



Agenda Report

Fullerton City Council

MEETING DATE: JULY 7, 2020

TO: CITY COUNCIL / SUCCESSOR AGENCY / PUBLIC FINANCING AUTHORITY

FROM: KENNETH A. DOMER, CITY MANAGER

PREPARED BY: ELLIS CHANG, DIRECTOR OF ADMINISTRATIVE SERVICES

SUBJECT: ISSUANCE AND SALE OF 2020 TAX ALLOCATION REFUNDING BONDS AND APPROVING NECESSARY DOCUMENTS IN CONNECTION THEREWITH

SUMMARY

A proposed resolution of the Successor Agency to the Fullerton Redevelopment Agency (Successor Agency) to authorize the issuance and sale of Tax Allocation Refunding Bonds, Series 2020 A & B (collectively 2020 Bonds) and approve necessary documents and authorizing certain other actions in connection therewith and a proposed resolution of the Fullerton Public Financing Authority (FPFA) authorizing the execution of an Escrow Agreement for City Council consideration.

RECOMMENDATION

Adopt the following resolutions:

RESOLUTION NO. SA 2020-XX – A RESOLUTION OF THE FULLERTON SUCCESSOR AGENCY OF THE CITY OF FULLERTON, CALIFORNIA, AUTHORIZING THE ISSUANCE AND SALE OF 2020 TAX ALLOCATION REFUNDING BONDS AND APPROVING THE FORM OF A FIRST SUPPLEMENTAL INDENTURE OF TRUST, AN ESCROW AGREEMENT (2005 AND 2010 BONDS), A BOND PURCHASE AGREEMENT, A CONTINUING DISCLOSURE CERTIFICATE AND A PRELIMINARY OFFICIAL STATEMENT AND AUTHORIZING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH

RESOLUTION NO. FPFA-XX – A RESOLUTION OF THE CITY OF FULLERTON PUBLIC FINANCING AUTHORITY APPROVING THE EXECUTION OF AN ESCROW AGREEMENT IN CONNECTION WITH THE ISSUANCE AND SALE OF TAX ALLOCATION REFUNDING BONDS AND AUTHORIZING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH

BUDGET POLICY PRIORITY STATEMENT

This item matches the following Budget Policy Priority Statement:

- Fiscal and Organizational Stability.

FISCAL IMPACT

It is estimated that the issuance of the 2020 Bonds for the purpose of refunding the 2005 Tax Allocation Revenue Bonds (2005 TABs) will result in approximately \$5.4 million of debt service savings (Series 2020A Bonds) and refunding the 2010 Housing Tax Allocation Bonds (2010 Housing TABs) will result in approximately \$5 million of debt service savings (Series 2020B Bonds) over the life of the indebtedness. On a combined basis, refunding the 2005 TABs and 2010 Housing TABs are estimated to result in approximately \$10.4 million of total debt service savings through 2027 and an average annual reduction in debt service payments of approximately \$1.5 million, as described in the Municipal Advisor's Savings Memorandum, Attachment 3. Previously Staff estimated savings on the refunding of the 2005 TABs to be \$6.3 million, as presented at the February 4, 2020 City Council / Agency Meeting. Savings would be distributed among various taxing entities, including the City of Fullerton, which is estimated to receive approximately 15.78% of savings. Final savings achieved from refunding of the 2005 TABs and 2010 Housing TABs will not be determined until the sale of the 2020 Bonds.

These estimates are based on market conditions as of June 3, 2020, as prepared by Stifel, Nicolaus & Company, Incorporated, as Underwriter and reviewed by Urban Futures, Inc., as Municipal Advisor. The estimates assume the 2005 TABs and 2010 Housing TABs are refunded on September 1, 2020. The financing team's ability to close the refunding bonds by this date is dependent upon timely approval of the refundings by the Countywide Oversight Board, which oversees successor agency actions and by the Department of Finance (DOF). Pursuant to Health and Safety Code Section 34177.5(f), DOF has up to 65 days to review the Oversight Board's action. Should the transaction close after September 1, the financing team will target the next optional redemption date for the 2005 TABs, March 1, 2021, which will affect (and likely reduce) the amount of savings that can be achieved.

