

**OVERSIGHT BOARD OF THE SUCCESSOR AGENCY TO THE
CITY OF HUNTINGTON PARK COMMUNITY DEVELOPMENT COMMISSION**

AGENDA REPORT

May 30, 2018

Dear Members of the Oversight Board of the Successor Agency to the Community Development Commission of the City of Huntington Park:

RE: APPROVAL OF: (1) THE SUCCESSOR AGENCY'S INCURRENCE OF A LOAN (AND RELATED ISSUANCE OF A TAX ALLOCATION NOTE) TO REFUND OUTSTANDING INDEBTEDNESS INCURRED IN 2007 FOR THE SANTA FE PROJECT AREA AND THE NEIGHBORHOOD PRESERVATION PROJECT AREA AND RELATED MATTERS, AND (2) USE OF MONIES FROM FISCAL YEAR 2018-19 REDEVELOPMENT PROPERTY TAX TRUST FUND DISBURSEMENTS TOWARD REFUNDING LOAN

IT IS RECOMMENDED THAT THE OVERSIGHT BOARD:

1. Adopt Resolution No. OSB 18-_04_ of the Oversight Board of the Successor Agency to the Community Development Commission of the City of Huntington Park, approving the Successor Agency's incurrence of a loan (and related issuance of a tax allocation note) to refund outstanding indebtedness incurred in 2007 for the Santa Fe Project Area and the Neighborhood Preservation Project Area and taking related actions
2. Adopt Resolution No. OSB 18-_05_ of the Oversight Board of the Successor Agency to the Community Development Commission of the City of Huntington Park, approving the use of monies received from Fiscal Year 2018-19 Redevelopment Property Tax Trust Fund disbursements for tax allocation refunding note debt service and taking related actions

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

Background

The former Community Development Commission of the City of Huntington Park (the Former CDC) incurred two loans in 2007 (together, the 2007 Loans): (i) one in the principal amount of \$3,037,000, to refund prior loans incurred for the redevelopment of the Santa Fe Project Area (the 2007 Santa Fe Loan), and (ii) one in the principal amount of \$6,700,000, to finance the redevelopment of the Neighborhood Preservation Project Area (the 2007 Neighborhood Preservation Loan).

MUFG Union Bank, N.A. (formerly Union Bank of California, N.A.) (Union Bank) is the lender for both 2007 Loans. The 2007 Loans bear interest at variable rates which adjust on a monthly basis. The Former CDC and Union Bank entered into an interest

rate swap in connection with each 2007 Loan. The net effect of the swap agreements is to synthetically fix the annual interest rate on the 2007 Loans at 4.50%.

The 2007 Santa Fe Loan had an original maturity date of February 3, 2014. The 2007 Neighborhood Preservation Loan had an original maturity date of February 1, 2017. On each maturity date, the outstanding principal amount of the related loan would be due as a balloon payment. Each agreement also provides that, upon the Former CDC's request, Union Bank may (but is not obligated to) extend the term of the 2007 Loan periodically.

During the past few years, Union Bank has given the Successor Agency extensions with respect to both 2007 Loans. In January 2018, however, Union Bank indicated that it was agreeing to only one *last* extension to: (i) August 3, 2018 for the 2007 Santa Fe Loan, and (ii) August 1, 2018 for the 2007 Neighborhood Preservation Loan.

As the result, the outstanding principal amount of the Santa Fe Loan (currently \$1.84 million), plus accrued interest, would become due on August 3, 2018. The outstanding principal amount of the Neighborhood Preservation Loan (currently \$3.66 million), plus accrued interest, would become due on August 1, 2018. Furthermore, each swap would terminate on the maturity date of the related 2007 Loan. A swap termination amount would also become due at the same time, creating a hardship for the Successor Agency.

Not having sufficient cash on hand by August 2018 to repay the 2007 Loans would place the Successor Agency in default. Because of this, it is necessary for the Successor Agency to seek a refunding of the 2007 Loans to avoid a default.

Under Health and Safety Code Section 34177.5(b), the Successor Agency is authorized to incur debt and issue tax allocation bonds (or notes) to finance debt service spikes (including balloon maturities).

