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DEBT AND
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ADVISORY
COMMISSION

REFUNDING REDEVELOPMENT DEBT: NEW CHALLENGES

SEPTEMBER 12, 2013
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REFUNDING REDEVELOPMENT DEBT: NEW CHALLENGES

INTRODUCTION: ROBERT BERRY,
DEPUTY EXECUTIVE DIRECTOR, CDIAC

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REFUNDING REDEVELOPMENT DEBT: NEW CHALLENGES

MODERATOR: DONALD J. FRASER
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BOND REFUNDING UNDER THE REDEVELOPMENT DISSOLUTION ACT

Donald J. Fraser
Owner
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Redevelopment Dissolution Act

- AB 26 and AB 27 were approved and signed by the Governor in June 2011
- Supreme Court ruled that AB 26 was valid but AB 27 was not
- Local government and the State have undertaken the confusing process of shutting down former RDA's
  - Local Perspective
  - State Perspective

Current Issues For Bonds

- Cash Flow Timing Issues Based on ROPS Schedule
- Redevelopment Plan Limits, including the status of tax increment limits

Cash Flow Problems

- Two ROPS periods each year
  - January to June funded with RPTTF from January
  - July to December funded with RPTTF from June
- Bond Debt service is uneven
  - Spring payments – interest only
  - Fall payments – principal and interest
- Problem can be made worse when counties distribute more revenue in January than June

Cash Flow Issues

- The Dissolution Act requires that any RPTTF not needed to pay obligations from each ROPS period be distributed to the taxing entities
- This can cause a short-fall in the payment of debt service in the fall period
- Agencies need to place reserves on the spring ROPS
  - State recognized this in AB 1484

Bond Reserve Calculations

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USE OF BOND RESERVE CASH

	ROPS III Jan - June 2013	ROPS 13-14 A July - Dec 2013
Net RPTTF Distribution	1,600,000	850,000
ROPS Obligatons		
Bond Debt Service	800,000	1,400,000
Admin Allowance	125,000	125,000
Total Obligations	925,000	1,525,000
Ending Balance	675,000	(675,000)
Debt Reserve on Prior ROPS		675,000

Redevelopment Plan Limits

- Debt Incurrence
  - No longer an issue since can't issue debt
- Plan Effectiveness
  - No longer important since can't undertake activities
- Debt Repayment / Tax Increment Receipt
  - Still important
- Cumulative tax increment limits for Plan adopted prior to January 1, 1994

Tax Increment Limit

- Cumulative limit on amount of tax increment an agency can receive in a Project Area
- Prior to Dissolution Act, the Redevelopment Plan set the limit and was typically based on total tax increment allocated to an Agency
  - This included pass through payments, administrative fees, etc.
- Do these limits still exist? If so, how are they calculated?

Tax Increment Limits

- Argument for why they no longer exist:
  - Dissolution Act has converted all former tax increment into property tax
  - Most attorneys not comfortable with this approach, since the Dissolution Act did not overturn this section of the Redevelopment Law
- If they exist, how do you calculate them?
  - All tax increment?
  - Only tax increment that is received by the Successor Agency

REFUNDING OF PRIOR AGENCY BONDS

Danny Kim
Partner
Norton Rose Fulbright

HSC Section 34177.5

- Successor Agencies are authorized to:

1. issue refunding bonds for savings - 34177.5(a)(1)

2. issue refunding bonds to cure debt service spikes including balloon maturities – 34177.5(a)(2)

3. amend existing enforceable obligation in connection with refunding bonds – 34177.5(a)(3)

Oversight Board Approval

- Actions authorized under HSC 34177.5 are subject to the approval of the oversight board (OB).

- Additionally, an OB may direct the successor agency to commence any of the transactions described in subdivision (a) so long as the successor agency is able to recover its related costs in connection with the transaction.

Trend is for OB to direct successor agencies to commence transaction. Recovery of cost in the case of an unsuccessful closing has yet to be tested.

DOF Review

- DOF has 5 business days to request review and may extend time to review from 40 days to 60 days.
- If DOF reviews and approves or fails to request a review within 5 business days, the scheduled payments on the bonds or other indebtedness shall be listed in the Recognized Obligation Payment Schedule and shall not be subject to further review and approval by the DOF or the Controller.

