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Title: Staff Report for Resolution to Approve the Successor Agency to the Redevelopment Agency of the City of San Leandro 2018 Tax Allocation Refunding Bonds

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Staff Report for Resolution to Approve the Successor Agency to the Redevelopment Agency of the City of San Leandro 2018 Tax Allocation Refunding Bonds

Staff recommends that City Council acting as the Successor Agency to the Redevelopment Agency of the City of San Leandro (Successor Agency) approve the Preliminary Official Statement (POS) for the Successor Agency's Alameda County - City of San Leandro Redevelopment Project Tax Allocation Refunding Bonds, Series 2018A (Series A Bonds) and Alameda County - City of San Leandro Redevelopment Project Tax Allocation Refunding Bonds, Series 2018B (Federally Taxable) (Series B Bonds, and, collectively, Refunding Bonds). Authorization for issuance of the Refunding Bonds occurred on 12/18/17. Staff also recommends that City Council acting as the Successor Agency, the San Leandro Public Financing Authority and the City of San Leandro Parking Authority approve the adoption of a debt management policy, as now required by State law.

DISCUSSION

On 12/18/17, the City acting as the Successor Agency approved the resolutions and documents required to issue the Refunding Bonds, which will be issued to refund \$22,860,000 of currently outstanding Redevelopment Agency of the City of San Leandro Alameda County-City of San Leandro Redevelopment Project Tax Allocation Bonds, Series 2008 (2008 TABs). The par, or face value of the Refunding Bonds will not exceed \$23 million and they will mature in 2038, which is the existing final maturity of the 2008 TABs. Annual debt service on the Refunding Bonds will not exceed the annual debt service currently payable on the outstanding 2008 TABs. The approval on 12/18/17, was required first so that the State Department of Finance could then be requested by the Successor Agency to approve the Refunding Bonds and the Oversight Board's approval thereof, which the State Department of Finance did via a letter dated 1/31/18. The next steps are to approve the POS, apply for a rating, price the refunding around the week of 5/7, close the refunding the week of 6/4 and call the 2008 TABs to be refunded on 9/1/18.

The Refunding Bonds are currently estimated to be \$19,070,000 tax-exempt Series A Bonds and \$2,340,000 taxable Series B Bonds. The Series B Bonds will be issued on a taxable basis to provide greater flexibility in the operation and ownership of certain City assets financed or to be financed in whole or in part by the 2008 TABs and ensure continued compliance with federal tax law. This will marginally reduce refunding savings, because taxable municipal debt carries higher interest rates than tax-exempt debt. All interest rates have increased a bit since last December, but based on municipal bond market rates effective 3/6/18, staff estimated that refinancing the 2008 TABs could result in over \$7.7 million total nominal savings over the life of the 2008 TABs. The present value (PV) of these future savings, discounting

the nominal savings by the estimated arbitrage yield of 3.25%, is \$3.8 million. This results in net present value (NPV) savings of about 16.7% when taken as a percentage of the par value of the 2008 TABs to be refunded. The general rule of thumb is that the minimum NPV savings should be at least 3-5% of refunded par.

City staff emphasizes that these savings numbers are estimates based on the current market and other issuance assumptions such as assumed rating, and will not be certain until the Refunding Bonds are priced. Interest rates can rise or fall significantly in just a matter of weeks and there is no way to predict accurately what the municipal market will look like months from now. But if municipal yields rise by an average of 50 basis points (.50%, or one-half of 1%), total nominal savings will fall to \$6.4 million, which is total PV savings of \$2.6 million. This translates to NPV savings of 11.5% of refunded par, which would still be an excellent refunding result. The City will directly realize only a modest portion of the debt service savings from this refunding, because the City receives 12% of the property tax revenues from the Alameda County - City of San Leandro Redevelopment Project (Project Area), a portion of the tax increment from which will be pledged as security for the Refunding Bonds. The County receives 25% of the property tax revenues from the Project Area and therefore receives the benefits of this refunding; special districts receive 17% and school districts 46%.

Resolutions

The City acting as the Successor Agency must approve the following resolution to complete the issue authorization process for the Refunding Bonds.

Resolution of the Successor Agency to the Redevelopment Agency of the City of San Leandro Confirming the Issuance of Refunding Bonds Pursuant to an Indenture of Trust, Approving Preliminary and Final Official Statements - This resolution confirms approval of the issuance of Refunding Bonds in both tax-exempt and taxable refunding series, as authorized on 12/18/17, and approves the POS in substantially final form on file with the City Clerk that will be finalized after pricing.

The City acting as the Successor Agency, the San Leandro Public Financing Authority and the City of San Leandro Parking Authority must approve the following resolution to comply with Senate Bill 1029, which is effective this year and requires that California public agencies adopt debt management policies that meet certain criteria.

