City of Culver City, California

Agenda Item Report

Meeting Date: 02/17/2011	Item Number: J-1
CITY COUNCIL / REDEVELOPMENT AGENCY BOARD / REDEVELOPMENT FINANCING AUTHORITY BOARD AGENDA ITEM: (1) Adoption of a Resolution of the City Council Approving the Issuance, Sale and Delivery of Tax Allocation Bonds, (2) Adoption of a Resolution of the Redevelopment Agency Authorizing the Issuance, Sale and Delivery of Tax Allocation Bonds, Approving as to Form and Authorizing the Execution and Delivery of Certain Documents in Connection with Such Bonds and Authorizing other Related Actions, (3) Adoption of a Resolution of the Redevelopment Financing Authority Approving the Execution and Delivery of a Bond Agreement, and (4) Approval of Agreements with Bond Consultants in Connection with the Sale and Issuance of 2011 Tax Allocation Bonds for the Culver City Redevelopment Project.	
Contact Person/Dept.: Glenn Heald/CDD Todd Tipton/CDD Nick Kimball/Finance	Phone Number: 310-253-5752 310-253-5783 310-253-6013
Fiscal Impact: Yes [X] No []	General Fund: Yes [] No [X]
Public Hearing: [] Action Item: [X]	Attachments: [X]
Commission Action Required: Yes [] No [X]	Date: ________________
Public Notification: (E-Mail and Posting on Website) Press Release Dated and Released on Thursday, February 10, 2011 to E-Mail Notification Groups for the City Council and Agency Board Agenda and Media and Posting of Said Press Release on the City's Website (02/10/11); (Announcement) Announcement at the City Council/Agency Board/Financing Authority Board Meeting of Tonight's Meetings (02/14/11); Advertisement in the Culver City News (02/17/11) (E-Mail) Meetings and Agendas – City Council (02/15/11); (E-Mail) Meetings and Agendas - Redevelopment Agency (02/15/11); (E-Mail) Ongoing Topics – Fiscal and Budget Issues (02/15/11).	
Department Approval: Sol Blumenfeld (02/14/11) Jeff Muir (02/14/11)	City Attorney Approval: Agency General Counsel Approval: Murray Kane: (02/15/11)
Chief Financial Officer Approval: Jeff Muir (02/14/11)	City Manager/Executive Director Approval: John Nachbar: (02/15/11)

RECOMMENDATION:

Staff recommends the City Council (City Council), Redevelopment Agency (Agency Board) and Redevelopment Financing Authority Board of Directors (Authority Board) take action to approve documents and adopt resolutions authorizing the sale and issuance of 2011 Tax Allocation Bonds for the Culver City Redevelopment Project (2011 Bonds) and authorize the execution of agreements with the bond consultants in connection with the 2011 Bonds.

BACKGROUND:

Over the years, the Culver City Redevelopment Agency has issued tax allocation bonds to finance various redevelopment activities[1]. California Redevelopment Law allows redevelopment agencies to pledge property tax increment to support bonded indebtedness and to be expended directly on Agency obligations.

The deadline for issuing debt for Component Areas 1 and 2 occurs in 2014, after which the Agency can no longer pledge tax increment from those Component Areas to fund new debt. After 2014, tax increment will only be received from those areas to repay debt that existed prior to the expiration date. Upon repayment of that debt, tax increment can no longer be collected from the expired Component Areas.

DISCUSSION:

Due to the looming expiration dates and the flattening of tax increment generated from the Component Areas during the past few years, the Agency has an opportunity to maximize its bonding capacity by issuing tax allocation bonds and receiving new bond proceeds. The new bond proceeds may be used to pursue a number of potential development opportunities, including some projects identified in a Cooperation Agreement with the City.

Tax-exempt bonds may be used primarily for infrastructure type projects for which no revenues will be received in return. Tax-exempt bond proceeds typically must be spent within three years of receipt. Taxable bonds offer much more flexibility as they may be used for any legal purpose, including for projects that generate revenue, and there is no specific deadline for expending the funds.

