



Redevelopment Bond Refunding Program

May 30, 2013



Presentation Topics



- Introduction – Mark J. Saladino, Treasurer and Tax Collector
- Program Overview
- Legal Structure
- Successor Agency & Oversight Board Roles
- Marketing & Sale of the Refunding Bonds
- Program Benefits
- Timeline for 2013 Pool
- How to Join

Program Overview



- Treasurer and Tax Collector manages all debt issuance for the County, including the refunding of bonds for both the County and its special districts
- It is estimated that the 71 former redevelopment agencies in the County issued more than 300 series of tax allocation bonds (TABs) with over \$3.5 billion currently outstanding
- The majority of TABs carry interest rates that significantly exceed rates that could be obtained in the current bond market
- Preliminary analysis indicates that of the 300 series of TABs currently outstanding, there's approximately \$1 billion callable in 2013 that could result in over \$130 million in gross debt service payment savings

| 2013 Pool TAB Refunding Candidates (Estimated) | Net Present Value Savings (Estimated) | Gross Debt Service Savings (Estimated) |
|--|---------------------------------------|--|
| \$1 billion | \$90 million | \$131 million |

- AB 1484 gives Successor Agencies the ability to authorize refundings for the purpose of debt service savings

Program Overview (Continued)



- The Redevelopment Bond Refunding Program (the Program) has been established to assist Successor Agencies in the County in refinancing their outstanding TABs in an efficient and cost-effective manner to achieve the greatest possible savings
 - Additional residual revenues generated will benefit local taxing entities (including cities) that receive a share of property tax revenues
 - Cities in the County receive varying degrees of tax increment – ranging from 5% to 25%
 - For Successor Agencies that do not generate residual revenues, savings can help generate additional revenue to fund ROPS
- It is estimated that 47 Successor Agencies have TABs with callable maturities in 2013 that could be refunded for debt service savings
- The inaugural 2013 refunding will focus on TABs that provide material savings and a debt structure that will accommodate the County's current timeframe
 - The goal is not to refund all eligible TABs but instead create a template for a pooled structure that can be used in the future
 - Participants in the first pool benefit from highly favorable interest rates and recognition that an opportunity was taken to achieve savings
- The Program will provide multiple pooling opportunities over the next several years to efficiently refinance debt and meet individual timing needs

Program Overview (Continued)



- Treasurer and Tax Collector staff assigned to the County's Program have 25 years of combined public finance experience
 - Principal Deputy County Counsel assigned to assist with the Program
- The County has assembled a highly qualified finance team
 - Hired through RFP process

