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# POMONA SUCCESSOR AGENCY OVERSIGHT BOARD

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June 21, 2018

To: Chair and Members of the Oversight Board

From: Linda Lowry, City Manager

By: Onyx Jones, Finance Director

**Subject: APROVE AND ADOPT A RESOLUTION OF OVERSIGHT BOARD TO THE SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF POMONA APPROVING THE ISSUANCE AND SALE OF TAX ALLOCATION REFUNDING BONDS BY THE SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF POMONA AND AUTHORIZING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH.**

## OVERVIEW

**Recommendation** – That the Oversight Board to the Successor Agency approve and adopt the Resolution authorizing issuance of tax allocation refunding bonds by the Successor Agency; and authorizing certain actions in connection therewith.

**Fiscal Impact** – Total estimated debt service savings of \$22.9 million to be split among affected taxing entities based on applicable shares of residual tax revenues generated by the Merged Redevelopment Project. Total debt service on the refunded obligations will decrease from current levels by approximately \$1.5 million annually from Fiscal Years 2019 through 2031, and then the annual savings amounts will adjust downward beginning in Fiscal Year 2032 as a portion of the refunded bonds reach final maturity dates, to approximately \$160,000 per year through Fiscal Year 2041. Present value savings of approximately \$17.2 million. Savings achieved through a rate reduction from 5.0% to approximately 3.98% (net interest cost).

**Previously Related Action** – The Redevelopment Agency of the City of Pomona (the “Prior Agency”) has previously incurred the obligations listed below (collectively, the “Prior Obligations”):

1. Third Amended Loan Agreement, dated as of March 1, 1998, by and among the Former RDA, the Pomona Public Financing Authority (the “Authority”) and The Bank of New York Mellon Trust Company, N.A., as successor to BNY Western Trust Company; Loan Payments under such agreement secure payment of the Pomona Public Financing Authority 1998 Refunding Revenue Bonds, Series W (Southwest Pomona Redevelopment Project).

2. Merged Redevelopment Project Loan Agreement dated as of April 1, 2001, by and among the Former RDA, the Authority and The Bank of New York Mellon Trust Company, N.A., as successor to BNY Western Trust Company; Loan Payments under such agreement secure payment of the Pomona Public Financing Authority 2001 Revenue Bonds, Series AD (Merged Redevelopment Project).
3. Merged Redevelopment Project Loan Agreement dated as of November 1, 2003, by and among the Former RDA, the Authority and The Bank of New York Mellon Trust Company, N.A., as successor to BNY Western Trust Company; Loan Payments under such agreement secure payment of the Pomona Public Financing Authority 2003 Revenue Bonds, Series AH (Merged Redevelopment Project).
4. Merged Redevelopment Project Housing Loan Agreement, dated as of December 1, 2005, by and among the Former RDA, the Authority and The Bank of New York Mellon Trust Company, N.A., as successor to The Bank of New York Trust Company, N.A.; Loan Payments under such agreement secure payment of the Pomona Public Financing Authority 2005 Taxable Housing Tax Revenue Bonds, Series AQ (Merged Redevelopment Project).
5. Merged Redevelopment Project Loan Agreement, dated as of December 1, 2006, by and among the Former RDA, the Authority and The Bank of New York Mellon Trust Company, N.A., as successor to The Bank of New York Trust Company, N.A.; Loan Payments under such agreement secure payment of the Pomona Public Financing Authority 2006 Revenue Bonds, Series AS (Merged Redevelopment Project).
6. Merged Redevelopment Project Loan Agreement, dated as of December 1, 2006, by and among the Former RDA, the Authority and The Bank of New York Mellon Trust Company, N.A., as successor to The Bank of New York Trust Company, N.A.; Loan Payments under such agreement secure payment of the Pomona Public Financing Authority 2006 Taxable Revenue Bonds, Series AT (Merged Redevelopment Project).
7. Merged Redevelopment Project Subordinate Loan Agreement, dated as of December 1, 2006, by and among the Former RDA, the Authority and The Bank of New York Mellon Trust Company, N.A., as successor to The Bank of New York Trust Company, N.A.; Loan Payments under such agreement secure payment of the Pomona Public Financing Authority 2006 Subordinate Revenue Bonds, Series AX (Merged Redevelopment Project).
8. Merged Redevelopment Project Subordinate Loan Agreement, dated as of July 1, 2007, by and among the Former RDA, the Authority and The Bank of New York Mellon Trust Company, N.A., as successor to The Bank of New York Trust Company, N.A.; Loan Payments under such agreement secure payment of the Pomona Public Financing Authority 2007 Subordinate Revenue Bonds, Series AW (Merged Redevelopment Project).

## **EXECUTIVE SUMMARY**

The payments of principal and interest on the Bonds listed on the previous page are secured by certain payments to be made by the Successor Agency to the Redevelopment Agency of the City

of Pomona (the “Agency”), pursuant to the loan agreements (the “Loan Agreements”) described above.

