

## REPORT TO THE SUCCESSOR AGENCY

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**DATE:** May 16, 2017

**TITLE:** (Successor Agency) Approval of Preliminary and Final Official Statements and Purchase Contract in Connection with Issuance of 2017 Subordinate Tax Allocation Refunding Bonds, and Providing for Other Matters Properly Relating Thereto

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### RECOMMENDATION

**Adopt a Resolution of the Successor Agency approving Preliminary and Final Official Statements and a Purchase Contract in connection with the issuance of 2017 Subordinate Tax Allocation Refunding Bonds, and providing for other matters properly relating thereto.**

### BACKGROUND

The Redevelopment Agency to the City of Desert Hot Springs (the "Former Agency") issued the following tax allocation bonds for the purpose of financing and refinancing certain activities of the Former Agency:

- \$7,025,000 initial principal amount of Redevelopment Agency of the City of Desert Hot Springs Merged Redevelopment Project Tax Allocation Refunding Bonds, Series 2006 (the "Series 2006 Bonds");
- \$15,870,000 initial principal amount of Redevelopment Agency of the City of Desert Hot Springs Merged Redevelopment Project Tax Allocation Bonds, Series 2008 A-2 (the "Series 2008 A-2 Bonds"); and
- \$5,635,000 initial principal amount of Redevelopment Agency of the City of Desert Hot Springs Merged Redevelopment Project Tax Allocation Bonds, Issue of 2009 (the "Series 2009 Bonds")

Currently, there is \$2,025,000 of principal outstanding of the Series 2006 Bonds, \$15,870,000 of principal outstanding of the Series 2008 A-2 Bonds and \$4,945,000 of principal outstanding of the Series 2009 Bonds (in aggregate, \$22,840,000).

The Successor Agency to the Redevelopment Agency to the City of Desert Hot Springs (the "Successor Agency") assumed responsibility of all debt management with respect to the Former Agency in 2012 in accordance with and pursuant to the Dissolution Act. Under California Health and Safety Code Section 34177.5, the Successor Agency may refinance outstanding bonds with approval from the Oversight Board and the California Department of Finance ("DOF"), provided that the total interest and principal amount, on the refunding bonds do not exceed that of the prior (outstanding) bonds. In other words, there must be debt service savings created by the refinancing.

The Series 2006, 2008 A-2 Bonds, and 2009 Bonds are currently eligible to be refinanced at the option of the Successor Agency, at interest rates lower than those at the time of original issuance. The fiscal impact of the refinancing is detailed below.

On February 21, 2017, the Successor Agency directed staff to move forward with refinancing the Series 2006, 2008 A-2 Bonds, and 2009 Bonds. Since then, the Oversight Board and

Department of Finance have both approved the issuance of the Refunding Bonds. Now the Successor Agency is being asked to approve the Preliminary and Final Official Statements and Purchase Contract in connection with the Refunding Bonds. If approval is given to proceed, the Refunding Bonds are expected to price in late May and close a few weeks later in mid-June, subject to favorable market conditions.

### **STAFF RECCOMENDATION**

Staff recommends that the Successor Agency take the following actions:

1. Adopt a Resolution of the City Council of the City of Desert Hot Springs, Acting as the Successor Agency to the Redevelopment Agency of the City of Desert Hot Springs, Approving Preliminary and Final Official Statements and a Purchase Contract in Connection with the Issuance of 2017 Subordinate Tax Allocation Refunding Bonds, and Providing for Other Matters Properly Relating Thereto

A description of each document covered in the resolution is as follows:

- *Preliminary and Final Official Statements:* The official statement is the offering document that provides a description of the Successor Agency, the 2017 Bonds, and the sources of payment. It allows prospective investors to make an informed investment decision about the purchase of bonds. Federal securities laws require the Official Statement to include all facts that would be material to an investor of the 2017 Bonds. "Material" information is information that there is a substantial likelihood would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the 2017 Bonds. The resolution authorizes the Underwriter to distribute the Preliminary Official Statement to prospective investors.
- *Purchase Contract:* This contract provides for the purchase of the 2017 Bonds by the Underwriter (Stifel) from the Successor Agency.

### **DISCUSSION**

Due to the historically low interest rate environment, the refinancing is estimated to generate approximately \$5 million in debt service savings over the next 22 years, based on current market conditions. The debt service savings amount would be allocated to enforceable obligations, administrative cost and/or split among taxing entities, including the county, school districts, and the City of Desert Hot Spring's General Fund. Market conditions at the time the refunding bonds are priced will dictate the final debt service savings amount.

### **FISCAL IMPACT**

As mentioned above, the refunding bonds generate an estimated total debt service savings of over \$5 million or an average of over \$217,000 per year. Please note that these savings estimates are net of all costs of issuance. Based on the City's allocation of the residual, nearly \$660,000 would flow into the City's General Fund over the next 22 years.

The final maturity date of the refunding bonds is expected to match the final maturity of the outstanding bonds. The refunding bonds would not be an obligation of the City but rather the Successor Agency. As such, the source of repayment of the refunding bonds would be limited to tax increment revenues generated in the redevelopment project area.

### **EXHIBITS:**

- 1) Resolution
- 2) Desert Hot Springs Preliminary Official Statements
- 3) 2017 Subordinate Tax Allocation Refunding Bond Purchase Agreement
- 4) Continuing Disclosure Certificate