EUGENE URBAN RENEWAL AGENCY
AGENDA ITEM SUMMARY

Action: Adoption of Resolution 1059 Authorizing Tax Increment Bonds for Projects Described in the Downtown Urban Renewal District Plan

Meeting Date: April 11, 2011 | Agenda Item Number: 6
Department: Central Services | Staff Contact: Sue Cutsogeorge
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ISSUE STATEMENT
The Urban Renewal Agency (URA) will consider a resolution that would allow it to issue bonds to provide Lane Community College with an $8 million grant for its new Downtown Campus project and to refinance the Broadway Garages bonds to achieve interest rate savings.

BACKGROUND
On May 24, 2010, the council approved an amendment to the Downtown Urban Renewal District Plan. The amended plan allows for three projects:

1) Assistance to Lane Community College (LCC) for their Downtown Campus project on the 10th and Charnelton Development Site ($8 million);

2) Additional urban renewal assistance in funding the Broadway Garages so that the Garages remain available and in good condition to support other development and redevelopment in downtown (and, at the same time, to enable improvements to public safety downtown) ($4,810,000 of debt outstanding); and

3) Infrastructure improvements to the Park Blocks to provide better opportunities for the Farmers' Market ($500,000).

The resolution included as Attachment A would allow the URA to borrow up to $4.5 million for LCC, plus borrow sufficient funds to refinance the outstanding Broadway Garages bonds.

LCC Grant: In the 2010 plan amendment, the URA pledged $8 million of assistance to LCC for the new Downtown Campus project. At that time, it was estimated that the URA would need to borrow a little over $4 million in order to fund the full amount of the grant in FY11, and a debt service reserve account, if required by the lender. The resolution allows borrowing of up to $4.5 million for this purpose; the actual amount of borrowing will depend on terms required by the lender for the borrowing, and may be less than $4.5 million if no reserve is maintained.

Parking Bonds Refunding: The 2010 plan amendment also called for the URA to make debt service payments on the City's outstanding parking bonds issued for the Broadway Garages project on Charnelton and Broadway. The City's financial advisor recommends that we consider refinancing the parking bonds if rates remain low because interest rate savings can be achieved. A current estimate of the amount of savings is approximately $300,000 over the remaining life of the bonds. The savings from the refinancing will allow the URA to expedite repayment of its maximum indebtedness. Because the URA is issuing bonds for the LCC grant, and because the URA is making the debt service payments on these bonds, there is an opportunity to include a parking bonds refunding with this bond sale with minimal additional cost.

Security Provisions: In consultation with our financial advisor and bond counsel, the resolution included in Attachment A contains several security provisions designed to achieve the best possible terms from a lender for the proposed borrowings. Some of these provisions are routine and included in most borrowings. URA borrowings, however, are more risky for lenders, and as a result, require a higher level of assurance that the tax increment revenues will be sufficient to repay the debt. The resolution includes delegation to the Agency Director to agree to some restrictions on future URA policy choices.

In particular, Section 3(10) would allow the Agency Director to enter into covenants that: (i) require the Agency not to reduce collection of tax increment levels below specified amounts; (ii) prohibit future borrowings that would have a lien on the tax increment revenues of the Downtown District that would be superior to the lien that secures the bonds; (iii) limit the amount of borrowings that may be issued with a lien on the tax increment revenues of the Downtown District that is equal to the lien securing the bonds; (iv) restrict the deposit and application of the tax increment revenues of the Downtown District to insure timely payment of the bonds; and (v) limit the Agency's ability to reduce the area of the Downtown District which would reduce District revenues, until the Agency has sufficient funds to pay off the bonds.

These security provisions would mean that current and future councils would not be able to take actions that would voluntarily reduce tax increment revenues in the Downtown District or issue additional debt for other projects without the lender's approval. Given the current policy direction to fund the projects in the current plan as quickly as possible and to then terminate the District, these restrictions should not have an impact on District operations through its remaining life; however, the Agency should be aware that some future policy choices would be limited by this borrowing.

