

Oversight Board for Redevelopment Agency Successor Agency (RASA)

Meeting Date: 05/07/2012

Report Type: Discussion

Title: Actions Related to the Line of Credit Agreements with Bank of America for Stockton Blvd and North Sacramento Redevelopment Project Areas

Recommendation: Pass a motion authorizing the Treasurer of the City of Sacramento or his designee to: (i) cancel the uncommitted amount under each Line of Credit Agreement for the Stockton Blvd and North Sacramento Redevelopment Project Areas, resulting in terminating the related future interest payments for that unused portion of the line of credit; (ii) authorize extension of the term of each Line of Credit Agreement to December 1, 2013 at a total cost not to exceed \$21,000; (iii) pay \$4,000,000 toward the debt owed on the Line of Credit for the Stockton Blvd Joint Project Area; (iv) authorize RASA staff to negotiate with Bank of America on the terms to repay the remaining outstanding debt; and (v) authorize a not-to-exceed expenditure amount of \$10,000 for legal and other consultant service costs to prepare agreements for extending the term of the Line of Credit Agreements and cancelling the uncommitted amount of each Line of Credit Agreement with Bank of America.

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Presenter: Damien Charléty, Debt Analyst, Office of the City Treasurer

Issue: Among the obligations inherited by the Redevelopment Agency Successor Agency, are two line of credit agreements with Bank of America N.A. (Bank of America) for the Stockton Blvd joint project area and the North Sacramento project area, that are both maturing on December 2012. The combined outstanding principal amount as of April 30, 2012 is \$11,800,000, and the amounts currently in the debt service funds for the respective project areas would not allow repayment of each line of credit. Per the terms of these agreements, an extension can be requested to extend the term one year, until December 2013, and the cost may be as much as \$10,500 per agreement (\$21,000 for both agreements) to obtain the extension.

Additionally, per AB1x 26, no additional amount can be drawn down on these lines of credit to incur new redevelopment obligations. However, there is an on-going interest charge on the unused portion of each line of credit. To stop incurring costs associated with the unavailable unused portion of each line of credit, RASA is requesting authority to terminate the unused portions of each line of credit.

Approximately \$4,000,000 in unencumbered funds is currently available and has been earmarked for payment of the low-and-moderate income housing portion of the Stockton Blvd joint project area line of credit. RASA staff is requesting authority to make this early payment of this \$4,000,000 to reduce the on-going interest obligations.

RASA staff is also requesting authority to engage Bank of America in negotiation over the terms of an amendment to implement the above actions to reduce costs and provide for smoothing of the repayment obligation. Estimated costs for outside legal and consultant services to draft amendments to the agreements, as may be required, is a not-to-exceed amount of \$10,000. The amendments to the existing Bank of America agreements, if any, would be subject to the approval of the Oversight Board.

Attachments:

1 – Background

Background

Two credit agreements (“Line of Credit”) with Bank of America were entered into in 2008 by the Redevelopment Agency and are now the obligations of the Redevelopment Agency Successor Agency (RASA). The Credit Agreement for the North Sacramento Redevelopment Project Area dated November 14, 2008 was between Bank of America and the Redevelopment Agency of the City of Sacramento (“North Sacramento Line of Credit”), and the Credit Agreement for the Stockton Boulevard Joint Redevelopment Project Area dated November 14, 2008 was between Bank of America and both the Redevelopment Agency of the City of Sacramento and the Redevelopment Agency of the County of Sacramento (“Stockton Boulevard Line of Credit”).

The amount of each Line of Credit is \$14,000,000 comprised of \$4,000,000 allocated for affordable housing purposes and \$10,000,000 allocated for non-housing redevelopment activities. The initial expiration date for each Line of Credit is December 1, 2012, unless otherwise terminated or extended.

The interest on the amount drawn for each Line of Credit is equal to the rate per year of the London Inter-Bank Offered Rate (LIBOR) plus 0.90%, for each interest period.

Per Section 1.2(d) of each agreement, a one-year extension can be requested in writing on or before September 1, 2012 (but no earlier than August 1, 2012) to extend the expiration date to December 1, 2013. Approval of these extensions is in the Bank’s discretion and is subject to a cost of \$10,500 each (0.075% of \$14,000,000).

Additionally, Section 3.1(b) of each agreement requires payment of an annual fee on the difference between the maximum amount of each line of credit (\$14,000,000) and the aggregate amount of credit actually used (“Unused Commitment Fee”). This Unused Commitment Fee is equal to 0.40% of the amount and is payable quarterly in arrears.

The amounts currently in the respective debt service funds for these redevelopment areas would not allow paying both lines of credit in full; however, \$4,000,000 is available and has been earmarked for repayment of the housing portion of the Stockton Line of Credit. Staff is currently determining if any other amounts are available for repayment of these obligations.

As of February 1, 2012, the amount for each component of the Lines of Credit was as follows:

- North Sacramento Line of Credit
 - Housing Portion drawn \$ 1,000,000
 - Non-Housing Portion drawn \$ 4,400,000
 - Unused Commitment \$ 8,600,000

- Stockton Line of Credit
 - Housing Portion drawn \$ 4,000,000
 - Non-Housing Portion drawn \$ 2,400,000
 - Unused Commitment \$ 7,600,000

Upcoming interest or fee payments on these amounts are:

- Estimates for the Unused Commitment Fee:
 - To December 1, 2012 (current term)
 - June, July, August 2012 \$ 16,200
 - September, October, November 2012 \$ 16,200

- Total Estimate to 12/01/2012 \$ 32,400
- To December 1, 2013 (extension)
 - December 2012 to November 2013 \$ 64,800
 - Total Estimate to 12/01/2013 \$ 97,200

Negotiating to remove the Unused Commitment Fee could save \$32,400 through December 1, 2012 and up to \$97,200 through December 1, 2013.

- Estimates for the interest on the drawn amounts (using April 12, 2012, 3-month LIBOR data):

- To December 1, 2012 (current term)
 - North Sacramento Line of Credit Housing Portion \$ 9,111
 - North Sacramento Line of Credit Non-Housing Portion \$ 40,088
 - Stockton Line of Credit Housing Portion \$ 36,444
 - Stockton Line of Credit Non-Housing Portion \$ 21,866
 - Total Estimate to 12/01/2012 \$ 107,509
- To December 1, 2013 (extension)
 - North Sacramento Line of Credit Housing Portion \$ 13,667
 - North Sacramento Line of Credit Non-Housing Portion \$ 60,133
 - Stockton Line of Credit Housing Portion \$ 54,666
 - Stockton Line of Credit Non-Housing Portion \$ 32,800
 - Total Estimate to 12/01/2013 \$ 161,266

Negotiating to repay \$4,000,000 of the Housing Portion of the Stockton Line of Credit could save approximately up to \$91,110 (\$36,444 to December 1, 2012 and \$54,666 to December 1, 2013, if extended).

Fees for extending the term can be as much as \$10,500 per agreement, or \$21,000 total. If \$4,000,000 is repaid on the Housing Portion of the Stockton Line of Credit, the amount could be lowered to \$18,000 to extend both agreements.

These actions outlined above could reduce the costs of extending both Lines of Credit to December 1, 2013 down from \$386,975 to \$195,665.

Extension of the lines of credit will also provide additional time for fund reconciliation, updated tax increment contributions, and may allow for a possible smoothing of the repayment obligation over an extended period, as contemplated under the current agreement.