County of Santa Cruz Board of Supervisors
Agenda Item Submittal
From: Santa Cruz County Redevelopment Successor Agency
Subject: RDA Refunding Bonds
Meeting Date: February 11, 2025

Formal Title: AS THE BOARD OF THE SANTA CRUZ COUNTY REDEVELOPMENT SUCCESSOR AGENCY: Adopt resolution for issuance of Tax Allocation Refunding Bonds, 2025 Series A in an amount not to exceed $95,000,000

Recommended Action
Adopt a resolution providing for the issuance and sale of Tax Allocation Refunding Bonds, 2025 Series A (Refunding Bonds) in an amount not exceeding $95,000,000 and approving the execution and delivery of a continuing disclosure certificate, approving an Official Notice Inviting Bids, A Notice of Intention to Sell Bonds, an Official Statement, a Continuing Disclosure Certificate and certain other matters relating thereto.

Executive Summary
The Santa Cruz County Redevelopment Successor Agency's Tax Allocation Refunding Bonds, 2015 Series A (2015A Bonds) and Tax Allocation Refunding Bonds, 2016 Series A (2016 Bonds) are now eligible to be refinanced. If approved, the resolution would authorize the refunding of the 2015A Bonds and 2016 Bonds, with an expected total savings of $8.8 million over the remaining 11 years (average 7.5% reduction in payments). Approximately $1.16 million of the savings will be distributed to the County's General Fund in the form of additional residual Redevelopment Property Tax Trust Fund payments.

Discussion
When the Santa Cruz County Redevelopment Agency was dissolved in 2012, there were 11 series of tax allocation bonds previously issued and outstanding. There are currently five series of bonds that remain outstanding, with four of the five series issued in 2015, 2016 and in 2017 to refinance bonds previously issued by the Redevelopment Agency.

The County's debt policy states that refinancings which produce a net present value savings of at least 4% of the refunded debt will be considered economically viable. The Successor Agency's 2015A Bonds and 2016 Bonds have reached their call date and refinancing these series will produce an economic benefit.

Refunding Bonds
There are currently $55,255,000 2015A Bonds outstanding, bearing an interest rate of 5%, with a final maturity of 2035. There are currently $42,025,000 2016 Bonds outstanding, bearing an average interest rate of 4.27%, with a final maturity of 2036. The Successor Agency's Financial Advisor estimates that refinancing of the 2015A Bonds and 2016 Bonds will be at an effective rate of 3.01% (rates current as of December 2024). The repayment is scheduled to occur over the same term as the existing bonds. The total debt service savings over the remaining 11 years that the 2015A Bonds and 2016 Bonds are outstanding is approximately $8,800,000, which will increase the Redevelopment Property Tax Trust Fund (RPTTF) residual available to be distributed to all taxing agencies. This represents a reduction in payments of 7.5%. The

County’s refinancing policy requires a minimum savings of 4%.

The County’s General Fund currently receives approximately 13.2% of the residual RPTTF. The County’s Library receives approximately 1.75% of the residual RPTTF and other County special districts receive 1.81%. The County General Fund share of the additional residual property tax generated by the debt service savings would be an average of $110,000 annually for the 10 years starting in Fiscal 2025-26 and $56,000 in Fiscal Year 2035-36, for a total of $1.16 million. The County Library share is approximately $154,000. The debt service for Fiscal Year 2024-25 is already funded through the approved 24-25 ROPS, so there are no savings in the first year. The remainder of the savings would also be distributed to the Live Oak and Soquel School Districts, the College District and other taxing agencies through the regular RPTTF distribution process.

Between the time that the refinancing is approved by the Successor Agency and the time that the Successor Agency can enter the market to sell the refunding bonds based on the Health and Safety Code (HSC) requirements (discussed below), interest rates could increase or decrease, and debt service savings may be reduced or may improve. Therefore, the current estimate of $8.69 million savings to be shared among taxing agencies over the next 11 years is an estimate at this time. For every quarter percent change in the bonds interest rate, the total savings will be increased or decreased by $1.65 million, or an average annual savings increase of $150,000, of which $20,00 is the County General Fund’s share. If rates decrease by a quarter percent, the reduction in total payments increases from 7.5% to 9.0%. If rates increase by a quarter percent, the reduction in total payments decreases from 7.5% to 5.9%.