Proposed Refunding

Successor Agency staff has been working with Public Financial Management, Inc. (PFM), as Municipal Advisor, and Richards Watson & Gershon, as Special Counsel, and HdL Coren, as Fiscal Consultant, on the proposed refunding.

To achieve the best result, it is anticipated that the Successor Agency will incur a single loan (the 2018 Refunding Loan) to refund both 2007 Loans. The 2018 Refunding Loan will bear interest at a fixed rate and have a term of about 10 years. The Successor Agency will issue a tax allocation note (the 2018 Note) to evidence the 2018 Refunding

Loan. The terms of the 2018 Refunding Loan will be governed by a loan agreement between the Successor Agency and the lending bank.

Pursuant to discussions between Successor Agency staff and the State Department of Finance (the DOF), the Successor Agency will apply the proceeds, in the amount of approximately \$2 million, from the sale of a property, known as the Carmelita Property, previously acquired with proceeds from the 2007 Neighborhood Preservation Loan, to the loan refunding.

The Successor Agency requested proposals from prospective banks for the loan refunding. Proposals were received from five prospective lenders: Compass Bank, California Bank & Trust, Municipal Finance Corporation, Opus Bank and Umpqua Bank. The indicative interest rates offered by these lenders ranged from 4.10% to 4.65% (as of the proposal date). Compass Bank offered the most favorable rate among the five proposals: an interest rate of 4.10% per annum, subject to adjustment before closing based on LIBOR. Compass Bank is a subsidiary of BBVA Compass Bancshares, Inc. BBVA Compass ranks among the 50 largest banks in the United States by total assets.

On May 29, 2018, the Successor Agency Board of Directors adopted a resolution, authorizing the incurrence of the 2018 Refunding Loan and the corresponding issuance of the 2018 Note.

Pursuant to Health and Safety Code Section 34177.5, the incurrence of the 2018 Refunding Loan is subject to the review and approval by the Oversight Board and the DOF. The Successor Agency Board has requested the Oversight Board to adopt a resolution (the OB Bond Resolution) to approve the issuance of the Refunding Bonds.

Successor Agency staff will forward the OB Bond Resolution (after its adoption) to the DOF. By law, the DOF will have an initial 5 business day review period, during which the DOF will have the option (which will be likely exercised) to extend its review by another 60 days.

Resolution Regarding Use of Fiscal Year 2018-19 RPTTF disbursements

In January 2018, the Oversight Board approved the ROPS for Fiscal Year 2018-19 (ROPS 18-19). Listed on ROPS 18-19 are certain debt service payments for the 2007 Loans. Upon the successful closing of the 2018 refunding transaction, the Successor Agency will be paying debt service on the 2018 Refunding Loan. The second Resolution attached to this Report clarifies that the Successor Agency will be permitted to redirect a portion of the Fiscal Year 2018-19 RPTTF disbursements approved for the 2007 Loans toward debt service on the 2018 Refunding Loan, without any amendment to ROPS 18-19.

FISCAL IMPACT/FINANCING

The Successor Agency does not have sufficient cash to repay the 2007 Loans and the swap termination amounts, in full, on their due dates. A successful refunding will allow the Successor Agency to avoid defaulting on these loans.

Based on current estimates, it is expected that, after application of the sale proceeds of the Carmelita Property, the principal amount of the 2018 Refunding Loan will be approximately \$4 million. The average annual debt service on the 2018 Note is estimated to be approximately \$500,000 per year. In contrast, if the Union Bank had agreed to keep extending the 2007 Loans, the combined average annual debt service on the 2007 Loans would be approximately \$730,000 over a term of approximately ten years. The final maturity of the 2007 Loans is not being extended in connection with the refunding.

CONCLUSION

Upon adoption, the Oversight Board resolutions will be submitted to the DOF for approval. It is hoped and expected that the DOF's approval will be received in time to close the refunding transaction before the 2007 Loans become due.

Respectfully submitted,

RICARDO REYES
Interim Executive Director of the Successor Agency

ATTACHMENT(S)

- A. Oversight Board Resolution Approving 2018 Refunding Loan payments
- B. Oversight Board Resolution Approving Use of FY 2018-19 RPTTF monies toward 2018 Refunding Loan payments
- C. Municipal Advisor Report Regarding Refunding Estimates, as of April 20, 2018
- D. Draft Loan Agreement
- E. Successor Agency Resolution