



April 21, 2017

David Chardavoyne, General Manager  
Monterey County Water Resources Agency  
893 Blanco Circle  
Salinas, CA 93901



**SUBJECT: SUBORDINATION NOTICE**

Dear Mr. Chardavoyne:

The former Sand City Redevelopment Agency issued \$7,015,000 of tax allocation bonds in 2008 to finance redevelopment projects within the Redevelopment Project Area. Currently, \$5,265,000 of principal remains outstanding on the 2008 bonds.

An opportunity now exists for the Sand City Successor Agency (the "Successor Agency") to refinance the outstanding 2008 bonds at lower interest rates, and in so doing realize debt service savings. Such a refinancing, which is similar to refinancing a home mortgage, is accomplished via the issuance of Refunding Bonds by the Successor Agency. At today's relatively low interest rates, the Successor Agency can issue Refunding Bonds at an 'all-inclusive' interest rate of approximately 3.09%, as compared to an average interest rate of approximately 4.19% on the outstanding bonds being refinanced.

With this refinancing, Sand City will join a large number of successor agencies in California to issue refunding bonds. Since 2012, in excess of \$8.00 billion of such refunding bonds have been issued by more than 150 successor agencies, resulting in aggregate savings of almost \$1 billion.

Refinancing tax allocation bonds does not result in lower property taxes for homeowners or local taxpayers. Rather, under State law the savings from this type of refinancing are shared among all of the local taxing agencies, including your agency, whose territory lies within the Project Area, roughly in proportion to each agency's share of the 1% general property tax that is collected from within the Project Area.

At today's interest rates, this refinancing will generate total savings of approximately \$350,000 from 2018 through 2027, net of all bond issuance costs. Bear in mind however, the actual amount of savings will not be determined until the refinancing is complete. Moreover, if interest rates increase before the refinancing is complete, then the actual savings may be less. In the unlikely event that interest rates increase significantly, it is even possible the savings may not be sufficient to warrant proceeding with the refinancing, in which case the refinancing may be cancelled or delayed until a later date.

City Hall  
1 Sylvan Park,  
Sand City, CA  
93955

Administration  
(831) 394-3054

Planning  
(831) 394-6700

FAX  
(831) 394-2472

Police  
(831) 394-1451

FAX  
(831) 394-1038

Incorporated  
May 31, 1960

## **Subordination**

Pursuant to California Health & Safety Code Section 34177.5(c), successor agencies may “subordinate” the payment of statutory and contractual pass-through obligations payable to local taxing agencies pursuant to Health & Safety Code Section 34183(a)(1), to the payment of debt service on successor agency refunding bonds.

As used in this Notice, the terms “subordinate” and “subordination” mean that if there is ever insufficient revenue available to pay debt service on the Refunding Bonds and all pass-through obligations in full when due, then the available revenue will be used to pay debt service on the Refunding Bonds first, and pass-through payments second.

In the unlikely event that ever happens, affected local taxing agencies will be entitled to receive any past-due payments as soon as sufficient revenue is available.

Successor agencies subordinate the payment of pass-through obligations to the payment of debt service on refunding bonds in order to increase debt service coverage. Higher debt service coverage enhances the creditworthiness of the refunding bonds and thus lowers the interest rate at which the bonds can be sold, resulting in greater savings and more property tax revenue for all local taxing agencies in the Project Area.

Pursuant to California Health & Safety Code Section 34177.5(c), successor agencies may subordinate the payment of pass-through obligations to the payment of debt service on refunding bonds by providing each affected taxing agency with substantial evidence that sufficient funds will be available to pay both debt service on the refunding bonds and all required pass-through obligations, in full when due.

In accordance with Health and Safety Code Section 34177.5(c), this Subordination Notice together with the Table attached hereto, provides substantial evidence that sufficient funds will be available to pay both debt service on the Successor Agency Refunding Bonds and all pass-through obligations in full when due.

Health & Safety Code Section 34177.5(c) provides that within 45-days after receipt of this Notice, you may challenge the proposed subordination by providing substantial evidence that the Successor Agency will not be able to pay both debt service on its Refunding Bonds and all required pass-through obligations in full when due.

***You do not need to respond to this Subordination Notice; however, please be advised that if you do not respond within 45-days after receipt of this Notice, the statute provides that the proposed subordination of your pass-through payments to the payment of debt service on the Successor Agency Refunding Bonds shall be deemed approved, and shall be final and conclusive.***

Alternatively, if you wish to challenge this Subordination, then please provide substantial evidence to show why you believe sufficient funds will not be available to pay debt service on the Refunding Bonds and all required pass-through obligations, in full when due.

If you have any questions, please call me anytime at (831) 394-3054 ext. 212.

Very truly yours,

A handwritten signature in blue ink that reads "Todd Bodem". The signature is written in a cursive style with a large, stylized "T" and "B".

Todd Bodem  
City Administrator  
Sand City

## **Subordination Table**

*(assuming no growth in assessed value)*

<b>12-Mo. Ending Nov. 1,</b>	<b>Total Assessed Value</b>	<b>Base Value</b>	<b>Incremental Value</b>	<b>Incremental Revenue</b>	<b>Admin. Fee</b>	<b>Gross Tax Revenue</b>	<b>Total Debt Service</b>	<b>Pass-Thru Payments</b>	<b>Residual Revenue</b>
<b>2017</b>	260,879,593	46,508,088	214,371,505	2,143,715	30,987	2,112,728	726,038	983,000	403,690
<b>2018</b>	260,879,593	46,508,088	214,371,505	2,143,715	30,987	2,112,728	693,825	983,000	435,903
<b>2019</b>	260,879,593	46,508,088	214,371,505	2,143,715	30,987	2,112,728	700,538	983,000	429,190
<b>2020</b>	260,879,593	46,508,088	214,371,505	2,143,715	30,987	2,112,728	695,863	983,000	433,865
<b>2021</b>	260,879,593	46,508,088	214,371,505	2,143,715	30,987	2,112,728	700,475	983,000	429,253
<b>2022</b>	260,879,593	46,508,088	214,371,505	2,143,715	30,987	2,112,728	699,100	983,000	430,628
<b>2023</b>	260,879,593	46,508,088	214,371,505	2,143,715	30,987	2,112,728	736,875	983,000	392,853
<b>2024</b>	260,879,593	46,508,088	214,371,505	2,143,715	30,987	2,112,728	782,700	983,000	347,028
<b>2025</b>	260,879,593	46,508,088	214,371,505	2,143,715	30,987	2,112,728	777,900	983,000	351,828
<b>2026</b>	260,879,593	46,508,088	214,371,505	2,143,715	30,987	2,112,728	782,688	983,000	347,040
<b>2027</b>	260,879,593	46,508,088	214,371,505	2,143,715	30,987	2,112,728	66,788	983,000	1,062,940