Update on Proposed FORA Bond Issue

October 11th, 2019

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Proposed Bond Structure

- FORA retained an underwriting team: Stifel and Citi
- **Proposed bond structure:**
  - 100% taxable: maximum flexibility on use of proceeds
  - Three series of bonds issued in January 2020
- **First series:** rated, insured, based on FY 2020 tax increment (which is based on occupancy permits through 2018)
- **Second series:** unrated, based on occupancy permits for calendar year through December 2019
- **Third series: "Escrow Term Bond",** based on assessed valuation of growth in FY 2022, 2023 and 2024

Estimated Bond Proceeds for Building Removal

Bond Series	Structure/Security	*Estimated* Net Bond Proceeds	Bond proceeds spendable at closing	Notes
Series 1	Rated based on tax increment thru June 2020	$36,700,000	Yes	To be conservative, assumes unrated bonds interest rate
Series 2	Unrated, based on calendar year 2019 occupancy permits	$3,900,000	Yes	Based on occupancy permit data through December, 2019
Series 3	Unrated, based on estimated growth in assessed valuation in FY's 2022, 2023 and 2024	$10,000,000	No - only released as assessed valuation grows in future	Equivalent to 681 cumulative new homes in calendar years 2020, 2021 and 2022 needed
Total *Estimated* Available for Building Removal		**$50,600,000**		
Estimated Bond Proceeds Available at Closing		**$40,600,000**		

Note: All estimates are preliminary based on current market conditions. Amounts are subject to change based on market

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How “Escrow Term” Bonds Work

- Bond proceeds are released pro rata to future assessed valuation growth
  - 3 years after closing remaining proceeds are used to redeem (call) outstanding “Escrow Term” bonds
- Calculated risk for FORA stakeholders:
  - Upfront reduction in net bond proceeds for building removal at bond closing with potential for increased proceeds in the future
  - Allocation of bond proceeds at January, 2020 closing necessary to cover interest only payments on the Escrow Term bonds until their release/call date

An example:

- Interest cost between issuance date and the release/call date (3 years later) on a $10M “escrow term” bond is approximately $1M
- Interest cost on “escrow term” bond reduces the amount available at bond closing from the other two series, meaning the amount available for building removal is reduced from $40.6M to $39.6M
- If anticipated assessed valuation growth occurs, FORA stakeholders get another $10M, for a total of $49.6M in funding for building removal; if the AV growth does not occur, unreleased “escrow term” bond proceeds “call” the outstanding bonds

Legal Technicalities

- **Technicality #1**: FORA's bond issuance authorization relies on Marks Roos law
  - Mark's Roos law requires a public entity within whose jurisdiction bond proceeds are being spent to hold public hearing and acknowledge a benefit from the expenditure of such bond proceeds

- **Solution**: FORA legal team recommends that the County hold this public hearing

- **Technicality #2**: Identify which post-RDA dissolution protocol to use:
  - ***There is no question about FORA's right to receive tax increment to pay debt service after its dissolution, but the Bond indenture must identify which protocol to use.***
  - Statutory pass-through *(How the County and DOF treat it today)*
  - Enforceable obligation reported on the Successor Agency ROPS *(not in use today)*

- **Solution:** FORA Successor Agencies covenant to treat FORA as an enforceable obligation under their ROPS in the event of change in State law or future litigation

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Legal Technicalities

- **Technicality #2**: Questions:
  - What is the risk of DOF requiring a change from pass-through to a ROPS?
    - The risk of change is extremely low and not in the interest of DOF
  - If the risk is so low, why have a covenant?
    - It's a technicality - required for the bond investors
  - Can FORA tax increment pay for the Bond Administration/ROPS Preparation?
    - Yes, if needed

