

**TOWN OF
APPLE VALLEY, CALIFORNIA**

AGENDA MATTER

Subject Item:

APPLE VALLEY COUNTRY CLUB PURCHASE OPTIONS

Summary Statement:

The Town entered into an agreement on November 25, 2008 for the purchase of the Apple Valley Country Club. At that time, the obligations to make principle and interest payments on two notes in the amounts of \$1,157,000 and \$510,000 with Desert Community Bank were assumed by the Town. To date, the Town has paid \$455,288.31 in total in principle (\$87,804.76) and interest (\$367,483.55) on the two notes. The principal payoff amount gross of any discount offered by the Bank is approximately \$1,579,195.24. The Bank has offered to discount the amount due on the notes outstanding by 10% or \$157,919.52 from \$1,579,195.24 to \$1,421,275.72 as an inducement to the Town to close escrow.

The Town has several options available to fund the payment of the principal amounts outstanding on the two Desert Community Bank notes. Those funding options are briefly summarized as follows:

- 1) Fund the purchase of the golf course from the sale of the adjudicated water rights from the AV Golf Club Fund to the Wastewater Fund in the amount of \$2,900,000.
- 2) Fund the purchase from the AV Golf Club Fund and concurrently enter into a loan agreement between the Wastewater Fund and the AV Golf Club Fund for the amount of the loan outstanding.
 - a. Terms of the loan not to include interest.
 - b. Terms of the loan to include interest at a rate providing a reasonable rate of return on investment to the Wastewater Fund.
- 3) Fund the payment of \$1,421,276 from available General Fund fund balance.
- 4) Secure a lease financing to fund closing on the purchase through another credit facility. Re-payment terms to include principal and interest payments at a current market rate of interest.

RECOMMENDED ACTION

1. Approve funding the purchase of the Golf Club from the sale of the water rights from the Golf Club Fund to the Wastewater Fund in the amount of \$2,900,000, and
2. Approve Resolution No. 2011-16 establishing a policy to approve loans and advances between Town Funds.

Proposed by: Marc Puckett

Item Number _____

T. M. Approval: _____

Budgeted Item: Yes No N/A

BACKGROUND

Staff has analyzed the fiscal health of each of the respective funds. As mentioned at the mid-year budget review, the General Fund currently has a structural imbalance of approximately 3% of the General Fund operating budget or \$487,000. The General Fund ending fund balance is currently estimated to be approximately \$17.6 million. Of this amount, approximately \$8.1 million is undesignated and unreserved which represents approximately 50% of the adopted General Fund operating budget. These funds are typically used as a budget stabilization fund to smooth shortfalls and surpluses year to year based upon current economic conditions and how the local economy impacts General Fund revenues.

At this time, staff is in the process of preparation of the FY2011-12 proposed budget. As such, it is not fully known whether the budgetary imbalance within the General Fund is greater or less than the 3% estimated at mid-year. Sales tax and property tax revenues representing two-thirds of General Fund revenues for FY2012 are increasing at a rate of only 1-2%. The total appropriation requests and extent of any structural budget deficit will not be fully known until development of the FY2011-12 proposed budget has been completed.

The Wastewater Fund currently has unrestricted retained earnings of \$17,032,682. This amount includes funds accumulated for capital asset replacement and the possible emergency replacement of capital assets for which funds have not been appropriated. The adjudicated water rights to be purchased as part of the purchase of the golf course have an appraised value of approximately \$2,900,000. Sale of the water rights from the Golf Club Fund to the Wastewater Fund for \$2,900,000 is possible and affords the Town the opportunity to fund the payoff of the loans with little impact upon current operations of the Wastewater Fund. The Wastewater Fund now owns the reserved water rights associated with the golf course.

ANALYSIS

If the Town chose not to pay off the two bank loans, the Town would be obligated to continue to make interest and principal payments on the loans to Desert Community Bank.

The loans bear stated rates of interest of 8.75% and 9.25% respectively. Annual interest costs of approximately \$180,000 would continue to be paid to the bank on the outstanding balance of the loans. The total principal and interest payments paid out of the Golf Club Fund would amount to approximately \$252,000 over the next fiscal year.

Mat. 1/28/18	Interest Rate	Principle	Interest	Total	Annual Payments
DCB Loan 1	8.75%	\$1,156,292	\$582,680	\$1,738,972	\$173,897
DCB Loan 2	9.25%	509,371	273,223	782,594	78,259
Total		\$1,665,663	\$855,903	\$2,521,566	\$252,156

Several options to fund the purchase of the course and pay off the two loans at Desert Community Bank have been presented.