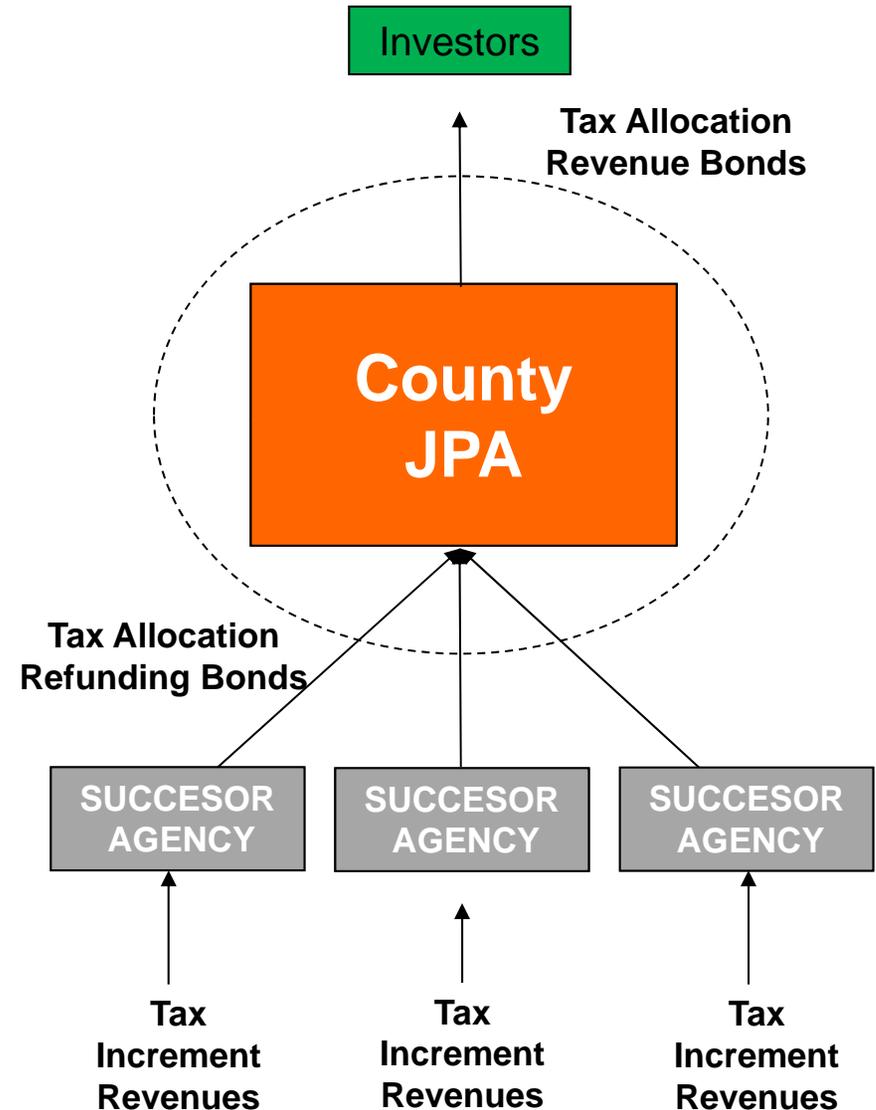
| County Refunding Program Financing Team | |
|--|---|
| <i>Bond & Disclosure Counsel</i> | Orrick, Herrington & Sutcliffe LLP |
| <i>Senior Underwriter</i> | De La Rosa & Co. |
| <i>Co-Underwriter</i> | Citibank |
| <i>Financial Advisor</i> | KNN Public Finance |

- Economies of scale through sharing of bond issuance costs

Legal Structure



- Health and Safety Code Section 34177.5 and Government Code Sections 53580 and 6584
- Utilize a Marks-Roos structure that allows both stand-alone financings and pooled issuances
 - Pooled issuances with multiple agencies will likely be separated into different groups by credit
- The County will form a Joint Powers Authority (JPA) to sell bonds to investors
 - JPA will purchase refunding bonds from Successor Agencies
 - Successor Agencies will not need to be JPA member



Legal Structure (Continued)



- The refunding bonds will have an identical pledge to the refunded bonds in most cases
 - AB 1484 allows for the refunding of prior debt to maintain the same lien priority
 - For credit and lien purposes, subordinated pass-throughs will need to be re-subordinated
 - Possible flexibility to enhance the security of the bonds if all existing debt is being refunded
- Refunding issuance under the County's Program will not require validation, absent special circumstances
- Reimbursement of staff time related to the refunding from bond issuance costs
 - Outside of the annual Administrative Cost Allowance (ACA) and would not count against ACA funding from the Redevelopment Property Tax Trust Fund (RPTTF)

Successor Agency and Oversight Board Roles



- Oversight Board will need to approve a resolution directing the Successor Agency to pursue a refunding through the County's Program
 - Pursuant to Health & Safety Code Section 34177.5(f), direction by the Oversight Board will enable the Successor Agency to potentially recover costs for time spent should the refunding not be executed
- As part of the financing, Successor Agencies will execute legal and disclosure documents specific to their refunding obligations
 - Plan limits, unique project area attributes, existing senior/parity/subordinate debt obligations should be reviewed
- Once the documents are in substantially final form, the Successor Agency's governing body will need to approve resolutions for issuance and other financing documents
- Oversight Board will approve the Successor Agency's approval of financing documents
 - Oversight Board actions will then begin a period of review by the Department of Finance of up to 65 days, a process the County will manage

Successor Agency and Oversight Board Roles (Cont)