Key Roles in Bond Issuance Process

- **FORA** – authorizes bond issuance and vets project invoices
- **County** – 1) Holds public hearing recognizing the public benefit within the County, 2) Agrees to send FORA property tax increment to Successor Entity
- **Successor Entity** – manages bond trustee after FORA dissolution, provides statutorily required reporting on bond issue for the term, passes on FORA property tax increment to bond trustee
- **Trustee** – receives and holds tax increment to pay bond investors, receives and holds bond proceeds to pay building removal costs
- **Project Area Successor Agencies**– covenant to follow appropriate procedure to getting DOF approval to transfer FORA tax increment to trustee, if required by litigation or future change in law
- **Account Owners –** public agencies getting allocation of bond proceeds at closing

How the Bond Issue Cash Flow Would Work

1. County receives property tax payment from FORA project area parcel owners
2. County calculates FORA's 35% share under authorizing statute
3. County sends the 35% FORA allocation to successor entity
4. Successor Entity sends the 35% allocation to the Bond Trustee
5. Bond Trustee allocates for each regular distribution of property
   - 35% annual allocation continues until bond trustee has 100% of annual debt service
   - Trustee is responsible for notifying the County of the annual debt service amount
   - After annual debt service target is met, County stops sending money to Successor Entity
   - County allocates remaining FORA property taxes as provided for in the authorizing and RDA dissolution statutes
6. Trustee holds funds received from County/Successor Entity and:
   - Makes semi-annual payments of interest
   - Makes annual payment of principal to bond investors
   - Tracks bond account owners principal and interest payments

Basic Legal Documents for the FORA Bond Issue

1. County resolution
   - Recognizing the public hearing, (Technicality #1)
   - Committing tax increment "intercept" transfer to Successor Entity
2. Successor Entity resolution
   - Accepting Responsibility for FORA's bond administration
   - Committing to transfer tax increment "intercept to bond trustee
3. County, Marina, Seaside Covenant
   - To follow appropriate legal procedure allocating tax increment to bond trustee in the event of change in state law or otherwise (Technicality #2)
4. FORA Board Authorizing Resolution
5. Indenture of Trust
6. Official Statement

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Authorizing Resolution

- Authorizes pledge of FORA tax increment
- Authorizes bond proceed allocation among stakeholders
- Sets not-to-exceed amounts for bond issue size, interest rate and underwriter’s discount
- Identifies bond issue purpose
- Identifies Successor Entity

Indenture of Trust

- Provides detail on bond issue cash flow
- Locks in bond proceed allocation by Account Owner
- Outlines specific instructions on how to release bond proceeds to pay invoices from stakeholders
  - Account Owner must certify funds were spent on Building Removal from the approved Parcel List
- Provides trustee management instructions
- Sets parameters for legal investment of funds

