

**OVERSIGHT BOARD FOR THE FORMER RIVERBANK REDEVELOPMENT
AGENCY**

&

**DESIGNATED LOCAL AUTHORITY, SUCCESSOR AGENCY FOR THE
FORMER RIVERBANK REDEVELOPMENT AGENCY**

SPECIAL JOINT MEETING AGENDA

TUESDAY, SEPTEMBER 12, 2017 – 10:00AM

RIVERBANK CITY HALL SOUTH

CONFERENCE ROOM

6617 THIRD STREET

RIVERBANK CA 95367-2305

CALL TO ORDER: OVERSIGHT BOARD VICE CHAIR CURTIS LINEBERGER

**ROLL CALL: Oversight Board Members:
Becky Meredith, Teresa Scott, Marisela Garcia,
Lana Clayton, Chief Rick Weigele
Supervisor Kristen Olson
Vice Chair Curtis Lineburger**

**Designated Local Authority Members:
Chair Wendell Naraghi
Vice Chair Walter Schmidt
Treasurer Paul Baxter**



CONFLICT OF INTEREST

Declaration by Board Members who would have a direct Conflict of Interest on any scheduled item to be considered should be stated at this time.

1. PUBLIC BUSINESS FROM THE FLOOR (No action can be taken)

At this time, members of the public may comment on any item not appearing on the agenda, and within the subject matter jurisdiction of the Board.

2. ACTION & DISCUSSION ITEMS (Items will be individually discussed prior to Board action)

Item 2.1: Potential Restructuring of Delinquent Tax Allocation Bonds

Recommendation:

Members to discuss and provide direction to staff to either (1) Continue efforts towards refunding of the 2007 Tax Allocation Bonds; or (2) Prepare the Last and Final Recognized Obligation Payment Schedule (ROPS).

3. INFORMATIONAL ITEMS (No action to be taken)

There are no informational items.

4. COMMENTS (Informational Only – No action to be taken)

Item 4.1: Consultant Comments

Item 4.2: Oversight Board Member Comments

Item 4.3: Designated Local Authority Member Comments

ADJOURNMENT



AFFIDAVIT OF POSTING			
DATE:	September 7, 2017	TIME:	12:30 PM
NAME:	Marisela H. Garcia	TITLE:	DLA Secretary/OB Member

Notice Regarding Americans with Disabilities Act:

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the City Clerk’s Office at (209) 863-7122. Notification 48-hours before the meeting will enable the Board to make reasonable arrangements to ensure accessibility to this meeting [28 CFR 35.102.35.104 ADA Title II].

Notice Regarding Non-English Speakers:

Pursuant to California Constitution Article III, Section IV, establishing English as the official language for the State of California, and in accordance with California Code of Civil Procedures Section 185, which requires proceedings before any State Court to be in English, notice is hereby given that all proceedings before the Designated Local Authority shall be in English and anyone wishing to address the Board is required to have a translator present who will take an oath to make an accurate translation from any language not English into the English language.

All public records relating to an open session item on this agenda, which are not exempt from disclosure pursuant to the California Public Records Act, that are distributed to a majority of the Riverbank Designated Local Authority will be available for public inspection at the address where the meeting is taking place as indicated on the agenda, at the same time that the public records are distributed or made available to the Riverbank Designated Local Authority.

Memorandum

To: Riverbank DLA Board of Directors
From: Dan Massiello
Copy: Chris Jicha, Larry Kosmont, Susan Perry
Date: 6/22/2017
Re: Potential Restructuring of Delinquent Tax Allocation Bonds

We have reviewed the potential to refund the presently outstanding and delinquent 2007 Series A and Series B Tax Allocation Bonds (the “Bonds”) of the former RDA. Our analysis has included the following activities:

- Obtained historical property valuation data for the Project Area from the Stanislaus County Assessor
- Built a “high level” model to track historical tax increment generation
- Analyzed the historical property values and tax increment revenues generated
- Built a “high level” model to project future Tax Increment Revenue under a specific set of assumptions
- Analyzed the initial high-level results of the tax increment projections as related to the possibility of issuing Refunding Bonds
- Analyzed the original, when-issued cashflows of the Bonds
- Performed a “high level” analysis of the potential to refund the Bonds in accordance with the results of the analysis of present and projected future tax increment revenues
- Corresponded with the Trustee to ascertain current account balances, prior payments and other relevant information related to the status of the Bonds
- Analyzed the effects of the method by which the Trustee is currently paying the Bonds, in accordance with the results of the analysis of the present and projected future tax increment revenues

Current Status

The Bonds are presently in default. The last whole principal payments made to bondholders occurred on 8/1/2012. The maturities due on August 1 in each of the years 2013, 2014, 2015 and 2016 were not paid when due. Recently, there was enough tax increment revenue for the Trustee to become current on past-due interest payments, and there was also enough tax increment



revenue to make a partial (pro-rated) principal payment to all of the bondholders. According to the information provided by the Trustee, the Trustee has ostensibly “accelerated” the entirety of the obligations that are due, although it has not declared the Bonds to be accelerated under the terms of the Indenture. That is to say, the Trustee is not just “paying down” the balance owed on the several defaulted maturities, it is also paying down principal amounts on all outstanding bonds, even those that have not yet come due. This has the effect of i) keeping the defaulted maturities outstanding; ii) ensuring future maturities (e.g. the 8/1/2017 maturity) will also not be paid in full; and iii) unexpectedly calling in early from bond holders portions of their bonds that are not yet due, therefore, not late in their respective payments.