REFINANCING OF REDEVELOPMENT AGENCY DEBT

STATUTORY PROVISIONS AND THE EXPECTATIONS OF THE DEPARTMENT OF FINANCE

Chris Hill
Principal Program Budget Analyst
California Department of Finance

PURPOSE OF THE DEBT REFINANCING PROVISIONS IN AB 1484 (CHAPTER 26, STATUTES OF 2012)

- To allow Successor Agencies to reduce the principal and interest costs of the bonds and other indebtedness of the former RDAs, when that indebtedness has been determined to be an Enforceable Obligation.

- To smooth debt service payment patterns by eliminating “bullet payments” and debt service “spikes”.

- Refinancings that reduce principal and interest costs will allow cities, counties, special districts, and K-14 school districts to more quickly receive a larger share of the property tax revenues from within the project areas of the former RDAs.

- Refinancings that eliminate bullet payments and spikes will ensure Successor Agencies are not faced with debt service payments that cannot be absorbed within their biannual Redevelopment Property Tax Trust Fund allotments, thereby preventing possible defaults.

Allowable Uses of the Debt Refinancing Provisions

- To reduce principal and interest costs of RDA debt, and to eliminate bullet payments and debt service spikes.

- To reduce principal and interest costs related to debt that the former RDA was enforceably obligated to pay on behalf of another affected taxing entity.

- To issue new debt when that debt issuance is specifically required by an Enforceable Obligation which includes an irrevocable pledge of property tax revenues for purposes of that debt issuance.

DEBT REFINANCINGS MUST MEET THE FOLLOWING CRITERIA

- The debt that is being refinanced must be an Enforceable Obligation as determined by the Oversight Board and Finance.
- The total principal and interest costs of the new indebtedness must not exceed the total principal and interest costs of the existing debt.
- The financing must not include bullet payments, debt service spikes, or variable interest rates.
- The total principal of the new indebtedness must not exceed the amount required to defease the debt being refinanced, except for the purposes of (1) establishing necessary debt service reserves, and (2) paying related costs of issuance.
- For debt issuances required by an Enforceable Obligation, the total new debt shall not exceed the amount of property tax revenue that is irrevocably pledged to that Enforceable Obligation.

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Debt Refinancing Process

- The Successor Agency must gain Oversight Board approval prior to issuing refunding bonds.
- The Successor Agency must make use of an independent financial advisor to develop the refinancing proposal.
- Once the Oversight Board has approved the refinancing proposal, the Board's approval action must be submitted to Finance for review and approval. Finance then has five days in which to approve the Oversight Board action, or to notify the Oversight Board that it is extending its review time to 60 days.
- If Finance approves the Oversight Board action, the associated debt service obligation should be entered on the Recognized Obligation Payment Schedule (ROPS) as a new line item. The ROPS also should reflect the retirement of the refinanced debt.

- Successor Agencies should expect Finance to take the full 60 days to review refinancing proposals since many are highly complex, and since the review process must be accommodated within Finance’s other workload duties (e.g. ROPS and Due Diligence Reviews).

- Successor Agencies should provide Finance a copy of the independent financial adviser’s work product at the same time that it transmits the Oversight Board’s approval action.

- The Oversight Board resolution of approval should:

  - Cite the applicable Health and Safety Code section (e.g. HSC section 34177.5 (a) (2) for a refinancing intended to address debt service spikes or balloon payments).

  - Identify the Enforceable Obligation to which the refinancing proposal corresponds.

  - Ensure any cited dollar amounts and refinancing terms correspond to the information in the independent financial adviser’s report.

