

## STAFF REPORT

**DATE:** May 20, 2019

**TO:** County-wide Successor Agency Oversight Board of the County of Yolo

**FROM:** Nitish Sharma, Director of Finance/Treasurer/Chief Financial Officer  
City of Davis

**SUBJECT:** Refunding the City of Davis Successor Agency's Tax Allocation Bonds

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### **Recommendation**

It is respectfully recommended that the County of Yolo Oversight Board, in its role as the governing body of the former Redevelopment Agency of the City of Davis, adopt a resolution approving the refunding of all of the City of Davis Successor Agency's outstanding tax allocation bonds as required by State law.

### **Fiscal Impact**

The refunding, if successful, would result in an increase in property tax revenues to taxing agencies that overlap the redevelopment project area. Following the refunding, the Successor Agency intends to submit a "Last and Final ROPS" to the State Department of Finance, which, once approved, would allow the Successor Agency to expend a portion of the 2011 tax allocation bond proceeds, consistent with State law. The table below illustrates the proposed savings to each taxing entity in the County of Yolo.

Taxing Entity <sup>1</sup>	Percentage Share of Residual Revenue	Refunding Only	Cumulative Present Value Savings
City of Davis	24.03%	\$1,579,973	\$4,316,136
Sacramento-Yolo Mosquito Control District	0.99%	\$65,093	\$177,370
Los Rios Community College District	4.76%	\$312,970	\$854,627
County Office of Education	3.18%	\$209,085	\$571,477
Davis Joint Unified School District	38.35%	\$2,521,513	\$6,888,116
ERAF <sup>2</sup>	28.68%	\$1,885,710	\$5,151,591
Total		\$6,574,343	\$17,959,317

### **Summary**

This report provides for the adoption of the basic legal documents needed for the Successor Agency to issue refunding bonds, a prerequisite for obtaining both Oversight Board and State

Department of Finance approval of the refunding. A second action will be required by which the City Council, acting as the governing body of the Successor Agency, will approve the preliminary official statement and the bond purchase contract required for the public offering of the refunding bonds. These materials are expected to be submitted to the Successor Agency for approval at its July 9 meeting.

**Background**

Over the years, the Redevelopment Agency of the City of Davis has issued various tax allocation bonds secured from property tax increment for the Davis Redevelopment Project. The following bonds are currently outstanding.

Name	Outstanding Principal	Outstanding Principal	Year of Final Payment
2003 Tax Allocation Refunding Bonds	\$ 9,265,000	\$6,810,000	2033
2007 Tax Allocation Refunding Bonds	12,140,000	7,475,000	2030
2007 Taxable Housing Bonds	8,675,000	6,700,000	2037
2011 Tax Allocation Bonds Series A	13,310,000	13,310,000	2036
2011 Taxable Tax Allocation Bonds Series B	4,690,000	1,775,000	2022
Total	\$48,080,000	\$36,070,000	

On June 29, 2011, Assembly Bill No. 26 (“AB 26”) was enacted, providing for the dissolution of all redevelopment agencies statewide as of February 1, 2012. AB 26 enabled the formation of successor agencies, which have the responsibility of winding down outstanding obligations of the former redevelopment agencies. On June 27, 2012, the State passed Assembly Bill 1484 (“AB 1484”), which included provisions permitting Successor Agencies to refund outstanding bonds or other obligations of a former redevelopment agency to achieve savings, with further amendments to the dissolution law occurring with the passage of Senate Bill No. 107 on September 22, 2015. A large number of successor agencies have since refunded their existing redevelopment bonds to provide savings and thus increase the distribution of residual tax increment revenues to taxing entities.

Because of lower current interest rates as compared to the rates on the existing tax allocation bonds, the Successor Agency has the opportunity to generate significant savings in its annual debt service by issuing refunding bonds. In addition, approximately 65% of the 2011 tax allocation bond proceeds (\$11,260,000 of the total of \$17,325,000) are expected to be contributed to the refunding escrow, thereby reducing the amount of refunding bonds that need to be issued and generating additional debt service savings. Following the refunding, the Successor Agency intends to submit a “Last and Final ROPS” to the State Department of Finance, which, once approved, would allow the Successor Agency to expend the remaining 35% of the 2011 tax allocation bond proceeds on redevelopment projects, consistent with State law.

Bond counsel (Jones Hall) has drafted the legal documents required to initiate this process. Our municipal advisor (KNN Public Finance) and bond underwriter (Piper Jaffray) have structured a refunding that will optimize savings. Although it is anticipated debt service payments will be restructured for the refunding bonds as compared to the existing tax allocation bonds, the final maturity of the refunding bonds will not be later than the final maturity of the bonds being refunded.

## **Analysis**

Under current market conditions, the outstanding tax allocation bonds can be refunded for significant projected savings of about \$6.6 million in present value (current dollar) savings, or approximately 18% of the amount of refunded bonds. This savings level far exceeds the 3% minimum set out in the City of Davis' recently adopted Debt Management Policy. A summary of these estimated financing results, including certain "good faith estimates" required by new State law, appear as an attachment to this report.

At the current meeting, the Successor Agency will consider approval of the following documents:

- **Authorizing Resolution.** This resolution makes certain findings required under State law (including a determination that there will be significant potential savings), approves the issuance of refunding bonds, approves an indenture of trust and an escrow agreement, and takes other related and necessary actions.
- **Indenture of Trust.** This document sets forth the terms and provisions of the refunding bonds and the application of the proceeds. It also contains certain covenants of the Successor Agency with respect to the refunding bonds, including as relates to the receipt and disposition of tax revenues needed to pay debt service. The refunding bonds will be issued in two series, one of which will be federally taxable in order to comply with federal tax law.
- **Escrow Agreement.** This agreement sets forth the responsibilities of the escrow agent, the manner in which funds are to be used and invested, defines eligible escrow securities and the schedule on which amounts will be used to pay, and optionally redeem in advance of maturity, all of the prior series of tax allocation bonds.

The County Oversight Board will take an action on the Refunding on May 20, 2019. Successor Agency can take an action either before or after the Oversight Board action.

After approval by the Oversight Board, these materials will be submitted to the State Department of Finance, which has 65 days to approve the issue. During that time, the financing team will prepare the remaining documents required for the public offering of the refunding bonds, including a preliminary official statement and a bond purchase contract. These materials are expected to be submitted to the Successor Agency for approval at its July 9 meeting. If the Department of Finance requires its full 65 days for approval, the bonds would price the week of August 19, with closing following approximately two weeks thereafter. Earlier DOF approval could allow for accelerating the schedule.

## **ATTACHMENTS**

1. Resolution No. 2019-06 SA: Resolution of the City of Davis Redevelopment Successor Agency Approving the Issuance of Refunding Bonds In Oder Refund Certain Outstanding Bonds of the Dissolved Redevelopment Agency of the City of Davis.
2. Good Faith Estimates and Related Information, including allocation of savings to taxing entities.
3. Escrow Agreement
4. Trust Indenture