The proposed refunding (the “2018 Bonds”) will prepay and defease the Loan Agreements, and the interest rate differential between the obligations being refunded and the estimated interest rates on the 2018 Bonds will create annual debt service savings. Pursuant to RDA Dissolution Law, the estimated debt service savings will be split among affected taxing entities, based on percentage shares of residual tax revenues generated by the Merged Redevelopment Project.

## DISCUSSION

As demonstrated in the Table 1, the estimated debt service payments on the 2018 Bonds will not be extended from the current final maturity in Fiscal Year 2041. Based on current market interest rates, the net interest cost of the 2018 Bonds would be approximately 3.98%. The final interest rate structure for the 2018 Bonds will be determined when the bonds are priced, which is expected to occur by the third week of September, 2018.

**Table 1**

Fiscal Year	Existing Payments	Est. New Payments	Savings	Present Value Savings
2019	10,285,463	9,083,016	1,202,447	1,185,830
2020	13,525,429	11,941,919	1,583,510	1,519,883
2021	13,416,508	11,846,356	1,570,152	1,446,177
2022	13,374,368	11,808,806	1,565,562	1,383,752
2023	13,123,510	11,585,838	1,537,672	1,304,427
2024	13,119,274	11,582,500	1,536,774	1,250,938
2025	13,068,170	11,540,981	1,527,189	1,192,889
2026	13,098,416	11,566,700	1,531,716	1,147,883
2027	13,074,518	11,546,400	1,528,118	1,098,746
2028	12,988,086	11,470,225	1,517,861	1,047,125
2029	12,992,106	11,468,788	1,523,319	1,008,255
2030	12,735,869	11,244,600	1,491,269	947,022
2031	12,706,081	11,216,600	1,489,481	907,531
2032	10,108,066	8,924,400	1,183,666	692,297
2033	5,797,513	5,118,000	679,513	381,761
2034	3,215,715	2,841,000	374,715	202,281
2035	1,565,600	1,382,800	182,800	94,915
2036	1,486,100	1,314,000	172,100	85,768
2037	1,392,600	1,231,200	161,400	77,196
2038	1,380,475	1,220,000	160,475	73,665
2039	1,381,525	1,217,600	163,925	72,214
2040	1,380,050	1,218,600	161,450	68,256
2041	821,050	722,800	98,250	39,872
Totals	196,036,492	173,093,129	22,943,363	17,228,682

The 2018 Bonds will be issued with interest rates on a taxable basis. It is possible that a portion of the 2018 Bonds will be issued with tax-exempt interest rates, pending the results of a review by Bond Counsel of the use of net bond proceeds from the Prior Obligations. A determination of

the amount, if any, of the 2018 Bonds that will have tax-exempt interest rates will be made upon the conclusion of the review by Bond Counsel.

As indicated in Table 1, the proposed issuance of the 2018 Bonds will result in an estimated total debt service savings of \$22.9M. Table 1 also reflects a \$17.2M total “Present Value” of the cash flow savings; however, a portion of that savings is being generated by the use of \$10.2 million from prior reserve funds. Therefore, the “Net Present Value” savings is calculated at \$7 million and is 5.1% of the amount of debt being refinanced. This compares favorably to the Government Financing Officers Association (GFOA) target of net present value savings of 3% on municipal refundings. The refunding will also meet the parameters outlined in the Pomona Debt Policy, which were approved by the City Council on April 3, 2017. The Pomona Debt Policy is compliant with the new requirements under Senate Bill 1029 (enacted in September 2016 by the State), and conforms to GFOA standards.

On a separate issue, the prior Redevelopment Agency entered two investment agreements with JP Morgan Chase related to the debt service reserve funds on the bonds to be refinanced. Those agreements were entered into in 2001 and 2003; a total of \$8.7 million was invested. The Agency chose to take advance payments of interest on those funds (which were scheduled to be invested with JP Morgan Chase through 2031); the Agency received a total of \$4.4 million in upfront interest upon entering into those agreements. As part of this refinancing, the invested funds will be returned to the Agency and the agreements will be terminated. A portion of the upfront payment received, however, will be withheld by JP Morgan Chase pursuant to the investment contract; the amount to be withheld is estimated currently at \$2.2 million. As such, the Agency will receive approximately \$6.5 million from JP Morgan Chase. Those funds will be used to reduce the amount of the 2018 refinancing. The impact of the return of the upfront earnings paid by JP Morgan Chase in 2001 and 2003 has been incorporated into the savings estimates reported above.

The source of repayment of the 2018 Bonds would be net tax revenues generated by the Merged Redevelopment Project, after satisfying certain senior pass through obligations and senior debt service payments (consisting of the 1998 Series X and Y Bonds, which will remain outstanding after issuance of the 2018 Bonds).

If the subject Resolution is approved by the Oversight Board, the State Department of Finance (“DOF”) will have up to 65 days to consider approval of the issuance of the 2018 Bonds by the Successor Agency.

Assuming approval by DOF, the Successor Agency will then price and sell the bonds in the bond market by the second week of September 2018, with bond closing tentatively scheduled to occur by the end of September 2018.

Attachments:           1) Resolution No. \_\_\_\_\_  
                                  2) Debt Service Savings Analysis, prepared by Urban Futures, Inc.