Additionally, to provide sufficient assurance to the lender that revenues over time will be adequate to repay the debt, it is likely that the borrowing will have a final maturity that is longer than was projected in the 2010 plan amendment. The reason for this is to provide the lender with a cushion for annual revenues, so that projected revenues are more than the amount needed to repay the debt. The Agency will, however, ask the lender for the ability to prepay the debt from tax increment revenues as quickly as possible, without penalty. Although the borrowing will have a stated maturity of longer than 2017, financial projections continue to show that the Agency should be able to pay the debt off by 2017.

RELATED CITY POLICIES

Downtown revitalization and the projects referenced in this material are supported by the Downtown Plan, council's 2009 Vision & Goals, the Downtown Urban Renewal Plan, and a number of other plans and reports related to downtown.

The City's debt policies also apply to the URA. Those debt policies include provisions about when it is appropriate to refinance debt, maximum maturities, and selection of method of sale. The proposed resolution and subsequent URA borrowing would comply with the City's debt policies.

AGENCY OPTIONS

Agency options include:

1. Approve the resolution as presented to allow financing of the LCC Downtown Campus project and refinancing of the Broadway Garages bonds.
2. Do not approve the resolution.

If the Agency does not approve the resolution, the URA will not be able to provide LCC with the $8 million grant prior to fiscal year end. The URA would also not be able to take advantage of interest cost savings and economies of scale from combining the refunding of the Broadway Garages bonds with the bonds to finance a portion of the LCC grant.

AGENCY DIRECTOR'S RECOMMENDATION

The Agency Director recommends approving the resolution.

SUGGESTED MOTION

Move to adopt Resolution 1059 authorizing tax increment bonds for projects described in the Downtown Urban Renewal District Plan

ATTACHMENT

A. Proposed Resolution

FOR MORE INFORMATION

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ATTACHMENT A

RESOLUTION NO. XX

A RESOLUTION AUTHORIZING TAX INCREMENT BONDS FOR PROJECTS DESCRIBED IN THE DOWNTOWN URBAN RENEWAL DISTRICT PLAN

The Urban Renewal Agency of the City of Eugene finds as follows:

A. The Agency is authorized to issue bonds for projects described in the urban renewal plan (the "Plan") for the Downtown Urban Renewal District (the "Downtown District").

B. The Plan includes the following projects: a) the Lane Community College Downtown Campus ("Downtown Campus"); and b) the Broadway Place parking garages ("Broadway Garages")

C. The Agency has pledged $8 million of tax increment funds to help build the new Downtown Campus and plans to issue tax increment bonds to finance a portion of the pledged amount.

D. A portion of the Broadway Garages were originally financed with the City of Eugene's Broadway Garages Limited Tax Bonds, Series 1997 (Federally Taxable) in the original principal amount of $7,000,000 (the "Garage Bonds").

E. The tax increment revenues of the Downtown District are not pledged to any outstanding borrowings.

F. The maximum indebtedness for the Downtown District is $46,600,000. Through March 31, 2011, the Agency has issued borrowings and spent tax increment revenues on indebtedness in the aggregate amount of $32.3 million that is subject to the maximum indebtedness limitation. As a result, the Agency has $13.6 million of capacity (before issuance of the borrowings authorized in this resolution and excluding refinancings) to incur indebtedness for the Downtown District; and,

G. The Agency desires to finance a grant to Lane Community College for the Downtown Campus and to refund the outstanding Garage Bonds in order to achieve savings in interest payments through the issuance of Agency urban renewal bonds payable from the tax increment revenues of the Downtown District.

BE IT RESOLVED BY THE URBAN RENEWAL AGENCY OF THE CITY OF EUGENE, a Municipal Corporation of the State of Oregon, as follows:

Section 1. Bonds for Lane Community College authorized. The Agency hereby authorizes the issuance of not more than $4,500,000 in aggregate principal amount of tax increment bonds to finance a grant to Lane Community College for the Downtown Campus described in the Plan and to fund debt service reserves and pay costs of issuance of the borrowing.

