CDIAC Webinar Transcript
Refunding Redevelopment Debt: New Challenges
September 12, 2013

Slide 1 - Refunding Redevelopment Debt: New Challenges

>>: Good morning, everyone, and welcome to the California Debt and Investment Advisory Commission webinar on Refunding Redevelopment Debt: New Challenges. My name is Robert Berry. I'm the Deputy Director here at CDIAC.

Before proceeding further, if you are experiencing some technical problems you can contact GoToMeetings at 1-800-263-6317. Or you can try their website by clicking on the link on the screen. The website includes some information that can help you troubleshoot your problems.

This is our first webinar in our fall program lineup and registration is very high, so thank you all for participating this morning. Refunding debt is in general a complex topic. But layer on the complexities that come with the dissolution of redevelopment agencies and a local successor agency can be faced with numerous challenges. We have a terrific panel this morning that will help us understand and negotiate the challenges of refunding development debt and the hope of capturing what can be very significant benefits to your communities. Before we get to the program, we have a few housekeeping topics. We have incorporated a live captioning service into this webinar, which is accessible by clicking on the link on your screen or entering into your browser www.streamtext.net/player?event=CDIAC.

Next, if you would like a certificate of attendance for participation in this webinar, please send an e-mail with that request to our education units e-mail box at CDIAC_education@treasurer.ca.gov. Also, you should know as participants you will have the abilities to ask questions throughout the presentation by using the question section of your control panel on the right side of your screen. The panelists may answer your questions during the presentation or hold them until our Q and A session at the end. We will also follow up with answers on our websites to any questions that the panelists didn't get a chance to answer.

Before I introduce the panelist we have a couple of polling questions for the audience. If you would, use your control panel to answer the questions that will appear on your screen.

Polling Question 1 (02:38)

What type of agency do you represent? Please select one: city, county, special district, other public agency, or private.

Looks like 47% of our attendees are from cities, 13% from the counties, 2% special districts, 12% from other public agencies, and 27% private attendees.

Polling Question 2 (03:26)

Our next question: Are you considering or have you participated in refunding redevelopment debt? That's a simple yes or no. 65% of you are considering or have participated in refunding redevelopment debt, and 35% are not. So thank you for your feedback. That will help our presenters, I'm sure.

Slide 2 - Refunding Redevelopment Debt: New Challenges (04:08)

Now let's go ahead and get started with the program. Our presenters today include our moderator, Donald Fraser, president of Fraser & Associates, a redevelopment consulting firm formed in 1998. Don has assisted 48 different agencies with a variety of financial, implementation and planned adoption services. Since redevelopment dissolution he has been assisting successor agencies in the unwinding process.

Next we'll hear from Danny Kim, partner in the public finance and administrative law group of Norton Rose Fulbright. He has extensive experience with bond disclosure and underwriters council on a wide variety of financing types including, of course, tax allocation bonds. He was also a staff attorney with the SEC's enforcement division.

We are also joined by Chris Hill with the Department of Finance. Chris is a principal analyst and manager of the program policy and budget section within the department's local government unit. This section assists the dissolution of government agencies along with a host of other responsibilities related to cities, counties, and special districts.

We also welcome Douglas Anderson, managing principal of the financial advisory firm Urban Futures, Inc. As a financial advisor, Doug has worked on over 300 bond issues. He has extensive experience in tax increment revenue projection, tax allocation bond structuring and bond administration.

And our final panelist today is Ralph Holmes, Principal with De La Rosa and Company. Ralph is the firm's resident redevelopment expert. Ralph worked on 90 California redevelopment financing pre-dissolutions and is currently lead banker on multiple successor agency financings.

Also, please note, a more detailed background on all of our panelists and their contact information is available on the CDIAC website.

With that, let me turn things over to Don Fraser. Don?

Slide 3 - Bond Refunding Under the Redevelopment Dissolution Act (05:53)

>>: Thank you, Robert. On behalf of my fellow panelists, I wanted to thank CDIAC for this opportunity to present this information today and to welcome all the participants who are on the phone or on the webinar this morning. When we began planning out this session, there was really one key question that was framed for us by CDIAC and then a host of secondary questions. But the key question is, was why do this? Why should cities or their successor agencies pursue a refunding of debt? And what are the incentives for it? And who are they benefiting? During the course of this presentation today, we will answer that key question along with the host of other ones hopefully as well.

Slide 4 - Redevelopment Dissolution Act (06:48)

Turning to the first slide, what I wanted to do before we get into refunding issue was to take a step back and to look at redevelopment dissolution act and some of the impacts that it has had on the bond market.

So as all of you are aware that are on the webinar this morning, in June of 2011, the legislature approved and the governor signed two bills, AB 26 and AB 27. AB 26 allowed or directed that all redevelopment agencies in the state would basically be dissolved by a date certain, unless they made payments under the provisions of AB 27. The laws were challenged in court. And in December of 2011, the Supreme Court ruled that AB 26 was a valid bill, was a valid piece of legislation, but that for a variety of reasons the legislature could not require the payments that were required under AB 27. And there was a very rapid, from that point, dissolution process that occurred.

Local redevelopment agencies between the end of December and February 1st needed to be dissolved, redevelopment agencies of city staff needed to figure out a whole variety of things that needed to be done in a short period of time, including the formation of oversight boards, the designation of successor agencies, the preparation of what would become known as ROPS, or recognized obligation payment schedules. And all of this needed to be done without any clear direction, any rules and regulation about how it was all to be undertaken. And as with any type of confusion, confusion in a bond market is bad. It's bad for investors. It's bad for rating agencies. And we saw some corresponding downgrades in ratings because of some of the confusion that took place as well.

But as Ralph Holmes will get into later in this presentation, there is still a demand for redevelopment debt, and there is a market for these refunding bonds as well. With that, I'd like to stop here and ask if Chris Hill would chime in with sort of a statewide perspective, because they were the organization responsible for working through some of these dissolution issues as well. Chris?

>>: I would be happy to. My name is Chris Hill. I'm with the Department of Finance. I've been handling or assisting with the redevelopment agency wind down since the administration first proposed it a couple years ago.

As you noted in your presentation, it was a two-bill package, AB 26 and AB 27. And at the state level the operative assumption was that virtually every redevelopment agency in this state would participate in the ABX127, the voluntary alternative redevelopment program, and thereby remain in existence. And I think everybody was maybe a little bit thrown for a loop when the Supreme Court ruled that 27 was invalid and 26 was the new law of the land. I think a lot of folks were not really expecting that to happen. We found ourselves suddenly tasked with overseeing the dissolution of 400 plus agencies and all that's attended to that.

As you noted, one of the big issues was bonds. There is a very strong interest at state level to protect the interest of bond holders. We realize that's important for local finance and for the state's overall credit rating. When it came time to take some steps to address some of the deficiencies in the initial ABX 126, at which time AB 1484 was enacted, in AB 1484 among its many provisions, contained the bond refinancing provisions that we are going to be discussing today.

The idea behind them is, and I will get into this more later during my presentation, the idea is twofold. Number one, it's to save money for all the -- save money for the taxpayers by reducing bond payment costs, refinancing to a lower rate, and thereby expediting the receipt of property tax revenues by the other effected taxing entities, the cities, the counties, the special districts and the K-14 schools.

Another very important reason in the state level why we went ahead and did this was to eliminate the possibility that the successor agencies may be faced with debt they might not be able to pay. One of the strong interests we have is to eliminate any bullet payments and eliminate any fluctuations in payments that could be harmful to the successor agencies and harm their ability to meet their obligation to bond holders.

>>: Thanks, Chris. That gives a good perspective from the statewide view and how your organization looked at it. Thanks for being so honest about your assessment on AB 26 and 27, that you guys were caught off guard just as much as those of us in the local community were with the Supreme Court decision.

I wanted to hit on a couple of issues that continue to be lingering issues with AB 26 and 1484. So if we go to the next slide there are two I'm going to talk about.

Slide 5 - Current Issues for Bonds (12:33)

The first is the cash flow issues or flow of fund issues that occur because of the ROPS. The second is some lingering questions on redevelopment plan limits, and particularly the status of tax increment limits.

