



City of Arts & Innovation

City Council, Public Financing Authority, and Successor Agency Memorandum

**TO: HONORABLE MAYOR, CITY COUNCIL,
PUBLIC FINANCING AUTHORITY, AND
SUCCESSION AGENCY TO THE REDEVELOPMENT
AGENCY**

DATE: MAY 8, 2017

FROM: FINANCE DEPARTMENT

WARDS: ALL

**SUBJECT: PUBLIC HEARING – APPROVE A SUCCESSOR AGENCY RESOLUTION
AUTHORIZING THE REFINANCING OF UP TO \$135 MILLION OF TAX
ALLOCATION BONDS BY THE SUCCESSOR AGENCY AND THE EXECUTION
OF RELATED DOCUMENTS AND DIRECTING CERTAIN ACTIONS**

**APPROVE A RIVERSIDE PUBLIC FINANCING AUTHORITY RESOLUTION
AUTHORIZING EXECUTION OF AN ESCROW DEPOSIT AND TRUST
AGREEMENT**

ISSUES:

Conduct a Public Hearing to approve the refunding of up to \$135 million of Tax Allocation Bonds to achieve debt service savings, and execute related documents.

RECOMMENDATIONS:

That the Successor Agency:

1. Conduct a Public Hearing relative to the refunding of certain outstanding bonds of the Successor Agency to the former Redevelopment Agency of the City of Riverside;
2. Adopt a Resolution authorizing the issuance of the 2018 Subordinate Tax Allocation Refunding Bonds, Series A and Taxable Series B in order to refinance the Riverside Public Financing Authority 2007 Series A, B, C and D Tax Allocation Revenue Bonds and related underlying bonds of the former Redevelopment Agency of the City of Riverside;
3. Authorize the City Manager, or his designee, on behalf of the Successor Agency, to execute all documents necessary to close the bond refinancing and make certain non-substantive changes to the final documents necessary to complete the transaction;
4. Approve the financing team inclusive of Jones Hall as Bond Counsel, Stradling Yocca Carlson & Rauth as Disclosure Counsel, Stifel, Nicolaus and Company, Inc. as

Underwriter, CSG Advisors Incorporated as Municipal Advisor, and DHA Consulting, LLC as Fiscal Consultant;

5. Recommend that the Oversight Board adopt a resolution authorizing the issuance of refunding bonds to refund certain outstanding bonds of the Successor Agency; and
6. Approve the attached Municipal Advisor Work Product.

That the Public Financing Authority:

1. Adopt a Resolution approving an Escrow Deposit and Trust Agreement and directing certain actions in order to refinance the Riverside Public Financing Authority 2007 Series A, B, C and D Tax Allocation Revenue Bonds.

LEGISLATIVE HISTORY

On June 29, 2011, the Governor signed ABx126, the RDA Dissolution Bill, into law. After a period of litigation, all Redevelopment Agencies (RDAs) in the State of California were officially dissolved and Successor Agencies were appointed to oversee the distribution of tax proceeds that would have been paid to the RDAs. Since the adoption of ABx1 26, and subsequent cleanup legislation AB 1484, the refunding of outstanding RDA debt is required to be approved by not only the Successor Agency, but also by the Oversight Board and the State of California Department of Finance (DOF) before refunding bonds can be issued. This lengthy approval process takes several months to complete.

An additional requirement of ABx1 26 and AB 1484 is that the financing team include a Municipal Advisor and that the advisor generate a report referred to as the Municipal Advisor Work Product. This report confirms that the transaction complies with the Savings Parameters (as used in the Successor Agency's resolution), which simply means that the principal and interest on the new bonds is less than the principal and interest on the refunded bonds. The Municipal Advisor Work Product is to be on file with the secretary to the Successor Agency and with the Oversight Board after having been approved by each body. This transaction complies with the requirements of ABx1 26 and AB 1484.