Pledged Revenues

- Before AB 1484, Pledged Revenues comprised of:

  80% increment less pass-through payments (including AB 1290 statutory pass-through payments) less administrative costs

  or

  20% housing set-aside revenues

Pledged Revenues

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- After AB 1484, Pledged Revenues is comprised of:

  Property tax revenues deposited in the Redevelopment Property Tax Trust Fund (RPTTF)

  However, HSC 34177.5(a)(1) states the Successor Agency may pledge to the refunding bonds or other indebtedness the revenues pledged to the bonds or other indebtedness being refunded, and that pledge, when made in connection with the issuance of such refunding bonds or other indebtedness, shall have the same lien priority as the pledge of the bonds or other obligations to be refunded, and shall be valid, binding, and enforceable in accordance with its terms

  What is the lien priority where bonds being refunded are senior/subordinate lien structure?

Flow of Funds

- HSC 34183 provides for flow of funds:

(i) first, subject to certain adjustments for subordinations to the extent permitted under the Dissolution Act and no later than each January 2 and June 1, to each local agency and school entity, to the extent applicable, amounts required for pass-through payments such entity would have received under provisions of the Redevelopment Law, as those provisions read on January 1, 2011, including pursuant to the Pass-Through Agreements and Statutory Pass-Through Amounts;

(ii) second, on each January 2 and June 1, to the Agency for payments listed in its Recognized Obligation Payment Schedule, with debt service payments scheduled to be made for tax allocation bonds having the highest priority over payments scheduled for other debts and obligations listed on the Recognized Obligation Payment Schedule;

(iii) third, on each January 2 and June 1, to the Agency for the administrative cost allowance, as defined in the Dissolution Act; and

(iv) fourth, on each January 2 and June 1, to taxing entities any moneys remaining in the Redevelopment Property Tax Trust Fund after the payments and transfers authorized by clauses (i) through (iii), in an amount proportionate to such taxing entity's share of property tax revenues in the tax rate area in that fiscal year (without giving effect to any pass-through obligations that were established under the Redevelopment Law)

REFUNDING BONDS UNDER AB 1484

Douglas P. Anderson
Managing Principal
Urban Futures, Inc.

Discussion Topics

- Refundings Authorized by AB 1484, with examples of closed bonds
- T.I. Available for Debt Service: Pre-dissolution and Post-dissolution
- Financial Benefit to City general fund from Refunding Savings
- Recent A.V. trends and Recapture Concept
- Benefits of “stand-alone” Refunding Bonds

Refunding Bonds Authorized by AB 1484

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- Refunding for Savings - HSC 34177.5(a)(1) – Existing Tax Allocation Bonds that have current (or approaching) call dates may be refunded for debt service savings, using same revenues pledged to existing bonds (Upland and Walnut examples).

- Refunding for "Spikes" – HSC 34177.5(a)(2) – Existing Tax Allocation Notes may be refunded with longer term bonds, with principal limited to amount necessary to finance the spike, fund a reserve account, and pay costs of issuance (Dinuba and Monrovia examples).

- Refunding to amend an existing enforceable obligation where the SA is obligated to reimburse another public agency for bond debt service payments – HSC 34177.5(a)(3) .

- Bonds to make payments under existing enforceable obligations (DDAs, etc.) where there is an irrevocable pledge of tax increment – HSC 34177.5(a)(4).

Available Revenues (Prior to RDA Dissolution)

Example RDA Project: Total Assessed Valuation	$	623,821,033
Less: Base Year Valuation		138,276,479
Incremental Valuation	$	485,544,554
Tax Rate		1.03%
Gross Tax Increment Revenues		5,001,109
Less: Housing Set-Aside (20%)		1,000,222
Less: Senior Pass Through Payments		1,350,851
Less: County Admin. Fees		75,017
Pledged Tax Revenues	$	2,575,019
Debt Service Coverage Factor		1.25x
Available for Debt Service	$	2,060,015
Avail. for RDA Admin./Subordinate Pass Throughs	$	515,004

AB 1484 Revenues	January 2nd	June 1st
RPTTF Tax Revenues -“60/40”	$ 2,913,268	$ 1,942,178
Less: County Admin. Fee	43,699	29,133
Less: Pass Through Payments	930,511	620,340
Pledged Tax Revenues	$ 1,939,058	$ 1,292,705
SA Debt Service Reserve - HSC 34171(d)(1)(A)	(750,000)	750,000
Available for Debt Service	$ 1,189,058	$ 2,042,705
Bond Debt Service Payments:		
March 1 (Interest Pmt.)	654,261	
Sept. 1 (Principal & Int.)		1,405,754
SA Admin. Allowance	125,000	125,000
Available for EOs / taxing entities	$ 409,797	$ 511,951
Debt Service Coverage (annual)		1.57x