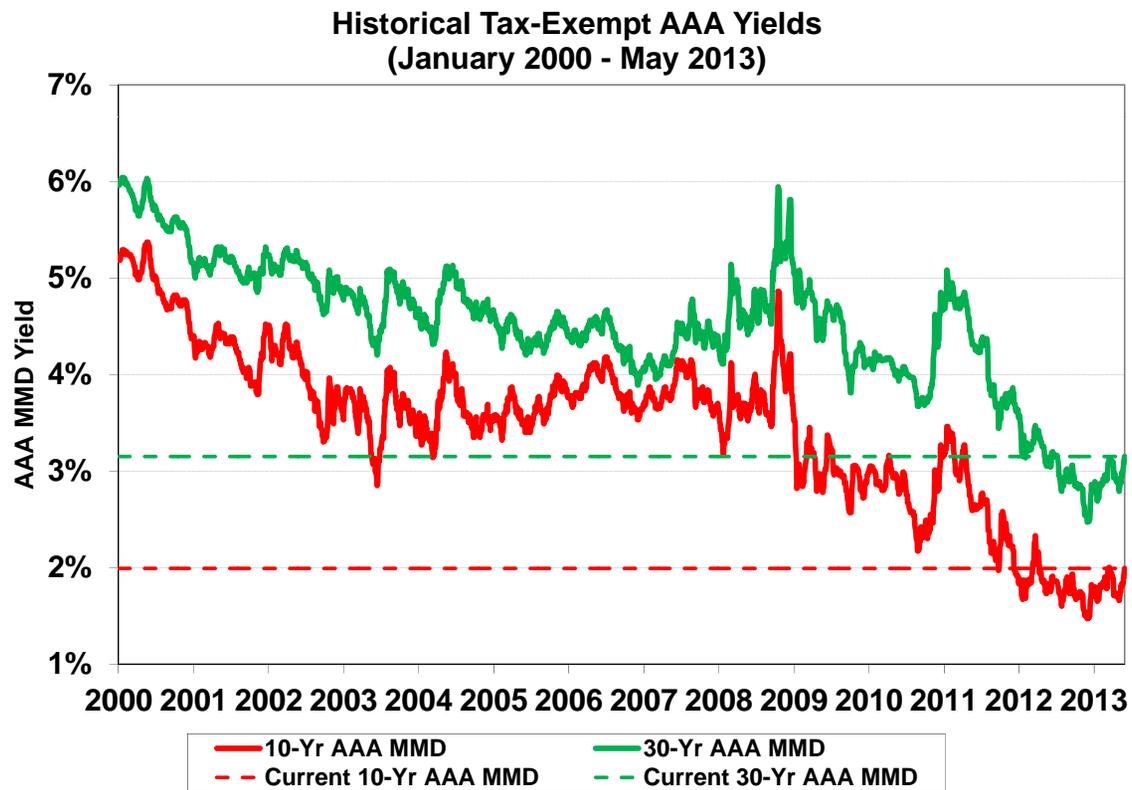


- In order to execute a refunding under the Program, participating Successor Agencies will need to be in compliance with existing continuing disclosure obligations
 - Bond Counsel and the Finance team will work with Successor Agency to ensure compliance
- The County is willing to serve as dissemination agent for continuing disclosure related to refundings under the Program
 - Continuing Disclosure Agreement will be drafted with the flexibility to permit the County to serve as dissemination agent
- Participating Successor Agencies will have ongoing covenants regarding tax exemption and protection of security – should not be materially different than existing bonds

Bond Market Overview



- Yields for municipal bonds in the current market remain very low in historical terms
 - Fed policy targeting low interest rates
 - High level of demand for and low supply of municipal bonds
 - Uncertainty surrounding pace of recovery in US and European economies



Source: Thomson Municipal Market Monitor

The Market for Redevelopment Bonds



- Despite the confusion caused by dissolution, there is still appetite for redevelopment bonds
 - Redevelopment bonds remain strong credits
 - Ratings are available
 - Bond insurance and debt service sureties are available
 - To date, three series of refunding bonds have been sold for the cities of Upland, Monrovia and Dinuba
 - Multiple tax allocation refundings are proceeding across the State
- Secondary market trading has been thin, but TABs have generally held their value
 - Investors see value in TABs versus other bonds like certificates of participation or lease revenue financings
- The Los Angeles County Program offers several key advantages that will appeal to investors

