CITY COUNCIL
AGENDA STATEMENT

CITY OF CHULA VISTA

JANUARY 22, 2008 Item 2

ITEM TITLE: Redevelopment Agency:

A. Resolution of the Redevelopment Agency of the City of Chula Vista declaring the intent to refund the 2000 Tax Allocation Bonds if determined to be financially feasible

B. Resolution of the Redevelopment Agency of the City of Chula Vista waiving the consultant selection process as impractical and approving an agreement with E.J. De La Rosa & Co. as underwriter for the refunding of the Redevelopment Agency of the City of Chula Vista 2000 Tax Allocation Bonds; waiving the consultant selection process as impractical and approving an agreement with Harrell & Company Advisors, LLC to serve as financial advisor; and authorizing the Chair of the Agency to execute the contracts

City Council:

C. Resolution of the City Council of the City of Chula Vista authorizing the execution and delivery of documents relating to the substitution of a reserve fund policy into the reserve fund for the 2002 Certificates of Participation (Police Facility Project) and authorizing and directing certain actions in connection therewith.

D. Resolution of the City Council of the City of Chula Vista regarding its intention to reimburse expenditures from the proceeds of Tax-Exempt Obligations

Public Financing Authority:

E. Resolution of the Board of Directors of the Chula Vista Public Financing Authority authorizing the execution and delivery of documents relating to the substitution of a reserve fund policy into the reserve fund for the 2002 Certificates of Participation (Police Facility Project) and authorizing and directing certain actions in connection therewith.

SUBMITTED BY: DIRECTOR OF FINANCE/TREASURER

REVIEWED BY: CITY MANAGER

4/5THS VOTE: YES ☐ NO ☒

BACKGROUND

As part of the fiscal year 2007-08 budget balancing process, the Finance Department has been exploring various debt refunding options which would generate cash flow and budgetary savings to the General Fund. With the assistance of Harrell & Co. and E.J. De La Rosa, the following debt refunding/restructuring options were identified as providing cash flow relief to the General Fund and at the same time generating annual debt service savings to the Redevelopment Agency.

- Refunding the 2000 TABS for present value debt service savings of 3.4% to the Redevelopment Agency. The refunding would also provide some cash flow relief which we anticipate will be needed to mitigate any additional State takeaways due to the State's current fiscal crisis.

  An additional $3.7 million (estimated) would be added to the refunded bonds, which would be used by the Agency to repay the General Fund for outstanding loans. In order to be in compliance with tax laws, which require that these funds be used towards the construction of public facilities, staff recommends that upon repayment these funds be applied by the City to meet the General Fund's obligation to the Civic Center or other Public Facility Development Impact Fee Fund (PFDIF) related projects.

- Purchase of a bond debt service reserve fund surety for the 2002 COPS which would provide cash flow relief to both the General Fund ($755,000 estimated) and PFDIF ($1.7 million estimated).

The next scheduled debt service payments for the 2002 COP and 2000 TABS are February 1 and March 1, respectively. In order to generate budgetary savings and cash flow savings in the current fiscal year we need to proceed in a timely manner. Therefore, we are requesting a waiver of the consultant selection process in accordance with Chula Vista Municipal Code 2.56.070.B3.

E.J. De La Rosa & Co. has extensive experience in structuring and marketing tax allocation obligations for California cities. E.J. De La Rosa served as the underwriter for the Redevelopment Agency's 2006 Refunding Tax Allocation Bonds. They possess the expertise and knowledge to assist the Agency in providing requisite underwriting services for this refunding.

Harrell & Co. has previously performed quite extensive reviews of the City/Agency outstanding debt in an effort to determine if there were any economically viable candidates for refinancing. Harrell and Co. served as the financial advisor on the 2000 Tax Allocation Bonds and the 2006 Refunding Tax Allocation Bonds for the Redevelopment Agency and various COPs for the City. Their knowledge of the Agency and expertise in the area of financial consulting will assist the Agency in refunding these bonds.

ENVIRONMENTAL REVIEW

N/A

RECOMMENDATION

That the following resolutions be approved:

Redevelopment Agency:

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BOARDS/COMMISSION RECOMMENDATION

If Council/Redevelopment Agency authorizes the Finance Director/Treasurer to proceed with the 2000 TAB refunding, staff will present the financing plan to the Chula Vista Redevelopment Corporation Board members at the January 24, 2008 meeting.

DISCUSSION

As part of the fiscal year 2007-08 budget balancing process, the Finance Department has been exploring various debt refunding options which would generate cash flow and budgetary savings to the General Fund. In doing so, we have also identified some options which would generate debt service savings to the Redevelopment Agency and improve the cash reserves of the Public Facilities Development Impact Fee fund which is experiencing some strains due to the significant slow down in the housing market.

