

REPORT TO THE SUCCESSOR AGENCY



DATE: February 21, 2017

TITLE: *(Successor Agency)*
Resolution Approving the Issuance of Bonds in Order to Refund Certain Prior Bonds of the Former Redevelopment Agency of the City of Desert Hot Springs, Approving the Execution and Delivery of an Indenture of Trust and an Escrow Agreement, and Providing for Other Matters Properly Relating Thereto

Prepared by: Joseph M. Tanner, Jr., Administrative Services Director

RECOMMENDATION

Adopt a Resolution of the Successor Agency to the Redevelopment Agency of the City of Desert Hot Springs, Approving the Issuance of Bonds in order to refund certain prior bonds of the Former Redevelopment Agency of the City of Desert Hot Springs, Approving the Execution and delivery of an Indenture of Trust and an Escrow Agreement, 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 amount outstanding of the Series 2006 Bonds, \$15,870,000 of principal amount outstanding of the Series 2008 A-2 Bonds and \$4,945,000 of principal amount outstanding of the Series 2009 Bonds (in aggregate, \$22,840,000 outstanding).

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 any time at the option of the Successor Agency and with DOF approval, at interest rates lower than those at the time of original issuance. The fiscal impact of the refinancing is detailed below.

The financing team, with assistance from staff, has produced financing and legal documents which are subject for approval by the Successor Agency. If the Successor Agency approves the refinancing and documents outlined below, then the refinancing will be subject to approval by both the Oversight Board (if not already approved prior to this meeting) and DOF (up to a 60-day review process).

STAFF RECCOMENDATION

Staff recommends that the Successor Agency take the following actions:

1. Adopt a Resolution (Exhibit 1) approving the Issuance of Bonds in Order to Refund Certain Prior Bonds of the Former Redevelopment Agency of the City of Desert Hot Springs, Approving the Execution and Delivery of an Indenture of Trust and an Escrow Agreement, and Providing for Other Matters Properly Relating Thereto.

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

- *Indenture of Trust (Exhibit 2)*: This document is a contract entered into between the Successor Agency and Wells Fargo Bank National Association, as the appointed Trustee of the refunding bonds. This document contains terms of the refunding bonds including, but not limited to, the payment and redemption provisions, definition and pledge of revenues to pay the refunding bonds, rights and duties of the Trustee, remedies upon a default in the payment of the refunding bonds, and other related matters.
- *Escrow Agreement (Exhibit 3)*: Document delivered to the Trustee of the Series 2006, 2008 A-2 and 2009 Bonds: Wells Fargo Bank National Association. This document contains a set of instructions to apply funds held in an escrow to call the prior bonds for redemption on a specified date.

DISCUSSION

Due to the historically low interest rate environment, the refinancing is estimated to generate around \$4.4 million in debt service savings over the next 22 years, based on current market conditions (over \$1.6 million of net present value savings). 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.

Assuming the financing is approved by both the Successor Agency and the Oversight Board, and DOF reviews and approves the financing in its 60-day allotted time, additional refunding bond documents would be submitted for the Successor Agency's consideration and approval in April (which could be sooner depending on the timeliness of DOF's response). If approval is given at that time, refunding bonds could be issued a few weeks afterwards.

FISCAL IMPACT

As mentioned above, based on current market conditions, the refunding bonds generate an estimated total debt service savings of over \$4.4 million or an average of over \$190,000 per year. Please note that these savings estimates are net of all costs of issuance. Based on the City's allocation of the residual, over \$800,000 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.

EXHIBIT(S):

- 1) Resolution of the Successor Agency Approving the issuance of Bonds.
- 2) Indenture of Trust Dated May 1, 2017 by and between the Successor Agency and Wells Fargo National Association as Trustee.
- 3) Escrow Deposit and Trust Agreement between the Successor Agency and U.S. Bank National Association, as Escrow Agent.