Authorization Process
The Dissolution Act added several of steps to the traditional refinancing process and requires more time to get the bonds to market. If the Board of Supervisors (acting as the Successor Agency) takes the recommended action and adopts the resolution authorizing the refinancing of the 2015A Bonds and 2016 Bonds, the Santa Cruz County Consolidated Redevelopment Successor Agency Oversight Board (Oversight Board) will be presented with a companion resolution approving the action taken by the Successor Agency Board. This Oversight Board action must be submitted to and approved by the State of California Department of Finance (DOF) for conformity with the provisions of HSC 34177.5(a)(1). DOF can take up to 60 days from the time the Oversight Board resolution is submitted to approve the financing.

The Resolution presented for Successor Agency approval:

- authorizes the issuance of the Refunding Bonds;
- approves the form of an Indenture of Trust for the Refunding Bonds;
- approves the form of separate Escrow Agreements for each of the 2015A Bonds and 2016 Bonds;
- provides for the sale of the Refunding Bonds by competitive sale pursuant to an Official Notice Inviting Bids and Notice of Intention to Sell Bonds,
- approves the form of the Preliminary Official Statement, and
- approves the form of the Continuing Disclosure Certificate included as an appendix to the Preliminary Official Statement.

The Resolution also approves the distribution of the Preliminary Official Statement for the Refunding Bonds, and authorizes any other actions needed in connection with the

Refunding Bonds. These actions include eliminating the refunding of the 2016 Bonds from the transaction if interest rates at the time the Refunding Bonds are sold do not generate enough savings to meet the County's debt policy limitations.

The Preliminary Official Statement is included with this report for the Board review, as are the forms of the other documents listed. The Resolution authorizes the County Administrative Officer, as the Chief Administrative Officer of the Successor Agency and the Auditor-Controller-Treasurer-Tax Collector, as Treasurer of the Successor Agency, to sell the Refunding Bonds so long as the principal amount does not exceed $95,000,000, the present value savings is at least 4%, the underwriter's discount does not exceed 1% of the par amount of the Refunding Bonds and the debt service savings meet the requirements of 34177.5(a)(1) of the Dissolution Act.

Staff prepared a resolution for consideration by the Oversight Board to direct the Successor Agency to refinance the 2015A Bonds and 2016 Bonds. If the Board adopts the resolution approving the refinancing, the Oversight Board resolution will be presented to the Oversight Board at their meeting on March 4, 2025.

The bonds are expected to be sold in early June after DOF approval is received.

Financial Impact
The increase in the residual property tax (or former tax increment) that gets distributed to all the taxing entities (including the County) will increase by approximately $8,800,000 over 11 years. To the extent the incremental residual property tax is not used for other Successor Agency enforceable obligations, it will be distributed to taxing agencies, including the County, through the regular RPTTF distribution process. The County General Fund share of the increased residual is approximately $1.16 million based on today's interest rates.

The total savings, and therefore the County's share, are calculated net of the cost of issuing the Refunding Bonds. The costs are contingent and payable from the proceeds of the Refunding Bonds. The Dissolution Act also provides that staff costs related to refunding proceedings can be recovered as authorized by HSC §34177.5(f).

The following table provides the anticipated size of the bond issue, including funding of the costs of issuance.

Cost of Issuance*	$ 315,000
Underwriter Discount	829,000
Bond Insurance/Surety Bond Premium	900,000
2015A Escrow Fund	51,056,000
2016 Escrow Fund	40,484,000
Funds Required	$ 93,584,000
Original Issue Premium	(10,684,000)
Par Amount of Bonds Issued	$ 82,900,000

*Fixed costs paid from proceeds of the Refunding Bonds for Bond Counsel, Municipal Advisor, Disclosure Counsel, Trustee, Escrow Bank, Rating Agency, Bid Platform and printing.