Joint Resolution of the City Council of the City of San Leandro, and the City Council acting as the Board of Directors of the Successor Agency to the Redevelopment Agency of the City of San Leandro, the San Leandro Public Financing Authority and the City of San Leandro Parking Authority, Approving the Adoption of a Debt Management Policy - This resolution must be approved prior to issuing the Bonds. The Debt Management Policy summarizes practices and procedures employed by the City.

Documents

Preliminary Official Statement - The Preliminary Official Statement for the Refunding Bonds is the document that provides disclosure to investors and potential investors regarding the terms of the Refunding Bonds, the 2008 TABs, security for the Refunding Bonds, risk factors and information concerning the Project Area, among other information.

The attached Preliminary Official Statement has been reviewed and approved for transmittal to the Board by the Successor Agency's financing team. The distribution of the Preliminary Official Statement by the Successor Agency is subject to federal securities laws, including the Securities Act of 1933 and the Securities Exchange Act of 1934. These laws require the Preliminary Official Statement to include all facts that would be material to an investor in the Refunding Bonds. Material information is information that there is a substantial likelihood would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the Refunding Bonds. If the Board concludes that the Preliminary Official Statement includes all facts that would be material to an investor in the Refunding Bonds, it must adopt a resolution that authorizes staff to execute a certificate to the effect that the Preliminary Official Statement has been "deemed final."

The Securities and Exchange Commission (SEC), the agency with regulatory authority over the Successor Agency's compliance with the federal securities laws, has issued guidance as to the duties of the Board with respect to its approval of the Preliminary Official Statement. In its "Report of Investigation in the Matter of County of Orange, California as it Relates to the Conduct of the Members of the Board of Supervisors" (Release No. 36761 / January 24, 1996) (the "Release"), the SEC indicated that, if a member of the Board has knowledge of any facts or circumstances that an investor would want to know about prior to investing in the Refunding Bonds, whether relating to their repayment, tax-exempt status, undisclosed conflicts of interest with interested parties, or otherwise, he or she should endeavor to discover whether such facts are adequately disclosed in the Preliminary Official Statement. In the Release, the SEC

indicated that the steps that a member of the Board could take include becoming familiar with the Preliminary Official Statement and questioning staff and consultants about the disclosure of such facts.

Debt Management Policy - This policy was drafted to comply with new Government Code requirements that all public agencies issuing debt in California are now required to adopt debt management policies in compliance with Senate Bill 1029. The City Council acting as the Successor Agency Board and as the boards of the San Leandro Public Financing Authority and the City of San Leandro Parking Authority must adopt the Debt Management Policy prior to completing the Refunding Bonds transaction.

Current City Council Policy

The City Council and Successor Agency Board must approve municipal debt issues that impact their financial position.

Previous City Council Action(s)

The City Council approved this refunding on 12/18/17.

City Council Committee Review and Action

The Finance Committee reviewed and approved this refunding on 11/14/17.

Fiscal Impact

Under Senate Bill 450 that governs the issuance of bonds with a term greater than 13 months, the following information with regard to fiscal impact was previously disclosed to the public in connection with the approval of the Refunding Bonds on 12/18/17:

(A) The true interest cost of the Refunding Bonds, which means the rate necessary to discount debt service payments over time back to the purchase price, which includes all issuance costs, is currently estimated to be 3.45%. The actual true interest cost is determined when the Refunding Bonds are sold to the underwriter on the day of pricing.

(B) The finance charge of the bonds, which means the sum of all fees and charges paid to third parties, is currently estimated to be \$426,117. This assumes \$82,604 for underwriter's compensation, \$43,513 for a surety policy in place of a funded debt service reserve fund and about \$300,000 for other costs of issuance such as bond and disclosure counsel, municipal advisor, rating agency, trustee and fiscal consultant.

(C) The net proceeds of the Bonds (net of finance charges described above) is currently estimated to total \$25,764,872.78. Of this amount, \$2,395,000 from the taxable series will be used to settle the taxable use of proceeds issue involving the 2008 TABs, and the remainder of the proceeds will redeem the current outstanding balance of the 2008 TABs.

(D) The total debt service payment of the Refunding Bonds to the final maturity date of 9/1/38 is currently expected to be \$29,958,369.58, compared to total debt service payment of the 2008 TABs during the same period of \$37,734,908.75.

Budget Authority

City of San Leandro Charter

Attachments:

Resolutions approving issuance of the Preliminary Official Statement and the Debt Management Policy.

CONCLUSION

Staff recommends that City Council and the Successor Agency Board approve the resolutions and documents required to issue the Successor Agency to the Redevelopment Agency of the City of San Leandro Alameda County - City of San Leandro Redevelopment Project Tax Allocation Refunding Bonds, Series 2018A (Series A Bonds) and Alameda County - City of San Leandro Redevelopment Project Tax Allocation Refunding Bonds, Series 2018B (Federally Taxable).

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