

**MINUTES
BUDGET/PERSONNEL COMMITTEE**

Wednesday, April 19, 2017
10:30 A.M.
Sand City Council Chambers

AGENDA ITEM 1, CALL TO ORDER

The meeting was called to order at 10:28 a.m.

AGENDA ITEM 2, ROLL CALL

Members Present: Chair Blackwelder
 City Administrator Bodem
 Chief of Police Brian Ferrante {excused absence}
 Director of Administrative Services Linda Scholink
 Committee Member Mary Ann Carbone

Special Guest: Steven Gortler

AGENDA ITEM 3, COMMUNICATIONS

10:30 a.m. Floor opened for Public Comment.

There was no comment from the Public.

10:30 a.m. Floor closed to Public Comment.

Committee Member Bodem suggested that Agenda Item 4b be moved prior to 4a. for a presentation by Municipal Advisor Steven Gortler regarding the possibility of moving forward with the refunding of the 2008A Bonds.

AGENDA ITEM 4, NEW BUSINESS

b) Presentation by Municipal Advisor Steven Gortler

- **Discussion and Consideration of Moving Forward with the Refunding of 2008 Series A Tax Allocation Bonds**

Committee Member Bodem commented that the Sand City Redevelopment Agency issued \$7,015,000 of tax allocation bonds in January, 2008 to finance and refinance redevelopment activities within the Redevelopment Project Area. Currently, \$5,540,000 of the 2008A bonds is outstanding.

An opportunity now exists for the Successor Agency to refinance the 2008A bonds at lower interest rates, and in so doing realize debt service savings. Such a refinancing, which is similar to refinancing a home mortgage, is accomplished via the issuance of Refunding Bonds by the Successor Agency. Staff has been corresponding with Municipal Finance Advisor Mr. Steven Gortler to evaluate the merits of refinancing these bonds.

Committee Member Bodem introduced Mr. Gortler to the Committee Members.

Mr. Gortler commented that he is a municipal advisor that works with other cities, school districts, and counties whenever they need bonds for new projects or to refinance existing bonds. Seventy-five percent of the work he performs is the refinancing of debt at a lower interest rate resulting in savings to agencies.

He reported there are three common methods used by local public agencies to issue debt: competitive sales, negotiated sales, and direct private placements. Depending on a variety of factors including the security for the debt, and the size, term, structure and creditworthiness of the debt, one or another method of sale will usually achieve the best overall result, meaning the lowest possible true interest cost. Mr. Gortler recommends that the Agency use the direct private placement which would likely achieve the best overall result.

Gortler mentioned that in early April, Hilltop Securities, as the placement agent for the Successor Agency, approached various banks that participate in the market for private placement debt in California, to gauge their interest in the Sand City Successor Agency Refunding Bonds.

Among the banks that expressed interest, BBVA Compass Bank expressed the strongest interest, and subsequently submitted a formal proposal to purchase the Refunding Bonds at an 'indicative' interest rate of 2.75%. An indicative interest rate is the interest rate at which an investor is willing to purchase bonds on the date its proposal is submitted. Mr. Gortler provided a copy of the BBVA Compass Bank proposal.

The actual interest rate at which BBVA Compass Bank may ultimately purchase the Refunding Bonds will not be determined until shortly before the refinancing closes. Depending on market conditions at that time, the actual interest rate may differ from the indicative rate. Moreover, neither the Bank nor the Successor Agency is obligated to consummate the transaction, and both the Bank and the Successor Agency reserve the right to terminate the transaction any time prior to closing.

Mr. Gortler went on to say that the refunding would reflect the same terms of the existing bonds motorization going out through 2027.

Mr. Gortler implied that in today's relatively low interest rates, this refinancing will generate annual debt service savings of approximately \$35,000 per year. Committee Member Scholink said that Sand City would receive approximately 17.3% of the savings or \$6,000.00 per year from 2018 through 2027. In addition to the aforementioned \$35,000 of annual savings, the Successor Agency intends to apply \$318,000 of land sale proceeds to the redemption price of the 2008A Bonds, which will yield an additional \$40,000 of annual debt service savings. All of these savings will be shared among all of the taxing entities.

The actual amount of savings will not be determined until closing. Moreover, if interest rates increase prior to closing, then the actual savings may be less. If interest rates increase dramatically, it is even possible the savings may not be sufficient to warrant proceeding, in which case the refinancing may be canceled or delayed.