The financing team is targeting the September 1, 2020 optional redemption date to maximize savings for the Successor Agency and the affected taxing entities.

BACKGROUND

On February 1, 2012, every redevelopment agency in the State of California was dissolved and a successor agency was created for each redevelopment agency. 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 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.

Health and Safety Code Section 34177.5(a)(1) authorizes successor agencies to refinance outstanding debt obligations to produce debt service savings. A successor agency is generally not permitted to issue bonds that would increase the overall indebtedness of the successor agency or provide additional proceeds to be expended, but it can issue bonds to refund prior debt obligations and effectuate debt service savings.

In such circumstances, the successor agency's debt service payments will be reduced and the taxing entities will receive additional revenues as residual Redevelopment Property Tax Trust Fund moneys. Successor Agency Staff has identified such an opportunity which is presented in this agenda report.

DISCUSSION

In 2005, the FPFA issued \$74,600,000 in Tax Allocation Revenue Bonds, the 2005 TABs, for the purpose of making three loans to the former Fullerton Redevelopment Agency in order to finance certain improvements in its various redevelopment project areas. The 2005 TABs are currently outstanding in the combined amount of \$43,040,000 and can be refunded at par on any interest payment date on or after September 1, 2015.

In 2010, the former Fullerton Redevelopment Agency issued \$28,980,000 in Taxable Tax Allocation Housing Bonds, 2010 Housing TABs, for the purpose of financing certain improvements to the supply of low and moderate income housing in the City. The 2010 Housing TABs are currently outstanding in the amount of \$15,390,000 and can be refunded at par on any date on or after September 1, 2020.

In 2015, the Successor Agency issued \$11,975,000 in Tax Allocation Refunding Bonds, the 2015 TARBs, for the purpose of refunding prior bonds and loans issued by the City of Fullerton Public Financing Authority in 1998. The 2015 TARBs are currently outstanding in the amount of \$6,385,000 and can be refunded at par on any date on or after September 1, 2022.

On February 4, 2020, Staff presented an overview of the citywide, including the Successor Agency, outstanding debt obligations. At that time, the 2005 TABs were identified as a refunding opportunity to yield potential savings to each taxing entity.

On May 5, 2020, Urban Futures, Inc. was selected to act as the City's, including the Successor Agency's, municipal advisor and provide fiscal consulting services with regard to this refunding.

On May 19, 2020, the Successor Agency approved a resolution authorizing Staff to engage the financing team members, including Bond Counsel, Disclosure Counsel, Fiscal Consultant and Underwriter, in order to proceed with the issuance of the 2020 Bonds for the purpose of refunding the 2005 TABs. Since then, the financing team has identified a savings opportunity to also refund the 2010 Housing TABs, as part of the 2020 Bonds transaction.

The Successor Agency will issue the 2020 Bonds in an aggregate principal amount sufficient to refund the 2005 TABs as well as the 2010 Housing TABs. The 2020 Bonds will be secured by Pledged Tax Revenues and issued on a parity with the Successor Agency's existing 2015 TARBs. The 2020 Bonds are not secured by the City's general fund.

As shown in the Municipal Advisor's Savings Memorandum, Attachment 3, based on market conditions as of June 3, 2020, it is anticipated that a refunding of the 2005 TABs will produce net present value savings of approximately \$5.1 million and a refunding of the 2010 Housing TABs will produce net present value savings of approximately \$1.8 million. Total combined net present value savings are estimated to be approximately \$6.9 million. Net present value savings represent the present value of savings in "today's dollars" and are net of the 2010 Housing TABs prior reserve, which is expected to be contributed as a source of funds for the 2020 Bonds transaction. The total debt service savings represent the total reduction in debt service over the life of the indebtedness. The final savings levels will depend upon market conditions at the time of sale. The estimates assume the 2020 Bonds will close by September 1, 2020. Closing the 2020 Bonds after this date will affect the amount of savings that can be achieved.