Section 2. Bonds for Broadway Place parking garages authorized. The Agency further authorizes the issuance of tax increment bonds to finance all or any portion of the Broadway Garages described in the Plan by refinancing all or any portion of the outstanding Garage Bonds. The net proceeds of the tax increment bonds described in this section shall not exceed the outstanding principal amount of the Garage Bonds to be refunded, plus any amounts required to fund debt service reserves and pay costs of the refunding.

Section 3. Delegation. The Agency Director or the person designated by the Agency Director to act on behalf of the Agency pursuant to this Resolution (the "Agency Official") may, on behalf of the Agency and without further action by the Agency Board:

(1) Issue the tax increment bonds authorized by Section 1 and Section 2 (collectively the "Bonds") in one or more series.

(2) Determine the final principal amount, interest rates, payment dates, prepayment rights and all other terms of the Bonds.

(3) Select a commercial bank with which to negotiate the sale of the Bonds and enter into a purchase agreement with such commercial bank. Subject to the limitations of this resolution, the Bonds may be in such form and contain such terms as the Agency Official may approve.

(4) Determine whether each series of Bonds will bear interest that is excludable from gross income under the Internal Revenue Code of 1986, as amended (the "Code"), or is includable in gross income under the Code. If a series bears interest that is excludable from gross income under the Code, the Agency Official may enter into covenants to maintain the excludability of interest on that series of the Bonds from gross income.

(5) Enter into intergovernmental agreements with Lane County Community College under which: a) the City and the college establish terms as needed to finance the grant, and b) college enters into covenants to maintain the excludability of interest from gross income on any series of the Bonds or portion of a series of Bonds issued on a tax-exempt basis and that financed a grant to Lane Community College.

(6) Issue any series of Bonds as taxable bonds that are eligible for federal interest subsidies or tax credits and enter into appropriate covenants.

(7) Designate any series of Bonds as "qualified tax-exempt obligations" under Section 265(b)(3) of the Code, if applicable.

(8) Engage the services of bond counsel, financial advisor, verification agents, escrow agents, paying agents and any other professionals whose services are desirable for the financings.

(9) Enter into one or more escrow deposit agreements, if necessary, for the refunding and take actions to prepay the Garage Bonds.

(10) Make covenants for the benefit of the owners of the Bonds, including but not limited to covenants that: (i) require the Agency not to reduce collection of tax increment levels below specified amounts; (ii) prohibit borrowings that have a lien on the tax increment revenues of the Downtown District that is superior to the lien that secures the Bonds; (iii) limit the amount of borrowings that may be issued with a lien on the tax increment revenues of the Downtown District that is equal to the lien securing the Bonds; (iv) restrict the deposit and application of the tax increment revenues of the Downtown District to insure timely payment of the Bonds; and (v) limit the Agency's ability to reduce the area of the Downtown District which would reduce District revenues, until the Agency has sufficient funds to pay off the Bonds.

(11) Enter into such other covenants as are desirable to sell the Bonds on favorable terms.

(12) Execute and deliver any other certificates or documents and take any other actions which the Agency Official determines are desirable to carry out this resolution.

Section 4. Security for Bonds. The Bonds shall not be general obligations of the City or the Agency. The Bonds shall be payable solely from the tax increment revenues of the Downtown District that the Agency Official pledges to payment of the Bonds pursuant to the authority in Section 3 hereof.

Section 5. Duration. The authority granted by this resolution shall remain in effect as long as necessary to permit the sale, delivery, administration and payment of all Bonds authorized by this resolution.

Section 6. Effective Date. This resolution shall take effect immediately upon adoption.

The foregoing resolution adopted the ___ day of _______, 2011.

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City Recorder