CITY OF CARSON

Legislation Text

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Report to Successor Agency

Tuesday, October 04, 2016

Consent

SUBJECT:

CONSIDER REFUNDING SERIES 2009 TAX ALLOCATION BONDS AND SERIES 2009 LEASE REVENUE BONDS (SUCCESSOR AGENCY)

I. SUMMARY

Staff seeks direction from the Board regarding whether the Successor Agency shall move forward with refunding two series of bonds to derive debt service savings, potentially improve flexibility in development of the former Carson Market Place site, and release the City's General Fund obligation for the 2009 Lease Revenue Bonds.

The decision made tonight does not constitute approval of bond documents. The Successor Agency Board's decision would allow the Successor Agency to expend funds to update the bond documents that were already drafted earlier in the year, and move forward with other preparations for a refunding of both issues. Approval of the bond documents would be presented to the Successor Agency at a later date.

II. RECOMMENDATION

DIRECT Staff to move forward with preparations for refunding the Series 2009 Tax Allocation Bonds and Series 2009 Lease Revenue Bonds on a taxable basis.

III. ALTERNATIVES

1. DIRECT Staff to wait until the Successor Agency receives approval from the DOF to refund the LRBs before preparing for both bond series.
2. DIRECT Staff to move forward with refunding as tax exempt bonds.
3. TAKE another action deemed appropriate by City Council.

IV. BACKGROUND

The former Redevelopment Agency and Public Financing Authority issued two series of bonds on a tax-exempt basis to help fund remediation of a former landfill on a 157-acre site.

- Series 2009 Tax Allocation Bonds (TABs) $22,810,000 (balance of $20,400,000 at June 30, 2016).
- Series 2009 Lease Revenue Bonds (LRBs) $12,165,000 (balance of $11,350,000 at June 30, 2016).

Debt service for the bonds is paid from tax increment money, referred to as Redevelopment Property Tax Trust Fund (RPTTF) after redevelopment dissolution in 2012. However, the City's General Fund has an obligation to pay the LRBs debt service if RPTTF funding is not approved or available.

Staff recommended the Successor Agency refund both series of bonds on a taxable basis, to enable an NFL stadium to be built on the 157-acre site.

On December 1, 2015, several actions were taken.

- The Successor Agency Board appointed an underwriter team including Piper Jaffray & Co. as the senior managing underwriter; and FTN Financial Capital Markets and BOSC, Inc. as co-managers (Resolution No. 15-28-CSA) after Staff conducted a Request for Proposal process.

- The Successor Agency Board authorized issuance of refunding bonds for the TABs (Resolution No. 15-28-CSA).

- The Public Finance Authority authorized issuance of refunding bonds for the LRBs (Resolution No. 15-02-CPFA).

All Successor Agency transactions are subject to approval from the local Oversight Board and the DOF. On February 2, 2016, the DOF did not approve the refunding for the LRBs; and furthermore, disallowed the LRBs as an enforceable obligation of the Successor Agency. The Successor Agency consultants were within weeks of selling the bonds when the DOF action caused the bond transactions to be placed on hold.

In August 2016, the City, Successor Agency, Carson Public Financing Authority, and the DOF entered into a settlement agreement, whereby the DOF recognized the LRBs as an enforceable obligation of the Successor Agency. Legal counsel has advised that the Successor Agency must still obtain DOF approval before refunding the LRBs. The DOF had already approved refunding the TABs.

Due to the time-lapse since City Council & Successor Agency authorization in December, the proposed bond documents need to be updated with current information. If the City Council approves the recommendation, the documents will be updated and brought back for approval.

<u>Fiscal Analysis</u>

The Successor Agency's Financial Advisor, C.M. de Crinis & Co., prepared a Memorandum outlining the potential savings, advantages, and disadvantages of each of the Successor Agency's options for refunding the two series of bonds. A recent savings analysis was prepared by Piper Jaffray, the lead underwriter.

When the refunding proposal was brought to the Successor Agency in December, market conditions suggested the City might have to make a relatively small payment from its General Fund to accomplish the refunding, which would have been reimbursed as part of the former NFL proposal.

