe as Bond Counsel and Disclosure Counsel, and Public Financial Management, Inc. as Financial Advisor; and
9) Authorize and direct each member of the Board of Directors of the Authority, and the Executive Director, Treasurer and Auditor of the Authority to take any and all actions necessary to complete the transactions contemplated by the financing and ratifying any such actions previously taken.
DISCUSSION:

Background

Anaheim’s economy has been and will continue to be particularly hard hit by the COVID-19 Pandemic. Tourism and hospitality are key components of the Anaheim economy, and cities, like Anaheim, with a high dependence on sales and hotel occupancy taxes are facing the most significant economic challenges as a result of the Pandemic. The downturn is unprecedented and unlike any prior economic adjustment in recent history.

Transient occupancy taxes have historically accounted for a higher proportion of General Fund revenues (37%) than in most cities, and sales taxes generated by tourists and daytime visitors at restaurants and retail outlets also contribute greatly to the City’s revenues. In fact, these two sources accounted for nearly 57% of General Fund revenues prior to the Pandemic and are now projected to decrease 63% from pre-COVID levels. It is anticipated that some physical distancing measures will be kept in place in resorts, hotels, restaurants, and shopping establishments for a period beyond widespread distribution of the vaccine. It will likely be months or even years before international and interstate travel resume in a meaningful way. People’s shopping habits may also be altered for a significant amount of time or forever.

On June 23, 2020, the City adopted its Fiscal Year 2020-21 budget, which included Citywide expenditures totaling $1.7 billion. The largest portion of the budget belongs to the Enterprise funds at 43%. The bulk of the Enterprise funds are from restricted sources including the Electric, Water and Sanitation utilities. The majority of unrestricted funds are in the General Fund, which makes up 18% of the Citywide budget. The General Fund provides the greatest source of discretionary funding and supports the City’s core services.

The adopted Fiscal Year 2020-21 General Fund budget included operating sources of $344 million. Approximately 70% of the revenues come from principal revenue sources: TOT, Sales Taxes, and Property Taxes. The remaining revenues include Fees and Permits, Transfers from Other Funds and other miscellaneous revenues.

The adopted Fiscal Year 2020-21 General Fund budget included total general fund operating sources of approximately $344.2 million. At the time of the initial adoption of the Fiscal Year 2020-21 budget, the City assumed, among other things, the reopening of the City theme parks, resorts and hotels in September 2020. These reopenings did not and have not occurred. In its adopted Fiscal Year 2020-21 General Fund budget, the City projected an operating deficit of approximately $75 million, decreasing to approximately $50 million in year 2 and just under $30 million for years 3 to 5. Initially, this operating deficit was addressed by expenditure reductions.

On December 15, 2020, the City reported its mid-year budget update, reflecting further considerations and assumptions informed by the progression of the impact of the Pandemic. In the mid-year budget update, the City projected a July 2021 reopening of City theme parks, resorts and hotels, and an approximately $114 million operating deficit, despite over $19 million in expenditure reductions from the freezing of non-essential spending, hiring freeze, early retirement program and deferral of fleet purchases. Because the operating deficit is too large to responsibly respond by reductions alone, city staff recommended another budget update in March with a borrowing to help bridge the gap over the next several years.
As of March 2021, theme parks remain closed, but are currently expected to open in spring 2021. Economists are predicting that tourism could take several years to fully recover, especially international travel. Further, the President signed the American Rescue Plan, a $1.9 trillion economic stimulus package to speed up the United States' recovery from the economic and health effects of the Pandemic. With the signing of this plan, the City of Anaheim expects to receive approximately $108 million in federal stimulus. These funds can be used to respond to or mitigate the impact of COVID-19, including its negative economic impacts. Below is a summary of the City’s updated 5-Year Forecast given what we know today:

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<tr>
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<th>Amounts in Millions</th>
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<tr>
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<td>Projected FY 2020/21</td>
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<tr>
<td>Operating Sources</td>
<td>$ 270.0</td>
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<td>Operating Uses</td>
<td>(378.5)</td>
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<tr>
<td>Operating Deficit</td>
<td>(108.5)</td>
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<td>One-time Sources and Uses:</td>
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<tr>
<td>Homeless Shelters</td>
<td>(12.1)</td>
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<tr>
<td>Stimulus Funding</td>
<td>53.8</td>
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<tr>
<td>Total One-time Sources and Uses</td>
<td>41.7</td>
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<tr>
<td>Total Change in Reserves</td>
<td>$ (66.9)</td>
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<tr>
<td>Cumulative Change in Reserves</td>
<td>$ (66.9)</td>
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**Financing Plan**

City staff is seeking authority to issue lease revenue bonds (bonds) up to $210 million to provide approximately $185 million in proceeds to bridge two years of the budget gap as initially reported in December, before consideration of the stimulus funds and slight revenue improvements out of an abundance of caution. The City is not expected to issue the bonds for approximately two months, which will provide opportunity to verify that the Anaheim Resort does reopen as currently contemplated and that we receive the first of the two stimulus payments. Once the Anaheim Resort reopens and the City receives its first anticipated stimulus payment, city staff recommends reducing the borrowing to $162 million to provide approximately $140 million to bridge the revenue deficits over the next three years. Bonds are proposed to be repaid over a 30-year period to reduce the impact to current budgets with provisions to retire the debt early if the City is able. The following properties are included in the lease agreements:

- Fire Station No. 3 - 1717 S. Clementine
- Fire Station No. 6 - 1330 S. Euclid Street
- Fire Station No. 11 - 3078 W. Orange Avenue
- East Anaheim Library & Police Substation - 8201 E. Santa Ana Canyon Rd.
- East Canyon Gymnasium - 8165 E. Santa Ana Canyon Rd.
- Main Police Station - 425 S. Harbor Blvd.
- West Anaheim Youth Center - 320 S. Beach Blvd.
- City Hall - 200 S. Anaheim Blvd.
• Canyon Hills Library - 400 S. Scout Trail
• Central Library - 500 W. Broadway

IMPACT ON BUDGET:

There is no net budget impact to the Authority. Debt service requirements will be funded by lease payments from the City.

Respectfully submitted,

Deborah A. Moreno
Executive Director

Attachments:
1. Authorizing Resolution
2. Ground Lease
3. Lease Agreement
4. Indenture
5. Purchase Contract
6. Preliminary Official Statement