The payoff of the loans may be funded from the sale of the adjudicated water rights at the appraised value of \$2,900,000 from the AV Golf Club Fund to the Wastewater Fund. This approach would reduce the annual operating costs of the golf course by over \$252,000. The remaining operating deficit would amount to approximately \$180,000. Further, this approach would also reduce the accumulated fund deficit of \$2,969,155 within the fund by approximately \$1,478,724.

If an interfund loan were approved between the Wastewater Fund and the Golf Club Fund, the Town would effectively begin paying interest to itself. The Golf Club Fund would pay interest to the

Wastewater Fund at the average rate of interest of the State's Local Agency Investment Fund (LAIF) which is currently 0.500% (as of the end of March, 2011).

Approval of an interfund loan between the Wastewater Fund and the Golf Club Fund will lower the annual operating costs of the Golf Club Fund by over \$150,000 annually as proposed. A draft interfund loan agreement and draft interfund loan policy have also been attached for Council consideration.

Adoption of the proposed interfund loan policy for loans and advances between Town Funds is recommended even if this funding option is not selected. The Town does not currently have an approved interfund loan policy. Adoption of an interfund loan policy is a "best practice" recommended by the Governmental Finance Officers Association (GFOA). Adoption of such a policy has also been recommended by the Town's external auditors, Teaman, Ramirez, and Smith.

Funding the purchase of the golf course and payoff of the loans from the General Fund fund balance is not recommended due to the uncertainty of current and future economic impacts on General Fund resources.

Further, funding the purchase of the golf course and payoff of the loans by securing a lease financing through another credit facility is not recommended. Re-payment of the loans at a current market rate of interest would save on interest expense. However, the interest would be paid to a third party rather than within funds of the Town.

CONCLUSION

Based upon the current level of available unrestricted retained earnings in the Wastewater Fund and the estimated reduction in the operating budget gap in the Golf Club Fund, staff recommends funding the loan payoff from the sale of the adjudicated water rights from the Golf Club Fund to the Wastewater Fund in the amount of \$2,900,000.

Again, as proposed, this approach would reduce the annual operating costs of the golf course by over \$252,000. The remaining operating deficit would amount to approximately \$180,000.

Adoption of the proposed interfund loan policy for loans and advances between Town Funds is also recommended. The Town does not currently have an approved interfund loan policy. Adoption of an interfund loan policy is a "best practice" recommended by the Governmental Finance Officers Association (GFOA) and has also been recommended by the Town's external auditors.

Attachments:

Attachment 1- Draft Interfund Loan Agreement

Attachment 2- Proposed Interfund Loan Policy Statement

TOWN OF APPLE VALLEY
INTERFUND LOAN AGREEMENT

This Loan Agreement (the Agreement) is made and effective this 11th day of May, 2011,
BETWEEN: Apple Valley Wastewater Enterprise Fund (the 'Lender'), and the Apple Valley Golf Club Special Revenue Fund (the 'Borrower').

1. PROMISE TO PAY

Within two hundred forty months from today, Borrower promises to pay to Lender the sum of \$1,421,276, and interest and other charges stated below.

2. PURPOSE

Loan proceeds will be used exclusively for the purpose of payoff of amounts due to Desert Community Bank for two outstanding loans in the approximate principal payoff amount of \$1,421,276.

3. BREAKDOWN OF LOAN

Amount of Loan: \$1,421,276, Amount financed: \$1,421,276, Finance charge: \$470,491, Total of payments: \$1,891,767, Annual Rate: Variable rate at the then current monthly rate of interest of the State of California Local Agency Investment Fund not to exceed 3.00%.

4. REPAYMENT

This is how Borrower will repay: Borrower will repay the amount of this note in 240 uninterrupted monthly installments of approximately \$7,882 each month starting on the 1st day of June, 2011, and ending on the 1st day of May, 2031.

5. PREPAYMENT

Borrower has the right to prepay the whole outstanding amount at any time. If Borrower does, Lender will refund the unearned finance charge.

6.SOURCE OF FUNDS AND SECURITY

Future revenues from green fees, cart rental fees, water use fees and any other source of revenue received into the Golf Club Fund will be used to satisfy debt service requirements under the loan. As necessary, and to protect the Lender, Borrower may give what is known as a security interest in adjudicated water rights acquired through purchasing the Apple Valley Country Club.