Benefit to City G.F. from Refunding Savings

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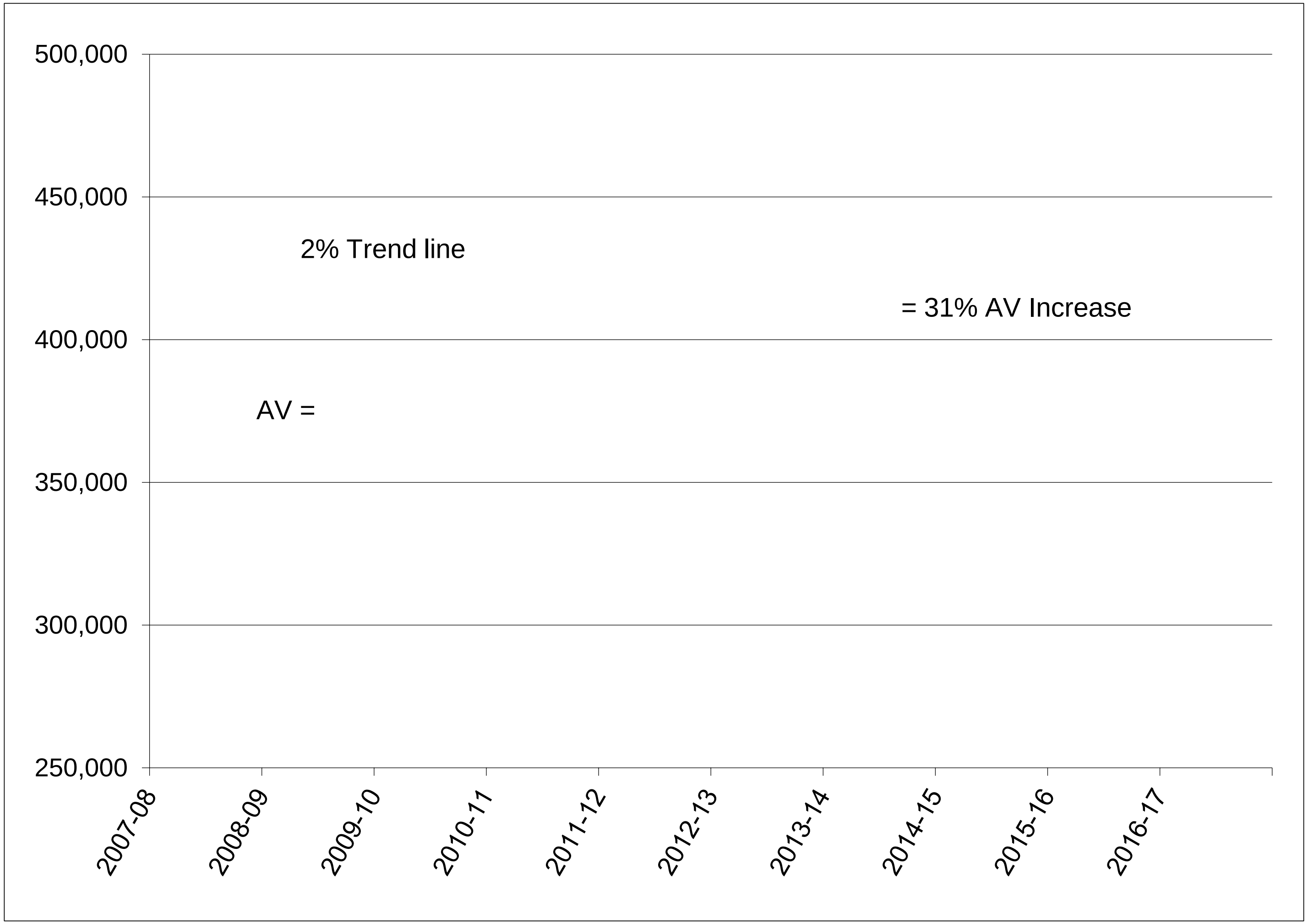
		Existing T.A. Bonds		After Refunding
Available for Debt Service	$	3,231,763	$	3,231,763
Less: Bond Debt Service Pmts.		2,060,105		1,854,094
Less: Other EO's		100,000		100,000
Less: SA Admin. Allowance		250,000		250,000
Residual Revenue	$	821,658	$	1,027,669
City General Fund (21%)	$	172,548	$	215,810
Other Taxing Entities (79%)		649,110		811,859
Total Residual Distribution	$	821,658	$	1,027,669

