STAFF REPORT
Lancaster Redevelopment Agency

RCC 4
06/09/09
MVB

Date: June 9, 2009

To: Chairman Parris and Agency Directors

From: Mark Bozigian, Executive Director

Subject: **Defeasance of a portion of prior RDA bond debt and authorization to obtain credit ratings, in anticipation of the (proposed) issuance of tax allocation bonds for low- and moderate-income housing purposes.**

Recommendations:

a. Appropriate $260,192 from the Housing Fund and $1,035,613 from tax increment funds of the Agency for the purpose of defeasing the Central Business District Tax Allocation Bonds, Issue of 1994 and $1,212,073 from the Housing Fund to defease a portion of the Amargosa Redevelopment Project, Tax Allocation Refunding Bonds, Issue of 1999.

b. Authorize the Agency's Finance Team to obtain credit ratings from one or more nationally recognized credit rating firms, in anticipation of the (proposed) issuance of the Agency's 2009 Tax Allocation Bonds (Housing Programs.)

Fiscal Impact:

It is anticipated that the Agency will consider at its meeting on June 23, 2009, leveraging, on a very conservative basis, a portion of the increase in assessed values since its last issuance of housing program tax allocation bonds in 2004, by issuing bonds to generate net proceeds of approximately $35 million for housing purposes. In conjunction with the anticipated 2009 bond issue the Agency will defease a portion of older housing bond debt issued in 1994 and 1999, to remove a senior lien on the housing set-aside portion of tax increment. By removing the senior lien on the existing housing bonds, the proposed 2009 Bonds will be better received in the market place, thus ensuring the Agency of a lower interest rate on the anticipated new bond issue.

The authorization to obtain one or more credit ratings will incur an estimated expense of $15,000 per rating, which will be reimbursed from the proceeds of the (proposed) 2009 Bonds.

Background:

The Agency has previously issued its Central Business District Redevelopment Project Area, Tax Allocation Refunding Bonds, Issue of 1994 (the "1994 Bonds"), and its Amargosa Redevelopment Project Area, Tax Allocation Refunding Bonds, Issue of 1999 (the "1999 Bonds") (and, collectively to the extent of the pledge of the Housing Set-Aside Amount, the "Prior Bonds").

Staff and the Agency's Finance Team have recommended that the Prior Bonds have their respective housing related bonds defeased with cash from the Housing Fund, which will remove the senior lien that the Prior Bonds have on the Housing Set-Aside Amount. As a result of removing the senior lien that the Prior Bonds currently have, the proposed 2009 Bonds will not have to be issued with a pledge of tax increment that is subordinate to the Prior Bonds, which will allow for a more efficient and cost effective issuance of the anticipated 2009 Bonds.

The Agency's Housing Fund will be reimbursed the amount of the cash defeasance of the Prior Bonds from bond proceeds at the closing of the (proposed) 2009 Bond issue, in addition to the estimated $35 million of new money proceeds that will be available for housing programs. In order to allow the Trustee for the Prior Bonds to send timely call notices to the existing bondholders, the Trustee must have cash on hand prior to the notices being sent, which is why the Agency cannot wait for the closing of the proposed 2009 Bonds to generate the cash needed to defease the Prior Bonds.

The Agency can also defease the remaining portion of non-housing debt for the 1994 Bonds, in order to completely defease the 1994 Bonds. By defeasing the remaining non-housing related 1994 Bonds with a cash deposit of $1,035,613, the Agency can achieve an interest savings of approximately $585,000 over the remaining life of the 1994 Bonds. Although the same analysis could be applied to show a savings for the non-housing portion of the 1999 Bonds, that is not being recommended at this time due to the larger amount of 1999 Bonds outstanding, which would require a larger amount of non-housing cash for defeasance.