

DESIGNATED LOCAL AUTHORITY
RIVERBANK CITY HALL SOUTH
CONFERENCE ROOM
6617 THIRD STREET
RIVERBANK CA 95367-2305

MEETING AGENDA
TUESDAY, OCTOBER 9, 2018 – 10:00AM

CALL TO ORDER: CHAIR WENDELL NARAGHI

ROLL CALL: Chair Wendell Naraghi
Vice Chair Walter Schmidt
Treasurer Paul Baxter



CONFLICT OF INTEREST

Declaration by Board Members who would have a direct Conflict of Interest on any scheduled item to be considered should be stated at this time.

1. PUBLIC BUSINESS FROM THE FLOOR (No action can be taken)

At this time, members of the public may comment on any item not appearing on the agenda, and within the subject matter jurisdiction of the Board.

2. ACTION ITEMS (Items will be individually discussed prior to Board action)

Item 2.1: Approval of the January 16, 2018 Special Meeting Minutes

Recommendation: Approval by Roll Call Vote.

Item 2.2: Update on Restructuring of Delinquent Tax Allocation Bonds

3. INFORMATIONAL ITEMS (No action to be taken)

There are no informational items

4. COMMENTS (Informational Only – No action to be taken)

Item 4.1: Consultant Comments

Item 4.2: Board Comments

ADJOURNMENT

AFFIDAVIT OF POSTING			
DATE:	October 4, 2018	TIME:	9:30 AM
NAME:	Marisela H. Garcia	TITLE:	Secretary

Notice Regarding Americans with Disabilities Act:

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the City Clerk's Office at (209) 863-7122. Notification 48-hours before the meeting will enable the Board to make reasonable arrangements to ensure accessibility to this meeting [28 CFR 35.102.35.104 ADA Title II].

Notice Regarding Non-English Speakers:

Pursuant to California Constitution Article III, Section IV, establishing English as the official language for the State of California, and in accordance with California Code of Civil Procedures Section 185, which requires proceedings before any State Court to be in English, notice is hereby given that all proceedings before the Designated Local Authority shall be in English and anyone wishing to address the Board is required to have a translator present who will take an oath to make an accurate translation from any language not English into the English language.

All public records relating to an open session item on this agenda, which are not exempt from disclosure pursuant to the California Public Records Act, that are distributed to a majority of the Riverbank Designated Local Authority will be available for public inspection at the address where the meeting is taking place as indicated on the agenda, at the same time that the public records are distributed or made available to the Riverbank Designated Local Authority.

AGENDA ITEM 2.1

**RIVERBANK DESIGNATED LOCAL AUTHORITY
SUCCESSOR AGENCY TO THE RIVERBANK REDEVELOPMENT AGENCY**

**SPECIAL MEETING AGENDA
TUESDAY, JANUARY 16, 2018**

CALL TO ORDER:

The Riverbank Designated Local Authority (RDLA) met this date at 10:01 a.m., in the Riverbank City Council Chambers, 6707 Third Street, Riverbank, California, and was called to order by Chair Naraghi.

Present: Chair Wendell Naraghi
Vice Chair Walter Schmidt
Treasurer Paul Baxter

Also in Attendance: Chris Jicha, Kosmont Companies (via phone)

CONFLICT OF INTEREST

No conflict was declared.

1. PUBLIC BUSINESS FROM THE FLOOR

There was no public business from the floor.

2. ACTION ITEMS (Items will be individually discussed prior to Board action)

Item 2.1: Approval of the June 27, 2017 Special Meeting Minutes

By a vote of 3-0, the June 27, 2017 Special Meeting minutes were approved. The motion was made by Treasurer Baxter with a second by Vice Chair Schmidt.

Item 2.2: Approval of the September 12, 2017 Special Joint Meeting Minutes

By a vote of 3-0, the September 12, 2017 Special Joint Meeting minutes were approved. The motion was made by Treasurer Baxter with a second by Vice Chair Schmidt.

Item 2.3: Approval of the Recognized Obligation Payment Schedule for Fiscal Year 2018-19 (Annual ROPS 18-19)

By a vote of 3-0, the Recognized Payment Obligation Schedule (Annual ROPS 18-19) was approved. The motion

AGENDA ITEM 2.1

was made by Treasurer Baxter with a second by Vice Chair Schmidt.

The DLA requested that Kosmont re-evaluate the possibility of refinancing the existing bonds and presenting the proposal at a future meeting.

Item 2.4: RDLA Resolution 2018-001 Adopting a Conflict of Interest Code

By a vote of 3-0, Resolution 2018-001 was approved. The motion was made by Vice Chair Schmidt with a second by Treasurer Baxter.

3. INFORMATIONAL ITEMS

There are no informational items

4. COMMENTS

Item 4.1: Consultant Comments

No comments.

