THE CITY OF SAN DIEGO

Report to the City Council

DATE ISSUED: July 1, 2016 REPORT NO: 16-068

ATTENTION: Budget and Government Efficiency Committee

SUBJECT: Economic Refunding of Eligible Outstanding Successor Agency Tax Allocation Bonds

REQUESTED ACTION:

Forward the following economic refunding proposal to City Council, acting in its capacity as Successor Agency to the Redevelopment Agency of the City of San Diego ("Successor Agency"), for consideration and approval in accordance with the timeline established for the bond refunding(s) of eligible certain outstanding tax allocation bond series of the City's former Redevelopment Agency ("RDA"). The Successor Agency, and Oversight Board to the Successor Agency, will be requested to authorize the issuance of refunding bonds and to approve the related financing and disclosure documents.

STAFF RECOMMENDATION:

Approve the requested action.

EXECUTIVE SUMMARY:

This Report presents an economic refunding opportunity of the remaining eligible tax allocation bonds of the former RDA to be completed by one or more issuances of refunding bonds, beginning in January of calendar year 2017 ("the 2017 Refunding"). The goal of the refunding(s) is as follows: (1) to reduce the annual debt service obligations of the Successor Agency by refunding all eligible outstanding RDA bond series that meet the thresholds outlined in the City's Debt Policy; (2) to consolidate multiple bond obligations thereby significantly reducing and simplifying future administrative requirements of the Successor Agency; and, (3) to maintain compliance with outstanding proceeds for certain tax exempt series. The proposed refunding is similar to, and a continuation of, the successful refinancing of 22 series of former RDA bonds approved by City Council in October 2015 and completed in January of this year.

Background

As of January 2016, twenty-two (22) tax allocation bond series were consolidated into two (2) series; the Tax Allocation Refunding Bonds, Series 2016A and Series 2016B (Taxable) (collectively, the "2016 Refunding Bonds"). The refunding produced 19% net present value savings ("NPV savings") well above the savings threshold set by the City's Debt Policy. The savings will benefit all tax sharing entities including City, County and schools through FY2034. There are an additional sixteen (16) tax allocation series that were originally issued for the former City Redevelopment Division, Center City Development Corporation ("CCDC") and the Southeastern Economic Development Corporation ("SEDC"). Attached is the schedule listing the refunding eligible bond series (subject to market conditions). They were originally issued in years 2006 to 2010, as such, the economic refundings can be conducted on a current and advance refunding basis with the recommended net present savings levels of 3% and 4% and above, respectively. Only the Centre City 2006A and 2006B series', issued 10 years prior, can be refunded on a current basis.

In the event interest rates move up leaving a few of the proposed series not economic to refund, Debt Management recommends developing the financing ordinance to allow for the Successor Agency to issue one or more refunding series, as necessary, over a period of 24 months from receipt of the DOF approval letter.

The objectives of the proposed refunding would be to maximize NPV savings, to consolidate the refunded series into a single "pooled" bond issuance as was done with the 2016 Refunding Bonds and to maintain the compliance of certain tax exempt series with remaining bond proceeds. Debt Management will diligently work with the tax counsel and the financial advisor and generate a sound financing plan that maximizes economic savings while ensuring the Successor Agency remains compliant with the legal requirements with respect to funds of certain bond series.

The revenue pledged to payment of the current as well as any refunded bonds issued is the Redevelopment Property Tax Trust Fund ("RPTTF") held and distributed by the County of San Diego to the Successor Agency. The 2017 Refunding Bonds, will be secured by a parity lien of subordinate RPTTF revenues with the 2016 Refunding Bonds after existing senior bonds, other enforceable obligations of the Successor Agency, Pass-Throughs, and County Auditor administrative expenses.