Indenture of Trust

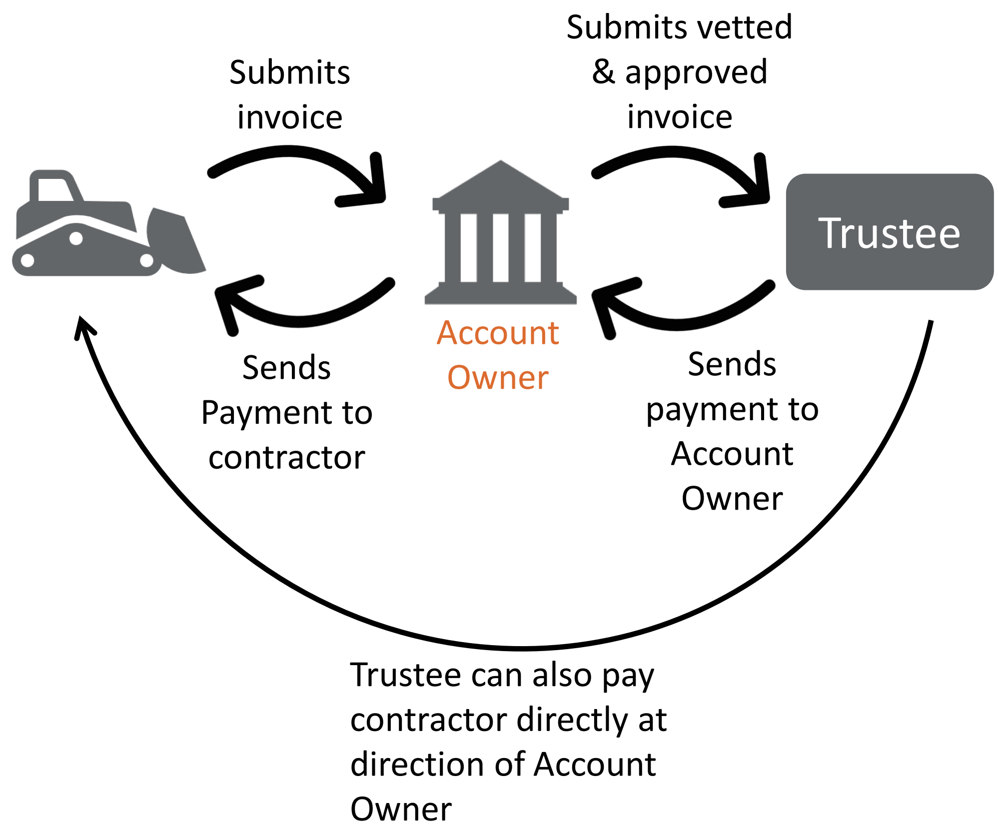
- Bond issue to be sold on 100% taxable basis
  - No need to be concerned about tax exempt Federal Tax Law restrictions on use of bond proceeds
- Account Owner may voluntarily re-allocate their bond proceeds
- Account Owners have no veto power over other Account Owners
  - Example: TAMC cannot veto MCWD allocation of excess funds to MST
- Account Owners are not responsible for other projects
  - Example: MCWD will not pay cost over-runs on MST removal

Official Statement

- Disclosure document for potential bond investors
  - Information on pledged tax increment revenues
  - Detailed information on assessed valuation growth in FORA project areas
  - Information on potential for future growth in FORA project areas
  - Information on dissolution of FORA and role of Successor Entity
  - Information on legal technicalities described earlier in this presentation
  - Prepared by highly qualified disclosure counsel, which provides unqualified opinion to FORA regarding adequacy of disclosure

How Cash Flows for Building Removal Would Work

- Account Owner receives invoice from contractor
- Account Owner vets invoice
- Account Owner submits vetted invoice to trustee along with certificate stating that stakeholder has verified appropriateness of invoice
- Trustee pays Account Owner directly or Contractor
- Account Owner pays contractor



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Summary of Successor Entity Responsibilities

- Administer contract with trustee
  - Authorize annual payment of trustee's fees
  - Successor Entity may elect to change trustees in the future
- Does not have responsibility for vetting payment of invoices by trustee (this is the role of each Account Owner)
- Does not have the authority to re-allocate bond proceeds by Account Owner
- Worst case staff impact from Successor Entity: managing a bond default
  - Trustee is responsible for implementing all remedies for bond default
  - Successor Entity must be in close communication with trustee as remedies are implemented, and may be required to approve certain remedies
  - Successor Entity and Trustee can be fully reimbursed from pledged revenues for all expenses related to a bond default
- Responsible for continuing disclosure after FORA dissolves
- Responsible for other annual information requests required by State law

Bond Owner Remedies in the Event of a Default

- Implementation of default remedies controlled by Trustee
- Bond owners only have right to sue over bond default in the event the Trustee fails to pursue remedies after a default
- Primary remedy is the acceleration of all remaining principal and accrued interest
- Trustee may seek writ of mandamus demanding legally pledged tax increment revenues if it believes such revenues exist, but have not been transferred to trustee
- Trustee and bond owners have no remedies against Account Owners or Successor Entity in the event of a default
  - Account Owners and Successor Entity have no financial responsibility to bond owners

Next Steps – Overview of Suggested Schedule

October 2019

- Account Owner allocation policy and formula resolved
- Successor Entity is determined

November 2019

- Formal Board action approving legal documents
- Credit review process with Standard & Poor's and bond insurers begins

January 2020

- Bonds sold and closed

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