



CITY OF COMMERCE AGENDA REPORT

TO: Honorable Successor Agency

Item No. _____

FROM: Executive Director

SUBJECT: Refunding of the 2007 Tax Allocation Bonds – A Resolution Authorizing the Issuance of its Refunding Bonds; Approving a Form of First Supplemental Indenture, a Form of Bond Purchase Agreement, and a Form of Continuing Disclosure Certificate; Making Certain Determinations Relating Thereto; and Authorizing Certain Other Action in Connection Therewith

MEETING DATE: September 19, 2017

RECOMMENDATION:

Approve and adopt the Resolution authorizing the issuance of refunding bonds and taking the other actions connected therewith; and assign the number next in order.

BACKGROUND:

On March 30, 2016, the Agency issued \$41,625,000 of Tax Allocation Refunding Bonds to refinance its outstanding 1998 and 2003 Tax Allocation Bonds. There are currently outstanding \$37 million of Tax Allocation Bonds which were issued in 2007 and which were previously not eligible for refinancing due to an initial 10-year refinancing lockout period. The 2007 Bonds are now eligible for refinancing, and, as described more fully herein, a refunding is expected to generate a substantial reduction in the Agency's bond debt service and increase residual property tax revenues to the City's General Fund.

ANALYSIS:

The Original Agency issued \$64,805,000 of the 2007A Bonds, of which \$36,995,000 are currently outstanding. The outstanding bonds have an average interest rate of 4.40% and a final maturity of July 1, 2027. Staff anticipates the refinancing can be completed in today's bond market at rates below 3%.

The Agency has assumed responsibility for repayment of the 2007A Bonds from the Original Agency. Per AB 1484, the Successor Agency may refund existing bonds, with approval of the Oversight Board and the State Department of Finance, for the purpose of creating debt service savings.

The proposed 2017 Bonds will generate an estimated total debt service savings of \$8 million net of all costs of issuance and including the use of \$4.6 million of existing restricted Agency funds on hand associated with the 2007A Bonds to downsize the issue (\$2.7 mm of savings on a Net Present Value basis exclusive of all monies on hand); equal to approximately \$930,000 per year through 2027 (except for 2024, when the savings are \$180,000). The term of the 2017 Bonds will not exceed the existing term of the 2007A Bonds, and overall debt service will be reduced in each year until 2027, when the 2017 Bonds will be completely repaid. A portion of the prior bonds will be refunded on a tax-exempt basis, and a portion may be refunded on a taxable basis, as determined by the Agency's bond counsel.

The source of repayment of the 2017 Bonds would be limited to tax revenues (in amounts equivalent to the former tax increment revenues) and deposited by the County into the Successor Agency's Redevelopment Property Tax Trust Fund. The 2017 Bonds would not be a debt of the City, but a special limited obligation of the Successor Agency. Related costs of the Successor Agency will either be recovered through the 2017 Bond Proceeds if issued, or if not, through the ROPs process.

If the subject Resolution is approved by the Agency, staff anticipates seeking approval of the Oversight Board later in September. With that approval, staff will submit the appropriate documents to the State Department of Finance (DOF). Once approved by the DOF, staff will return to the Agency to approve the issuance of the Bonds. This approval is expected to be sought in December 2017. The Agency has assembled a team of professionals to assist in the completion of the financing, including B.C. Ziegler & Company as Underwriter, Urban Futures Inc. as Financial Advisor, Orrick as Bond Counsel and Stradling Yocca Carlson and Rauth as Disclosure Counsel. This team assisted the Agency with the successful issuance of the Series 2016 Tax Allocation Refunding Bonds, which resulted in a \$15.66 million debt service savings.

Summary of Documents

Indentures of Trust (and Supplements thereto) - these documents define the payment terms and conditions of the 2017 Bonds, and establish the funds and accounts that will be held by the Trustee, Wilmington Trust, on behalf of the Agency.

Bond Purchase Agreement – this is the contract between the Agency and the Underwriter to purchase the Bonds. The underwriter then sells the Bonds to investors.

Authorizing Resolutions – these permit staff to continue with the refinancing process as described herein. The refinancing will not be completed until approvals from the Oversight Board and the State Department of Finance are received. The Agency will then be asked to approve a Preliminary Official Statement and authorize the issuance of the Bonds.

The forms of the above documents are on file with the City Clerk.

ALTERNATIVES:

1. Approve staff recommendation
2. Provide staff with further direction

FISCAL IMPACT:

From the City's perspective the proposed 2017 Bonds will generate an estimated additional cash flow to the City's General Fund of \$56,000 per year over the next 10 years.

From the Successor Agency's perspective the proposed 2017 Bonds will generate an estimated cash flow savings of \$8 million (NPV savings of \$2.7 million) net of all costs of issuance over the next 10 years.

The term of the 2017 Bonds will not exceed the term of the 2007A Bonds being refunded. The source of repayment of the 2017 Bonds would be limited to tax revenues (in amounts equivalent to the former tax increment revenues) generated in the Redevelopment Project Areas (Areas No. 1, Merged and No. 4) and deposited by the County into the Successor Agency's Redevelopment Property Tax Trust Fund, and the 2017 Bonds would not be a debt of the City. Related costs of the Successor Agency will either be recovered through the 2017 Bond Proceeds if issued, or if not, through the ROPs process.

RELATIONSHIP TO STRATEGIC GOALS:

This report is applicable to the following 2016 Strategic Plan Fiscal Sustainability Guiding Principle 2: *Implement city business processes and operational efficiencies to streamline the cost of government including the examination and identification of cost of services and cost of recovery policies.*

Recommended by: Josh Brooks, Assistant Director of Finance

Approved as to form: Eduardo Olivo, City Attorney

Respectfully submitted: Fernando Mendoza, Interim Executive Director