



# DRAFT

Agenda Item No.

---

**COUNCIL COMMUNICATION AND  
VALLEJO PUBLIC FINANCING AUTHORITY**

Date: July 13, 2010

TO: Honorable Mayor and Members of the City Council  
Honorable Chairperson and Members of the Vallejo Public Financing Authority

FROM: Robert F.D. Adams, Interim City Manager  
Robert V. Stout, Finance Director

**SUBJECT: ADOPTION OF A RESOLUTION OF THE BOARD OF DIRECTORS OF THE VALLEJO PUBLIC FINANCING AUTHORITY DIRECTING THE APPLICATION OF SURPLUS FUNDS UNDER THE INDENTURE, DATED AS OF AUGUST 1, 2004 IN CONNECTION WITH THE AUTHORITY'S LOCAL AGENCY REVENUE BONDS (HIDDENBROOKE IMPROVEMENT DISTRICT) 2004 SERIES A**

## BACKGROUND & DISCUSSION

In 1998 the City of Vallejo issued its Hiddenbrooke Improvement District No. 1998-1 Series A and Series B Bonds. In 2004 the Vallejo Public Financing Authority issued its Local Agency Revenue Bonds (Hiddenbrooke Improvement District) 2004 Series A to refinance the 1998 Bonds.

The bonds are not general obligations of the City, but limited obligations payable solely from the special taxes levied in the Hiddenbrooke Improvement District. The repayment of principal and interest comes from existing assessments on lands within the improvement district. There are 1,132 taxed parcels within the district with an average tax assessment of \$1,796 per year.

Currently the 2004 Bonds have \$17.995 million of outstanding principal resulting in an annual debt service payment of approximately \$1.61 million per year, with a final maturity date of September 1, 2031.

During development of the FY 2010-11 Budget, staff discussed the status of the district and its accumulating cash position with representatives of the Hiddenbrooke Property Owners Association, Inc. ("HPOA"). HPOA representatives subsequently asked staff to explore the possibility of reducing the tax levy for the Hiddenbrooke Improvement District ("HID").



# DRAFT

In consultation with the City's Bond Counsel and Special Tax Consultant, City staff met with representatives of HPOA to discuss options to reduce the annual levy to property owners, while keeping in mind the need to hold sufficient reserves for future capital improvement needs and tax delinquencies. The available Hiddenbrooke Improvement District fund balance at June 30, 2010, remains estimated at approximately \$4 million in addition to \$2.8 million of cash held for debt service and delinquency reserves required by bond covenants. The fund has been accumulating between \$500,000 and \$600,000 per year, and with no change in the current maximum tax mechanism, the available fund balance would likely reach \$4.6 million by June 30, 2011. Actual results vary due to owner prepayments and the associated bond calls. In regards to the approximately \$4 million of fund balance, staff recommends using \$1 million to call bonds, and \$3 million for capital improvements, including two capital improvement projects currently under consideration (LED street lights and utility corridor improvements) but no formal actions on these projects is requested at this time.

Staff recommends that the City Council authorize staff to buy-down \$500,000 of Fiscal Year 2010-11 annual tax levy of property owners using a portion of the district reserves. The special tax would still continue to be calculated at the maximum tax rate but the tax administrator would reduce the total levy by \$500,000 proportionately to each parcel to provide the district with break-even cash flow, as adopted in the FY 2010-11 Budget. This action will provide immediate tax relief to current property owners within the district. On a going-forward basis, staff recommends that the fund be evaluated on a year-by-year basis to determine if financial conditions warrant a reduction in the tax levy, or if the financial condition of the fund has deteriorated and additional resources are needed to protect debt service during the remaining 21 years of the bond.

Further, as a result of staff's discussion with Bond Counsel, staff recommends that the City Council authorize staff to refund \$1,000,000 of the Hiddenbrooke Improvement District Bonds which will result in a reduction of long-term debt service payments for current and future property owners within the district of approximately \$70,000 per year. This will still leave undesignated reserves of approximately \$3 million in the district.

Staff received a letter from the Hiddenbrooke Property Owners Association stating that on June 24, 2010, the full Board of the Hiddenbrooke Property Owners Association adopted recommendations supporting the Authority's proposed actions to 1) reduce the FY 2010-11 special tax levy by using \$500,000 of the reserve to buy-down the property owners levy. Further HPOA requested that this be made a permanent annual reduction, and 2) call \$1 million of bonds. As a result, City staff and HPOA are in general agreement as to the application of these reserve funds, with the exception that staff does not recommend making the \$500,000 a permanent annual tax reduction.



# DRAFT

## **PROPOSED ACTION**

Adopt a Resolution of the Board of Directors of the Vallejo Public Financing Authority Directing the Application of Surplus Funds under the Indenture, dated as of August 1, 2004 in connection with the Authority's Local Agency Revenue Bonds (Hiddenbrooke Improvement District) 2004 Series A.

The resolution would authorize the refunding of up to a maximum of \$1,000,000 principal amount of Bonds, including approval, execution and delivery of all necessary documents, and also authorize the one-time buy-down of \$500,000 of Fiscal Year 2010-11 annual tax levy of property owners.

## **ENVIRONMENTAL REVIEW**

The adoption of this resolution is not a project as defined by the California Environmental Quality Act (CEQA) pursuant to section 15378 (b)(4) of Title 14 of the California code of Regulations and is not subject to CEQA review.

## **CITY COUNCIL AREA OF FOCUS**

Area of Focus #1(a). Monitor City's fiscal condition and educate City Council, community and City employees with current information.