Slide 6 - Cash Flow Problems (12:58)

As you can see on next slide, the cash flow problems really revolved around the fact that AB 26 has laid out a two or a bifurcated allocation system under the ROPS. So revenue that is paid from the RPTTF from January is used each year to fund January to June obligation. And revenue that's released from the RPTTF from June is used to pay the subsequent July to December obligation. And as folks are aware of, bond debts service is uneven during the year. Spring payments are typically interest only, whereas fall payments include principal and interest. So you have an uneven obligation schedule. And this problem can be made even worse because in a lot of counties more revenue is disbursed in January when debt service is low than in June when debt service is high. Going to the next slide:

Slide 7 - Cash Flow Problems (14:05)

The dissolution act contributes to this problem because to the extent that there is any RPTTF not used or needed to pay obligation in any individual ROPS period that money is to be supposed to be distributed to the taxing entities. So many agencies that maybe have experienced the fact that they could have a shortfall in their debt service payments in the fall if they don't replace reserves in their spring ROPs.

I wanted to do a quick number run on the next slide.

Slide 8 - Bond Reserve Calculations (14:40)

To show how these bond reserve calculations work. Doug Anderson in his presentation is going to get into this in a little bit more detail. In this example, the RPTTF distribution in the spring ROPS period, the January to June period, is coming in at $1.6 million, while the debt service and the administrative cost totaled $925,000. So there is a surplus at during the first part of the year of 675,000. But then when you get to the second half of the year, the remaining RPTTF to come in is only $850,000 during the period when debt service is high. The debt service for the second half for this agency would be $1.4 million. And the total in administrative allowance is included would be $1.5 million and this agency could end up in a default situation if it didn't reserve the surplus from the first ROPs period to be applied to the second ROPs period. This is one of those issues, lingering issues that people have had to get used and had to deal with. There may be some ways as bond refunding takes place, to even to schedule out or some people called it to smooth out the process a little bit.

Slide 9 - Redevelopment Plan Limits (16:08)

Going to the next slide, I wanted to touch on these redevelopment plan limits and the issues that revolve with those. For all redevelopment project areas, there were three limits that were put in place in the redevelopment law. The first two, the debt occurrence limit and the plan effectiveness limit, really under the dissolution act, don't have any impact. You can’t issue any more debt, so the last date to incur debt really doesn't affect anyone. The time frame for when the plan can be effective and when you can undertake activities is no longer valid because you can't do redevelopment anymore in the state. The debt repayment time limit, the time limit when tax increment can come is still important. But I think that has been solved internally by agencies because their debts all fall within the final date that they can issue bonds through. But the open questions are these cumulative tax increment limits which affect plans that were adopted prior to January, 1994.

Slide 10 - Tax Increment Limits (17:13)

Shown on the next slide, these were cumulative limits on the amount of tax increment an agency could receive in a project area. And prior to the dissolution act the plan would set the limit. And it was typically based on total tax increment allocated to an agency including all of its past through payments and administrative fees unless the plan itself specifically excluded these amounts. So the question is, under the dissolution act, does the limit still exist? And if they are, how are they calculated?

Slide 11 - Tax Increment Limits (Cont.) (17:47)

So as we go to the next slide I'm going to give you the argument for why I think they no longer exist. And it is embedded in the dissolution act itself. Because in the act it says that there is no longer tax increment. All the revenue that flows into the RPTTF is now property tax. And under that approach I would say there are no longer tax increments.

The second answer I would give is not a legal answer but it's an answer over who is harmed or who benefits from eliminating these tax increments. If the limits continue to remain in place, agencies will progressively begin to reach those limits or reach a certain percentage of the limits, typically 85 to 90 percent, where they will start having to sequester funds under their bond document to repay their bond early in order to not blow through the limit. And at that point in time, the agency will in essence go dark, and any residual revenue that's currently flowing to the taxing agencies will stop because that residual revenue will need to be applied to the early payments of the bond. For this reason I think that there is a benefit to everyone for eliminating these limits. But I also recognize, and I'm going ask Danny to weigh in on this, that it's not clear.

The redevelopment law, the other provisions in the redevelopment law, was not removed as part of the dissolution act. And it's very hard when you are issuing bonds to make a definitive statement that the limits don't apply and usually end up in a situation where under worst case scenario you have to say they do apply and under what conditions they do apply under. Danny, can you kind of chip in here with me and maybe give some of your perspective? And then I was going to ask Chris to weigh in as well because I know the state is looking at this in the short-term to try to figure out how to deal with this.

>>: Thanks, Don. I think, sort of, to build on what you just mentioned, you know, successor agency refunding transactions are in its infant stage. To date I believe only four transactions have closed. And having worked on two of those four transactions, I can say that there are many questions that arose during the transactions that, you know, never existed when we were doing tax increment, just redevelopment agency transactions. And so a lot of these questions have

been sort of vetted. And I think at the end, I think what we all do is try to take the most conservative approach to some of these questions.

And so, sort of kind of using the worst case scenario, where it does apply, and it applies to all of what used to be tax increment amounts and not necessarily what the successor agency receives, I have seen sort of that approach being taken so far. But, again, as we sort of understand better, some of these provisions, I think there will be changes coming along the line and people accepting those interpretations.

>>: Thanks. Thanks, Danny. I have also got a request to define what RPTTF means. It is the abbreviation for the language that's in AB 26, in redevelopment property tax trust fund. It's where the former tax increment goes when the county auditor receives that, they place it in the RPTTF for distribution money going pass through payments, county administrative fees to the successor agency to pay its obligation, and then finally as residual revenue if anything is left over. Chris, can I ask you to weigh in on this question as well and how you guys have looked at it so far?

>>: Yes, our attorneys have been looking at this closely for some time. I am afraid they don't have a definitive answer yet. But I expect they are close and we will have guidance in the pretty near future.

>>: That would be very helpful for us to move forward on this. I don't know if any of our other panelists, Doug or Ralph would like to make comments on this before we move on.

>>: There is one thing that I would add. You know, without clarification, the deals that we are working on we have to put in place language that protects the bond holders. The bond holders are going to require that once the amount collected plus your future debt service equals your future debt service, you are going to have to sequester money.

>>: That’s what causes the problem of that some of these agencies will go dark. And no one will benefit from that is my sense and it adds additional risk on these refunding deals.

>>: This is Doug. I would add that on deals that we have been working on, that have closed, we have to take the stance that the limits are still in place. We are assuming they are still being tracked, and in most cases we are assuming it is gross income counted toward those limits. And until we hear otherwise, that’s been the practice.

>>: Right. I understand why in the worst case and why we have to do this and all. It just makes no sense to me at all that money that a redeveloper or successor agency never receives somehow counts against what they have received. I understand from the bond perspective how it has to be done that way.

With that, I'm going to move now into the actual part of the presentation dealing with the refunding issues.

Slide 12 - Refunding of Prior Agency Bonds (24:10)

I will ask Danny to lead us off here at this point.

>>: Thank you, Don.

Slide 13 - HSC Section 34177.5 (24:18)

So, I think everyone knows that AB 26 essentially stripped away the powers of redevelopment agencies, even the ability to issue refunding bonds to save money. And so people quickly realized that that's not a good situation. And so AB 1484 was enacted. And that added section 34177.5 to the health and safety code. I'm going to speak now about some of the nuts and bolts of this session and how some of the requirements of the different type of refunding plans people looking to. And to this date, I believe all three, all A1, A2, and A3, types transactions have all been approved by the D.O.F So we have some sort of historical, you know, evidence or information as to what is required for getting these approved. The first type of refunding transaction that's allowed is the plain vanilla issuing refunding bonds for saving. That is allowed under 34177.5 A1.

And really, as long as you meet the savings test, which is, you take the total interest plus the total principal of the refunding bond. And as long as that is not greater than the interest plus principal of the bonds being refunded, then you meet the savings test.

It allows for the principal amount of the refunding bonds to be actually greater than the principal amount of the refunded bonds. That is because typically you have cost of issuance and reserve fund requirements that are needed. So it allows for an increase in the principal amount.

