



Legislation Text

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Staff Report for Successor Agency Resolution Approving the Issuance of Refunding Bonds in Order to Refund Certain Outstanding Bonds of the Dissolved Redevelopment Agency of the City of San Leandro and Providing for Other Matters Properly Relating Thereto

SUMMARY AND RECOMMENDATION

Staff recommends that City Council, acting as the governing board of the Successor Agency to the Redevelopment Agency of the City of San Leandro, approve the resolution and documents required to issue the Successor Agency to the Redevelopment Agency of the City of San Leandro 2018 Tax Allocation Refunding Bonds (Refunding Bonds). The proposed Refunding Bonds 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.

DISCUSSION

In July 2008, the Redevelopment Agency issued \$27,530,000 of the 2008 TABs to fund certain redevelopment activities of benefit to property within the project area. Major projects funded by the 2008 TABs included the new Senior Center and the reconstructed Downtown Parking Garage. Until the next scheduled principal payment on 9/1/18, there will be \$22,860,000 of the 2008 TABs outstanding. The City has an opportunity to refinance the 2008 TABs now and realize substantial savings in annual debt service payments. Based on municipal bond market rates effective 10/31/17, staff estimates that refinancing the 2008 TABs could result in almost \$8.5 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 2.86%, is \$4.5 million. This results in net present value (NPV) savings of about 19.7% 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. Those savings would then be realized by the various taxing entities that receives shares of the property tax income that was previously allocated to the Redevelopment Agency, which includes the City of San Leandro.

City staff emphasizes that these savings 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 in March 2018. 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 \$7.1 million, which is total PV savings of \$3.2 million. This translates to NPV savings of 14.3% of refunded par, which would still be an excellent refunding result.

Table 1 in Attachment 1 compares debt service on the 2008 TABs compared to estimated refunding debt service and shows both nominal and PV debt service savings, on an annual and aggregate basis. The \$1,878,857 in "prior funds" that are subtracted from gross PV savings upfront mostly represents the 2008 debt service reserve fund, which represents prior bond proceeds and therefore not savings. The Refunding Bonds assume purchase of a surety in place of a funded reserve.

The City will directly realize only a modest portion of the debt service savings from this refunding. Table 2 shows that the City receives 12% of the property tax revenues from the project area, with other public agencies receiving the rest of the revenues and therefore the same proportion of nominal and PV savings.

Financing Structure and Process

State law now allows only for the issuance of refunding tax allocation bonds and does not allow for funding new projects. After the Council acting as the Successor Agency Board approves the initial financing documents for the Refunding Bonds, the County Oversight Board must approve and then the State Department of Finance has 60 days after receipt of these approvals to give its authorization. This long approval process is why pricing is not expected until March 2018.

This refunding is structured as an “advance” refunding, meaning the closing date is anticipated to be more than 90 days in advance of the first optional call date of 9/1/18 on the 2008 TABs. Congressional tax reform efforts include proposals to prohibit advance refundings, which means local agencies throughout the country would be limited to “current” refundings where the refunding closing date is within 90 days of the first optional call date on the debt to be refunded. There is a possibility that we may have to delay pricing to May 2018 so that we can close in early June to be within the 90-day current refunding window. There is no way to accurately predict what will happen to interest rates during this period.

The Financing Team

Staff has been working with the firms listed below to bring this financing transaction to the Council acting as the Successor Agency Board for approval. Therefore, the resolution of issuance to be adopted by the Council acting as the Successor Agency Board directs staff to enter into agreements for consulting services with the following firms in the following capacities:

Name of Firm

Raymond James & Associates, Inc.
Kitahata & Company
Jones Hall, APLC
U.S. Bank National Association

Capacity

Underwriter
Municipal Advisor
Bond Counsel & Disclosure Counsel
Trustee & Escrow Agent

Raymond James was chosen through a request for proposals to a select list of underwriters experienced in the refunding of California TABs. Kitahata & Company was chosen last year via a separate request for proposals for municipal advisors that will expire with the issuance of the Refunding Bonds. The primary reasons for the selection of both firms included relevant experience, pricing and structuring creativity.