BACKGROUND:

On April 10, 2007, the Riverside Public Financing Authority (Authority) issued the following bonds (collectively, Authority Bonds):

1. Series A Bonds: 2007 Series A Tax Allocation Revenue Bonds (Downtown/Airport Merged Redevelopment Project and Casa Blanca Redevelopment Project) (Tax-Exempt) in the amount of \$8,340,000;
2. Series B Bonds: 2007 Series B Tax Allocation Revenue Bonds (Downtown/Airport Merged Redevelopment Project and Casa Blanca Redevelopment Project) (Taxable) in the amount of \$14,850,000;
3. Series C Bonds: 2007 Series C Tax Allocation Revenue Bonds (University Corridor/Sycamore Canyon Merged Redevelopment Project, Arlington Redevelopment Project, Hunter Park/Northside Redevelopment Project, Magnolia Center Redevelopment

Project and La Sierra/Arlanza Redevelopment Project) (Tax-Exempt) in the amount of \$89,205,000;

4. Series D Bonds: 2007 Series D Tax Allocation Revenue Bonds (University Corridor/Sycamore Canyon Merged Redevelopment Project, Arlington Redevelopment Project, Hunter Park/Northside Redevelopment Project, Magnolia Center Redevelopment Project and La Sierra/Arlanza Redevelopment Project) (Taxable) in the amount of \$43,875,000.

The Authority Bonds were issued to provide funds to purchase fourteen separate bond issues of the former Redevelopment Agency (collectively Agency Bonds). The original Agency Bonds were issued to finance and refinance certain redevelopment activities with respect to the former redevelopment project areas of the former Redevelopment Agency. Together, the Authority Bonds and the Agency Bonds are referred to as the Prior Bonds.

The amount of the Authority Bonds outstanding after the August 1, 2018 payment (which will occur prior to the refunding) is \$127,465,000 with a final maturity date of August 1, 2037.

DISCUSSION:

Finance Department staff, in conjunction with various financial partners, continually monitors the debt portfolio of the City and its related entities for opportunities to reduce the related cost of repaying its various obligations. As those opportunities arise, staff will assemble a financing team to structure a refunding transaction to take advantage of the financial market opportunity. Those conditions exist today for several components of the Successor Agency's outstanding bonded indebtedness.

This refunding transaction will be structured as two single "pooled" bonds, one taxable and one tax-exempt, payable from property tax revenues from all of the project areas of the former Redevelopment Agency. These bonds will be issued on a parity basis with the 2014 Tax Allocation Bonds (TABs), which refunded several prior bond issues of the former Agency and established provisions for the issuance of parity bonds where such bonds meet the refunding provisions of the Dissolution Act. This structure is beneficial because it will improve the overall economics of the transaction, due to the various project areas have differing debt service coverage strengths, and it is more efficient to issue only two bonds. The pooled structure allows the projects with the stronger coverage ratios to improve the ratio for those with less substantial coverage. The 2014 Bonds currently carry an "AA-" rating from S&P, while the Prior Bonds carry an "A" rating. The 2018 Bonds are expected to garner an "AA-" rating as a result of the pooled coverage.

The financing team recommended for this transaction consists of Jones Hall as Bond Counsel, Stradling Yocca Carlson & Rauth as Disclosure Counsel, Stifel, Nicolaus and Company, Inc. as Underwriter, CSG Advisors Incorporated as Municipal Advisor, and DHA Consulting, LLC as Fiscal Consultant. At the City Council meeting of February 20, 2018, City Council authorized the use of this financing team. The team has strong experience successfully working with the former Redevelopment Agency and other bond refunding transactions.

GOOD FAITH ESTIMATES

The good faith estimates discussed below with respect to the 2018 Bonds are provided in accordance with California Government Code Section 5852.1. Such good faith estimates have been provided to the Successor Agency by CSG Advisors Inc., the Successor Agency's Municipal Advisor, in consultation with Stifel, Nicolaus & Company, Inc., as Underwriter of the 2018 Bonds, and are based on assumptions of the Estimated Principal Amount of the 2018 Bonds and on market interest rates prevailing at the time such estimate is prepared.

Principal Amount. The Municipal Advisor has informed the Successor Agency that, based on the Successor Agency's financing plan and current market conditions, its good faith estimate of the aggregate principal amount of the 2018 Bonds to be sold (the Estimated Principal Amount) is **\$119.0 million**. This amount excludes approximately **\$10.4 million** of net premium estimated to be generated from current market pricing. Net premium is generated when, on a net aggregate basis for a single issuance, the prices paid for the bonds are higher than the face values of such bonds. A bond trades at a premium when it offers a coupon rate higher than the prevailing market interest rates.

True Interest Cost of the Bonds. The Municipal Advisor has informed the Successor Agency that its good faith estimate of the true interest cost of the Bonds (which is the rate necessary to discount the amounts payable on the respective principal and interest payment to the purchase price received for the Bonds) is **3.91%**.