As you can imagine, if the refunded bond had, for example, a surety of a reserve fund, if you were to now have a cash funded reserve fund, even though the law may allow you to have an increase in principal amount depending on the savings, the interest rate differential, you may not be able to meet this test. Also, what this session allows is the pledge of the revenues that were pledged to the refunded bonds, but they have to be at the same priority lien.

The second type of refunding transaction that's allowed is for the purpose of curing any spikes in debt service, including balloon maturity. And a classic case would be if a redevelopment agency prior to dissolution issued some sort of note transactions where they expected some developments to come on line and produce more tax increments. And so they issued a short-term note which he expected to take out with a long term bond issuance. That would be allowed. And obviously, unlike A1, there is no sort of savings that would be difficult to do.

What it requires is just that the refunding bond, I'm sorry the existing indebtedness, the refunding bonds is not accelerated, except to the extent necessary to achieve a substantially level debt service and B that the principal amount of the refunding bond shall not exceed what's required to do the refunding, including establishment of a customary reserve fund and to pay cost of issuance.

There is no mention of any sort of priority lien, priority of the lien, because, again, the refunded bond typically would have been secured by, really, capitalized interest. And if there was no explication that the principal would be paid from tax increment, it would have been refunded from long term indebtedness.

The third type of refunding transaction is to amend an existing and forceful obligation in connection with a refunding bond. Here, the typical case would be if for example, the redevelopment agency entered into some sort of a reimbursement agreement with the city or other agency, and it was used to essentially pay directly or indirectly, the obligation. And here, it allows for the amendment of that existing obligation.

However, it has to be in connection with the refunding of the bond. And all of these requirements are sort of, there is individual, specific section requirement, but there is also, sort of an overarching requirement. That is 34177.5 H, which provides that the successor agency shall make diligent efforts to ensure that the lowest long term cost financing is obtained and financing shall not provide for any bullets or spikes, and shall not use variable rate. And the successor agency shall make use of an independent financial advisor in developing financing proposals and shall make these work products of the financial advisor available to the department of finance at its request.

So this section essentially governs all types of refunding. And you know, one of the questions that sort of, has risen is when it says that the debt service shall now have spikes. You know, what does that mean? Is there some room between levels that service and something that is less than an egregious restructuring of the amortization?

Perhaps, Chris, maybe you can tell us if the Department of Finance has any sort of view on the ability to do something other than a straight level debt service bond issuance.

>>: I think we have to decide that on a case by case basis. We certainly don't want to see some egregious spike in debt service cost in the proposed refinancing. But there could hypothetically perhaps be some sort of scenario in which a minor fluctuation could be something that is perhaps necessary, in which case that would be disclosed to us in the refinance proposal and we would take a close look and determine what that's reasonable and in the spirit of the law. All of that has to be decided around case by case basis. Although, we encourage successor agencies to have level debt service in their proposal to the extent possible.

>>: Chris, let me expand on that a little bit for you because we have got a question about this as well. I think what some agencies are thinking about is to take the savings that are going to be had from the refunding, loading it up front so they get the benefit of it in the next say five years or something like that. And the question that people have is how would the department look at that?

>>: I'm not quite sure, to take the savings and front load it for what purpose?

>>: Well, just so there would be lower debt service in the initial period and more of the savings would be had at that point. You would end up with debt service after, say year six, that would match pretty close to what the old debt service has been on the issuance.

>>: Okay. For example, taking the savings and the refinancing and applying that in sort of a forward basis to reduce the principal in the first several years, and then --

>>: Right.

>>: Okay. Then, you know, that's something we can look at on a case by case basis. My initial thought is that it might be something that's feasible and reasonable thing to do. But we have to look at it in the totality of the proposal.

>>: That's helpful to know that people can at least explore that with you. A question for you Danny: Is there some savings threshold that has to be met? Or is it just that you have to achieve savings, and then there is a pretty standard public finance savings level of 3%mpz before you pursue a refunding like those?

>>: Yeah, I think, under the law, there is no threshold as long as you have dollar savings. Under the law, I think the requirement would be met. The agency that we have talked to and have dealt with essentially want to know, and I think sort of resonates with the initial question was, why do a refunding? So I think most agencies when they look at a refunding opportunity, what they want to know is sort of, what of the savings amount, how much of that is the city's general fund going to get? And every city is going to be different in terms of, you know, their need and sort of what amount is palatable and worth for them to move forward. And so depending on the city's portion of the taxes, that may be, you know, minimal or it can be very significant. So I think it's just sort of, again, case by case with the cities just deciding whether or not the amount that they expect to receive is sufficient for their purposes.

>>: Understood. And Doug is going to get into that issue as he goes through his presentation.

>>: Right.

>>: Thanks, Danny.

>>: Okay. So I have covered sort of 34177.5.

Slide 14 - Oversight Board Approval (35:35)

I think this is really the section that gets recited the most, and people I think will become intimately familiar with all of the language of this section. So once you have decided to, the successor agency decides to do a refunding, then what? And I think section 34177.5 also provides that any kind of transaction authorized under this section is subject to oversight board approval.

Now, in 34177.5F, what it provides is that an oversight board may direct the successor agency to commence any of the transactions described in subdivision A, so long as successor agency is able to recover its related cost in connection with the transaction. There are costs that the successor agency will incur in connection with a transaction. Some of those costs would not be contingent on a successful closing like a typical bond transaction. And so a successor agency looking at a refunding opportunity may be hesitant because it's going to have to incur a cost. And so I think this section provides a cover for the successor agencies. And so many agencies are asking the oversight board to direct them to do the refunding. And therefore have the ability to recover these costs in the event that the transaction does not successfully close for one reason or another.

I think currently, I think the biggest sort of risk is interest rate risk. When you begin a transaction you may be able to show savings, but a significant move upwards in the interest rate may knock the deal out of the savings requirement. And therefore the deal doesn't move forward and the successor agency will be stuck with the costs. And this section allows for the successor agency to essentially recover those costs. I don't think any deal, I don't think there has been a request to recover these cost. It has yet to be tested. But the law allows for the recovery of those costs.

Slide 15 - DOF Review (38:24)

Once the oversight board has approved or directed the successor agency to do the refunding, then it is subject to the Department of Finance's review and approval. And essentially, once a packet is sent over to the D.O.F for their review, they have five business days to request the review. And so far, I know of no case where the deal has not asked for a review. And typically, they ask for a 60 day review period.

Again, so far, I know of no instances where the D.O.F has not asked for the full 60 days to review. If the D.O.F fails to request a review within five days, then basically the scheduled payments on the bond, the section provides, it shall be listed on the ROP, and it shall not be subject to further review and approval by the D.O.F for the controller. What's critical is that if the refunding does occur that the successor agency makes sure that it gets on the next ROP so that it has the protection under 34177.5.

>>: Danny, I think this is a good segue to have Chris talk about the D.O. F perspective.

Slide 16 - Refinancing of Redevelopment Agency Debt (40:06)

I did want to raise two questions that have come in before Chris speaks. One that I think deals with a little bit of confusion about a comment you made on the refunding for balloon indebtedness. The question really is, why would there be a market for such type of refunding if there is no- if bonds are secured by a lien against the revenue stream? And I don't think that's exactly what you said, but maybe you could clarify that.

>>: Right. No. I'm sorry. The refunding bonds will be secured by the same sort of revenues that secure a refunding bond under A1. And so if I misspoke, I apologize, but that's not what I meant to say.

>>: Yes. That's what I assumed. And then the second question has to do with sort of the correct procedure to be followed in terms of getting approval, which is, should the successor agency first approve the refunding before you go to the oversight board? And if you don't do that, will D.O.F have a problem with refunding under those conditions?

>>: Yes. So those are the two different ways of proceeding. A successor agency can first take action. And then oversight board approves that approval by the successor agency. But 34177.5F clearly provides that an oversight board may direct the successor agency to commence the refunding. And if it directs the successor agency to do that, the oversight board is taking action first. Then the successor agency obviously would also have to approve the bond transaction to allow for bond counsel to give an opinion or render an opinion that, you know the bonds are authorized and binding. And so I know of a D.O.F approval where we took the second route, which is the oversight board taking action first.

>>: Right. Thanks for the clarification. Chris, we have got your session now up.