Item 4.2: Board Comments

No comments.

There being no further business, Chair Naraghi adjourned the meeting at 10:34 a.m.

Respectively Submitted,

*Marisela H. Garcia, Secretary
Riverbank Designated Local Authority*



Memorandum

To: Riverbank DLA Board of Directors
From: Dan Massiello
cc: Christopher Jicha; Mark Persico, Larry Kosmont
Date: October 4, 2018
Re: Update on Restructuring of Delinquent Tax Allocation Bonds

The Riverbank Designated Local Authority, as Successor Agency to the Riverbank Redevelopment Agency (“DLA”) was informed by the California Department of Finance (“DOF”) that it is unable to file a Last and Final ROPS and thereby dissolve due to the status of the outstanding and delinquent 2007 Series A and Series B Bonds (the “Defaulted Bonds”) of the former Riverbank RDA.

Subsequently, Kosmont Companies (“Kosmont”) revisited our previous analysis of restructuring the Defaulted Bonds as a means to satisfy the eligibility requirements for the DLA to file a Last and Final ROPS so it can cease operations.

In addition to our previous analyses of the Project Area, the Defaulted Bonds and the potential to restructure them, we also performed the following actions to further research the viability of a refunding bond issuance by the DLA:

- Canvassed potential bond underwriters to identify ideal partners to work with the DLA and its unique set of circumstances
- Assessed current pass through losses to Affected Tax Entities (“ATEs”) in the project area
- Continued to monitor prevailing interest rates in the municipal bond market

As a result of these activities, Kosmont believes a restructuring deal is viable if current market conditions (i.e. interest rates) remain in the range in which they are now. What follows is a review of the status of the Defaulted Bonds, followed by three key factors that have contributed to our assessment.

Review of Current Bond Status

As you may recall from our last analysis and presentation to the DLA Board, the Defaulted Bonds remain outstanding with the last whole principal payments made to bond holders occurring on 8/1/2012. However, in 2017, increases in tax increment revenue receipts enabled the Trustee (U.S. Bank N.A.) to become current on past-due interest payments as well as make a partial (pro-rated) principal payment to all bondholders. The manner in which the Trustee paid all Bondholders with partial and pro-rated payments has the effective result of the Defaulted Bonds being “Accelerated,”

as defined in and in accordance with the terms of the Indenture, although the Trustee has not officially declared the Defaulted Bonds to have been Accelerated.

The effect of Acceleration has been to: 1) keep the defaulted maturities outstanding (i.e. owners of defaulted maturities still have not been repaid in full, only partially); 2) reduce the outstanding balance of future maturities that have not yet come due; and 3) perhaps most importantly, create a circumstance where there is no longer a defined payment schedule for the Defaulted Bonds, which is a requirement to file a last and Final ROPS (more on this below).

Additionally, the Trustee has a “first pledge and lien” on all tax increment revenues (excluding County fees) which it continues to utilize to capture 100% of the tax increment revenues until the Defaulted Bonds are repaid. In other words, all revenues in excess of County Fees, Trustee Fees and interest payments continue to be captured by the Trustee and applied to pay principal pro-rata across all maturities regardless of whether they are delinquent, currently due or not yet mature.

As a consequence, there remains and will remain no tax increment revenue available for any other purpose, other than paying County fees, Trustee fees and Bondholders, so long as any Defaulted Bonds remain outstanding. This means that the ATEs will continue to receive no share of tax increment revenue until all the Defaulted Bonds are paid in full at a future time that remains uncertain and unknowable.

Interested Bond Underwriter

Kosmont has identified an underwriting partner for the Riverbank DLA, Stifel, Nicolaus & Company, Incorporated (“Stifel”), that is willing to go “at risk” to work on a potential financing, i.e. Stifel is willing to perform the necessary tasks to underwrite the bonds and will not get paid until and unless a refunding bond issue is successfully completed. Issuing new debt to repay a defaulted bond issue will take a lot of work and requires a specific skillset to find investors for this kind of debt; the fact that Stifel is willing to go “at risk” and work on this deal is a strong indication of its belief that a successful transaction is within reach.

Benefits to Affected Taxing Entities

When the Bonds were issued, ATEs of the DLA agreed to subordinate their rights to receive tax sharing payments due to them under AB 1290 to the debt service on the Defaulted Bonds. This means that Bondholders receive their payments before ATEs can receive their tax sharing payments. Subordination increased the security of (thus lowering the interest rate on) the Defaulted Bonds when they were originally issued. Consequently, the terms of Acceleration set by the Indenture have prevented any statutory pass through tax sharing payments to the ATEs.