An original issue premium (as shown in the table above) is generated when investors in tax-exempt bonds want to hedge against future higher interest rates and require a high stated interest rate (such as 5.0%), but price the Refunding Bonds to yield a lower current market interest rate (such as 3.0%) and therefore pay the Successor Agency more than 100% of the face value of the Refunding Bonds, resulting in a lower par amount of Refunding Bonds required to be issued. The lower par amount is offset by a higher interest rate, so this pricing method has relatively little impact on the total debt service that the Successor Agency will pay on the Refunding Bonds compared to if they were priced at 100% of the face value.

As noted, the par amount of the Refunding Bonds will be subject to prevailing market conditions at the time of sale. Therefore, the Successor Agency is requested to approve a not-to-exceed par amount of $95,000,000 for the Refunding Bonds to provide a reasonable cushion above the expected par amount should interest rates fluctuate or if the Refunding Bonds are priced without an original issue premium based on investor preference at the time of sale. The amount of the Refunding Bonds issued will only be the amount necessary to finance the projects outlined above, and pay the costs as shown above. Further, if refinancing the 2016 Bonds does not produce at least 4% net present value savings, that series will be eliminated from the refinancing.

The sale date of the Bonds is expected be in early June. Staff and the Municipal Advisor will submit the bond issue to Standard & Poor's Rating Agency for a credit rating. The Successor Agency's current credit rating is A+. The financing will also be submitted to bond insurance companies. Purchasing bond insurance can be cost effective – by paying an insurance premium to a bond insurer raises the credit rating to the insurer's rating of AA, resulting in lower interest rates.

California Government Code Section 5852.1 requires the disclosure of certain good faith estimates relating to the Refunding Bonds. The following good faith estimates have been provided by the Municipal Advisor.

For the purpose of the estimates:

<u>Principal Amount</u> means the aggregate principal amount of the Refunding Bonds to be sold.

<u>True Interest Cost</u> means the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the Refunding Bonds.

<u>Finance Charge</u> means the sum of all fees and charges paid to third parties (or costs associated with the Refunding Bonds).

<u>Amount of Proceeds to be Received</u> means the amount of proceeds expected to be received from the sale of the Refunding Bonds, including original issue premium, less the finance charge of the Refunding Bonds as described above, paid or funded with proceeds of the Refunding Bonds.

<u>Total Payment Amount</u> means the sum total of all payments the Successor Agency will make to pay debt service on the Refunding Bonds, plus the finance charge for the Refunding Bonds, as described above, not paid with the respective proceeds of the Refunding Bonds, calculated to the final maturity of the Refunding Bonds, together with the sum of annual ongoing costs to administer the Refunding Bonds not paid with proceeds of the Refunding Bonds (such as trustee fees).

Estimated Principal Amount	Estimated True Interest Cost	Estimated Finance Charge	Estimated Amount of Proceeds to be Received	Estimated Total Payment Amount
$82,900,000	3.01%	$2,044,000	$91,546,000	$111,090,000

The foregoing estimates constitute good faith estimates only and are based on market conditions prevailing at the time of preparation of such estimates on December 18, 2024. The actual principal amounts of the Refunding Bonds issued and sold, the true interest cost thereof, the finance charges thereof, the amount of proceeds received therefrom and total payment amount with respect thereto may differ from such good faith estimates. Market interest rates are affected by economic and other factors beyond the control of the Successor Agency.

Strategic Initiatives
Equity Framework - Plans, Policies & Budgets
Operational Plan - Operational Excellence
Climate Action - Government Operations

Submitted By:
Carlos Palacios

Recommended By:
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Artificial Intelligence Acknowledgment:
Artificial Intelligence (AI) did not significantly contribute to the development of this agenda item.