Ratings



- While dissolution has been a challenge, the fundamental credit strengths of tax allocation bonds remain relatively unscathed
 - Potential additional security for bonds from unused Redevelopment Property Tax Trust Fund (RPTTF) monies formerly designated for housing or other project areas
- Standard and Poor's gave investment grade ratings to the three deals that have come to market ("A" for Upland and "BBB-" for Dinuba and Monrovia)
 - Moody's downgraded all TABs below investment grade
 - Fitch continues to maintain ratings on its outstanding TABs but has withdrawn several due to lack of information
- Majority of redevelopment credits are in the "A" or "BBB" categories

Investment Grade Rating Hierarchy

| Standard & Poor's | Moody's | Fitch |
|------------------------------|----------------|--------------|
| AAA | Aaa | AAA |
| AA | Aa | AA |
| A | A | A |
| BBB | Baa | BBB |

Bond Insurance



- Remaining bond insurers (Assured Guaranty and Build America Mutual) are actively looking at redevelopment credits
 - Assured recently provided insurance for the Upland transaction
- A number of tax allocation bonds were previously issued with debt service reserve fund sureties for which a replacement surety would be required for the transaction to produce savings
 - Going forward there should be sureties available
 - Use of sureties will be governed by existing legal documents
- Assured Guaranty and Build America Mutual have expressed interest in the County's Program

Marketing & Sale of Refunding Bonds



- Marketing of refunding bonds issued through the Program will focus on accessing the largest universe of potential buyers
 - Large potential size of pooled Program will entice investors
 - Investors prefer larger blocks of bonds that offer more liquidity in the secondary market
 - Early investor contact and Investor Presentation
 - Increased investor participation for the bonds will facilitate obtaining higher bond prices (and lower yields)
- The County's oversight of the Program will offer another strong selling point
 - Investors will feel they are getting another level of protection in an environment where the management of redevelopment has been stripped to a bare minimum

Top Holders of California Redevelopment Bonds

| Firm | Holdings (\$000s) |
|-----------------------------|---------------------|
| Nuveen Asset Mgmt | \$ 1,340,956 |
| Franklin Templeton | 859,470 |
| OppenheimerFunds | 420,270 |
| Vanguard | 395,024 |
| INVESCO | 323,039 |
| Wells Capital Mgmt | 302,082 |
| Capital Research & Mgmt | 205,280 |
| Goldman Sachs Asset Mgmt | 187,915 |
| Pacific Investment Mgmt Co. | 167,555 |
| Teachers Advisors Inc. | 166,445 |
| Total Holdings | \$ 4,368,036 |

County Assistance with the Program



- The County Finance team will lead the effort to structure the financing and sell the refunding bonds
- Staff from County Counsel and the Treasurer and Tax Collector will guide the preparation of all legal and disclosure documents
 - County Finance staff will review each Resolution, Indenture, Purchase Contract, Official Statement, and Disclosure Certificate
 - Staff reports will be prepared at the request of each Successor Agency
 - Draft Staff Reports and Oversight Board Resolutions are currently available on the County redevelopment dissolution website
- The County will be available for meetings with the Successor Agency and Oversight Board whenever requested

County Assistance with the Department of Finance



- The County will help facilitate Department of Finance (DOF) approval of refundings for the Program participants
 - The County has already been in contact with the DOF
 - DOF staff has been assigned to the Program
- Scheduled meetings with DOF will provide for continuous updates
 - Creates an efficient process
 - Increases cooperation from DOF
 - Decreases the number of tasks for the Successor Agencies
- In addition to the approval process, the County intends to seek final and conclusive determinations for the refunding obligations
 - Health & Safety Code Section 34177.5(i)
 - Consultation with Successor Agency staff may be necessary for this process