Practical Considerations

The Trustee, acting on behalf of the bondholders, has a “first pledge and lien” on ALL tax increment revenues (other than County fees) generated within the project area. The affected taxing entities (ATEs) of the DLA previously “subordinated” their claims to receive statutory tax sharing payments due them under AB 1290; this means that the Bonds get paid from all available tax increment revenues before any ATEs can receive any statutory pass through payments of tax revenues. If the Bonds remain in a state of default, the Trustee will continue to capture 100% of all tax increment revenues until all outstanding bonds are repaid. Under acceleration, all outstanding bonds will be paid as soon as possible, not in accordance to the original amortization schedule. This means that until all bond holders are repaid, no tax increment will be available to be used for any purpose other than i) paying Trustee fees and ii) repaying bondholders (in that order of priority).

Initial Analysis

The project area saw catastrophic losses of value after the “Great Recession” of 2008. The incremental property values within the project area declined dramatically from their highs of the 2007-2008 tax roll, bottoming out in 2012-13. Starting the next year, with the 2013-14 tax roll, values have since risen dramatically, with increases of approximately 213%, 209%, 53% and 31% in each of the last four years, respectively. If the soon-to-be-released equalized tax roll shows an assessed value increase of about 10%, the project area will have recovered 100% back to its valuation in 2007 (2006-07 tax roll) when the Bonds were originally issued. In other words, the property values in the project area have virtually recovered in full to the values that were in place when the bonds were first issued. An increase of greater than 10% on the 2017-18 roll will bring the project area closer to its peak value realized in 2007-08.

We spoke to the County Assessor’s Office to get some background about how the values declined and then increased so dramatically. The office told us that, in very broad terms, the decreases were largely (but not necessarily entirely) due to the application of so-called “Proposition 8 Reductions”, which is when a county assessor temporarily applies widespread reductions in property values to reflect lower prevailing real estate market conditions. Consequently, when market values recover, assessors may unwind those previous temporary reductions and bring property values back up to levels more in line with current market conditions. This can result in rapid increases to property values because the general 2% limitation on annual increases to value under Proposition 13 does not apply to Proposition 8 reductions, which are considered temporary. Thus, the assessor may reverse the reductions and



bring a property back up to its so-called “Proposition 13 Value” after the market improves, after which the 2% limit will once again apply.

It is difficult to project whether the bond markets have an appetite for a refunding bond issue from the Riverbank DLA. The recent increases in property values are a great positive development, but given the fact few people foresaw the potential impacts of the real estate “bubble” that developed in the mid-2000s, it is difficult to assess from a “high level” whether or not the recent increases in property values will lead to a repeat of the past “boom and bust” cycle.

What is clear is that right now, the DLA has little control over the current set of circumstances. The Trustee is operating in the manner it deems appropriate, although there is some question if it is authorized to pay the bonds in the manner it is without taking specific steps (e.g. declaring an acceleration). One thing is for certain: the Trustee’s job is to protect the bondholders’ (and its own) interests, and not those of the DLA or the ATEs. The present set of circumstances and level of analysis we have been able to perform to date has generated more questions yet to be answered.

What We Know and What We Don’t

- The Trustee is operating as if it has declared the TABs “accelerated”, which means the Trustee will continue to intercept 100% of all available tax increment until the bonds are paid in full
- It is unclear that the Trustee has the power to repay the bonds in this fashion without formally declaring an acceleration
- There is no way to know what future assessed values will be in the project area, therefore, we can’t know when the Bonds could be fully repaid under the current acceleration-like scenario vs. a refunding scenario
- Applying a consistent set of assumptions, refunding the TABs now should enable some amounts of residual tax increment revenues to flow to the ATEs in the next tax year (2017-18)
- Interest rates have improved over the past 6 months and are near historical lows
- The next equalized tax roll will be released in a matter of weeks; knowing what the 2017-18 roll values are will provide important new information that will enable us to shore up our projections
- In order to issue refunding bonds, the DLA would need to undertake the following actions:
 - o Conduct audits for each of the past years for which there are no audited financial statements
 - o Prepare and file past-due Continuing Disclosure Reports as required under the 2007 Continuing Disclosure Agreement



- Engage certain public finance professionals to prepare the required resolutions and initial documentation to commence the refunding/restructuring process

Possible Next Steps

It is our suggestion that the DLA take steps to begin a process that will enable the issuance of refunding bonds. This will not commit the DLA to a specific course of action regarding a bond issuance, but it can set certain activities in motion that will be critical to enable a successful bond issuance in a timely and efficient manner. We also suggest that the DLA give serious consideration to preparing audited financial statements and continuing disclosure reports, as this is generally in the best interests of the DLA and the ATEs.

It is our suggestion that the DLA canvass for interested underwriters and/or private placement investors. The process to identify the ideal financial firm to work with the DLA and its unique set of circumstances may take a bit of time, so starting the process sooner would be beneficial. Bond Underwriters and private placement firms are generally willing to do some work for a period of time without up-front compensation to explore the viability of potential engagements. It would make sense for the DLA to engage a firm on an exploratory (and no-cost) basis in the near term while awaiting the release of the new tax roll. Engaging an underwriter will provide additional perspectives and resources that can be used to benefit the DLA while keeping its options open.

Kosmont Companies and Kosmont Transactions Services

Kosmont Transactions Services (KTS) is an affiliate of Kosmont Companies (KC) and is registered with the SEC and MSRB as a Municipal Advisor. KTS routinely oversees the activities of KC when municipal securities are involved and provides qualified personnel to manage such assignments, such as this analysis. The author of this memo, Dan Massiello, is an accredited Municipal Advisor Representative with the SEC and MSRB. Should the DLA wish to undertake any actions related to the issuance of municipal securities, KTS is available to be directly engaged as a Municipal Advisor at the DLA's discretion.