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Staff Report for Resolutions Approving San Leandro Public Financing Authority 2016 Refunding Lease Revenue Bonds

SUMMARY AND RECOMMENDATION

Staff recommends that the City Council and the San Leandro Public Financing Authority approve the referenced resolutions and documents required to issue the San Leandro Public Financing Authority 2016 Refunding Lease Revenue Bonds (Refunding Bonds). The proposed Refunding Bonds will be issued to refund \$15,825,000 of currently outstanding City of San Leandro 2007 Certificates of Participation (2007 COPs). The par, or face value, of the Refunding Bonds will not exceed \$15.8 million and they will mature in 2029, which is the existing final maturity of the 2007 COPs. Annual debt service on the Refunding Bonds will not exceed the annual debt service currently payable on the outstanding 2007 COPs.

DISCUSSION

In May 2007 the City issued \$23,425,000 of the 2007 COPs to refund 1999 COPs (Library and Fire Stations Financing). After the scheduled principal payment on 11/1/16, there will be \$15,825,000 of the 2007 COPs outstanding. The City has an opportunity to refinance the 2007 COPs and realize substantial savings in annual debt service payments. Staff recommends that the City Council use the savings from the 2007 COPs to augment the City’s General Fund reserve. The savings can also be leveraged in the future to issue bonds for new-money projects. Please refer to the table on **Attachment 1** that shows how the current municipal bond market allows for projected savings.

Based on municipal bond market rates effective 9/13/16, staff estimates that the City will realize almost \$2.5 million in total nominal savings over the life of the 2007 COPs. The present value (PV) of these future savings, discounting the nominal savings by the estimated arbitrage yield of 1.8%, is just over \$2.2 million. This results in net present value (NPV) savings of about 14% when taken as a percentage of the par value of the 2007 COPs to be refunded. The general rule of thumb is that the minimum NPV savings should be at least 3% of refunded par. **City staff emphasizes that these savings numbers are estimates and will not be certain until the Refunding Bonds are priced on or about 11/1/16.**

Financing Structure

The City uses certificates of participation (COPs) to finance the construction and retrofitting of its public facilities. COPs are a variation of the General Fund lease-purchase financing method that was commonly used in California. Due to a perceived preference for lease revenue bonds in today’s bond market, the Refunding Bonds will be structured as lease

revenue bonds instead of COPs, which is the same as when the City issued 2013 Refunding Lease Revenue Bonds to refund 2001 and 2003 COPs. For the proposed Refunding Bonds, the City will continue to lease the Main Library to the San Leandro Public Financing Authority (Authority). The Authority will lease the Main Library back to the City for payments equal to the debt service on the Refunding Bonds. The City will make these payments to the holders of the Refunding Bonds from the General Fund.

The Financing Team

Staff worked with the firms listed below to bring this financing transaction to the City Council and Authority for approval. Therefore, the resolution of issuance to be adopted by the Council directs staff to enter into agreements for consulting services with the following firms in the following capacities:

<u>Name of Firm</u>	<u>Capacity</u>
Stifel, Nicolaus & Company, Inc.	Underwriter
Kitahata & Company	Financial Advisor
Jones Hall, APLC	Bond Counsel & Disclosure Counsel
U.S. Bank National Association	Trustee

Stifel and Kitahata & Company were both chosen via separate requests for proposals for underwriters and financial advisors. The primary reasons for the selection of both firms included relevant experience, pricing and structuring creativity.

Jones Hall has been the City’s bond counsel dating back to 1979. Jones Hall ranks as one of the top bond counsel in the number of state and local bond issues in California during each of the past ten years, and similarly has ranked as one of the top disclosure counsel in California during this same period.

U.S. Bank is bond trustee for the City’s 2007 COPs to be refunded. U.S. Bank is one of the top five municipal bond trustees in the country and most recently served as trustee for the City’s 2013 Refunding Lease Revenue Bonds. U.S. Bank also serves the City with two local branch offices.

All fees associated with issuing the Refunding Bonds will be paid from bond proceeds.

Sources and Uses of Funds

Staff projects the following sources and uses of funds for the Refunding Bonds financing transaction.

Sources of Funds

Par Amount of Refunding Bonds.....	\$ 14,300,000	
Premium.....	1,957,192	
Total Sources of Funds		<u>\$ 16,257,192</u>

Uses of Funds

Refunding Escrow Deposit.....	\$ 16,041,058	
Underwriter’s Discount.....	57,255	
Costs of Issuance.....	158,879	
Total Uses of Funds		<u>\$ 16,257,192</u>

Sources of funds include original issue premium on the Refunding Bonds because it is assumed that coupons will be higher than yields - if this is not the case and coupons go lower to be closer to yields, the premium will go down and the par amount of Refunding Bonds will go up, but overall debt service will be about the same because of the lower coupons. The Refunding Bond proceeds will be deposited in the 2007 COPs Refunding Escrow to retire the outstanding 2007 COPs on the projected closing date of 12/2/16. A Debt Service Reserve Fund will not be funded in this issue, because the City’s credit strength should allow for a strong rating without needing funded reserve. The City’s credit strength also means that bond insurance will not be necessary for this transaction. The Underwriter’s Discount is a fee paid to the underwriter for structuring and marketing the Refunding Bonds. The Costs of Issuance funds pay for legal, financial advisor, City staff, trustee, printing and other issuance costs.

