



City of Clearlake

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(707) 994-8201 Fax (707) 995-2653



SUCCESSOR AGENCY TO THE CLEARLAKE REDEVELOPMENT AGENCY

September 5, 2017

Carol Huchingson, County Administrative Officer
County of Lake
255 North Forbes Street
Lakeport, CA 95453

Re: Request for Subordination of Pass-Through Payments

Dear Ms. Huchingson:

I am writing to you on behalf of the Successor Agency to the Redevelopment Agency of the City of Clearlake (the "Successor Agency") pursuant to Section 7 of that certain Agreement between the Redevelopment Agency of the City of Clearlake (the "Former Agency") and the County of Lake (the "County") Pursuant to Health and Safety Code Section 33401, dated June 26, 1990 (the "Agreement"), with respect to the sharing of tax increment revenues generated by the Highlands Park Community Development Project (the "Project"). The Successor Agency is the successor in interest to the Former Agency under the Pass-Through Agreement, and will hereafter be referred to as the "Agency."

Section 7 of the Agreement provides that the County agrees to subordinate its interest in payments made pursuant to the Agreement and allow the Agency to pledge all or any portion of the tax increment funds otherwise payable to the County under the Agreement in order to secure the repayment of Agency indebtedness, provided the Agency demonstrates, to the reasonable satisfaction of the County, its ability to repay such indebtedness. Section 7 further provides that any such demonstration shall include an assurance by the Agency that it will reimburse the County in full for any payments which are due to the County that are used, if necessary, to repay such indebtedness.

The Agency, for the purpose of financing and refinancing redevelopment activities associated with the Project, caused the City of Clearlake Public Financing Authority (the "Authority") to issue its (i) Highlands Park Community Development Project, Revenue Bonds, 2006 Series A, issued on October 26, 2006 in the aggregate principal amount of \$14,120,000 (the "Series A Bonds"), and (ii) Highlands Park Community Development Project, Revenue Bonds, 2006 Series B, issued on October 26, 2006 issued in the aggregate principal amount of \$3,735,000 (the "Series B Bonds," and collectively with the Series A Bonds, the "Prior Bonds").

For each issue of Prior Bonds, the County has, pursuant to the Agreement, subordinated its interests in the tax increment revenues payable to the County under the Agreement to the payment of the Prior Bonds.

At this time, the Agency is planning to issue refunding bonds in October 2017 (the "2017 Bonds"), to refund the Prior Bonds in order to achieve debt service savings, as allowed by Section 34177.5(a)(l) of the California Health and Safety Code.

The lower debt service of the 2017 Bonds, compared to the Prior Bonds, strengthens the ability of the Agency to make its pass-through payments. In addition, the associated savings will benefit the County by increasing the amount of available residual revenue. Subordination of the pass-through payments also allows the Agency to obtain a better bond rating, which in turn further lowers the interest rate on the transaction.

Enclosed for your review, is a tax increment revenue projection summary for the Project, which includes a debt service coverage analysis showing the estimated debt service for the 2017 Bonds prepared by the Agency's fiscal consultant for the 2017 Bonds, HDL Coren & Cone (the "Fiscal Consultant") and its financial advisor for the 2017 Bonds, NHA Advisors (the "Financial Advisor").

The Fiscal Consultant's and Financial Advisor's analysis shows that the refunding of the Prior Bonds is conservatively estimated to save approximately \$26,500 annually, or just over \$500 thousand over the remaining term of the bonds. Therefore, the Agency can reasonably expect to have sufficient funds available to pay both the payments that will be due on the 2017 Bonds, as well as all of the Agency's required pass-through payments owed to the County and other taxing entities with pass-through agreements. Such savings will fluctuate with market conditions until the issue is closed, which is anticipated to take place in October 2017. The savings will be distributed by the County Auditor-Controller to the taxing entities as residual payments.

Further, in the event that the Agency does not have sufficient funds to make the required pass-through payments in a given year, the Agency's obligation to make such payments shall continue and any unpaid pass-through payments must be paid for from the first available property tax revenues of the Agency not pledged to the payment of debt service on the 2017 Bonds.

As noted above, pursuant to Section 7 of the Agreement the County has agreed to subordinate its interest to pass-through payments to Agency indebtedness provided that the Agency demonstrates to the reasonable satisfaction of the County that the Agency will be able to make payments due to the County. The information provided with this letter should reasonably satisfy the County, as it demonstrates that the Agency will have the ability to make all required pass-through payments after paying debt service on the 2017 Bonds, and further demonstrates that the bond refunding will in fact enhance the Agency's ability to make those payments to the County.

By this letter, the Agency requests that the County affirmatively consent to the subordination of its interest in the tax increment revenues payable to the County under the Agreement, in order to allow the Agency to pledge those tax increment revenues to, and secure payment of, its 2017 Bonds.

Correspondingly, please complete the enclosed form of Acknowledgement and Consent to Subordination, and return it in the self-addressed envelope at your very first opportunity, as time is of the essence to get the interest rates locked on the 2017 Bonds. Before placing in the mail, please kindly first scan and email a signed copy to me at the following email address gfolson@clearlake.ca.us

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Thank you in advance for your timely cooperation in this matter. If you have any questions whatsoever, please do not hesitate to call me at (707) 994-8201.

We would greatly appreciate your response by September 28, 2017.

Sincerely,



Greg Folsom, Executive Director