



CONTRA COSTA COUNTYWIDE OVERSIGHT BOARD REPORT

DATE: September 28, 2020

TO: CONTRA COSTA COUNTYWIDE OVERSIGHT BOARD

FROM: THE SUCCESSOR AGENCY TO THE RICHMOND COMMUNITY REDEVELOPMENT AGENCY

SUBJECT: REFUNDING OF TWO OUTSTANDING BOND ISSUES, INCLUDING THE PREPAYMENT OF CERTAIN OBLIGATIONS UNDER A RELATED LOAN AGREEMENT AND THE FUNDING OF THE TERMINATION OF AN INTEREST RATE SWAP AGREEMENT RELATED TO PROJECTS FOR THE FORMER RICHMOND COMMUNITY REDEVELOPMENT AGENCY

STATEMENT OF THE ISSUE:

The Successor Agency has an opportunity to refund two bond issues, including the prepayment of certain obligations under a related loan agreement and the funding of the termination of an interest rate swap agreement with net favorable interest rates. The proposed bond refunding will generate debt service savings that will flow to the City's General Fund and other taxing agencies in the form of increased property tax distributions.

RECOMMENDED ACTION:

ADOPT A RESOLUTION OF THE CONTRA COSTA COUNTY COUNTYWIDE OVERSIGHT BOARD IN ITS CAPACITY AS OVERSIGHT BOARD FOR THE SUCCESSOR AGENCY TO THE RICHMOND COMMUNITY REDEVELOPMENT AGENCY, APPROVING THE REFUNDING OF CERTAIN OBLIGATIONS AND THE FUNDING OF A SWAP TERMINATION PAYMENT RELATED TO THE RICHMOND COMMUNITY REDEVELOPMENT AGENCY'S SUBORDINATE TAX ALLOCATION REFUNDING BONDS (MERGED PROJECT AREAS), 2010 SERIES A, APPROVING THE EXECUTION OF DOCUMENTS RELATED THERETO, INCLUDING A SWAP TERMINATION AGREEMENT, AND APPROVING THE RESOLUTION OF THE SUCCESSOR AGENCY PROVIDING AUTHORIZATION THEREFOR.

FINANCIAL IMPACT OF RECOMMENDATION:

Current market conditions indicate that the proposed bond refunding provides an opportunity for an estimated \$13.3 million of gross debt service savings, \$5.8 million of Net Present Value debt service savings, and a savings rate of approximately 26% of the par amount of refunded bonds. The refunding bonds would carry the same maturity schedule as the prior bonds, with the debt service savings spread over the next 16 years. By reducing annual debt service costs over the life of the bonds, the Successor Agency will reduce its cash flow needs, thereby increasing the amount of property taxes distributed among all the relevant taxing entities, including the City's General Fund. The City's share of the savings is 28% of the total savings. Based on preliminary results, the City's share of savings would average approximately \$220,000 per year through FY 2037; these results are subject to change based on market conditions at the time the bonds are priced. The refunding will proceed and be executed only if market conditions continue to allow for the achievement at least 3% net present value savings, per the City's Debt Policy.

DISCUSSION:

Pursuant to Health and Safety Code section 34177.5(a), the Successor Agency to the Richmond Community Redevelopment Agency (the "Successor Agency") may issue bonds to refund bonds and other indebtedness of the Successor Agency to achieve debt service savings. The following bonds are proposed for refunding, including the prepayment of a loan obligation related to the 2004B Authority Bonds and the funding of the termination of an interest rate swap agreement related to the 2010A Tax Allocation Bonds:

- Richmond Joint Powers Financing Authority
Housing Set-Aside Tax Allocation Revenue Bonds Series 2004B (Tax-Exempt), \$720,000 currently outstanding (the "2004B Authority Bonds"), pursuant to the prepayment of certain loan payments under the Loan Agreement (Housing), dated as of October 1, 2004, between the Richmond Joint Powers Financing Authority and the Richmond Redevelopment Agency (the "2004 Loan Agreement"), and
- Richmond Community Redevelopment Agency
Subordinate Tax Allocation Refunding Bonds (Merged Project Areas), 2010 Series A, \$21,625,000 currently outstanding (the "2010A Tax Allocation Bonds").

The 2004B Authority Bonds were issued in conjunction with the 2004 Loan Agreement which secured redevelopment housing tax revenues for the payment of the 2004B Authority Bonds. With the proposed prepayment of outstanding loan payments pledged to the payment of the 2004B Authority Bonds, the 2004B loan principal would be retired and the 2004B Authority Bonds redeemed.

In 2010, at the time of the 2010A Tax Allocation Bond issue, the Richmond Community Redevelopment Agency entered into an interest rate swap agreement to lower the cost of borrowing during a period of financial market distress. The 2010A Tax Allocation Bonds refunded variable rate 2007 bonds that included a fixed-pay swap. In 2010, the termination payment for the 2007 fixed-pay swap was refinanced with the current interest rate swap agreement by layering a fixed-receiver swap on top of it. The current interest rate swap agreement includes payments and receipts that reflect the differences between two financial market indices, LIBOR and SIFMA, and the swap no longer serves as a hedge against variable rate debt. With the refunding of the 2010A Tax Allocation Bonds, the Successor Agency has the option to also terminate the 2010 interest rate swap agreement. Termination of the 2010 interest rate swap agreement is expected to result in a slight net cost relative to leaving the swap in place and reduces the net present value savings of the proposed aggregate refunding by approximately \$254,000, although this cost is significantly offset by the economic savings available from the bond refunding and we note the estimated savings are stated net of this incremental cost. The interest rate swap termination is proposed to simplify and reduce overall risk to the Successor Agency's debt financing portfolio. If not terminated, the 2010 interest rate swap agreement would require renegotiation and update in 2021 at the time of the financial market's phase out of the underlying LIBOR market index. The work involved to renegotiate and update the 2010 interest rate swap agreement would generate additional costs.

In connection with the issuance of the refunding bonds, the resolution of the Successor Agency approved services with Raymond James & Associates, Inc. as underwriter; Public Resources Advisory Group, as municipal advisor; Orrick, Herrington & Sutcliffe, LLP as bond counsel; Schiff Hardin LLP as disclosure counsel; Fraser & Associates, as property tax and financial consultant; The Majors Group, as swap advisor; and MUFJ Union Bank, N.A., as trustee. Pursuant to Health and Safety Code section 34177.5(f), this Contra Costa County Oversight Board (the "Oversight Board") may direct that the Successor Agency recover such costs that are in connection with the refunding transaction to be supplemental to, and not constrained by, the administrative cost allowance as such allowance is defined in Health and Safety Code section 34171(b).

The Successor Agency adopted the attached resolution at its September 15, 2020 meeting and with Oversight Board approval, the refunding proposal will be submitted to the State Department of Finance for approval. The State's approval process can take up to 60 days from the date the proposal is submitted. After State approval, it will take approximately six weeks to complete the remaining steps of the transaction. Upon the refunding of the 2004B Authority Bonds and 2010A Tax Allocation Bonds, debt service savings would be first realized starting with the June 1, 2021 tax distribution for the 2021-22 ROPS Cycle A period.

DOCUMENTS ATTACHED:

- Attachment 1 – Adopted Resolution of the Successor Agency
- Attachment 2 – Form of Escrow Agreement
- Attachment 3 – Form of Bond Purchase Agreement
- Attachment 4 – Form of First Supplemental Trust Agreement
- Attachment 4.1 – Original Trust Agreement

Attachment 5 – Form of Continuing Disclosure Agreement
Attachment 6 – Form of Swap Termination Agreement
Attachment 7 – Oversight Board Resolution