ADOPTED May 10, 2011, by the Apple Valley Council of the Town of Apple Valley by the following vote, to wit:

AYES:

NOES:

ABSTAIN:

ABSENT:

RESOLUTION NO. 2011-16

A RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF APPLE VALLEY ESTABLISHING A POLICY TO APPROVE LOANS AND ADVANCES BETWEEN TOWN FUNDS

WHEREAS, the Town of Apple Valley uses fund accounting as required under the generally accepted accounting principles promulgated for governmental bodies by the Governmental Accounting Standards Board (GASB); and

WHEREAS, generally accepted accounting principles for governmental bodies permit, and provide accounting conventions for, loans and advances between the funds established within a fund accounting framework; and

WHEREAS, unless otherwise prohibited by law or sound fiscal management practices, the Town Council wishes to approve long-term loans of one year or more and long-term advances of five years or more between Town funds under the terms and conditions specified in this resolution;

WHEREAS, unless otherwise prohibited by law or sound fiscal management practices, the Town Council wishes to delegate the authority to the Town Manager to approve short-term loans of one year or less and long-term advances of five years or less between Town funds under the terms and conditions specified in this resolution;

NOW, THEREFORE BE IT RESOLVED, by the Town Council of the Town of Apple Valley, as follows:

SECTION 1. The Town Council of the Town of Apple Valley shall consider approval of loans of one year or more and advances greater than five years between Town funds; provided, that such loans and advances comply with the terms and conditions of this resolution and that the Town Council determines that such loans and advances are in the financial best interests of the Town under then existing circumstances.

SECTION 2. The Town Manager of the Town of Apple Valley is authorized to approve loans of one year or less and advances of five years or less between Town funds; provided, that such loans and advances comply with the terms and conditions of this resolution and that the Town Manager and Director of Finance concur that such loans and advances are in the financial best interests of the Town under then existing circumstances.

SECTION 3. Each loan or advance approved by the Town Council or Manager will be documented in a writing signed by the Town Manager and the Director of Finance that states all of the following:

- (a) the purpose for which the loan or advance is being made;
- (b) the identification of the both the lending and borrowing fund, or funds;
- (c) the dollar amount of the loan or advance;
- (d) the maturity date on which all principal together with all accrued and unpaid interest will be due and payable;
- (e) the scheduled dates and amounts of all principal and interest installment payments;

- (f) the applicable nominal interest rate or discount rate;
- (g) the borrowing fund's right to make full prepayment at any time without penalty;
- (h) the source or sources from which the borrowing fund or funds is expected to repay the loan or advance.

SECTION 4. All loans and advances will be repaid by the borrowing funds. Because each loan or advance is expected to be free from risk of default, the Director of Finance will establish the nominal interest rate or discount rate to be applied to each transaction using then prevailing interest rates on indebtedness of a comparable term issued by the Treasury Department of the United States of America, the State of California Local Agency Investment Fund or such other benchmark rate deemed appropriate by the Director of Finance under then existing circumstances.

SECTION 5. No individual loan or advance approved by the Town Manager will exceed the sum of ten million dollars (\$10,000,000), and the total of all loans and advances so approved and outstanding at any one time will not exceed the sum of sixty million dollars (\$60,000,000).

SECTION 6. Although the loans and advances will be unsecured, an adequate source of repayment or refunding (including future external debt issuance) is to be identified. Under all circumstances repayment of the loans will be subordinate to claims and encumbrances established by covenants related to any debt, regardless of issue date, issued into the external financial markets by the Town of Apple Valley, the Apple Valley Public Financing Authority, the Apple Valley Redevelopment Agency, or any of them (collectively, the Town and/or its affiliated agencies).

SECTION 7. No loans or advances will be made from a Town fund that is reasonably likely during the contemplated term of the loan or advance to need the same cash to pay for projects or activities for which the lending fund originally received the cash. No loan or advance will be made that will either violate any law, or cause the Town and/or its affiliated agencies to breach any restrictive covenant, contractual provision, or grant term. Any loan of developer impact fees will be reported in accordance with California Government Code Section 66006(G).

SECTION 8. No loan or advance will be made under authority of this resolution involving any of the following: any funds holding State Gas Tax proceeds (including, without limitation, the Special Gas Tax Street Improvement Fund), any funds holding Federal streets and highway monies, any funds holding revenues collected pursuant to voter-approved measures (including, without limitation, Proposition 1B funds and general obligation bond funds), trust funds, or any of the Apple Valley Redevelopment Agency funds.

APPROVED AND ADOPTED by the Town Council of the Town of Apple Valley this 10th day of May, 2011

Scott Nassif, Mayor

ATTEST:

La Vonda M-Pearson, Town Clerk