County Assistance with Continuing Disclosure



- The County Finance team will assist in the preparation of the Preliminary Official Statement and disclosure documentation
- It is the County's intent to take over as much of the continuing disclosure burden as possible
 - Much of the general information regarding assessed value, taxpayer concentration and other credit information is sourced from the County
 - County would serve as dissemination agent on an ongoing basis
 - Existing bond documents for parity debt may require continuing role of Successor Agency in disclosure practices
- Single point-of-contact for continuing disclosure will benefit marketing efforts with rating agencies and investors
- County Treasurer will maintain an active role in post issuance administration of the refunding bonds

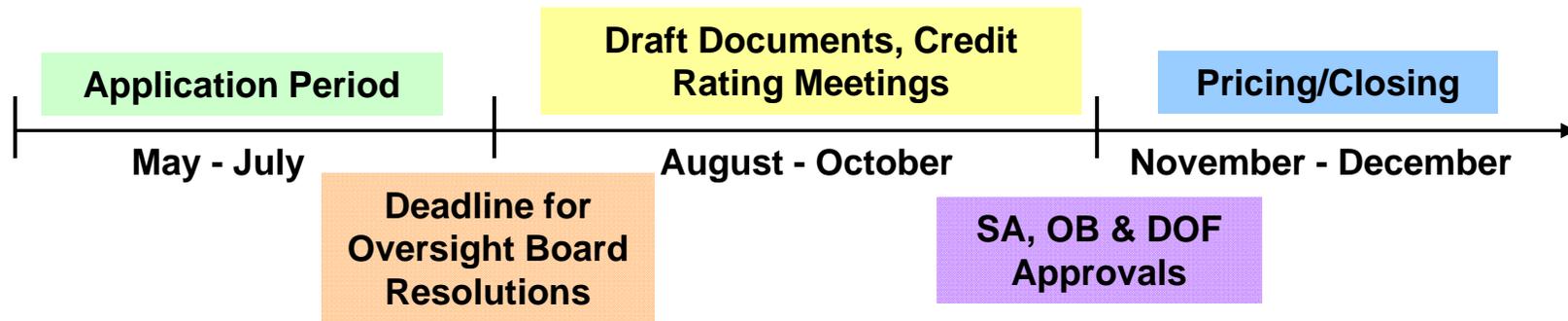
County Program Benefits



| Benefits | County Program | Stand-alone Financing |
|--|---------------------|-----------------------|
| Existing team pre-selected by RFP | ✓ | ? |
| Economies of scale (Bond issuance costs & interest rates) | ✓ | X |
| Streamlined documentation and staff reports | ✓ | X |
| Timing flexibility | ✓ | ✓ |
| Entity coordinating DOF review process | County | Agency |
| Continuing Disclosure responsibility | County ¹ | Agency |

¹Successor agency may need to assist with some continuing disclosure items

Timeline for 2013 Pool



2013 INAUGURAL POOL – TIMELINE

- | | |
|-----------------------|--|
| May – July 2013 | <ul style="list-style-type: none"> ▪ One-on-one meetings & application period ▪ County JPA formation |
| July 2013 | <ul style="list-style-type: none"> ▪ Deadline to submit executed Oversight Board resolutions |
| August – October 2013 | <ul style="list-style-type: none"> ▪ Finalize bond documents, credit rating meetings ▪ Successor Agency (SA), Oversight Board (OB) & DOF Approval ▪ County Board approves financing documents |
| November 2013 | <ul style="list-style-type: none"> ▪ County sells the refunding bonds |
| December 2013 | <ul style="list-style-type: none"> ▪ Bond closing |

Multiple pools will be executed for refundings over the next several years

How to Join the Program



- The County is reviewing participants for the 2013 Pool
 - Successor Agencies with potential refunding opportunities have been or are in the process of being contacted by the County
- Successor Agencies that wish to participate in the Program will need to have the Oversight Board pass a resolution directing the Successor Agency to move forward with a refunding under the Program
 - Direction by the Oversight Board will enable the Successor Agency to recover staff time and other costs should the refunding of TABs not be executed per Health & Safety Code Section 34177.5(f)
- The County has prepared draft resolutions and accompanying staff reports that can be provided upon request
 - Additional resources are provided at: <http://redevelopmentdissolution.lacounty.gov>
- 2013 Pool Application Deadline: July 2013



Q & A

County of Los Angeles Program Team



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