Slide 17 - Purpose of the Debt Refinancing Provisions in AB 1484 (Chapter 26, Statutes of 2012) (42:33)

>>: Okay. I won't spend too much time on this because it's already been discussed. But the entire purposes of the AB 1484 refinancing provisions were to allow for a reduction in principal and interest costs of the indebtedness of the former agencies. And they have to be in cases where that indebtedness has been declared or found to be a forceful obligation. That's very important to remember.

Another purpose is to reduce or eliminate these debt fluctuations that we were discussing previously. The concept is that refinancing will do two things. Will allow the effective taxing entities to more quickly receive a larger share of the property tax within the project areas of the former RDA's. And the second concept that the refinancing will eliminate these bullet payments and spikes that could perhaps endanger or threaten the ability of the successor agencies to make their debt service payments. And then again, Mr. Kim addressed this, and I won't spend much time on it, but the debt refinancing provisions in AB 1484 can be used to reduce principal and interest costs to generate savings that way or to eliminate bullet payments and debt service spikes.

And there is also a scenario in which potentially the refinancing can be used for debts from the former RDA enforced or obligated to pay on behalf of another taxing entity. It could be situations where perhaps there is enforceable obligation for the former RDA to make the debt service payments on maybe a debt instrument issued by the city that created the RDA, hypothetically.

And then also, there are scenarios in which debt issuances can be specifically required by an enforceable obligation. So there can be limited scenarios in which the former redevelopment agencies, the successor agency, has find it necessary to issue new debt as part of the enforceable obligation it inherited from the former redevelopment agency.

Slide 18 - Debt Refinancings Must Meet the Following Criteria (44:50)

When we are looking at these refinancing that are coming into finance, we are looking at key things. One thing we are looking at is to ensure that refinancing is an enforceable obligation. Again, I can't stress that too much. We want to ensure the principal and interest cost of the new indebtedness does not exceed the principal and interest cost of the existing debts. We want to ensure there are no bullet payments, debt service spikes or variable interest rates. Although mentioned earlier, there would be scenarios of minor fluctuations of payments that we would be willing to look at on a case by case basis that's reasonable.

The total principal of a new indebtedness cannot exceed the amount required to defease the debt already being refinanced except for the debt service reserve and paying related cost of issuance. Of course we still have to have a net savings. And if a debt issuance is required by an enforceable obligation the total new debt cannot exceed the amount of property tax required to already currently pledged to that enforceable obligation.

One thing also to bear in mind is we don't want to see a refinancing where it's going to result in additional money available for the successor agency for discretionary purposes. The sole purpose of the refinancing is generate savings and to retire of debt more quickly not to create a new pool of money to be used for other activities.

Slide 19 - Debt Refinancing Process (46:18)

So in terms of how the process works, the successor agency should gain oversight board approval prior to issuing a refunding bond. So when the proposal comes into finance it should be approved by the oversight board. The successor agency has to procure an independent financial advisor to assist in developing the refinancing proposal. I think this would be a good time to address the question of what happens if they hire an independent financial advisor or send a proposal to finance and finance subsequently rejects the proposal. In a case such as that, it would be possible to add the cost of the independent financial advisor onto the ROPS of the enforceable obligation. I wanted to make that clear.

Once the oversight board has approved the refinance proposal it has to be submitted to finance. And as was mentioned in the previous presentation, finance has five days in which to approve it or request to extend the review time to 60 days. In the event that finance does approve the refinancing proposal, the debt service should be added onto the ROP in a new line item, and the ROP also should be amended to reflect retirement of the debt that's being refunded.

Slide 20 - Debt Refinancing Process (continued) (47:42)

Moving onto the next slide- just some helpful hints here. Generally speaking, successor agencies should expect the finance to take the full 60 days to review the proposals. As you can imagine many of them are pretty complex and they also have to be accommodated within our existing work load, ROPS reviews and long range property management plan reviews and due diligence reviews.

And I just wanted to take a minute here also to talk about how we look at it internally in finance. What will happen is you will send your refinancing proposal to the redevelopment agency in box. You should also send a copy to your assigned analyst. The assigned analyst will go ahead and begin the review process and look at that. They are also going to be working with our attorneys to have their legal guidance as well. That's another reason why it's going to take a little bit of time to look at these because our attorneys are very busy and we are involved in over 100 lawsuits right now. But because of the legal complexities involved, we want to make sure our analysts have guidance from competent legal counsel when looking at these proposals.

Moving to the next point, when you submit your proposal, please include a copy of the independent financial advisors work product because you are going to be asked for that anyhow. So it is a good idea to send that along at the same time you submit your proposal. And in terms of the oversight board resolution of approval, they should cite the applicable health and safety code section pursuant to which the refinancing is being proposed. They should identify the enforceable obligation to which the refinancing proposal corresponds. And ensure any dollar amounts or refinancing terms or percentage rates are mentioned in the oversights board resolution of approval, please ensure that those sync up with the numbers contained in the independent financial advisor's report. That will help expedite our review. We don't want a stumbling block for something as minor as that.

Slide 21 - Pledged Revenues (49:48)

>>: Chris, before I turn it back to Danny, we have a question here from one of the attendees and it kind of harkens back to the discussions we were having earlier about the cash flow timing problems and tax increment limits. And the heart of the question is, given the uncertainty with RDA bonds, there has been downgrades by Moody's because of some of the provisions of the dissolution act. Would D.O.F consider some form of clean up legislation to clarify or eliminate these tax increment limits or perhaps change some of the issues or clarify some of the issues that revolve around the cash flow problems with ROPS.

>>: In terms of the current legislative session, the first year, the session is ending today. I think the window for any action for the foreseeable is closing as we speak. Generally speaking in term of the refinancing provisions I think we think that the existing statute is pretty clear on most issues. So all that I will say at this time I don't really anticipate the administration believing there is a need to move forward with any cleanup to address any issues related to the refinancing.

>>: Thanks, Chris. Danny, I'm going to pass it back to you. Maybe if you could get through the next few slides quickly so we can get to our speakers.

>>: Yes. I guess one question for -- one additional question for Chris. Chris, has there been a case where the request or approval was rejected? And then there was further appeal of that rejection?

>>: I can't -- I'm not sure, to be honest. But I can tell you that in an event that a proposal is sent in and we take a look at it and we reject it, I think I was asked before if that would result in restarting the 60 day clock. Technically I believe it that it would. We would reject the proposal and send it back to the successor agency to be reconsidered to the oversight board and then the oversight board would resubmit it to finance. Technically I believe that would restart the 60 day clock but I believe since we have done so much of the leg work the first time around we would get through it more quickly the second time because a lot of the questions have been answered.

>>: This is Ralph. I have been involved in two where they have been kicked back. And in both of the situations the Department of Finance was open to the conversation and basically turned it around in a week or so. Those are specific situations but the Department of Finance attorneys looked at it and had conversations with bond counsel about what the language did and whether it did or not. In both cases, it was successful.

>>: Okay.

>>: Very good.

>>: I'm going to run through. I'm sorry. Go ahead.

>>: Go ahead, Danny, please.

>>: I'm just going to go through the concept of pledge revenues before and after the dissolution. Basically, they are very similar even though the language may be different. Before AB 1484 we had essentially two types of transactions. We had the ones where it was secured by 80 percent tax increment, less pass-throughs and administrative costs, obviously less pass-throughs unless they have been subordinated. Or we had transactions that were secured solely by the 20 percent housing set-aside revenue. And sometimes you would have sort of a mixture of these two. But I don't think it's worthwhile for us to go into those types of structures.

Slide 22 - Pledged Revenues (continue) (54:15)

After the dissolution, essentially all we have is property tax revenues deposited into the RPTTF. And we have provisions in the 34177.5 that essentially says whatever pledge existed on the refunded bond, that that won't be disturbed by the refunding bond. And so we have that concept. And so, the typical definition of what's pledged now is really just that the bonds are secured by the property tax revenues, deposited in the RPTTF. However, what we typically do is sort of narrow the pledge by saying that an amount equal to what was previously pledged that is in the RPTTF that is sort of what is pledged.