Consultant Services:

At the Agency Board meeting on November 1, 2010, the Agency Board approved staff's recommendation to secure the team of professional bond consultants that assisted the Agency in its previous bond issues: Financial Advisor, Fieldman Rolapp & Associates; Fiscal Consultant, Keyser Marston Associates; Bond Underwriter, Stone & Youngberg LLC; Agency Bond Counsel, Richards Watson and Gershon; and Agency Counsel, Kane, Ballmer & Berkman. All of these firms are specialized professional bond service firms and are highly regarded in their respective fields. Staff recommends approving professional service agreements with these firms related to the proposed 2011 Bond Issue.

2011 Bonds:

The Bond Team has prepared documents for the Agency to sell up to $16 million of *tax-exempt* Tax Allocation Bonds and up to $45 million of *taxable* Tax Allocation Bonds. It is unlikely the actual proceeds will reach these amounts, but if pricing conditions improve this provides adequate flexibility. If approved for issuance and sale, the proceeds of the 2011 Bonds will be used only for projects and purposes as directed and authorized by the Agency Board. Staff has identified several appropriate uses and their estimated costs, as denoted in Table 1, *Potential Bond Proceeds Uses and Estimated Costs* (Attachment No. 7). Use of 2011 Bond proceeds will also include: (a) funding a debt service reserve account for the 2011

Bonds, and (b) paying the costs of issuing the 2011 Bonds, including costs for consultant services and bond rating services related thereto. The 2011 Bonds are special obligations of the Agency, payable exclusively from tax increment revenues to be derived by the Project Area, less amounts needed to make loan payments on certain outstanding senior loans of the Agency. The 2011 Bonds are not an obligation of the City of Culver City.

The Redevelopment Financing Authority will sell the 2011 Bonds to Stone & Youngberg LLC, as underwriter of the Bonds, pursuant to a Bond Purchase Agreement, to affect a negotiated bond sale.

Procedure:

To initiate the bond financing, the following actions, which are also referenced in the Preliminary Official Statement (Attachment No. 5), are required.

- Adopt a City Council Resolution approving the issuance, sale and delivery of tax allocation bonds by the Culver City Redevelopment Agency.

- Adopt an Agency Resolution authorizing the issuance, sale and delivery of tax allocation bonds, and authorizing the execution and delivery of certain documents in connection with such bonds and authorizing other related actions

- Approve the execution of agreements with members of the Bond Team: Stone & Youngberg LLC, as Bond Underwriter; Keyser Marston Associates, as Fiscal Consultant; Richards Watson & Gershon, as Bond Counsel; and Fieldman, Rolapp and Associates, as Financial Advisor.

- Adopt a Financing Authority Resolution approving the execution and delivery of a bond purchase agreement by and among the Agency, the Financing Authority and the Underwriter.

The Agency Resolution provides that the maximum par amount of the 2011 Bonds will be $16 million of tax-exempt bonds and $45 million of taxable bonds, and the interest rates on the 2011 Bonds will be such that the true interest cost would not exceed 9% for the tax-exempt series and 10% for the taxable series. These are the upper limits to provide adequate flexibility at the time of pricing. Staff anticipates both the actual interest rates and the amount of bonds issued to be lower than these amounts.

By adopting its Resolution, the Agency Board will be approving as to form the documents to be executed by the Agency in connection with the sale and issuance of the 2011 Bonds. U.S. Bank National Association, which presently serves as trustee under the Master Indenture and the First, Second, Third and Fourth Supplemental Indenture, will continue to serve as Trustee under the Fifth Supplemental Indenture.

FISCAL ANALYSIS:

The current estimate of the bond issue is up to $61,000,000. The average true interest cost on the bonds is estimated at 8.5%. Debt service coverage of current revenues is 125% or more in all years. Assuming current rates, the issuance and sale of the proposed 2011 Tax Allocation Bonds would increase the Agency's debt service cost by approximately $6 million per year to a total annual debt service cost of $20 million. Under current market conditions, the total estimated amount of bond proceeds would be approximately $34 million taxable and $13 million tax exempt. The final amounts will depend on interest rates at the time of bond. The Agency's bond underwriter anticipates a bond closing in early March 2011.

The full costs of issuance of the 2011 Bonds, including the cost of the services of the Bond Team, will be paid out of the proceeds of the sale of the 2011 Bonds.

ATTACHMENTS:

1. City Council Resolution approving the issuance, sale and delivery of tax allocation bonds by the Culver City Redevelopment Agency.