2000 Tax Allocation Bonds – Refunding/Restructuring

In May 2000, the City/Redevelopment Agency approved the issuance of $17.0 million in Tax Allocation Bonds to repay outstanding interfund loans, raise capital for projects, eliminate deficit balances in the project areas as well as fund staff and operating costs on an ongoing basis. As of June 30, 2007, there was $15.5 million in outstanding bonds with a net interest cost of 5.32% and a final maturity date of 2030. Based on preliminary research conducted by Harrell & Co., strictly on a contingent fee basis, it *appears* that the Agency would save approximately $40,000 per year on their annual debt service payments as a result of a refunding under current market conditions with an assumed interest rate of 4.4%.

As of June 30, 2007, the Redevelopment Agency owes the General Fund $30.3 million primarily due to the Town Centre II Certificates of Participation. Beginning in fiscal year 2007-08 the debt service payments have been paid directly by the Redevelopment Agency. In order to reduce the outstanding loan and to assist in relieving the City's fiscal stress, an additional $3.7 million (est.) will be added to the principal of the refunded bonds and used to repay the General Fund. For federal tax purposes bond proceeds need to be spent within three years. Repayment of Agency interfund loans are not treated as expenditure of bond proceeds, for those purposes, expenditures of bond proceeds will be tracked through the timely capital expenditures of repaid funds.

2000 TAB Refunding/Restructuring

Source of Funds	
Tax Allocation Bond Proceeds	$3,732,000
Total	$3,732,000

Use of Funds	
Debt Service Payment 2004/2006 COPs	$850,000
Reimburse PFDIF for Capital Projects	$2,882,000
Total	$3,732,000

If this resolution is approved, finance staff will continue to work with Harrell and Co., E.J. De La Rosa and the Agency's Bond Counsel firm of Stradling, Yocca, Carlson & Rauth to analyze all facets of the potential refunding/restructuring, and proceed with the preparation of the necessary legal documents for Agency approval to authorize the sale of the refunding bonds on a "negotiated basis".

A negotiated sale is best described as a "pre-marketed" sale given the ample time provided to a) structure the bonds to meet (ever changing) investor preferences b) explain the credit of the Agency to the complete satisfaction of prospective investors, and c) create investor capacity to purchase the bonds by working with investors to sell current holdings to generate investable cash and provide flexibility in timing the actual sale of bonds. A negotiated sale includes a pre-selection of an underwriter and a negotiated interest cost, based on market conditions at the time of the sale. Due to the various complexities surrounding the project areas and time being of the essence, this potential refunding lends itself to a negotiated sale. This will allow ample time and opportunity to address any questions.

2002 Certificates of Participation (COP) Bond Surety Option

In 2002, the City issued $60.1 million in Certificates of Participation to fund the construction of the new police facility. In connection with this issuance, a debt service reserve fund was established under the Trust Agreement and funded with proceeds of the certificates in the amount of $4,063,500. Under the Trust Agreement, the City has the option to fund the reserve fund with a letter of credit, a bond insurance policy or other credit facility instead of cash.

In order to create some current year budgetary and cash flow savings to both the General Fund and PFDIF, staff is recommending that the Council authorize the Finance Director to substitute the cash-funded reserve with a bond insurance policy, letter of credit or other credit facility as allowed under the Trust Agreement.

2002 COP - Bond Surety Option

	General Fund	PFDIF	Total Funds
Debt Service Reserve Fund	$2,275,560	$1,787,940	$4,063,500
Est. Surety Premium (Insurance)	($45,441)	($35,759)	($81,200)
GIC Fee	($77,168)	($60,632)	($137,800)
Total Expenses	($122,609)	($96,391)	($219,000)
Total Source of Funds (est)	$2,152,951	$1,691,549	$3,844,500

GIC - Guaranteed Investment Contract Fee incurred for termination of investment contract.

Proposed Uses of Available Funds

	General Fund	PFDIF	Total Funds
Scheduled Debt Svc Pmt. (Feb. 1)	$755,000	$0	$755,000
Civic Center Project	$1,398,000	$1,691,500	$3,089,500
Total Use of Funds (est)	$2,153,000	$1,691,500	$3,844,500

In order to comply with federal tax laws the $3,089,500, which is net of the scheduled debt service payment, must be used towards capital expenditures. As stated in the February 20, 2007 staff report presented to the City Council, the General Fund share of the Civic Center Phase III project was $1.3 million. Staff had proposed to borrow these funds from the PFDIF, which the General Fund would pay back over a 20-year period at an estimated interest rate of 5% with annual payments beginning in fiscal year 2008-09. With this proposal, the General Fund will have the necessary funds to appropriate towards the Civic Center project and avoid the interfund loan and interest costs altogether.

