



# CITY OF POMONA COUNCIL REPORT

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April 3, 2017

To: Honorable Mayor and Members of the City Council

From: Linda Lowry, City Manager

By: Onyx Jones, Finance Director/City Treasurer

**Subject: REFUNDING OF 2007 REVENUE BONDS SERIES AY AND AZ (WATER FACILITIES PROJECT) – “A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF POMONA AUTHORIZING THE ISSUANCE OF NOT TO EXCEED \$97,000,000 PRINCIPAL AMOUNT OF 2017 REFUNDING REVENUE REFUNDING BONDS (WATER FACILITIES PROJECT) SERIES BE AND SERIES BF (TAXABLE) AND APPROVING CERTAIN DOCUMENTS AND AUTHORIZING CERTAIN ACTIONS IN CONNECTION THEREWITH.”**

## OVERVIEW

**Recommendation** - Approve and adopt the Resolution authorizing issuance of revenue refunding bonds; approving form of certain documents; and authorizing certain actions in connection therewith. Approve and adopt SB 1029 compliant Pomona Debt Policy.

**Fiscal Impact** – Estimated savings to the Water Enterprise Fund of approximately \$1,000,000 per year for a total savings of approximately \$30 million over the life of the bonds to Fiscal Year 2047. Savings achieved through a reduction in interest rate from 5.0% to approximately 4.2%.

**Previous Council Action** – The issuance of Series AY and AZ was approved by the City Council at the time of issuance. On February 22, 2016, the City Council approved the hiring of the finance team for this refunding. On February 6, 2017, the City Council directed staff to explore possible refundings, including Series AY and AZ, and confirmed the financing team.

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Submitted to City Council: \_\_\_\_\_  
Approved: \_\_\_\_\_  
Continued to: \_\_\_\_\_  
Denied: \_\_\_\_\_

Agenda Item # \_\_\_\_\_  
Resolution No(s): \_\_\_\_\_  
Ordinance No. \_\_\_\_\_

## EXECUTIVE SUMMARY

On January 25, 2007, the Pomona Public Financing Authority issued \$99,370,000 of 2007 Revenue Bonds, Series AY (Water Facilities Project) and \$6,930,000 of 2007 Taxable Revenue Refunding Bonds, Series AZ (Water Facilities Project). The proceeds were used to refund outstanding water bonds and finance \$55 million of water system improvements. The current principal amount still outstanding for Series AY & AZ is \$97.375 million; the average interest rate (or “coupon” rate) on the Bonds is 5.0% with a final maturity in the 2046-47 Fiscal Year.

The documents approved with this action will allow the Series AY and AZ Bonds to be refunded at an interest rate that is currently 4.2%. The reduction in interest rate will reduce debt service payments by about \$1,000,000 per year, for a total savings of approximately \$30 million through Fiscal Year 2046-47.

## DISCUSSION

The proposed refunding seeks to reduce the debt service associated with the City’s water debt through a reduction in interest rate. Since the City’s hiring of the financing team in February 2016, interest rates have risen. The benchmark 30 year U.S. Treasury bond rate has increased to about 3.2%, from 2.6% in February 2016. The City’s water bonds cannot be refinanced before May 1, 2017; staff has been preparing for this refunding to be completed at the first opportunity. Interest rates on the proposed refunding are still favorable; the City expects to sell its debt with an average interest rate near 4.2%.

<b>City of Pomona</b>	
<b>Tax-Exempt Refunding Bonds Series AY and AZ (Water Refinancing)</b>	
<i>Key Statistics</i>	
Outstanding Principal	\$ 97,375,000
Estimated New Bond Principal	\$ 92,560,000
Outstanding Interest Rate	5.0%
Estimated New Interest Rate	4.2%
Estimated Annual Savings (each year through FY 2047)	\$ 1,000,000
Estimated Total Savings through FY 2047	\$ 30,000,000
Net Present Value (NPV) Savings	\$ 10,400,000
NPV as % of Refunded Principal	10.7%
GFOA Target NPV Savings %	3.0%
(1) NPV Savings represents the present-day value of the savings; calculated by discounting the savings over time at the new interest rate.	

The proposed 2017 Bonds will generate an estimated total debt service savings of \$30 million over the life of the bonds; about \$1,000,000 per year each year through the 2046-47 Fiscal Year. The net present value savings of approximately \$10.4 million represents about 10.7% of the amount of debt being refinanced.