2. Redevelopment Agency Resolution authorizing the issuance, sale and delivery of tax allocation bonds, and authorizing the execution and delivery of certain documents in connection with such bonds and authorizing other related actions.

3. Redevelopment Financing Authority Resolution approving the execution and delivery of a bond purchase agreement by and among the Agency, the Financing Authority and the Underwriter.

4. Fifth Supplemental Indenture.

5. Preliminary Official Statement.

6. Bond Purchase Agreement.

7. Table 1 - *Potential Bond Proceeds Uses and Estimated Costs.*

8. Agreements with the Bond Consultant Team.

MOTIONS ***(must be taken separately and in this order)*****:**

That the City Council:

1. Adopt a Resolution Approving the Issuance, Sale and Delivery of Tax Allocation Bonds by the Culver City Redevelopment Agency.

That the Redevelopment Agency Board:

1. Adopt a Resolution Authorizing the Issuance, Sale and Delivery of Tax Allocation Bonds, Approving as to Form and Authorizing the Execution and Delivery of Certain Documents in Connection With Such Bonds and Authorizing Other Related Actions; and,

2. Approve the Agreements with Stone & Youngberg, LLC, as Bond Underwriter, Keyser Marston Associates as Fiscal Consultant, Richards Watson & Gershon as Bond Counsel, and Fieldman, Rolapp and Associates as Financial Advisor; and,

3. Authorize the Agency General Counsel to review/prepare the necessary documents; and,

4. Authorize the Executive Director to execute such documents on behalf of the Agency.

That the Redevelopment Financing Authority Board:

1. Adopt a Resolution Approving the Execution and Delivery of a Bond Purchase Agreement by and Among the Culver City Redevelopment Agency, the Culver City Redevelopment Financing Authority and Stone & Youngberg LLC.

---

[1] In 1989, the Authority issued the 1989 Series A and Series B Revenue Bonds ($149,995,467.30 aggregate principal amount) for financing and refinancing activities in Redevelopment Project Area Nos. 1, 2, and 3. In connection with the 1989 Authority Bonds, the Authority and the Agency entered into three separate loan agreements (one for each project area), pursuant to which the Agency made loan repayments in amounts sufficient for the Authority to pay debt service on the bonds. Subsequently, the Authority issued the 1993 Tax Allocation Refunding Revenue Bonds ($128,070,000 original principal amount) to refinance a majority of the outstanding 1989 Bonds. The Agency and the Authority also entered into separate loan agreements in connection with the 1993 Authority Bonds. . Subsequently, the Agency issued the 1999 Series A and Series B Tax Allocation Refunding Bonds in September 1999, the 2002 Series A Tax Allocation Bonds in April 2002, 2004 Series A Tax Allocation Refunding Bonds, and 2005 Series A Tax Allocation Refunding Bonds. The 1999 Bonds refinanced most of the remaining outstanding 1989 Bonds (totaling $22,920,000) and realized a net present value savings of over $1.1 million. In addition, the 1999 Bonds generated $25,006,779.39 in new bond proceeds to finance eligible redevelopment activities within the merged Culver City Redevelopment Project Area. The Agency sold the bonds to the Authority, which then immediately resold the bonds to Stone & Youngberg LLC, as underwriter of the Bonds, pursuant to a Bond Purchase Agreement among the Authority, Agency, and Stone & Youngberg, in a negotiated bond sale. The 1999 Series A Bonds were issued under an Indenture (Master Indenture) by and between the Agency and U.S. Bank National Association (formerly U.S. Bank Trust National Association), as trustee. The Agency issued $28,280,000 in 2002 Tax Allocation Bonds, and generated net proceeds of $25,465,765. The 2004 Bonds in the principal amount of $83,470,000 effected a refunding of some of the remaining 1993 Authority Bonds. The most recent bond issuance was in 2005 for $17,780,000 at 4.35% to refund all of the 1999 Series B Bonds. Upon sale of the 2005 Bonds, the Agency's bond indebtedness was approximately $282,037,000 and debt service coverage of current revenues was 133%. The 2002, 2004 and 2005 bonds were also sold in a negotiated sale through the Authority to Stone & Youngberg and were issued on a parity with the 1999 Series A Bonds under the Master Indenture, as supplemented and amended by supplemental indentures. .