Appointment of Financing Team

Redevelopment Agency financing is complex in nature due to the various project areas, long-term revenue projections and rating agency coordination. Suzanne Harrell, the principal representative of Harrell & Co. has previously performed quite extensive reviews of the City/Agency outstanding debt in an effort to determine if there were any economically viable candidates for refinancing. Ms. Harrell has served as financial advisor on the 2000 Tax Allocation Bonds for the Redevelopment Agency and various City Certificates of Participation.

Due to Harrell & Co's. in-depth understanding of the City and Agency, staff is requesting Council waive the normal selection process as impractical. Harrell & Co. will assist the Agency in negotiating the interest rates on the bonds with the underwriter to ensure that the Agency achieves fair market interest rates. The cost of serving as a Financial Advisor to refund these bonds will be approximately $77,000 plus expenses.

E. J. De La Rosa & Co. ranks as one of the top underwriters of California municipal bonds. Raul Amezcua, with E.J. De La Rosa, served as the underwriter for the Redevelopment Agency's 2006 Refunding Bonds. His extensive knowledge related to the project areas will be instrumental in communicating with potential investors. The fee proposed by the Underwriter is 0.82% ($8.20 per thousand) of the par amount of the bonds based on obtaining a AAA rating for the bonds.

The City and Agency have contracted with Stradling, Yocca, Carlson & Rauth to provide Bond Counsel services. Their primary focus is on public finance, public law, tax, general corporate law, corporate securities, real estate, litigation, labor, estate planning, pension and profit sharing. The firm has served as bond counsel on the various COPs issued by the City over the past 5 years as well as recent TAB refundings.

DECISION MAKER CONFLICT

Staff has reviewed the property holdings of the City Council and Redevelopment Agency members and has found a conflict exists with Council/Agency members Jerry Rindone (Resolutions A, B, C, D & E), Rudy Ramirez (Resolutions A, B & D) and Steve Castaneda (Resolutions C & E) having holdings within 500 feet of the boundaries of the property which is the subject of this action.

FISCAL IMPACT

2000 Tax Allocation Bonds Refunding/Restructuring:

Based on preliminary projections, the refunding would provide an annual debt service savings to the Redevelopment Agency of $40,000 or a net present value of $500,000 over the remaining 22 years of the bonds based on an assumed interest rate of 4.4%. However, as part of the financing plan, the term of the debt will be extended out an additional 6 years to take better advantage of the project areas term to collect tax increment and repay debt and to restructure and reduce debt service by an additional $250,000 in each of the first 5 years.

All costs of issuance, including the cost of the underwriter, bond counsel, disclosure documents etc. will be paid from the bond proceeds. The fees are summarized as follows:

> Financial Advisor - A fee of $77,000 is contingent on refunding of the bonds plus expenses.
>
> Underwriter - The fee is .82% of the par amount of the bonds or $164,000 based on an estimated bond sizing of $20.0 million.
>
> Bond Counsel – A fee of approximately $80,000, which includes $30,000 for disclosure counsel work, based on an existing two-party agreement.

The City/RDA Finance Director will continue to work with Harrell & Co, financial advisor, Stradling, Yocca, Carlson & Rauth, bond counsel and E.J. De La Rosa, underwriter, to proceed with the refunding/restructuring of the 2000 TABS.

Further detail of costs and projected savings will be provided to Council when staff returns for final approval of the refunding proposal.

2002 COP Bond Insurance Option

There would be a positive budgetary impact to the General Fund of approximately $755,000 in fiscal year 2007-08 from this component of the financing plan. Funding for the General Fund's obligation related to the Civic Center Project Phase III of approximately $1.3 million would also be available thereby saving the General Fund approximately $786,000 in interest costs by avoiding an inter-fund loan.

As mentioned in the January 8, 2008 staff report related to the Civic Center Phase III contract amendment, due to the significant slow down in the housing market, staff had anticipated that an interfund loan or bond restructuring may be necessary to avoid a deficit in the PFDIF fund at the end of the current fiscal year. This financing option would generate cash flow savings to the PFDIF fund of approximately $1.7 million, which would assist in avoiding a deficit in the fund.

The cost of "cashing out" the debt service reserve fund for bond insurance would be approximately $317,671 ($98,601 net present value of foregone interest earnings from the debt service reserve fund, $81,200 Insurance Premium and $137,800 *Guaranteed* Investment Contract breakage fee). The costs would be taken from the cash balance of the debt reserve fund and therefore do not require any appropriations.

The numbers presented within this staff report are estimates and may change once the final financing plan is completed. The estimated cash funds available may also be modified to ensure that the City/RDA is in compliance with all applicable tax laws.