Under these terms of Acceleration, the Trustee currently takes an estimated \$300,000+ of pass through RPTTF revenues away from ATEs annually and instead uses those revenues to pay all Bondholders, as previously described. These revenues will continue to be consumed by the Trustee until all maturities are paid in full. When all of the Defaulted Bonds will be paid in full is not knowable, but Kosmont estimates that it could take as many as 10 years or longer.

Should the DLA restructure the Defaulted Bonds and establish a new amortization schedule commensurate with the original term of the Defaulted Bonds, it is currently estimated that present levels of tax increment revenues would be sufficient to both pay debt service on the new Bonds

and also resume pass through tax sharing payments to the ATEs. As you will recall, ATEs include the County of Stanislaus, county fire services, the region's local school and community college districts, and other local taxing entities. Such funds would provide additional revenues to each of these public agencies and could be used to provide additional programming or savings to reduce the burden of current operational expenses.

Filing Last and Final ROPS & Dissolution of Designated Local Authority

Pursuant, to California Health and Safety Code Section 34191.6 (a), redevelopment successor agencies may submit a Last and Final ROPS if all the following conditions are met:

- The remaining debt is limited to administrative costs and payments pursuant to enforceable obligations with **defined payment schedules** including, but not limited to, debt service, loan agreements, and contracts
- All remaining obligations have been previously listed on the ROPS and approved for payment by DOF
- The agency is not a party to outstanding/unresolved litigation, with certain exceptions

Currently, the Riverbank DLA does not qualify to file a Last and Final ROPS because the Acceleration of the Defaulted Bonds means there is no longer a defined payment schedule for the Defaulted Bonds; the payment schedule changes every year in accordance with the specific amount of tax increment revenue receipts in any given year. Issuing refunding bonds would enable the DLA to remedy the situation with the Defaulted Bonds and establish a defined payment schedule, thus enabling the RDA to move forward with filing its Last and Final ROPS and ultimately – and in a timelier fashion – dissolve.

Next Steps

In order to move forward, the DLA would need to undertake certain activities such as preparing audited financial statements for the years it has not previously done so. The DLA may also have to prepare and file past-due Continuing Disclosure Reports, but if the new bond issue is structured in a certain way, it is possible this requirement could be waived. DLA staff, working with the City of Riverbank Finance Director, is currently soliciting a quote from the City of Riverbank's auditors to complete the audits. The audit costs would be an eligible expenditure under the DLA's administrative budget as provided by DOF. Should the preparation and filing of Continuing Disclosure Reports be required, it should be possible to include those costs in the bond issue.

In order to enter the capital markets and sell bonds, the DLA will need to engage certain professionals, including Stifel, a bond counsel, a disclosure counsel, and a municipal financial advisor. To maximize the potential to capture currently low interest rates before they increase more, this process should commence without delay. Kosmont's sister company, Kosmont Transactions Services ("KTS"), is prepared to serve as the DLA's Municipal Advisor with immediate effect and would be particularly well-suited to do so considering the depth and breadth of the knowledge and experience that the Kosmont team already has with the DLA. (KTS will submit a separate proposal for such engagement should the DLA wish to pursue this opportunity; see "Kosmont Companies and Kosmont Transactions Services" below.) KTS can oversee the

assembly of the professional finance team required to issue bonds on behalf of the DLA. All professionals engaged would be paid out of bond proceeds and not the current DLA budget.

Finally, Kosmont and the DLA will need to work closely with the DOF to approve the restructuring as this would be a unique circumstance under the refunding authority contained in AB 1484. This endeavor should also commence without delay.

Summary

Because the DLA cannot file its last and final ROPS, and because current bond market conditions (i.e. interest rate levels) appear to support the issuance of a restructuring issue, Kosmont believes that it behooves the DLA to consider taking advantage of these opportunities and circumstances – which may not last – to issue new bonds to restructure the Defaulted Bonds. Up-front costs are limited to the preparation and filing of past-due annual audited financial statements, which will be funded by the DLA’s budget that is overseen by DOF, and direct issuance costs associated with issuing new bonds will be paid with bond proceeds.

A successful bond issue will enable several things to occur, namely: the DLA will be eligible to file its Last and Final ROPS and dissolve; and the ATEs will once again receive pass through tax sharing payments (potentially within the current fiscal year), currently estimated at approximately \$300,000 and expected to increase annually as real estate values continue to recover.

Kosmont Companies and Kosmont Transactions Services

Kosmont Transactions Services (KTS) is an affiliate of Kosmont Companies (KC) and is registered with the SEC and MSRB as a Municipal Advisor. KTS routinely oversees the activities of KC when municipal securities are involved and provides qualified personnel to manage such assignments, such as this analysis. The author of this memo, Dan Massiello, is an accredited Municipal Advisor Representative with the SEC and MSRB. Should the DLA wish to undertake any actions related to the issuance of municipal securities, KTS is available to be directly engaged as a Municipal Advisor at the DLA’s discretion.