And one question that has arisen that maybe we can get other panelist' views is, given the requirement that the pledge that the lien priority has to stay the same, let's say a redevelopment agency had a senior subordinate bonds outstanding and we wanted to refund all of those out. Would we have to do a multi-tier refunding bond or can we just have a one lien? I think the bond community has gotten comfortable with that and D.O.F has approved a one lien structure where we wouldn't have to do a senior subordinate structure.

Slide 23 - Flow of Funds (56:10)

Okay. And then once we figure out what is pledged to the bonds. The next question is what is the flow of funds? How does the money from the property tax fund get distributed to the trustee for paying the debt service? And here the major difference is now before some agencies have control over the pass through payments, they calculated it and submitted those amounts. Now the first thing that is distributed out of RPTTF is the pass through payments. Secondly to the debt service on the bond, third the admin expense, and fourth, anything remaining actually gets distributed through the taxing entity. And 34177.5 still allows for subordination of pass through payments similar to what we had previously.

And if that were the case, if the successor agency were able to get the subordination, then if there were any shortfall expected, the callback provisions allow for taking monies from, really first from the fourth bucket, which is the transfer of surplus to the taxing entity, second, from the admin expenses, and then lastly, from the subordination of pass through payments.

>>: Danny, just a comment on that. I think this is one of the areas that cause bond raters some heart burn is that the subordination provisions are not quite as clean as they used to be where agencies generally received all the tax increment monies and then made their bond payment and made their pass through after that if they were subordinate. This is a problem area I would say that continues.

I also have a question that came up here. And before we move to Doug, and Doug is going to put some numbers to some of the things that Danny just talked about. There is an important question that came up. I want you to address this. How does the successor agency petition for the final and conclusive determination, which is allowed under the code section? Is it done through a letter seeking the determination of D.O.F? How does that process work?

>>: I think the person asking the question is referring to 34177.5F. Are we talking about the final determination as to the debt service on the ROPS?

>>: Yes. That is a final and conclusive enforceable obligation and cannot be overturned in the future.

>>: Right. Right. And so what the statute says is that the scheduled debt service on the bond shall be listed in the ROP, and shall not be subject to further review. So by law, once you put a new debt service, and you don't know that until you close, And so after the closing of the bond,

once you have put the new debt service on the ROP, by statute, that is now final. And maybe, Chris, you can sort of chime in as to D.O.F's view of that?

>>: Yes. Once we approve a refinancing proposal the payments which are going to be listed on the ROPs will in fact be approved going on a forward basis. The only thing that finance will be looking at, we'll just be looking to ensure that the payments on the ROPs are in accordance with the payment schedule contained in the actual refinance bond document. They will be limited to that. We are not going to be looking at it for any subsequent purposes.

>>: Very good.

>>: We are only requiring essentially one approval letter from D.O.F. And once that happens, we are not going back to D.O.F with, some sort of request for a final and conclusive on the ROPS.

>>: Yeah.

>>: It is by law.

>>: Yeah, once they have approved the refinancing proposal, and they send a letter of notification, then it can go on the ROPs, then it's finally and conclusively approved.

>>: Very good. I have got one other question, but I think I am going to ask that we turn to Doug's presentation first. And then we'll come back to it. And it deals with how we deal with the housing set aside money in these new refunding’s. Doug.

Slide 24 - Refunding Bonds Under AB 1484 (1:01:02)

>>: Thank you, Don. Good morning, everybody.

Slide 25 - Discussion Topics (1:01:07)

All right. Thanks. I want to cover quickly refunding’s authorized by AB1484. We have already heard most of that but I wanted to tie in examples of deals that have already closed. We want to talk about tax increment available for debt service. Talk about financial benefit to the city from the refunding savings that would occur. We will talk a little bit about recent AV trends and the recapture concept. And then we will finally end up with benefits of doing a stand-alone refunding bond issue. And then we'll transition Ralph’s presentation, where he is going to talk about pooling costs.

Slide 26 - Refunding Bonds Authorized by AB 1484 (1:01:50)

We have already gone through most of these categories, but just to give you some real world examples: Refunding's for savings, there have been two issues done, one for the upland successor agency and another for walnut successor agency. These were the first two done for just for savings. We had two done prior under the spikes category. These issues, upland and walnut, both received investment grade ratings and bond insurance. They were both in a comfortable surplus mode where they were generating residual revenue so S&P was happy with the amounts of money were available for debt service. So it'd be some very simple deals and they were both in good shape.

The second category, refunding for spikes we've actually had two deals done under that provision as well. Dinuba, the first deal done under the new statutes, and Monrovia. We did hear about some of the views from Chris in the Department of Finance on those types of issues. These were a little bit tougher to explain, and these were actually the first ones done. We were going from interest only payments to a new bond issue under the new statutes that would have principal and interest. So the payments were actually higher than the prior interest only payment. We had to get through that, explained how that worked.

Something that helps us with the explanation, both of those note issues had actually termed out. The term dates had come and gone and they weren't quite able to use new statutes yet but they were both in default mode for several months. In default mode they were actually paying 12 percent annual interest to the bond holders. With those payments, we were able to show them the new principal and interest payment on a new bond issue would be less than the 12 percent interest only payment. That was unique to those two deals because we were caught in a bad time period where they had just ended and these statutes were just coming on line. We were able to work through that. A lot of work was done with Standard & Poor's, making them comfortable with how these deals work and we've come a long way and so it paved the way for doing more refunding at this point.

Slide 27-Available Revenues (Prior to RDA Dissolution) (1:04:07)

We want to talk about, drill down a little bit on what we are pledging. I thought it might be helpful to revisit how we used to look at cash flow prior to dissolution. An example project area we would have the total assessed valuation. You would deduct the base year valuation to arrive at the incremental assed valuation. Then we would apply the tax rate. This example had a little bit more than one percent additional debt service amounts. And we would arrive at a gross tax increment revenue here of $5 million.

In this example we have deducted the old housing set aside. That was able to be pledged to debt. In this example we assume that we are taking that off and it's not pledged. We would have senior pass through payments we would deduct. And then county admin fees and we would arrive at a pledged tax revenue number after deducting those items. Typical coverage factor 1.25 times would allow for debt service of around 2 million dollars. The additional 500 the difference between the pledged tax revenue of 2.5 and the $2 million that you are spending on debt service.

Would then be at the agencies discretion could be used to pay subordinate pass-throughs or RDA admin. or other project costs.

Slide 28 - AB 1484 Revenues (1:05:27)

Of course now we know we are living in a different world under AB 1484. We have heard some of this discussion from Don. Really, two payments times: January 2nd and June 1st. That's the only time that payments are made to agencies into the redevelopment property tax fund. We have had a few, two or three ROPs now, so we have seen some trends. One of the trends is the January payments tend to be larger than the June payment. One of the reasons would be the payment on June 1st, that fiscal year has not ended yet. So under the old system you would typically get distributions that would dribble in over the summer that still might be attributable to the prior fiscal year.

In this cause, the county auditor is cutting a check on June 1st, so anything that comes after that is included in the January 2nd payment. Typically, there is no set percentage, but we've noticed that it can be around 6040; 60 percent on the January payment, 40 percent in June payment. Let's work down the January 2nd column. The county would deduct the admin fees. They would deduct all pass through payments. That's what Don was alluding to. Unless you go out of your way to invoke the subordination provisions now, the county will be paying all of the pass-throughs.

Now we arrive at pledged tax revenues. Don talked about some of the cash flow problem. For this example I have assumed we would have to set aside 750,000 to make it to the next principal payment on the other side. We work our way down and for the spring payment we have $1.1 million available to pay the interest only payment in March in this example. We also would have the successor agency admin, for most folks, 250,000 a year. Increment is much higher. Most folks are getting $250,000 per year for admin. allowance.

We arrive at a number down at the bottom that can be used for other enforceable obligation or if there are none, it could potentially distributed back to you. Back up to the June districts, a little bit less revenue. And we have shown proportional county admin fees and proportional pass through payments. And that's the way we see most counties doing it. Obviously you will to check with your own county to see their procedures have been. Arrive at less tax revenue now. Now we incorporate the 750,000 we reserved on the first payment and use it here to help make the debt service payment that's due. And the Department of Finance has made it easier for everyone on the latest ROPs form that has come out. There is now a separate column that allows you to show how you are parking this money to be used on the next successor payment period.