Authorizing Resolutions

If the City Council elects to proceed with the refunding, the City and Authority must approve the following resolutions to issue the Refunding Bonds.

A Resolution of the City Council of the City of San Leandro Approving Documents and Actions Relating to the Refinancing of 2007 Certificates of Participation - This resolution authorizes the City to issue the Refunding Bonds in an amount not to exceed \$15,800,000 and for an Underwriter's discount not to exceed 0.45% and to execute the documents required to complete the financing transaction.

Resolution of the San Leandro Public Financing Authority Authorizing the Issuance and Sale of 2016 Refunding Lease Revenue Bonds to Refinance Outstanding 2007 Certificates of Participation, and Approving Related Documents - This resolution authorizes the Authority to enter into the Refunding Bonds transaction and execute the required lease agreements, so long as minimum net present value savings to the City are at least 5% of the principal amount of the outstanding 2007 COPs.

Bond Documents

The City Council and the San Leandro Public Financing Authority must approve the following documents to complete the Refunding Bonds transaction.

Site Lease - The Site Lease is between the City and the San Leandro Public Financing Authority. This is the agreement that establishes the lease of the Main Library to the Authority. This agreement specifies the terms of the lease arrangement.

Lease Agreement - This agreement establishes the leaseback of the Main Library from the Authority by the City. This agreement specifies the term of the agreement (13 years) and the amount of payments.

Assignment Agreement - This agreement is between the Authority and U.S. Bank National Association (the Trustee). In this agreement the Authority assigns all of its rights under the Lease Agreement to the Trustee. For example, rather than the City making semi-annual lease payments to the Authority and the Authority then paying the bond holders, the City will make its payments directly to the Trustee and the Trustee will then pay the holders of the Refunding Bonds.

Indenture of Trust - This agreement is between the Authority, the City and the Trustee. The Indenture of Trust sets forth the guidelines for the administration, investment and treatment of the proceeds of the issue.

Bond Purchase Agreement - The Bond Purchase Agreement is an agreement between the City and the underwriter under which the underwriter purchases the Refunding Bonds. This agreement specifies the price and interest rates at which the underwriter will purchase the Refunding Bonds and the documents that will be executed at closing.

Preliminary Official Statement - This document is the public offering statement for the issuance of the Refunding Bonds. This document thoroughly describes the plan of refunding, the public asset to be leased, and the economic, financial and social characteristics of the City.

Continuing Disclosure Agreement - This agreement obligates the City to continue providing information regarding the City, the Authority and the Refunding Bonds to the secondary municipal bond market as long as they are outstanding.

Termination Agreement - These instructions are from the Authority and City and direct the Trustee on what needs to be done to fully refund the 2007 COPs.

Irrevocable Refunding Instructions - This agreement is between the Authority, the City and the Trustee to terminate the 2007 Lease Agreement, 2007 Site Lease, 2007 Memorandum of Lease and 2007 Assignment as soon as the Refunding Bonds have closed and funds paid to the Trustee.

Indemnity Letter - This letter from the City indemnifies the Trustee for any costs related to the revocable notice of prepayment to owners of the 2007 COPs if it is necessary for the City to direct the trustee to revoke the notice after it has been issued and before closing.

Current City Council Policy

The City Council and Public Financing Authority must approve municipal debt issues that impact their financial position.

Summary Of Public Outreach Efforts

The meeting was properly noticed in accordance with California law.

Fiscal Impact

The par value of the Refunding Bonds will not exceed \$15.8 million and they will mature in 2029, the same as the issue being refunded. The Refunding Bonds are projected to have an all-in true interest cost of less than 2.15% in today's market. Annual debt service savings on the Refunding Bonds compared to the 2007 COPs being refunded are projected to be just under \$200,000 annually, for total net present value savings of just over \$2.2 million. These savings numbers are just projections at this time, based on current market rates, and will not be finalized until the Refunding Bonds price on or about 11/1/16.

Budget Authority

City of San Leandro Charter

Attachments:

- Attachment 1 -Current Municipal Bond Market Allows For Projected Savings As Shown In The Table

- The following financing documents:
 - Site Lease
 - Lease Agreement
 - Assignment Agreement
 - Indenture of Trust
 - Bond Purchase Agreement
 - Preliminary Official Statement
 - Continuing Disclosure Agreement
 - Termination Agreement
 - Irrevocable Refunding Instructions
 - Indemnity Letter

CONCLUSION

Staff recommends that the City Council and the San Leandro Public Financing Authority approve the resolutions and documents required to issue the San Leandro Public Financing Authority 2016 Refunding Lease Revenue Bonds.

PREPARED BY: David Baum, Director, Finance Department