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M E M O R A N D U M

DATE:	**August 17, 2016**
TO:	**Kathryn Downs – Finance Director** **City of Carson**
FROM:	**Curt de Crinis**
RE:	**Refunding Series 2009 Tax Allocation Bonds and Series 2009 PFA Lease Revenue Bonds**

Attached please find two *draft* financing calendars and savings summaries.

The first calendar (for the 2009 Tax Allocation Bond refunding) assumes the Successor Agency ("SA") can proceed with the TAXABLE refunding of the Series 2009 Project Area # 1 Tax Allocation Bonds. DOF approval for this refunding was received in March of 2016 – to be confirmed following the Settlement Agreement with the DOF. This refunding should move quickly once the SA has approved an updated Preliminary Bond Official Statement (POS) and rating and insurance proposals are obtained. We assume refunding bonds can be sold by early October prior to the presidential election.

Based on an update savings analysis by the underwriter, PiperJaffray, net NPV savings total $2.166 million under current market conditions. Cost of issuance are preliminarily estimated at $275,000 (not including SA fees and any legal reimbursements). Annual cash flow savings are estimated at $140,000 with the City GF share of $9,500.

The second calendar (for the 2009 Lease Revenue Bond refunding) assumes the DOF will require the SA to follow the standard DOF procedures to process a refunding bond issue. We attempted to include an expedited approval in the Settlement Agreement but

this was not agreed to by the DOF. The DOF Settlement Agreement is presumed to allow the City to refinance the Series 2009 Lease Revenue Bonds and the supporting Installment Agreement with TAXABLE Tax Allocation Parity Bonds. The refunding will require new legal documents and Oversight Board Approval. Presuming the DOF elects its standard 65 day review process, refunding bonds could be sold in December with a possible closing before year end or in early January. This assumes the refunding process begins next week and we have no delays. Otherwise bonds would be sold in January with late January or early February closing. While it would seem interest rate may trend higher as the economy gets stronger and the uncertainty of the presidential election passes, it is pure speculation as to whether interest rates will be higher or lower by December or into 2017.

Based on an update savings analysis by the bond underwriter, Piper Jaffray, net NPV savings total $ 960,000 under current market conditions. Cost of issuance are preliminarily estimated at $200,000. Annual cash flow savings are estimated at $90,000 with City GF share of $6,000.

Actual cost of issuance will likely be higher once all financing participant costs are known due to time already spent earlier this year and additional time and expense require to restructure and reprocess both bond issues. I would guess 25 to 30% higher. The SA may also want to investigate if other costs can be recovered related to the DOF Settlement Agreement.

Alternatives

The SA could increase savings by refunding one or both issues as tax exempt bonds. For example, refunding the Lease Revenue Bonds on a tax exempt basis would increase net PV savings to $1.7 million or $142,000 per year. The City GF annual share would be $9,600, and increase of $3,600 over a taxable issuance. This is due to the lower interest cost.

The SA could also consolidate both issues together and *possibly* reduce cost of issuance by $90,000 to $100,000. While there could be some savings benefits from consolidation, the delay in marketing the Series 2009 Tax Allocation Bond refunding, the larger of the two, exposes savings to change in interest rates. Piper Jaffray has calculated that a 5 to 10 basis point move in rates between September and February would offset any cost of issuance savings. This magnitude of rate change could occur in a matter of a few days or a week. Consolidation may also add some complexity as savings will need to be established on each underlying issue. Thus far, the DOF and Oversight Board have not raised any concerns over a taxable refunding and the resulting reduced savings. The DOF and Oversight Board have already approved a taxable refunding for the 2009 Tax Allocation Bonds. Whether this lack of focus on tax exempt savings was due to the Football Stadium or inadvertent is unknown.

Considerations

The SA receives little direct benefit from cash savings as its share of the residual is approximately 6.8%. Los Angeles County is the primary beneficiary as is the State of California since the LAUSD is not a basic aid district, as I understand it. The benefit to the SA is primarily to remove the tax restrictions from the former Marketplace site. This could be a very significant benefit depending on the final development deal.

Market interest rates are very low currently and the both refunding's do not require any contribution to generate savings. As you may recall, savings are very sensitive to changes in interest rates, particularly the savings on the Series 2009 Lease Revenue Bond refunding. If rates rise to the levels of last fall, a cash contribution may be required to meet the Dissolution law annual savings requirements. Furthermore, the City has a strong interest in refunding the Series 2009 Lease Revenue Bonds to remove the City GF fund obligation and remove the Carson Community Center as a leased asset. Refunding will also remove the unfavorable S&P Bond Rating report.

We believe there are some good arguments to move forward with already approved refunding of the 2009 Tax Allocation Bonds, pending DOF confirmation. Following that, it may be a simpler and more compelling story to refund the 2009 Lease Revenue Bonds as Tax Allocation Bonds, as provided for the DOF Settlement Agreement.

Depending on City and SA priorities, it may be advisable to move forward as soon as practical.