Working our way down, we make the principal and interest payments, pay the additional admin and still have some left over in this example to pay other enforceable obligations. In this example, essentially the same numbers as on the pre-dissolution worksheet, we have a higher debt service coverage now because we have included the former housing set aside. In this example we are just assuming that it is just one set of bonds that we are refunding. Where this gets more difficult, if there are prior bonds that have different lien priorities, then what Standard & Poor's is typically requiring is they want to see a waterfall of payments, keeping in mind the prior lien, priorities under the existing bond resolution as much as possible. Obviously the timing of this makes it a little difficult. But to the extent you can, they still want you to be mindful of the existing lien priorities. If that includes a housing pledge, you would have to make some allowance for sort of a faux calculation of housing revenues even though it's not required anymore.

>>: Can I stop you there for just a second.

>>: Yeah.

>>: And we have a couple of questions on this housing set aside issue. And this may be a good time to jump in and try to get some answers to those. Let me pose this as sort of a theoretical question to the panel. And you can chip in first and then we'll pass it around. What about a situation where you are doing a refunding of your debt and you didn't pledge your housing set aside to the original debt. But now, because 1484 and 26 don't require the housing set aside deposit, are we in a position to be able to use that money now as part of our pledge?

>>: Yes. I think you are. I think Danny alluded to that. I'll let him expand on that. But yes we have been using those monies because they are all available at this point for refunding bonds.

>>: Let me dig deeper on that question. Say you had two series of bonds, neither one of them had a parity with each other. Neither had a housing set aside. Only one of them will produce savings. You are going to refund one of them and not the other one of them. Danny, what are the complications of doing something like that. Do you end of having to do a subordinate issue? Do you amend your pledge language to free up that money? Are there other options that you can look at?

>>: Yeah. If you had two series of bonds, all you can do is issue one of the series.

>>: Yes.

>>: Yeah, I mean, essentially, if you have any existing debt outstanding, then you would have to essentially meet the covenant of that bond issuance if you can. And if you can't, you would have to do something on a subordinate basis. But typically, if this is where sometimes you would have to let go of that housing set aside revenue and pledge the amounts in the RPTTF in an amount equal to, you know, what was previously pledged. And here, again, we can't talk in terms of housing set aside monies or not, but we can talk about dollar amounts. And so it is kind of a murky area, but we try our best to ensure that we are not upsetting or we are not enlarging sometimes what was previously pledged.

Now having said that, as Doug mentioned, you can then pledge anything in excess of that to the extent that other bonds don't have any claim on those monies to the new refunding bond.

>>: Right. But they may not be on parity with each other at that point. But you may end up actually being in a stronger credit position doing an issue at that point because you are freeing up

that extra money and then it adds to your coverage essentially.

>>: Right it's sort of a hybrid. You are on a parity with respect to certain monies but not the others.

>>: Yes. Exactly. So one other question that came up during this, and it is a little different, but it has to do with this whole flow of funds issue where prior to the dissolution act you were essentially required to deposit all of your tax increment as it came in until bucket was filled for debt service before you could pay for anything else. And now the law requires essentially this bifurcated split of the two ROPs periods. So the question that's been asked is how are agencies dealing with this problem, this conflict? Or are there any answers for that? And maybe, Danny, I could have you answer that first, followed by Doug and Ralph if he has some input as well.

>>: Right. Well, at least we know that -- I mean agencies can only do what they receive. And so I think, you know, one of the reasons for or some of the claims against the State in the lawsuits is impairment of contracts. And at least so far I think the courts have opined that, yes, I mean, it is a little different, the law is now is not consistent with the bond document but doesn't arise to a level of impairment of contract claim. All I can say is there is a little bit of a disconnect and the agencies can only do what they can with what they receive.

>>: Right. Understood.

>>: Don, this is Ralph.

>>: Yeah.

>>: In terms of the deals that have been done, I know that all of them have in all those deals they have covenanted to put the debt service on the first ROPs. So, you know, I mean, that's what's being done in the most part for the new bond issuances.

>>: That answers one of the questions that had come up as well. Was can you do that? And you are telling me now people are going to be required essentially to do that or at least put, it may not pay the full debt service but whatever is in the RPTTF is placed in that first ROP.

>>: Yeah. And again, this is kind of murky and each situation is unique, but Standard & Poor's is very much focused on this issue, and they are the rating agency that is sort of doing most of the ratings on this kind of debt. So it will be part of the conversation.

>>: Yeah this is Doug. I'll agree with those points and add that and maybe Chris can weigh in. But the Department of Finance so far, I have not seen any pushback when agencies are operating under existing indentures that talk about setting aside monies for perhaps the next years’ worth of payments. If they are asking for that up front on the ROPs, in most cases I have seen, it's been allowed.

>>: All right. Doug, do you want to continue on and get to this important question of the beneficiaries of these refunding’s?

>>: Sure. Sure. One more thing before we leave this. Focusing on Standard & Poor's, they are really looking at what agency's debt management policies are overall. Because the successor agencies now have a little bit of leeway in asking for these monies, doing some calculations on how much we need to make the next payment. They want to see that there are policies and procedures in place to do that and to make sure that you are actively monitoring your debt, you are filing your ROPs on time, obviously, you are including these additional amounts when needed and especially the set aside prior indentures. They will be looking at those types things. So there should be at least some discussion of that and ideally some policies and procedures in place to explain how you are going to monitor that going forward.

Slide 29 - Benefit to City G.F. from Refunding Savings (1:16:36)

Okay. This slide we are talking about, how we filter down to residual revenues and how that benefits the city. And that's really where we are trying to get to. Looking in the first column here, we are just going to talk about an agency that has existing debt before we look at refunding. In this example they have got $3.2 million available for debt service. We deduct debt service payments, other enforceable obligations, the annual admin allowance, and we would arrive at the residual revenue then that can be used to give back to the tax entity. That was really one of the main purposes as Chris explained of all this legislation.

The city general fund -- changing hats for a minute, the city general fund is a taxing agency and in most cases gets from 10 to 30 cents depending on the county that you are in, your specific area. But in this example we have shown out of this $800,000 dollars that's left over, they get about 21 cents, and that's a pretty healthy number. That will come back to the city as a distribution amongst all the other tax entities.

Included in the next would be school and water districts and everybody else who are not city general fund. After refunding of course, we are going to lower the debt service payment. We are going to have more residual development. In this example, we have shown an extra 40,000 to the city general fund on an annual basis. If we have a 20 year refunding issue, that's $800 grand. So there is a pretty healthy incentive to will help out the city side. Ralph will talk about the successor agency benefits. But the main benefit that we have been able to see is to the city side. So that’s where we’ve been focusing.

Slide 30 - Recapturing 2% Assessed Value Growth (1:18:30)

I want to take a sideline real quick. I think most of us have seen some improvement in assessed valuation and just wanted to touch on this recapture concept. Under prop 13 the 2 percent inflation factor is calculated against the property's original purchase price, regardless of intervening decreases in property value. The recapture process allows a tax assessor to increase the value of property above the annual 2 percent limit if property has lost value for failed to increase value in previous years.

There was a court case in Orange County back during when the last real estate bust and boom that challenged this. And the California Supreme Court held that the 2 percent limitation applied only to increases in the base share value.

Slide 31 - Recapture (Cont.) (1:19:15)

I have got a chart here. This blue line is two percent tread line. We talk about the 2%, but it can be different depending on inflation. Let's say someone buys a single family home in 2007 for 400 thousand dollars. The first year after purchase it might go up 2 percent and then as we all know, there were many declines, depending on what areas you are in. Some pretty dramatic declines. And this smaller line talks about the actual assessed value. And it bounced around a bit and now we are starting to see some increases. The point of this is if you are below this 2 percent tread line the assessors are in the rights to increase this, and this is an extreme example but it could be as much as 30 percent to get back up to the 2 percent tread line. So we are talking about increases that will be greater than 2 percent. We are starting to see that. We are expecting that will be coming on line in the next year or two for some of the communities in which the recoveries are occurring. The point of this is values are increasing revenues should be getting stronger. This will lead to increased coverage factors and make it easier for people to refund the bond.