Summary of Savings Results for the 2020 Bonds*

	<u>2005 TABs</u>	<u>2010 Housing TABs</u>	<u>Total</u>
Total Debt Service Savings	\$5,411,552	\$4,973,464	\$10,385,016
Net Present Value Savings (\$)	\$5,078,384	\$1,840,535	\$6,918,919
Net Present Value Savings (% of Par Value Refunded)	11.80%	11.96%	11.84%

*Savings would be distributed among various taxing entities, including the City of Fullerton, which is estimated to receive approximately 15.78% of savings. Estimated savings are based on current market rates assuming prepayment on September 1, subject to change.

Below is a summary of the potential savings each taxing entity would receive through their allocated redevelopment property tax trust fund (RPTTF) distribution, based on total debt service savings of \$10.4 million and total net present value savings of \$6.9 million, which are estimated to be achieved if the 2020 Bonds are closed by September 1, 2020.

RPTTF Distribution to ATEs	% of Distri- bution	Annual Savings			Total Savings			Present Value Savings		
		2005 TABs	2010 Housing TABs	Total	2005 TABs	2010 Housing TABs	Total	2005 TABs	2010 Housing TABs	Total
City of Fullerton	15.78%	\$122,021	\$130,834	\$234,165	\$854,149	\$785,002	\$1,639,152	\$801,563	\$290,507	\$1,092,069
Counties	6.12%	\$47,338	\$50,757	\$90,844	\$331,365	\$304,540	\$635,905	\$310,964	\$112,701	\$423,666
Special Districts	7.67%	\$59,320	\$63,605	\$113,839	\$415,243	\$381,627	\$796,870	\$389,678	\$141,229	\$530,907
K-12 Schools	46.52%	\$359,656	\$385,631	\$690,197	\$2,517,595	\$2,313,785	\$4,831,381	\$2,362,597	\$856,265	\$3,218,862
Community Colleges	6.93%	\$53,600	\$57,471	\$102,860	\$375,199	\$344,825	\$720,023	\$352,099	\$127,610	\$479,709
County Office of Education	1.45%	\$11,175	\$11,982	\$21,446	\$78,227	\$71,894	\$150,121	\$73,411	\$26,606	\$100,016

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RPTTF Distribution to ATEs	% of Distribution	Annual Savings			Total Savings			Present Value Savings		
		2005 TABs	2010 Housing TABs	Total	2005 TABs	2010 Housing TABs	Total	2005 TABs	2010 Housing TABs	Total
Total ERAF	15.52%	\$119,968	\$128,632	\$230,223	\$839,774	\$771,791	\$1,611,564	\$788,072	\$285,617	\$1,073,690
Total	100%	\$773,079	\$828,911	\$1,483,574	\$5,411,552	\$4,973,464	\$10,385,016	\$5,078,384	\$1,840,535	\$6,918,919

Should the 2020 Bonds close after September 1, 2020, the 2005 TABs will be refunded on the next optional redemption date of March 1, 2021 and savings are estimated to be reduced. Provided below is a summary of the potential savings each taxing entity would receive based on a total estimated debt service savings amount of \$9.4 million and total estimated net present value savings of \$6.0 million.

RPTTF Distribution to ATEs	% of Distribution	Annual Savings			Total Savings			Present Value Savings		
		2005 TABs	2010 Housing TABs	Total	2005 TABs	2010 Housing TABs	Total	2005 TABs	2010 Housing TABs	Total
City of Fullerton	15.78%	\$102,398	\$126,793	\$211,077	\$716,783	\$760,756	\$1,477,540	\$675,088	\$269,101	\$944,189
Counties	6.12%	\$39,725	\$49,189	\$81,887	\$278,074	\$295,133	\$573,208	\$261,899	\$104,397	\$366,296
Special Districts	7.67%	\$49,780	\$61,640	\$102,615	\$348,463	\$369,840	\$718,303	\$328,193	\$130,823	\$459,016
K-12 Schools	46.52%	\$301,816	\$373,720	\$622,147	\$2,112,711	\$2,242,320	\$4,355,031	\$1,989,813	\$793,174	\$2,782,987
Community Colleges	6.93%	\$44,980	\$55,696	\$92,719	\$314,859	\$334,174	\$649,033	\$296,543	\$118,207	\$414,750
County Office of Education	1.45%	\$9,378	\$11,612	\$19,331	\$65,646	\$69,673	\$135,320	\$61,827	\$24,645	\$86,473
Total ERAF	15.52%	\$100,674	\$124,659	\$207,525	\$704,720	\$747,952	\$1,452,672	\$663,726	\$264,572	\$928,298
Total	100%	\$648,751	\$803,308	\$1,337,301	\$4,541,256	\$4,819,850	\$9,361,106	\$4,277,088	\$1,704,920	\$5,982,008