Recapturing 2% Assessed Value Growth

- Proposition 13 - the 2% inflation factor is calculated against the property's original purchase price regardless of any intervening decreases in property value.
- The Recapture process allows a tax assessor to increase the value of property above Proposition 13's annual 2% limit after property has lost value or failed to increase in value in previous years.
- In County of Orange v. Renee M. Bezaire (2004), the California Supreme Court held that the 2% limitation applies only to increases in the base year value.

Recapture (cont.)



Benefits of “stand alone” Refunding Bonds

- Speed – Individual Issuers can complete a refunding transaction faster than pool issuers, which is important based on recent trend of interest rate increases.
- Finance Team Familiarity – Cities with long standing professional relationships will have a Finance Team that can prepare documents and complete the financing in an efficient and cost effective manner.
- Continuing Disclosure – Cities that have current Continuing Disclosure Agent relationships will have easy access to historical information in order to verify that all annual reports have been filed as necessary, including all historical rating changes. These services can continue in an efficient manner after issuance of any refunding bonds.

Benefits of Pooling Redevelopment Credits

- Some Successor Agencies will have the ability to either pool different redevelopment project credits or participate in County-run pooled programs
  - Each structure utilizes the Marks-Roos Pooling Act

- Benefits of pooling include:
  - Greater efficiencies due to larger size (costs issuance savings)
  - Sale of larger financings attract more investors and has the potential to lower interest rates

- Participation in the County-run pools may offer other benefits
  - Los Angeles County's pool has offered several key benefits
    - County running process and taking lead with DOF
    - County agreeing to take over many aspects of continuing disclosure

MARKET UPDATE FOR REDEVELOPMENT DEBT

Ralph Holmes
Principal
De La Rosa & Co.

Bond Market Overview

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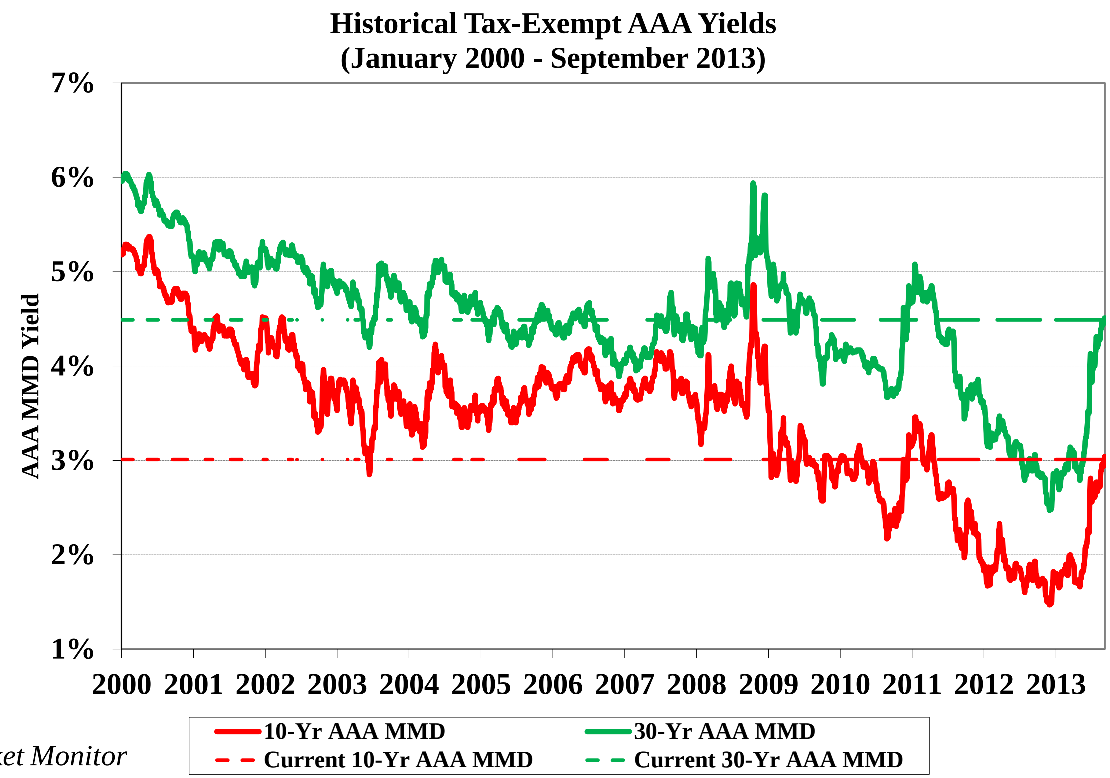
- Despite recent increase in rates, on a historic basis rates remain low
  - Majority of refunding targets issued in the period 2000 through 2005
  - Most refundings take advantage of today's steep yield curve
  - Refunding what were 20- or 30-year bonds with 10- to 20-year bonds often produces significant savings