## **FISCAL IMPACT**

The one-time \$500,000 buy-down of Fiscal Year 2010-11 property owners tax levy will provide the district with break-even cash flow, as adopted in the FY 2010-11 Budget, for the Hiddenbrooke Improvement District Fund.

The refunding of \$1,000,000 Hiddenbrooke Improvement District bonds will lower the annual debt service on the 2004 Bonds by over \$70,000 per year. The District will have an annual reduction in debt service requirements in excess of \$70,000 annually. The annual savings will be reflected in the Hiddenbrooke Improvement District Fund as a reduction of the annual debt service requirement.



**DRAFT**

**Page No. 4**

---

**DOCUMENTS ATTACHED**

ATTACHMENT A A RESOLUTION OF THE BOARD OF DIRECTORS OF THE VALLEJO PUBLIC FINANCING AUTHORITY DIRECTING THE APPLICATION OF SURPLUS FUNDS UNDER THE INDENTURE, DATED AS OF AUGUST 1, 2004 IN CONNECTION WITH THE AUTHORITY'S LOCAL AGENCY REVENUE BONDS (HIDDENBROOKE IMPROVEMENT DISTRICT) 2004 SERIES A

**PREPARED BY:**

Jon R. Oiler, Auditor Controller (707) 648-4593

**CONTACT:**

Robert V. Stout, Finance Director (707) 648-4592

# DRAFT

## ATTACHMENT A

RESOLUTION NO. \_\_\_\_\_

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE VALLEJO PUBLIC FINANCING AUTHORITY DIRECTING THE APPLICATION OF SURPLUS FUNDS UNDER THE INDENTURE, DATED AS OF AUGUST 1, 2004 IN CONNECTION WITH THE AUTHORITY'S LOCAL AGENCY REVENUE BONDS (HIDDENBROOKE IMPROVEMENT DISTRICT) 2004 SERIES A**

WHEREAS, the Authority issued its Local Agency Revenue Bonds (Hiddenbrooke Improvement District) 2004 Series A (the "Bonds") in order to refinance certain obligations issued to fund public capital improvements for the area of the City of Vallejo (the "City") commonly known as "Hiddenbrooke" pursuant to an indenture of Trust, dated August 1, 2004 (the "Indenture") by and between the Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee") (all capitalized terms not otherwise defined in this resolution shall have the meanings ascribed thereto in the Indenture); and

WHEREAS, the bonds are secured by payments received by the Authority as the Owner of the Hiddenbrooke Improvement District No. 1998-1 (the "District") of the City of Vallejo Improvement Bonds, 1998 Series A (the "Local Obligations") issued by the City pursuant to a Fiscal Agent Agreement, dated as of August 30, 1998 by and between the City and Wells Fargo Bank, National Association, as Fiscal Agent, as amended by a First Supplemental Agreement, dated as of August 1, 2004 (collectively, the "Fiscal Agent Agreement"); and

WHEREAS, pursuant to the Indenture and the Fiscal Agent Agreement, certain funds held by the Trustee under the Indenture may be applied at the discretion of the Authority for, among other things, the retirement of Local Obligations and Bonds, and the reduction of Improvement Levies within the District;

NOW, THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED, by the Board of Directors (the "Board") of the Vallejo Public Financing Authority as follows:

Section 1. The Board hereby directs that the Treasurer of the Authority cause to be prepared and execute a Written Direction of the Authority to the Trustee directing that the sum of \$1,000,000 of funds on hand in the Surplus Fund be applied pursuant to Section 5.06(d) of the Indenture to the redemption of Local Obligations and Bonds on September 1, 2010 as provided in the Indenture and the Fiscal Agent Agreement.

Section 2. The Board hereby directs that the Treasurer of the Authority cause to be prepared and execute a Written Direction of the Authority to the Trustee directing that the sum of \$500,000 of funds on hand in the Surplus Fund be applied pursuant to Section 5.06(d) of the Indenture to reduce the Improvement Levies for Fiscal Year 2010-11 on a proportionate basis for each parcel in the district subject to Improvement Levies. Such funds shall be transferred to the Bond Fund under the Fiscal Agent

# DRAFT

Agreement to be applied to the regularly scheduled payments of principal and interest due on the Local Obligations due on March 1, 2011 and September 1, 2011.

Section 3. The Authority hereby declares that the application of amounts in the Surplus Fund pursuant to this Resolution are not intended to be ongoing. In other words, no assurance can be given and no assumption should be made, that amounts that may become available in the Surplus Fund in any future period will be applied to reduce Improvement Levies or retire Local Obligations or Bonds. The Treasurer of the Authority shall cause to be prepared a notice to each property owner in the District explaining that the reduction in Improvement Levies for Fiscal Year 2010-11 is not anticipated at this time to be repeated in future periods, and that accordingly property owners should expect the Improvement levies to return to approximately the level applicable for Fiscal year 2009-10 beginning in Fiscal year 2011-12. The costs for preparation and mailing such notice shall be paid from amounts in the Surplus Fund.

Section 4. The Chairman, the Vice Chairman, the Executive Director, the Treasurer, the Secretary, the Authority Counsel and any and all other officers of the Authority are hereby authorized and directed, for and in the name and on behalf of the Authority, to do any and all things and take any and all actions, including execution and delivery of any and all assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance, warrants and other documents, which they, or any of them, may deem necessary or advisable in order to accomplish the purposes of this Resolution.

Section 5. This Resolution shall take effect from and after the date of its passage and adoption.

Roll Call:

Ayes:

Noes:

Absent:

Abstentions:

This Resolution was adopted by those present and voting at a special meeting of the Vallejo Public Financing Authority on July 13, 2010.

---

SECRETARY