The SA Resolution approves all documents and actions needed to authorize the issuance and sale of the 2020 Bonds, including the following substantially final form financing documents together with any changes or additions deemed advisable and approved by any "Authorized Officer". At this time, it is anticipated that the 2020 Bonds will be sold through a public sale. However, the SA Resolution also allows for the 2020 Bonds to be sold on a private placement basis if it produces more savings than a public sale. The FPFA Resolution approves the Escrow Agreement in connection with the 2020 Bonds.

The 2020 Bonds financing documents hereto attached are as follows:

- First Supplemental Indenture of Trust between the Successor Agency and the Trustee (U.S. Bank, N.A), which sets forth the material terms and provisions relating to the 2020 Bonds and whereby the Trustee agrees to certain rights and duties related to the 2020 Bonds.
- Escrow Agreement between the Successor Agency and the Escrow Agent (U.S. Bank, N.A.), containing terms by which the Escrow Agent will hold the 2020 Bond proceeds on behalf of the owners of the 2005 TABs and 2010 Housing TABs to pay and discharge the Prior Bonds on the redemption date and give proper notice to the owners.
- Bond Purchase Agreement between the Successor Agency and the Underwriter (Stifel, Nicolaus & Company, Inc.), pursuant to terms and provisions of which the 2020 Bonds will be sold with a public method of sale.
- Preliminary Official Statement (POS), which will be distributed to prospective purchasers of the 2020 Bonds that must contain all facts material to the 2020 Bonds and the Successor Agency (with certain permitted exceptions to be completed in the final Official Statement) and must not omit any material facts. The POS is required to satisfy the Successor Agency's obligation under federal securities laws to provide material information to potential purchasers of the 2020 Bonds and must be accurate and complete in all material respects.
- Continuing Disclosure Certificate delivered by the Successor Agency for the benefit of owners of the 2020 Bonds and in order to assist the Underwriter in complying with Rule 15c2-12(b)(5), adopted by the Securities and Exchange Commission. This document describes various annual and period reporting and disclosure obligations of the Successor Agency, while the 2020 Bonds are outstanding, as required by federal securities laws.

If the Successor Agency Board approves the proposed financing, the Orange Countywide Oversight Board will consider approving the proposed financing at its oversight board meeting to be held on July 21, 2020. If the Oversight Board adopts the Resolution and other materials submitted by the Successor Agency, then the Oversight Board action will be subject to the DOF approval. Pursuant to Health and Safety Code Section 34177.5(f), the DOF has up to 65 days to review the Oversight Board's action, which will conclude in late September 2020.

AB 1484 permits successor agencies to refund outstanding bonds and other obligations of a former redevelopment agency, subject to the approval of the successor agency, oversight board and the DOF. Because the impact of the refunding would be to reduce the interest costs associated with the 2005 TABs and the 2010 Housing TABs, it is anticipated that the DOF will not object to the action. Successor agencies throughout the state have successfully refunded outstanding debt.

Attachments:

- Attachment 1 – PowerPoint Presentation
- Attachment 2 – Resolution No. SA 2020-XX
- Attachment 3 – Resolution No. FPFA-XX
- Attachment 4 – Savings Memorandum
- Attachment 5 – First Supplemental Indenture of Trust
- Attachment 6 – Escrow Agreement
- Attachment 7 – Bond Purchase Agreement
- Attachment 8 – Preliminary Official Statement
- Attachment 9 – Continuing Disclosure Certificate