Slide 32 - Benefits of "Stand Alone" Refunding Bonds (1:20:42)

Finally, I wanted to go over the benefits of the stand-alone refunding issue. The biggest advantage right now is speed. When we are talking about a pooled issue you will have other folks involved, other cities, and different deadlines. An individual issuer can complete a refunding transaction faster than pooled issues. In this interest rate environment that's very important. Interest rates have been increasing weekly over the last few months. And issues that may have been producing refunding savings may be out of the money if you wait too long. That's an important factor.

Related to that, most of these will have an existing relationship with a finance team that can produce the documents and get the financing done to them quickly and efficiently. The finance team will be familiar with the city and know what the issues are if there are any different lien priorities and it adds a comfort factor and a speed factor.

Finally, continuing disclosure, I know Ralph will talk about this, but the L.A. county example they offered to help the issuers with the continuing disclosure. And they would have access to the raw data that you would need to update your annual report such as assessed valuation changes and so on and so forth. I just want to make sure, you know, everyone understands, continuing disclosure is not just a once a year activity.

Some of the things that need to be reported include things like grading changes, if your bond issue changes, or rating changes. Or if you are insurance, if those insurers have been downgraded or upgraded. Those things need to be recorded as soon as they occur so it's not just an annual report. I think most cities again that have issued bonds have some type of continuing disclosure agent that works with them on this providing all of these services in addition to just the raw data. I'll turn it back to Don.

>>: I think we are going to have Ralph lead into his discussion talking about the benefits of pooling. And then get into the market elements of some of these refunding's as well. Ralph?

Slide 33 - Benefits of Pooling Redevelopment Credits (1:22:46)

>>: Absolutely. Thank you. So in terms of pooling and redevelopment credits we talk a little bit about the county programs. But I guess before jumping into that, I have to say that individual agencies may also have this question of whether or not they should pool, you know, multi project areas together or not. They are allowed to do so in the Mark Roos Pooling Act. There is conversations about that but one of the benefits of pooling credit is with a larger transaction you are going to have efficiencies in terms of cost of issuance and then in terms of investors. Investors like larger blocks of bonds generally. Smaller pieces of bonds, smaller financing will get less attention.

In terms of, you know, there are two county run pools that I am aware of. And we are working on the L.A. county pool. They are offering additional incentives or rationale and a big one that the county has sort of pointed out is they are going to run the process with the Department of Finance. They are going to help agencies with that process. They are also going to help continued disclosure. In that case, it is the ideas that they are going to produce most of the tables and they have all of the information so they can help with that process.

Slide 34 - Market Update for Redevelopment Debt (1:24:24)

I'm going to go ahead and jump into sort of the core of my presentation, which is really about the market for these bonds.

Slide 35 - Bond Market Overview (1:24:29)

Before jumping that, I guess, you know if there is going to be a refunding, there has got to be savings that are generated. And the market has something to say about that. On this graphic, you sort of see not a ten year, but a 13 year history of interest rates. And we have enjoyed very low interest rates in the last several years. It has gone up quite a bit in the last three to four months. But an interesting thing is when we are looking at these refunding's, a lot of the refunding's we are looking at were issued between the years 2000 and 2005. And they were issued, you know with final terms of 20 and 30 years. So what happens is when you look to refund those bonds now, you are looking to refund a deal that is significantly shorter. And so we are able to take advantage of the yield curve. And so even with the run up in interest rates that we have seen in the last three months, we are finding most of the redevelopment refunding's that we are looking at make a lot of sense. They produce savings. Prior to the recent run up in rates, many were producing double digit savings, but now they are not. But it is still a significant savings.

Slide 36 - The Market for Redevelopment Bonds (1:25:52)

So one of the questions that are asked, are investors willing to buy these bonds? There has got to be a market. Our investors' concern about the issues, in terms of priority of pledges, how the ROPs process works with what was redevelopment financed before? My answer to that is despite the uncertainty regarding the dissolution, these are shown in credits. There are credits that investors understand. And there is a lot of redevelopment out there in California. Currently there is roughly $20 billion in redevelopment bonds held by investors. So it is something they are spending time on. That they are invested in, that they monitor.

You know, while they are concerned, as I pointed out, investors have not been, big sellers of redevelopment debt either. So rates for these kinds of bonds remain relatively attractive and low. This is a little bit different than in 2011 when we saw a lot of issuance before the dissolution of redevelopment. In terms of yields that have been sold, we have got four that have pointed out: Upland, Monrovia, Dinuba, and Walnut.

There are currently two deals that I know about that are slated to price in the next couple of weeks: Oakland, about a $75 million transaction; and Coachella, which is roughly $6 million. And in addition to that, I am aware of, and I am only one of the firms out there doing bonds, of more than 20 successor agency refunding's that are currently ongoing. I'm not going to say here a billion dollars, but I think the number is a billion and a half, $2 billion going forward now.

Finally, we know that L.A. County has a pool program. The current program has eight successor agencies. And that financing is likely to be over $200 million this year and potentially another $200 million next year.

Slide 37 - Ratings (1:28:23)

So, you know, one of the things that, obviously, you have to have investors who are willing to buy bonds. But in terms of ratings, while dissolution has produced some challenges, as I said before, the fundamental credit ratings remain the same. What is your debt to risk coverage, how big is your area, what is the diversity of tax payers? With dissolution of redevelopment one of the things that's credit positive that comes out of it from an investor perspective is theses agencies can no longer issue additional bonds. So you have got a closed lien, essentially. You have also got the ability to use housing as additional coverage. These things are all positive on the ratings chart.

So, you know, ratings are being provided. Standard & Poor's is really the rating agency of favor because Moody’s is basically said they really don't like these credits. They are uncertain and they are concern about the flow of funds. They are maintaining their ratings but you are not seeing them as much as S&P. I would say also in 2011 when most of those bonds were issued, S&P was probably 95 percent of them. So I guess a final comment about ratings is that the majority of redevelopment credits are in the “A” or “BBB” categories. I think there is going to be upward pressure on these ratings as flow of fund issues get worked out. And as, you know, the tax increment grows.

Slide 38 - Bond Insurance (1:30:20)

So bond insurance. I guess, you know, before the downgrade of the bond insurers, and you know, many of us lived through that and watched it, the majority of redevelopment bonds were actually insured. Currently, there are two bond insurers, both with “AA” category ratings that are looking at redevelopment debt and have actually provided not only bond insurance, but sureties or offered sureties for those transactions. In the case of Upland the assured guarantee was to ensure the offer surety. The successor agency decided that they did not want that and I know that BAM insured the Walnut transaction.

In terms of sureties that's an issue that will come up because I would guess in 20 to 25 percent of the CAVs out there likely have uninsured sureties. What those are, are guarantees from an insurer so they didn't have to fund a debt to the reserve fund. Going forward, sureties are available. The use of sureties are going to be governed by your existing documents. So if you have an existing document that says you can only use sureties that are “AAA” rated, you may have a problem because the only providers that we have right now are “AA” and “AA” minus.

In terms of bond insurance the biggest issue we have run into is whether or not it provides that much benefit. It varies, and it depends on the market. But currently we are seeing a five to ten basis points for an “A” category credit. That's a bid of around 50 basis points. And then for a “BBB” credit, you see anywhere between 5 and 15 basis points in approved interest rates.

Slide 39 - Benefits of Refunding Redevelopment Bonds (1:32:29)

So sort of touching on something that Doug referred to is, you know, sort of where are the benefits. And he talked regarding some of the savings, and why the savings go to the general fund. I guess that's obviously something that's important. But I wanted to point out a couple other things, there are reasons why agencies may consider going forward with refunding’s. There are some agencies who aren’t able to fund all their ROPS. So by going forward with a refunding versus cash flow savings, those additional savings can be utilized to fund unfunded obligations.

There is public policy conversation, you know, is it better to have the interest go to bond investors or is it better to keep it in your community? So even if the city doesn't get it, you have the school district, the county, the special districts do, that's money within your community.

An issue that we have run into and something that has motivated some successor agencies are concerns regarding liening. They have liens that are unsure, that they are concerned about. They have contingent pledges, for example, some redevelopment deals were sold with additional credit, because they were required when they were sold of the general fund of a sales tax pledge, something of that nature. One of the things that some of the successor agencies have elected to do is go forward, yeah we are going to produce savings, that's a great thing, we are also going to clean up our liens and make sure we don't have any issues out there in the future.