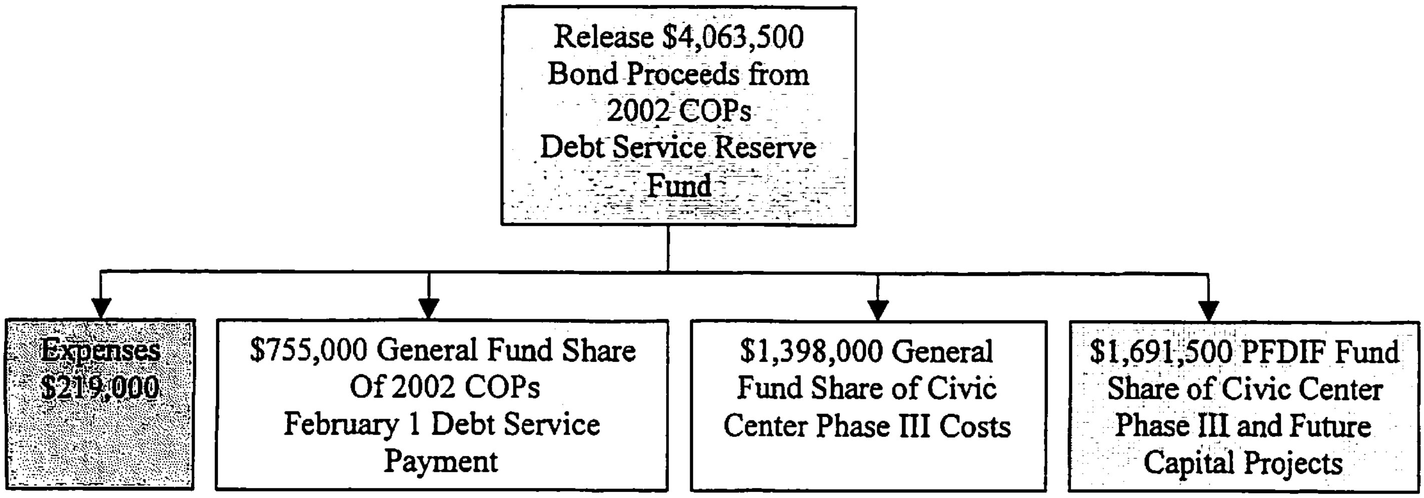
ATTACHMENTS

Attachment A – Flow of Funds

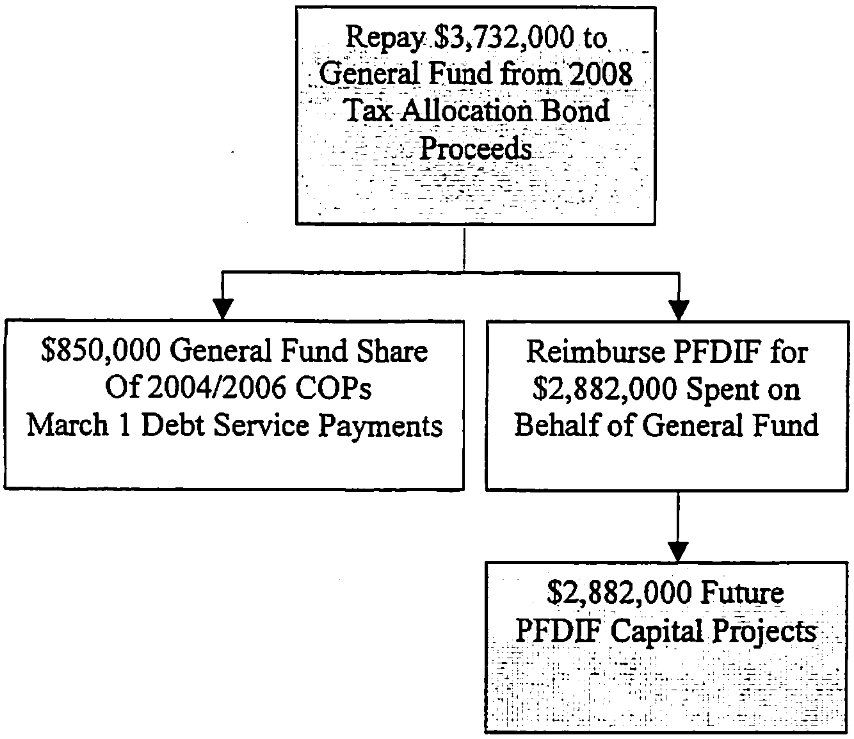
Prepared by: Maria Kachadoorian, Director of Finance/Treasurer, Finance Department

Attachment A

2002 Certificates of Participation (COP) Surety Bond Option



2000 Tax Allocation Bonds Refunding/Restructuring:



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5-0 vote