<u>Refunding Timeline</u>

Pursuant to the dissolution laws, as with the 2016 Refunding Bonds, any Successor Agency financing is required to be approved by not only the Successor Agency, but also by the Oversight Board ("OB") and then by the State of California Department of Finance ("DOF") before refunding bonds can be issued. These additional steps add significant time to the financing process. Given the continued attractiveness of the municipal market, the potential for rate increases later in 2017 and beyond and the time sensitive requirement on use of proceeds the City will be best positioned by moving forward with an approval to refund the remaining RDA bonds.

Debt Management anticipates taking the financing plan and legal documents to City Council (as Successor Agency Board) for review and approval in September 2016. Subsequent to the approval by the Successor Agency, the Oversight Board must pass its resolution, estimated to occur in October 2016. If approved, the OB resolution together with a state required third party verification (performed by CSG Advisors, the 2017 Refunding Bonds' Municipal Advisor) is sent immediately to the DOF for their approval. The DOF has 60 days to perform a review and approve the proposed refunding request. The offering document or Preliminary Official Statement ("POS") for the refunding bonds, after being reviewed and approved by the Disclosure Practices Working Group ("DPWG"), can be brought to the Successor Agency Board for approval during the DOF review period but not released until approval is received. After the completion of these steps, the proposed 2017 Refunding Bonds are expected to be priced and closed by the end of January 2017.

CITY STRATEGIC PLAN GOAL(S)/OBJECTIVE(S):

Goal #1: Provide high quality public service.
Objective #1: Promote a customer-focused culture that prizes accessible, consistent, and predictable delivery of services.

FISCAL CONSIDERATIONS:

The pricing and closing of the proposed economic refunding bonds would be subject to market conditions at the time and the fulfillment of the City's net present value savings thresholds for economic refundings. Under recent market conditions, the proposed refunding 13 series would produce significant annual debt service savings (approximately 19%) to all affected tax sharing entities including the City's General Fund.

By reducing the debt service payments of the existing RDA bonds (the Successor Agency's Enforceable Obligations) the amount of residual RPTTF funds distributed to all tax sharing entities will increase proportionally to the entity's tax share. The City's share of the debt savings, via residual RPTTF payments, has varied from year to year, but is projected for FY2017-18 as 17.5%.

Based on recent interest rates, refunding the former RDA Bonds would generate cumulative cash flow savings of approximately $94 million (or $46 million present value ("PV")) of which the City's share would be $16 million ($8 million PV) over the remaining term of the bonds (from FY17 to FY41). The average annual cash flow savings over the same period are estimated to be $3.9 million of which the City's annual share is estimated to be $685,000. The cash flow savings will be larger in the earlier years, approximately $1.5 million to the City in each of the first 5 years, and will gradually reduce over the remaining life of the bonds. This is a result of the combined principal amounts of the refunded bond series being higher in the earlier years.

The costs of issuance for the bond refunding are expected to include fees for bond and disclosure counsel, the municipal advisor, fiscal consultant, credit ratings, trustee, disclosure document printing. Their costs will be paid from the refunding bond proceeds as permitted under bond offering guidelines. The NPV savings projected above are inclusive of the costs

No change to the final maturities of the debt will be made, the terms of the refunding bonds will match the terms of the refunded bonds.

EQUAL OPPORTUNITY CONTRACTING INFORMATION (if applicable):

Contract or agreements associated with this action are subject to the City's Equal Employment Outreach Program (San Diego Ordinance No. 18173, Section 22.2701 through 22.2708) and the City's Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517).

PREVIOUS COUNCIL and/or COMMITTEE ACTIONS:

On May 20, 2015, the 2016 Refunding Bonds' proposed issuance was reviewed and approved by the Budget and Government Efficiency Committee.

The 2016 Refunding was then approved by City Council, in its capacity as Successor Agency Board, via ordinance No. 20566 (October 9, 2015).

COMMUNITY PARTICIPATION AND OUTREACH EFFORTS:

Not applicable.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Business entities involved in the proposed financing include investment banks, municipal advisors, bond and disclosure counsels and trustees. The selected firms will be identified in the Reports to City Council that are issued when the financing and legal documents are docketed for Successor Agency/City Council action.

Respectfully submitted,

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Mary Lewis
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