Slide 40 - Questions and Answers (1:34:20)

With that, I'm going to turn it back to Don.

>>: Thanks, Ralph. We have a few questions here that we haven't had a chance to address yet. We have got about, it looks like 5 to 8 minutes left in the session. Let me fire away a few of these and ask the panelists to chime in.

First question is, regarding fees, particularly noncontingent fees, are there other fees in addition to financial advisor fees such as bond counsel, disclosure counsel, underwriter and underwriter counsel which are not contingent, need to be paid? And the one I would raise is if you use a fiscal consultant like my firm, to do the revenue projection that a fiscal consultant report we do not work as contingent people and our fees need to end up on a ROPs if the deal doesn't close. Danny or Doug or Ralph, anything else you can think of? Or how you guys arrange your fees at this point?

>>: Yeah, well I think if we go down the route of having direct oversight board, directing successor agency, to do the refunding, I think you know, we would expect to have, and if for one reason or another that's completely outside of our control, the transaction doesn't close, I think we would request a compensation. But that still is sort of kind of in flux as to how do we memorialize that.

>>: In terms of underwriter discounts, we are paid a discount so our fees are contingent upon the sale of bonds.

>>: And Doug, how do you structure your fees as financial advisor?

>>: Ours would be a hybrid. We actually prepare fiscal consultant report in house, so we would look for some type of reimbursement for that activity. But the financial advisor activity is contingent on the deal closing.

>>: Thank you. I have got a question for Chris here. Question is does D.O.F need to see actual financing documents or just financing terms?

>>: I think that in many cases we are not going to be able to see everything. We are not going to be able to see all the actual financial documents because in most cases, I mean, obviously in all cases the deal won't have closed before it comes to finance for review. So we would like to see as much up to date information as we can, but we recognize that we are not going to have everything because the deal hasn't closed and is to come to us for a review.

>>: Don, I think so far people have submitted the packet with all the terms, kind of a description of the bonds, what you are refunding in the resolution, and along with a draft of the indenture at least.

>>: Yes, that's what I have seen as well.

>>: Probably the most we can expect.

>>: Yeah, and Chris, you had talked about earlier about amending ROPS. And the question is, are you allowed to amend ROPS?

>>: If we have a situation where, let's say finance has approved a debt refinancing and the debt that has been refinanced is currently listed on the ROPS and we are still in that ROPS period, I think, well obviously we are going to have to use some money that was appropriated in that ROPS to pay the new refinanced debt obligation. So in a case like that, I think what you would want to do is have an oversight board action just memorializing the fact that the money that was on the ROPS was appropriated to pay for the refinance debt, or the old debt is now being used to pay for the refinance debt and then send that to finance. But that would be, generally speaking, though, there is no way to amend a ROP. The only way to really amend a ROP is if the ROP is submitted and then the successor agency has concerns about it. They can raise those concerns during the meet and confer process.

>>: Okay. Very good. So basically, just notify you by having an oversight board action of what the change is.

>>: I think that's the real only alternative.

>>: Question: So, based on the response, a specific final and conclusive determination of the DOF does not need to be submitted to the DOF under 34177.5(i) (rather than 34177.5(f)), on the forms required by the DOF for a final and conclusive determination sought under 34177.5(i)?

>>: The Department of Finance must approve the refinancing's debt service obligation on the ROPS before the item can attain the character of being finally and conclusively approved. Once Finance approves the refinancing payment on the ROPS (i.e. once we have determined the actual refinancing terms conform with the proposal submitted to Finance by the Oversight Board) then the future payments shall be considered finally and conclusively approved.

We would like to stress the importance of noting the difference between Finance approving an Oversight Board action which approves an intent to refund, and whether the ultimate debt service meets the statutory authority. For example, if on the day of pricing the rates jump and debt service does NOT meet the calculation requirements, the Successor Agency doesn't have the authority to sign the purchase contract. If the Successor Agency does so anyway, then the debt service obligation that gets submitted would not be an Enforceable Obligation since the Successor Agency went beyond its authority. However, if the debt service does meet the calculation requirement and the final pricing does conform to the Oversight Board action that Finance approved, then we should have no difficulties moving forward.

>>: Okay. That's helpful. This question for Danny: Can a successor agency refund its bonds if it still has bond proceeds?

>>: Again, I think that's a tax analysis that would have to be done. But under, again, under the law, I don't think that it would be problematic. Now, I guess one thing if we may think about and that you probably would do, unless there is an enforceable contract earmarked to be funded with the bond proceeds, we may use the bond proceeds to fund the escrow and decrease the size of the refunding bond. But I have not had that situation arise. And so I'm not sure how the D.O.F would view that. But I think that can be worked out.

>>: Okay. Very good. This question goes to the idea that can you take a project area's revenues that were not pledged to the previous debt, let's say, you have an agency with two project areas. There is an outstanding debt in one project area that you are refunding. Can you now pledge the revenue from the second project area as part of this refunding issue?

>>: The answer is yes. I mean, all of the project property taxes in the RPTTF would be available. And so, I would propose that you can pledge all of those monies towards the refunding of the bond. You are definitely keeping the same, you know, you are pledging exactly the same thing that was previously pledged. But since you have additional monies available, I don't see why you couldn't pledge that as well.

>>: You would just have to honor any liens on the revenue stream of that second project area, obviously, before you would be able to free it up. And if there were no liens on it, then it would be available.

>>: Yes.

>>: Is anyone aware of statewide pool refinancing efforts? I haven't heard anything about that. Maybe Ralph or Doug?

>>: I have not.

>>: And then a final question in this area is can you do cross jurisdictional pooling? Can you take revenue from one successor agency, I think that's what this question is getting at, and pledge it to another successor agency? I haven’t seen anything about that.

>>: In the pools that are being done, that is, I want to point out, that is not what's being done.

>>: There is no cross collateralization.

>>: No cross collateralization. I think that could raise some issues.

>>: From a legal standpoint, I'm not sure if any bond counsel would be able to get comfortable enough to render an enforceability opinion.

>>: I don't think finance would be receptive to cross collateralization either.

>>: I think from policy perspective it's also tough. Because you know, taxing entities would be affected, could be affected negatively.

>>: Yeah, absolutely. You could have the taxing entity that would be, suffer harm, let's say, because one of its neighbors' accessed value drops rapidly and they can't make their debt service. That would be a real problem. There is a question. We are just about out of time. Since there are only 20 refunding's, is there some way to expedite these reviews so we don't miss available interest rates? Chris can weigh in on that?

>>: We are moving as quickly as we can on them. Unfortunately, we are in the time right now where we are getting the ROP 13, 14 B's and we are also dealing with a lot of long range property management plans. So I am afraid we are going to have to count, or operate on the assumption we are going to take the 60 days provided in the statute to do these reviews, although our staffs are working as quickly as they can to get through them.

>>: Fair enough. I think with that, we are just about at our time limit. If we have missed anything, we will try and respond to it.

Slide 41 - Thank You for Participating (1:43:52)

I wanted to thank on behalf of the panel, CDIAC for asking us to do these presentations today. With that, Robert, I will pass the ball back to you.

>>: Thanks very much Don for moderating and your presentations. Thank you to all the presenters, Danny, Chris, Doug, and Ralph. This morning was a great presentation. I'd also like to thank our CDIAC education team Linda Louie and Susan Mills for their hard work on producing this webinar.

Before we close, I would like to remind the audience of two upcoming CDIAC education programs. First on September 25th in Los Angeles, CDIAC will present the preconference of the Bond Buyers California Public Finance Conference, its entitled MSRB rule G-17 and Other Market Disclosures: A Pathway to Clarity or Not. And then October 22nd through the 24th in Oakland we will present our three day seminar of Municipal Debt Essentials.

And you can find information on both of those programs on the CDIAC website and also can register there as well. And also look for some additional fall and winter programming we will have coming up particularly on the subject of investments. Thank everyone for participating and we look forward to your participation in the future.

>>: Thank you all.

>>: Thank you very much.

>>: Bye-bye.