This compares favorably to the Government Financing Officers Association (GFOA) target of net present value savings of 3% on municipal refundings.

The refunding will also exceed the minimum parameters outlined in the proposed Pomona Debt Policy, to be approved as part of this refunding (Attachment F). The Pomona Debt Policy is being amended to become compliant with the new requirements under Senate Bill 1029 (enacted in September 2016 by the State), and it conforms with GFOA standards.

The source of repayment of the 2017 Bonds would be limited to water enterprise revenues. The 2017 Bonds would not be a general debt of the City, but an obligation limited to the Water Enterprise. The bonds require the Water Fund to generate enough revenues (after operating expenses) in the Water Enterprise to pay 120% of debt service. The City can also use its cash (through the use of a Rate Stabilization Fund) to meet this 120% requirement.

The Water Fund's debt service coverage for the 2015-16 year was 1.6x, and cash in the fund was \$37 million as of June 30, 2016.

If the subject Resolution and documents are approved by the City, the underwriter expects to begin marketing the bonds immediately. The sale would be expected to be completed on or about April 18, with a delivery/closing date on or about May 4.

## **SUMMARY OF DOCUMENTS**

**Proposed Preliminary Official Statement** – this is the offering document that will be presented to potential investors in the 2017 Bonds, and includes information about the City and the Water Enterprise, as well as a summary of the terms and payment obligations for the 2017 Bonds. The proposed preliminary official statement is materially complete in regards to the bond issuance, with only non-essential information that will be completed or updated for the Official Statement.

**Indenture of Trust** – this document outlines the specific terms describing how the proceeds of the refunding bonds will be used, how payments are to be made out of the Water Enterprise, the legal security for investors, the ability for additional borrowings from the Water Enterprise on a parity basis the refunding, along with other terms of the borrowing.

**Escrow Agreement** – this document outlines the specific terms and instructions for the redemption and retirement of the outstanding Series AY and AZ.

**Bond Purchase Agreement** – this document defines the terms under which the City's underwriter will purchase the Bonds from the City and deliver them to investors.

## **FINANCING SUMMARY**

With City Council approval, staff expects to issue Series BE and BF as soon as feasibly possible. The total issuance is expected to be approximately \$93 million. Based on current interest rates of approximately 4.2% estimated savings will be approximately \$1,000,000 annually. All proceeds net of issuance costs of Series BE and BF will be used to refund Series AY and AZ.

The estimated Costs of Issuance (paid with available bond proceeds) are as follows:

<b>City of Pomona</b>		
<b>Tax-Exempt Refunding Bonds Series AY and AZ (Water Refinancing)</b>		
<i>Estimated Costs of Issuance (as of 3/17/2017)</i>		
		<b>Estimated Par Amount</b>
		<b>\$ 97,000,000</b>
<b>Service</b>	<b>Firm</b>	<b>Total Fees &amp; Expenses</b>
Bond/ Disclosure Counsel	Stradling	\$ 75,000
Financial Advisor	Urban Futures, Inc.	70,000
1 Rating Agency	Standard & Poor's	51,000
City Attorney	Alvarez-Glasman & Colvin	7,500
2 Verification Agent	Grant Thornton	4,000
Trustee & Counsel	Zions Bank	4,000
2 Escrow Bank & Counsel	Bank of New York	1,500
2 Printing	ImageMaster	5,000
Contingency	-	7,500
Subtotal	<b>TOTAL</b>	<b>\$ 225,500</b>
Underwriter's Discount (\$3.60/Bond)		\$ 349,200
<b>TOTAL ESTIMATED ISSUANCE COSTS (Including Underwriter's Discount)</b>		<b>\$ 574,700</b>
<i>% of Overall Proposed Issuance</i>		<i>0.59%</i>
<b>Notes:</b>		
1 Not-to-Exceed Rating Fee (2017 S&P Rating Fee Schedule)		
2 Estimated Fee		

Attachments: Resolution  
Preliminary Official Statement – Series BE and BF  
Indenture of Trust – Series BE and BF  
Escrow Agreement – Series AY and AZ  
Bond Purchase Agreement – Series BE and BF  
Pomona Debt Service Policy