Finance Charge of the Bonds. The Municipal Advisor has informed the Successor Agency that its good faith estimate of the finance charge for the 2018 Bonds (which is the sum of all fees and charges paid to third parties, or costs associated with the 2018 Bonds) is **\$1.4 million**. Such fees and charges include fees for bond and disclosure counsel, municipal advisor, fiscal consultant, trustee, city attorney, printing, underwriting, and a reserve fund surety policy. These fees are all paid for with bond proceeds, with the exception of the fiscal consultant, which is paid for by the Successor Agency. Estimated savings from refunding take into account these costs.

Amount of Proceeds to be Received. The Municipal Advisor has informed the Successor Agency that its good faith estimate of the amount of proceeds expected to be received by the Successor Agency for sale of the 2018 Bonds (less the finance charge of the Bonds, as estimated above, and any reserves or capitalized interest paid or funded with proceeds of the 2018 Bonds) is **\$128.0 million**.

Total Payment Amount. The Municipal Advisor has informed the Successor Agency that its good faith estimate of the total payment amount of all payments the Successor Agency will make to pay debt service on the 2018 Bonds (plus the cost of the fiscal consultant, which is approximately \$35,000 and is not paid for with bond proceeds) calculated to the final maturity of the 2018 Bonds, is **\$185.8 million**.

The foregoing estimates constitute good faith estimates only. The actual principal amount of the 2018 Bonds issued and sold, the true interest costs, the finance charges, the amount of proceeds received, and the total payment amount may differ from such good faith estimates due to:

1. The actual date of the sale of the 2018 Bonds being different than the date assumed for purposes of such estimates;
2. The actual principal amount of the 2018 Bonds sold being different from the Estimated Principal Amount;

3. The actual amortization of the 2018 Bonds being different than the amortization assumed for purposes of such estimates;
4. The actual market interest rates at the time of sale of the 2018 Bonds being different than those estimated for purposes of such estimates;
5. Other market conditions; or
6. Alterations in the Successor Agency's financing plan, delays in the financing, additional legal work (including federal tax law due diligence), or a combination of such factors.

The actual date of sale of the 2018 Bonds and the actual principal amount of 2018 Bonds sold will be determined by the Successor Agency based on the timing of the need for proceeds of the 2018 Bonds and other factors. The actual interest rates and amortization of the 2018 Bonds will depend on market interest rates at the time of sale. Market interest rates are affected by economic and other factors beyond the control of the Successor Agency. If market rates change so that the transaction is no longer financially beneficial, the Successor Agency can terminate the transaction at any time before the refunding bonds are issued.

The actions recommended in this report approve the legal documents associated with the refunding and give authorization for the refunding to occur. If approved by the Successor Agency and then by the Oversight Board, the Oversight Board resolution (and related documents) will be sent to the DOF for approval, which is required to occur within 65 days. During that time, staff will continue to work on the transaction by preparing the Preliminary Official Statement (POS), the disclosure document used by the underwriter to sell the bonds, which will be brought back to the Successor Agency for review and approval closer to the actual issuance of the refunding bonds.

FISCAL IMPACT:

The refunding transaction is being undertaken to achieve interest cost savings relative to the Prior Bonds. At today's interest rates, plus a cushion for possible fluctuation in interest rates until closing, the projected gross debt service savings are approximately \$13.3 million, or \$12.4 million in 2018 dollars, over the remaining life of the bonds. The final maturity of the 2018 Bonds is the same as the Prior Bonds – September 1, 2037. However, after reviewing various alternatives, staff has determined to structure the 2018 Bonds to produce upfront savings to the City from 2019 through 2023.

Due to the dissolution of the Former Agency, the savings will accrue to all the taxing agencies that overlap the City, with the City of Riverside receiving approximately 14% of the total, or roughly \$1.74 million of savings in 2018 dollars over the remaining life of the bonds. Average savings to the General Fund from 2019 through 2023 is approximately \$370,000 per year.

Prepared by:	Adam Raymond, Chief Financial Officer/Treasurer
Certified as to	
Availability of funds:	Edward Enriquez, Assistant CFO/Debut Treasurer
Approved by:	Marianna Marysheva, Assistant City Manager
Approved as to form:	Gary G. Guess, City Attorney

Attachments:

1. Successor Agency Resolution Approving Issuance of Refunding Bonds
2. Public Financing Authority Resolution Approving an Escrow and Trust Agreement
3. 2nd Supplement to the 2014 Bond Indenture
4. 3rd Supplement to the 2014 Bond Indenture
5. Escrow Deposit and Trust Agreement
6. Bond Purchase Agreement
7. Municipal Advisor Work Product
8. Presentation.