STAFF REPORT

Date: **April 28, 2021**

To: **Mayor and City Council**

Thru: **Doug Thornley, City Manager**

Subject: L.5. **Staff Report (For Possible Action): Presentation, discussion and potential direction to staff on RDA Area Nos. 1 and 2 regarding the 2007 Redevelopment Bonds.**

From: **Deborah Lauchner, Director of Finance**

Summary: This is a presentation and update to the Redevelopment Agency Board on the creation and current status of the Agency and Project Areas No. 1 and No. 2 (RDA 1 and RDA 2). Staff projects existing tax increment revenues to be insufficient to support debt service payments for RDA 1 without assistance from bond reserve funds beyond June 30, 2021. Staff seeks Council direction regarding the preferred manner of managing the RDA 1 debt service.

Previous Action: Since the respective inceptions of RDA 1 and RDA 2, Council and the Redevelopment Agency Board have taken action on numerous occasions since the early 1980s. The actions relevant to this discussion are as follows:

November 6, 2019 – Staff gave an update on the RDA Bonds and current payment structure. Options were discussed including ways to continue to pay for RDA debt by extending the life of the redevelopment area 15 years and restructuring debt payments.

January 17, 2007 – Redevelopment Agency adopted Resolution 165 authorizing the issuance of Redevelopment Agency of the City of Reno, Tax Increment Senior Lien Bonds (Taxable) Series 2007A; (Tax-Exempt) Series 2007B; and Subordinate Lien Bonds (Tax-Exempt) Series 2007C.

August 24, 2005 – Council adopted Ordinance No. 5726, approving and adopting a Redevelopment Plan for Redevelopment Project Area No. 2. The focus was on blight mitigation and quality of life improvements.

November 27, 1990 – Council adopted Ordinance No. 4041, amending Ordinance No. 3316 and modifying the Redevelopment Plan for the Downtown Projects Area. The amendment specifically identified and defined the overall goal of the Redevelopment Plan to be the mitigation of blight within the area. It further identified additional goals and objectives, the majority of which focus on improving the area as the catalyst for improving quality of life, encouraging private investment, and otherwise promoting economic development.

Background: RDA 1 was created in 1983 and expires on July 14, 2028, per Ord. 5712; however, per NRS 279.438(1), the Plan/District remains active until the later of that date or the maturation of the existing bond obligations. Over the course of its existence, the Agency has issued bonds to raise capital for various redevelopment projects. For the purpose of this discussion, the Agency issued the 2007ABC bonds (the "2007 Bonds") to refund the existing 1995A and 1998A bonds for economic savings. The total amount of debt issued for the bonds was $20,690,000 and they are scheduled to mature on June 1, 2027.

RDA 2 was adopted on August 24, 2005, and is scheduled to expire on August 25, 2035. There are no bonds associated with this project area; however, any net tax increment generated is currently designated to satisfy the existing Baseball obligation. The Baseball agreement ends in 2043. Payments for FY22 and FY23 are $1,158,014 each year. Starting in FY24, payments reduce to $1,000,000 per year for the remainder of the agreement.

Discussion: At the request of the Agency Board, staff circulated a memo dated June 17, 2019, which contained general information regarding redevelopment agency statutes within the State of Nevada and a brief history of the City of Reno's two existing project areas. Briefly, both RDA 1 and RDA 2 were originally created as mechanisms for generating tax increment to undertake large, potentially transformative projects. In this regard they have been largely successful and funded, either wholly or in part, the following projects: Century Theaters, AAA Baseball Stadium, Parking Gallery, Downtown Riverwalk, and others. However, over time both RDA 1 and RDA 2 became less focused on large, individual projects, and instead emphasized blight mitigation and incentivizing private economic investment.

In 2018, the City hired Fraser & Associates to assist with the analysis and review of the existing RDA 1 cash flow. The resulting analysis determined that based on existing tax increment revenues, the Agency's revenues will no longer be sufficient to make debt service payments past June 30, 2021, without using bond reserve funds. If bond reserve funds are used, disclosure and reporting to the bond market of this default would be required. While the Agency debt is not a debt of the City of Reno, a default could affect the perception of the City's financial management and creditworthiness in the market causing future bonds to be more expensive as a result.

In 2020, the City hired Fraser & Associates to assist the City in analyzing the impact that the COVID-19 pandemic may have on the tax increment revenues under different impact assumptions. The analysis includes four scenarios—baseline, 25 percent reduction in taxable value, 35 percent reduction in taxable value, and 50 percent reduction in taxable value. Using the baseline projection of incremental tax revenue, bond reserves would be required to meet the debt service obligations until FY24 and then tax increment would begin to replenish the bond reserves until the project area expires in FY2028.

