City of Culver City, California

# City Council Agenda Item Report

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| Meeting Date: 05/29/07 | Item Number: J-2 |
| **AGENDA ITEM: Joint Item to Authorize a Loan From the City of Culver City to the Culver City Redevelopment Agency for Bond Reallocation.** | |
| Contact Person/Dept.: Todd Tipton/CDD | Phone Number: 310-253-5700 |
| Fiscal Impact: Yes [X] No [] | General Fund: Yes [X] No [] |
| Public Hearing: [] Action Item: [X] | Attachments: [X] |
| Public Notification: Master Notification List (05/24/07). | |
| Department Approval: Todd Tipton (05/10/07) | City Attorney Approval: Carol Schwab (by H. Iker) (05/16/07) |
| City Controller Approval: Marlee Chang (5/21/07) | City Manager Approval: Jerry B. Fulwood (05/23/07) |

## RECOMMENDATION:

Staff recommends the City Council approve a $9,000,000 loan to the Culver City Redevelopment Agency (the "Agency") for the purpose of bond reallocation, and consider loan options and terms.

## BACKGROUND/DISCUSSION:

Over the past few years, the Agency has acquired a number of properties throughout the City in furtherance of the Redevelopment Plan. While a number of the properties were purchased with tax increment funds, several properties were purchased with bond funds due to the anticipated project/proforma structure.

Tax exempt bond funds were utilized to purchase the properties at Washington/Centinela with the expectation that the residual land value would not result in a return greater than five percent ($1.5 million) of the total bond issuance ($28 million). The Agency also acquired properties at Washington/National with tax exempt bond funds with the expectation that any portion of the residual land value that exceeded the available return (after Washington Centinela) would be applied to public infrastructure improvements (sidewalks, paseos, right of way, traffic improvements, etc.) related to the project.

Due to the upcoming five year anniversary related to the 2002 bonds and scope/schedule alterations for both projects, it has become necessary to reallocate unrestricted monies to the bond funds by June 24, 2007. This action will allow the Agency to remain flexible in its future use and disposition of the properties. To remain flexible, staff has investigated a number of mechanisms in which to borrow cash to replenish the bond funds for Washington Centinela (approximately $9,000,000). These options include placing deeds of trust on Agency owned property with an outside/private lender, selling/converting Certificates of Participation for taxable bonds, or a loan from the City. In reviewing these options, Agency and City staff have determined that the optimal course of action at this time would be to pursue a loan from the City. This loan would not only be a strategic investment opportunity for the City, earning market interest rate in a range from 4 - 6%, but would also allow for ease in transfer and management between the entities. Loan repayment would be derived from future property sales or increases in tax increment.

It is proposed the funds for the $9,000,000 loan be allocated from the City's general fund reserve. This allocation would represent approximately 1/3 of the current reserve. To this end, fail safe measures would need to be considered in the unlikely event that the City would require these funds be returned prior to the loan repayment date. Two options would be to borrow against Agency owned property as well as selling/converting to taxable bonds.

Throughout this loan period the objective of Agency staff will be shifted to finalize projects with land assets prior to researching or assembling new projects or properties. It is important to note, however, that Agency's direction to specific projects or land sales may impact the rate at which the loan is repaid, and new Agency initiated projects are brought forth for consideration.

## FISCAL ANALYSIS:

In structuring this loan, the Agency Treasurer has spoken with several broker dealers regarding market interest rates. The rates currently range from 5.135% to 5.33% for a four year investment with no call for either one to two years, with the possibility of a full payback continuous after one or two years. Interest would be payable every six months. In addition, it is recommended that the Agency pay a slightly higher fee since the City has experienced an interest loss due to keeping these funds available for this potential opportunity.

To this end, staff is recommending this loan be constructed to the following terms:

- Loan term: Up to four years (to allow for tax increment increases to buffer property sales that may take longer than anticipated.)
- Semi annual repayment schedules (July and January)
- Fixed rate (approximately 5%, market bearing)
- No penalty for early repayment
- City has right to call loan at any time.

In regards to repayment amounts, staff has provided principal/interest models for the Council's consideration (Exhibit A). The first model represents principal and interest assuming 4%, 5% and 6% simple interest (compounded bi-annually). The second model reflects an interest only structure. At this time, staff recommends that the Agency approve the principal with the 5% interest model.

With this model, the City could earn up to $1,012,500 in interest payments by the completion of the loan in 2011 which is comparable to interest earning that City would otherwise receive.

**EXHIBIT:**

Exhibit A: Principal/Interest ratio models for repayment

**MOTION:**

That the City Council:

1) Approve a loan to the Redevelopment Agency for $9,000,000 to replenish bond funds for properties purchased for the Washington/Centinela project for a four year term, and;
2) Approve a principal/interest repayment model at 5% to engage for the length of the loan.
3) Authorize the City Attorney to prepare/review the necessary documents and authorize the City Manager to execute these documents on behalf of the City.