In response to Chair Blackwelder's question regarding the money received, Mr. Gortler responded that money which used to be collected by the former Redevelopment Agency (RDA) is now collected and deposited by Monterey County. The County then distributes the funds to the City's Redevelopment Property Tax Trust Fund (RPTTF) to pay off a priority of obligations including the bond debt. By reducing the outstanding obligations, it increases (by a small amount) the remainder of property taxes disbursed to all other entities, so the City would receive more property taxes because it would cost less to pay off former RDA debt.

Mr. Gortler stated that the cost of issuing the Refunding Bonds is expected to equal approximately \$90,000 for Bond Counsel,

Placement Agent, Municipal Advisor, Trustee and Escrow Agent, Verification Agent and miscellaneous other fees and expenses. All of these costs are payable from bond proceeds upon closing. If for any reason the refinancing fails to close, then all of these costs will be waived and the Successor Agency will not be billed.

No general fund monies will be expended in connection with this refinancing.

Committee Member Scholink asked what happens with the \$625,000 in the reserve accounts, which are now invested in certificates of deposits (CD's). Mr. Gortler explained that the City has two reserves. One for the Series A Bond and another for the Series B Bond. A portion of the 2008 Bonds were set aside in cash in a reserve fund, held by a trustee, and is equal to one year of annual debt service of the existing bonds. The idea is that the money would be available for debt service. If not used, and at the end of the bonds maturity, that debt service reserve fund would be used to make the final payment.

Compass Bank, in a private placement deal, does not require a reserve fund and are comfortable that the money would be available for debt service. Meaning, a portion of the reserve funds would be used to pay down the refunded 2008A Bonds, so that the amount of debt being issued would be less. The 2008A Bond debt would be funded with proceeds from the new 2017 refunding. Since the 2008B Bond is not being considered for refunding, the reserve funds would need to be left in place in the amount of \$226,000 required for the Series B Bonds. The remainder of the amount in the reserve funds for the 2008A Bonds would be liquidated to reduce the new debt. By law, the Successor Agency is required to use dollars equal to that portion of the reserve fund.

Mr. Gortler confirmed that the name of the bond would not change. They would still be considered Tax Allocation Bonds. In response to Committee Member Blackwelder's question whether there would be an impact on the bonds, Mr. Gortler answered that once the bonds are refinanced, they would be paid off on schedule and would not need to be restructured as the rates are very low at about 2.75%, from their current rate of around 6%.

Mr. Gortler explained that in order to move forward, Pursuant to State Law, the issuance of these Refunding Bonds must be approved by the Successor Agency Board (SA), Oversight Board (OB) and State Department of Finance (DOF). If as expected,

the SA and OB approves the refinancing, then immediately thereafter a request for DOF approval will be submitted. By law, DOF has 65-days to act; however, if the SA and OB move quickly, the DOF will grant its approval within approximately three weeks after the SA and OB approval.

Motion to move forward with the process of issuing refunding bonds to the Successor Agency to refinancing outstanding tax allocation bonds (2008A) issued by the former Sand City Redevelopment Agency in 2008 was made by Committee Member Blackwelder, seconded by Committee Member Carbone. There was consensus of the Budget/Personnel Committee to move forward the City Council with the refinancing of the bonds.

There was Committee discussion whether the City can create a new bond funding source should a developer require assistance from the City. Mr. Gortler mentioned that it is not uncommon for large developments to levy a community facilities district tax for additional revenue, and proposed scheduling or through the State's Ibank program.

a) Approval of March 29, 2017 Budget/Personnel Committee meeting Minutes

Committee Member Blackwelder suggested that he would like to see an action list of items that were discussed, such as the item number and progress made on the items in future agendas. He asked how the succession of the Mayor's position would be filled. Committee Member Bodem had discussed the issue with the City Attorney and how this would work. Committee Member Carbone mentioned a phone call from the Mayor of Carmel, Steve Dallas who was in the same predicament, and reported that Mayor Dallas established a Committee of two people to review letters of interest to fill the vacant Council seat. Committee Member Blackwelder suggested submitting a letter as done in the past, informing residents of the vacant Council seat. Committee Member Carbone instructed Committee Member Bodem to find out what other cities have done and whether they had a process and procedure in filling vacant Council seats.

Committee Member Blackwelder mentioned that the website will need updating with the information of the new Mayor.

AGENDA ITEM 5, REPORT FROM COMMITTEE MEMBERS

There were no reports from Committee Members.

AGENDA ITEM 6, ADJOURNMENT

Motion to adjourn the Budget/Personnel Committee meeting was made by Committee Member Blackwelder, seconded by Committee Member Bodem to the next Budget/Personnel Committee meeting to be determined. There was consensus of the Committee to adjourn the meeting at 11:45 A.M.

Linda K. Scholink, City Clerk