The principal balance, interest and total debt service remaining on the 2007 Bonds as of June 30, 2021 are as follows:

	2007A	2007B	2007C	Total
Principal	$ 1,470,000	$ 3,850,000	$ 9,100,000	$ 14,420,000
Interest	135,725	860,750	1,794,420	2,790,895
Total Debt Service	$ 1,605,725	$ 4,710,750	$ 10,894,420	$ 17,210,895

The first principal payment on the 2007 Bonds was paid in June 2018; previously only interest was paid on the outstanding balances. This was structured in such a way to allow the Agency to pay off the outstanding 1998 bonds before paying on the newer 2007 debt.

Six strategic options will be presented for discussion and direction. Each of these options will be discussed in detail:

1) Do nothing
2) Do nothing and supplement with other funds
3) Extend the RDA Area and supplement with other funds
4) Extend the RDA Area and refund bonds with general obligation backing
5) Extend the RDA Area and pursue a bondholder exchange process
6) Extend the RDA Area and pursue a partial bondholder exchange and have a general obligation backing

Option 1 is to do nothing. Using the baseline tax increment projections, use of bond reserves would be needed until the project area terminates in 2028. Use of bond reserves is an event of default and would require market communication and disclosures.

Option 2 is to do nothing but pay remaining bonds with support from other funds. With a $1 million loan from other funds in each FY2022 and FY2023, use of bond reserves would not be needed under the baseline scenario. The other funds would be paid back as tax increment exceeds debt payments in FY2026 and FY2027. This option would allow the project area to pay the bonds in full without an event of default caused by using reserves and the plan area would expire in 2028.

Option 3 is to extend the life of the Agency by 15 years to July 2043 and pay bonds with support from other funds. With a $1 million loan from other funds in each FY2022 and FY2023, use of bond reserves would not be needed under the baseline scenario. The other funds would be paid back as tax increment exceeds debt payments in FY2026 and FY2027. This option would allow the project area to pay the bonds in full without an event of default caused by using reserves and the plan area would be extended until 2043. Tax increment in the baseline scenario for the 15 year extension is estimated at $127 million.

Option 4 is to extend the life of the Agency by 15 years to July 2043 and restructure the existing bonds which will allow for a longer amortization period for the bonds with a realistic payback of the outstanding debt. By refunding the 2007 bonds with General Obligation backing, the interest rates are greatly reduced. With a new structure, the annual payments will be lower which allows the Agency to make scheduled payments with minimal to no assistance from other funds. With the extension of the plan area, the Agency would continue to receive the associated tax increment and the excess above the debt payments would be available for use in the downtown area. Tax increment in the baseline scenario for the 15 year extension is estimated at $127 million. Without extending the plan area, the Agency would expire in 2028 and the associated tax increment would go back into the overall distribution to the other taxing entities.

Option 5 is a bond exchange and bondholders must consensually exchange their bonds for another class of debt to extend maturities, reduce debt outstanding, or change rates. There would be significant costs to negotiate an exchange—estimated at up to $1 million. This would be a lengthy process and the outcome is uncertain.

Option 6 is a hybrid option that combines exchanging debt with bond holders and a General Obligation refunding. This would require a negotiated solution with subordinate bondholders to complete the exchange and refunding. There would be significant costs to negotiate an exchange—estimated at up to $1 million.

With Options 1 and 2, the plan area would expire in 2028 and the associated tax increment would go back into the overall distribution to the other taxing entities. Option 3 would extend the life of the redevelopment plan area for an additional 15 years and require support from other funds in the near term. An estimated $127 million in tax increment revenues are projected in the baseline scenario over the 15 additional years. Option 4 would extend the life of the redevelopment plan area for an additional 15 years and restructure the existing bonds with a general obligation backing. Options 5 and 6 would be lengthy processes with uncertain outcomes and there would be significant costs to negotiate the exchanges. At this time, it is uncertain what the economic impact of the coronavirus pandemic will be to the redevelopment area. In the three coronavirus pandemic scenarios, a reduction in taxable values at the 35 percent or above range would require additional support from other funds in Options 1, 2, and 3.

The Agency currently has sufficient funds to make the debt payments through June 1, 2021 without defaulting by using reserve funds.

Financial Implications: Using the baseline tax increment projections, Option 1 would use bond reserves and would require market disclosures as well. Option 2 and Option 3 would require support from other funds in the amount of $1 million in each FY2022 and FY2023 to keep from defaulting by using bond reserves to pay debt service. These loaned funds would be repaid in FY 2026 and FY 2027. Option 4 would extend the plan area an additional 15 years and would refund the 2007 bonds with a General Obligation backing. This would restructure the payments going forward and there would be minimal assistance needed from other funds. An estimated $127 million in tax increment revenues are projected in the baseline scenario over the fifteen year extension. For Options 5 and 6, support from other funds of up to $1 million would be needed to negotiate the exchanges.

Legal Implications: Extending the life of the Redevelopment Agency for an additional 15 years would be in compliance with NRS 279.438.

Recommendation: Staff recommends approval of Option 3 to move forward with the extension of the RDA 1 plan area an additional 15 years and support the bond payments in the near term from other funds.

Proposed Motion: I move to approve staff recommendation.

Attachments:

- RDA 1 and 2 Summary for Council 042821 (PDF)