Source: Thomson Municipal Market Monitor

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The Market for Redevelopment Bonds

- Despite the confusion caused by dissolution, there is still appetite for redevelopment bonds

  - Redevelopment bonds remain strong credits
    - Ratings are available
    - Bond insurance and debt service sureties are available

  - To date, four series of refunding bonds have been sold for the successor agencies of Upland, Monrovia, Dinuba and Walnut
    - Oakland and Coachella are slated for sale in the next few weeks

  - There are more than 20 successor agency refundings ongoing with a par amount of approximately $1 billion
    - Los Angeles County has a pooled program which includes 8 successor agencies totaling to $230 million which is scheduled for sale later this year
    - Los Angeles County’s 2014 Pool is also likely to be in excess of $200 million

Ratings

- While dissolution has been a challenge, the fundamental credit strengths of tax allocation bonds remain relatively unscathed
  - Potential additional security for bonds from unused Redevelopment Property Tax Trust Fund (RPTTF) monies formerly designated for housing or other project areas
  - Ability to use what were housing funds as additional coverage
  - Closed lien structure of most agencies should have positive rating implications
- Standard and Poor's gave investment grade ratings to the four transactions that have come to market ("A+" for Walnut, "A" for Upland and "BBB-" for Dinuba and Monrovia)
  - Moody's downgraded all TABs below investment grade and has restored investment grade ratings for a small few
  - Fitch continues to maintain ratings on its outstanding TABs but has withdrawn several due to lack of available information
- Majority of redevelopment credits remain in the "A" or "BBB" categories

Bond Insurance

- Remaining active bond insurers (Assured Guaranty and Build America Mutual) are evaluating and insuring redevelopment credits
  - Assured recently provided insurance for the Upland transaction
  - BAM insured the Walnut transaction
- A number of tax allocation bonds were previously issued with debt service reserve fund sureties for which a replacement surety would be required for the transaction to produce savings
  - Going forward there should be sureties available
  - Use of sureties will be governed by existing legal documents
    - We have found that many prior indentures do not allow new sureties that are rated below AAA—there are currently no providers who fit this criteria
- Biggest issue regarding bond insurance has been a small benefit in rates it has produced in the current market
  - Benefit of insurance for an "A" category credit is 5 to 10 basis points
  - Benefit of insurance for a "BBB" category credit is 5 to 15 basis points

Benefits of Refunding Redevelopment Bonds

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- Achieve debt service savings
  - To the extent that residual RPTTF monies are being distributed to affected taxing entities, additional debt service savings will increase amounts for distribution as residuals
  - To the extent that there remain unfunded, approved obligations on ROPS, debt service savings may increase available funding for those ROPS obligations
- Lien consolidation
- Modification/removal of contingent pledges

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QUESTIONS AND ANSWERS

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