

**REFINANCING OF THE EXCISE TAX AND TAX INCREMENT  
REVENUE BOND< SERIES 2010**

**BACKGROUND:**

In 2010 the RDA issued a 15-million-dollar bond for the purpose of using the bond proceeds to purchase the land, and related costs for the WinCo development and surrounding uses. We also used some of the proceeds to cover infrastructure costs. The bonds were initially issued as a federally taxable bond with an interest rate of 6.65%. In 2015, our RDA financial advisor, Lewis Young, came across another option that had been released called a private activity bond and recommended the agency investigate this option. The bond was subsequently converted to a tax-exempt bond, at an interest rate of 4.42%, which resulted in a savings of thousands of dollars to the city and RDA, by a reduction in the bond payment. This was the first qualified redevelopment bond issued in the State, and to my knowledge the only qualified redevelopment bond in existence in the State. The bond was issued under the private activity rules of the IRS, and has some restrictions that had to be met when the bond was issued, this include a blight finding, and the need of a RDA project area of 100 acres, our RDA projects, market station and central pointe, met the requirements. The series 2010 bond had been structured by our financial advisor, with a conversion feature that allowed the City/RDA to gain the benefit of the lower cost tax-exempt bonds once the IRS authorization was obtained. This occurred in 2015.

This bond has a redemption clause, that allows for the option to redeem, not more than \$10,000,000 on or before November 1, 2020 at a price equal to the par amount of the series 2010 bonds, plus any accrued interest to the redemption date. Our finance director Kyle Kershaw noticed this in his review of the bond documents and recommended we should meet with the financial advisor to determine if this would be a good time to act upon the redemption and refinancing of the bond.

We had two meets with the bond counsel that assisted us in the issuance of the private activity bond, and our financial advisor. The first meeting was to investigate if the private activity bond could be refinanced, subject to the conditions established by the IRS for this bond., and would those condition apply to a refinanced bond. The bond counsel issued an opinion that many of the IRS conditions would not be applicable to a refinanced bond, other that the tax restrictions applying to the use of the property, which we have already complied with, base on the development of the property. The second meeting was to determine if this bond were a good candidate for refinancing and would provide economic savings to the RDA and City. It was determined that the bond met the requirements of a refinance, but an analysis would be required to determine the refund restructure and the potential savings.

**ANALYSIS OF THE STRUCTURING ALTERNATIVES AND ECONOMIC SAVINGS**

The true interest cost of the Series 2010 bond is 4.42%. To the extend that the series 2010 bonds could be funded at a lower true interest cost, the RDA will realize savings in its annual debt service requirements. This was the purpose of conducting the structure analysis. In addition, the analysis needed to look at the current bond markets and determine when would be the best time to refinance. Our concern was if the onset of COVID-19 had impacted the market, and if so, had it stabilized. The financial advisor has done the research and has recommended that now would be the best time to

proceed with a refinancing. Their research indicated that the bond market is stable and there are interested buyer looking for opportunity to purchase both tax-exempt and taxable bonds. Their research indicated that the ideal time is to refinance the bond prior to the November 3<sup>rd</sup> election. In addition, their study showed that the RDA could save \$200,000-\$400,000 annually on the debt service payments. The difference in the savings amount would depend on the length of the re-financed bond. The following table details the comparison of the annual debt service for the Series 2010 Bond compared to the projected debt service for the Series 2020 bond structured with a final maturity on November 1,2030, or with a final maturity on November 1,2035. The projected Net Present Value Savings is shown both in a percentage and a dollar amount.

Fiscal Year	Series 2010 bond	Series 2020 w/2030	Series 2020 w/2035
2021	1,290,648	221,599	215,315
2022	1,220,840	1,030,625	813,375
2023	1,240,590	1,064,000	813,128
2024	1,257,910	1,069,750	816,750
2025	1,277,688	1,087,875	814,250
2026	1,299,704	1,113,000	815,625
2027	1,323,736	1,134,878	810,875
2028	1,349,563	1,163,250	810,000
2029	1,376,965	1,187,875	812,750
2030	1,400,831	1,213,625	809,125
2031	1,430,940	1,240,250	809,125
2032	-	-	807,625
2033	-	-	809,500
2034	-	-	808,625
2035	-	-	808,000
2036			804,625
<b>TOTAL</b>	<b>14,469,414</b>	<b>11,526,724</b>	<b>12,378,690</b>
<b>GROSS SAVINGS</b>		<b>2,942,689</b>	<b>2,090,724</b>
<b>NPV SAVINGS ( % )</b>		<b>19.08%</b>	<b>15.13%</b>
<b>NPV SAVINGS ( \$ )</b>		<b>2,019,430</b>	<b>1,601,057</b>

The above clearly shows that a refinancing of the bond will result in a savings to the agency. The decision is what maturity date should the bond be. The 2030 date was selected in the original bond, because this is the date the .02% of the sales tax sunsets, unless the sunset is eliminated by the State legislature. If the later maturity date is selected, than another revenue pledge would need to be consider after 2030. This could be sales tax, franchise tax, or redevelopment tax increment.

## **NEXT STEPS**

**Assuming the board is willing to move forward with the bond refinancing;** there are several steps that need to be taken when bonds are issued or refinanced. These steps include:

- obtaining a waiver from current holder to allow the RDA to redeem all outstanding bonds
- Preparing a parameters document, that includes the maximum par amount of bonds to be issued, maximum maturity date and coupon rate, and maximum discount.
- preparing the parameters resolution and related bond documents
- selecting a finance team for pricing of bond
- preparing bond documents for the financing team, which includes preliminary official statement, supplemental indenture
- adoption of the parameter resolution by the RDA board
- prepare and publish a notice of the intent to issue bonds( starts a 30-day public contestability period)
- sending the required notice to the current bond holder of our intention to redeem the bonds
- selecting an underwriter if the bonds are to be a public issuance
- preparing a ratings presentation if a public issuance is required
- meeting with rating agency's if a public offering is required
- hold a pre-pricing meeting if a public offering is required
- pricing and sale of the bond if a public offering is required
- preparation of final closing documents
- closing on the bond

I have also attached a calendar of the events that shows the dates and the parties responsible for preparing documents. As you can see from the attached calendar, most of the steps are the responsibility of the retained bond counsel and the financial advisor. The RDA will be involved in the rating process, adoption of the parameters resolution, selection of an underwriter, review of documents, and the pricing of the bonds. If the bond can be placed privately( which is the preferred method), many of the steps are eliminated, and significant costs can be saved in the issuance of the bond. We have requested the financial advisor to begin immediately on finding a potential private placement. The biggest deterrent to this option is the large par amount of the bond we are refinancing. One item we recommend the RDA board consider is the pricing committee. Kyle and I recommend this committee include the executive director, the RDA chair and Vice Chair, and the city financial director. The parameters resolution will most likely require that there be 3 members of the committee available when the pricing step is ready.

Again, the reason we want to consider this refinancing is due to the annual savings we can obtain. We have a time crunch, due to the requirement of a November 1, redemption date, and the knowledge that our financial advisor has that the current bond market is stable and interest rates result in a savings. If we delay, we are taking a risk that the future market will be stable and the same interest rates can be achieved in the spring of 2021. We are hopeful, that the board concurs with the administrative staff to move forward with the refinancing. Kyle and I look forward to discussing this with you on Wednesday evening.