

**SUBMITTAL TO THE FLOOD CONTROL & WATER CONSERVATION
DISTRICT BOARD
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**



FROM: Supervisor Roy Wilson

SUBMITTAL DATE:
November 29, 2004

SUBJECT: Subordination Agreement – Redevelopment Agency Tax Allocation Bonds

RECOMMENDED MOTION: That the Board approve and authorize the chairman to execute the attached Subordination Agreement between the Redevelopment Agency for the County of Riverside, the County of Riverside and the Flood Control and Water Conservation District.

BACKGROUND: On September 28, 2004, the Redevelopment Agency Board of Directors authorized the Redevelopment Agency to proceed with the issuance of redevelopment tax allocation bonds to finance housing and non-housing redevelopment activity in the Agency's five redevelopment project areas. Based on the analysis of the Agency's existing debt and future cash flow, the financial advisors and fiscal consultants have determined that the Agency can issue up to \$116.6 million in non-housing bonds and \$90 million in housing bonds.

The non housing improvements are being financed by issuing five separate Bonds on a parity with the outstanding Series 1997 and 2001 Bonds. These Bonds will be pooled together and purchased by the County's Public Financing Authority who will resell them under a single Marks Roos Bond Series.

The final sizing of the Non Housing Pooled Series will be constrained by pre-established levels of tax increment available for debt service in each underlying project area. These levels assure sufficient tax increment, after existing and new debt service, to pay all subordinated pass-through payments, ERAF and Administrative costs. The Agency's financing will be maximized based upon funds available for new debt service. The non-housing bonds will be insured by XL Capital and have a AAA rating from Standard and Poors and a Aaa rating from Moody's.

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Roy Wilson
Chairman

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The Agency will also issue two Series of Housing Bonds, one taxable and the other tax exempt, secured solely by housing set aside funds collected from all five project areas. The tax exempt bonds will be used to fund the Housing Rehabilitation Program, the Senior Home Repair Program and other housing activity to improve the low and moderate income housing stock within the unincorporated county. The taxable bonds will be used to finance activity such as housing development loans that do not qualify for tax exempt funding. The housing bonds will be insured by XL Capital with a AAA rating from Standard and Pools and a Aaa rating from Moody's.

The bonds will be underwritten by a team of underwriters including Citigroup, Stone & Youngberg, and Backstrom McCarley Berry & Company. They were selected based on a competitive bid process and demonstrated the capacity to successfully market and sell the bonds at the most favorable rate and cost to the Agency.

The Agency's goal is to receive the highest ratings and lowest interest rate possible. One way to accomplish this is by entering into subordination agreements with the taxing entities that receive tax increment pass through payments from the Agency which will provide additional debt service coverage for the bonds. The Agency is seeking subordination of all statutory pass through payments (those made in project areas established after 1994). Additionally, the Agency desires to obtain subordination from the County, County Service Areas and Flood Control for all pass through payments for all project areas including the negotiated pre-AB1290 pass through payments.

Subordination of their pass through payments would mean that the taxing entities would agree that in the unforeseen circumstance that the Agency was unable to make the semi-annual debt service payments on the bonds, the Agency would be able to borrow the pass through payment amounts to make the debt service payments. The borrowed funds would be paid back with interest at the County's investment rate. Repayment of any borrowed funds would be senior to other Agency expenditures and debt other than the bonds. With the average coverage of 1.5 times or higher provided on the issuance, it is highly unlikely that the entities would ever be affected by the subordination.

It is recommended that the Board approve the proposed subordination agreement to facilitate the most cost effective financing for the bonds.