Jones Hall has been the City’s bond counsel dating back to 1979. Jones Hall ranks as one of the top bond counsel in the number of state and local bond issues in California during each of the past ten years, and similarly has ranked as one of the top disclosure counsel in California during this same period. U.S. Bank is the existing bond trustee for the 2008 TABs to be refunded. U.S. Bank is one of the top five municipal bond trustees in the country and most recently served as trustee for the City’s 2016 Refunding Lease Revenue Bonds. U.S. Bank also serves the City with two local branch offices. The municipal advisor for the Refunding Bonds attests that the fees proposed by Jones Hall and U.S. Bank are equal to or below comparable fees for such services charged for similar financings.

All fees associated with issuing the Refunding Bonds will be paid from bond proceeds.

Sources and Uses of Funds

Staff projects the sources and uses of funds for the Refunding Bonds financing transaction as indicated in Table 3 in Attachment 1.

Sources of funds include original issue premium on the Refunding Bonds because it is assumed that coupons will be higher than yields - if this is not the case and coupons go lower to be closer to yields, the premium will go down and the par amount of Refunding Bonds will go up, but overall debt service will be about the same because of the lower coupons. The Refunding Bond proceeds will be deposited in the Series 2008 refunding escrow to retire the outstanding 2008 TABs on the projected closing date of 3/21/18. The City hopes to purchase a surety in place of funding a debt service reserve fund, because this should increase refunding savings. The underwriter’s discount is a fee paid to the underwriter for structuring and marketing the Refunding Bonds. The costs of issuance account funds pay for legal, financial advisor, trustee, printing and other issuance costs including a City administrative fee to pay for City staff time.

Authorizing Resolutions

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

Resolution of the Successor Agency to the Redevelopment Agency of the City of San Leandro Approving Documents and Actions Relating to the Refinancing of 2008 TABs - This resolution authorizes the issuance of Refunding Bonds in an amount not to exceed \$23,000,000 and to execute the documents required to complete the financing transaction.

Resolution of the Oversight Board for the Successor Agency Approving Issuance of Refunding Bonds - The resolution must be approved by the Oversight Board before approval is then sought of the State Department of Finance for this refunding.

Bond Documents

The City Council acting as the Successor Agency Board must approve the following documents to complete the Refunding Bonds transaction.

Indenture of Trust - This agreement is between the Successor Agency and U.S. Bank as trustee, and sets forth the guidelines for the administration, investment and treatment of the proceeds of the Refunding Bonds.

Irrevocable Refunding Instructions - These instructions direct U.S. Bank as trustee to establish a Series 2008 refunding escrow with proceeds of the refunding bonds that will redeem the 2008 TABs on the first optional call date on 9/1/18.

Bond Purchase Agreement - This agreement is between the Successor Agency and Raymond James as underwriter by which the underwriter purchases the Refunding Bonds. The agreement specifies the price and interest rates at which the underwriter will purchase the Refunding Bonds, which will be determined on the pricing date, and the documents that will be executed at closing.

There is one more document, the Preliminary Official Statement that will be used to market the Refunding Bonds and will be brought before the City Council serving as the Successor Agency Board for review and approval closer to the pricing date.

Current City Council Policy

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

City Council Committee Review and Action

The Finance Committee reviewed and approved this transaction on November 14, 2017.

Summary of Public Outreach Efforts

The meeting was properly noticed in accordance with California law.

Fiscal Impact

The par value of the Refunding Bonds will not exceed \$23 million and they will mature in 2038, the same as the issue being refunded. The Refunding Bonds are projected to have an all-in true interest cost of about 2.90% in today's market. Annual debt service savings on the Refunding Bonds compared to the 2008 TABs being refunded are projected to be over \$400,000 annually, for total net present value savings of just over \$4.5 million. These savings are just projected estimates at this time, based on current market rates, and will not be finalized until the Refunding Bonds price in March 2018. The City's General Fund will receive approximately 12 percent of the present value savings (\$48,000 annually and \$540,000 in total).

Budget Authority

City of San Leandro Charter

Attachments:

2018 TABs Financial Information

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 2018 Tax Allocation Refunding

Bonds.

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