Current market conditions suggest savings from refunding both series of bonds.

- Taxable refunding of TABs - Potential Net Present Value savings of $2.166 million. Cost of issuance $340,000. Annual cash flow savings $140,000. City's 6.7% share $9,400.
- Taxable refunding of LRBs - Potential Net Present Value savings of $960,000. Cost of issuance $250,000. Annual cash flow savings of $90,000. City's 6.7% share $6,000.
- Tax-exempt refunding of LRBs - Potential Net Present Value savings of $1.7 million. Cost of issuance $250,000. Annual cash flow savings of $142,000. City's 6.7% share $9,600.

The costs of issuance noted above are 25% higher than the amounts originally estimated by Piper Jaffray due to time already spent working on the refunding documents earlier in the year. All costs of issuance are funded from proceeds of the refunding bonds, including an administrative fee for Staff time spent on the two issues. The DOF must approve all fees and costs.

The following is a status of work associated with the bond transactions.

- For the LRBs, a new Preliminary Official Statement (POS) and credit rating presentation will need to be prepared. As a result of the Settlement Agreement, the LRBs would be refunded as tax allocation bonds, as opposed to bonds backed by the City's General Fund. The bond documents will have to be approved by the Successor Agency Board, the local Oversight Board, and the DOF. The DOF will have 60 days to consider approval of the transaction.
- For the TABs, the POS will need to be updated to include language regarding the future refunding of the LRBs as tax allocation bonds. The bond structure, credit work, and credit rating presentation have been completed. The Fiscal Consultants Report will need to be updated. Legal counsel does not believe the Successor Agency is required to seek re-approval from the DOF for the transaction.

The Successor Agency could possibly reduce the costs of issuance by up to $100,000 by consolidating both issues. This would require the Successor Agency to wait until DOF approval is received for the LRBs before refunding both the TABs and the LRBs. A delay to refunding the TABs carries a market risk; and roughly 2/3 of the savings are derived from potential refunding the TABs. Piper Jaffray calculated a move of 5-10 basis points in the market would negate any cost of issuance savings by consolidating the issues.

Another consideration is the tax status of the refunding bonds. Refunding the bonds as "taxable" removes the tax restrictions from the 157-acre site, providing the greatest amount of flexibility for a development project. To support the proposed stadium project, the bonds would have been refunded as taxable. The project would have removed public streets and created a single large privately held parcel, without the same presumption of public benefit due to the existence of public infrastructure. On July 5, 2016, the Successor Agency approved an Exclusive Negotiating Agreement with Cam-Carson, LLC and affiliated Macerich. The proposed phased development project has public streets; as well as maintains the traditional revenue sources to the City and Successor Agency of property tax and sales tax, rather than stadium lease revenue. The final proposed development may not necessitate removal of the tax restrictions.

In addition to any savings or increased flexibility, the City would benefit from refunding the LRBs. The DOF has approved restructuring as a part of the Settlement Agreement that would remove the LRBs as a City General Fund obligation even though the debt service is paid by the Successor Agency. The refunding would free-up the City's General Fund credit, and eliminate some concerns in the current bond rating report from Standard & Poors.

Timing

If the Successor Agency Board directs Staff to move forward with updating the bond documents, the TABs could close mid-November to early-December 2016 and the LRBs could close mid to late February 2017.

V. FISCAL IMPACT

There is no immediate City/Agency fiscal impact associated with the recommendation to move forward with the potential refunding transactions. Any additional costs for the bond team will be paid from bond proceeds. Actual market conditions and the decision to refund the bonds on a taxable basis or tax-exempt basis will drive the City/Agency fiscal impact of the potential refunding.

VI. EXHIBITS

A - Memorandum from C.M. de Crinis & Co., dated August 17, 2016 (pages 5-7)
B - Piper Jaffray Savings Analysis prepared August 12, 2016 (pages 8-9)

Prepared by: Kathryn Downs, Director of Finance