



# Pomoma Public Financing Authority Staff Report

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May 16, 2017

To: Members of the Board of Directors

From: Linda Lowry, Chairperson

By: Onyx Jones, Finance Director/City Treasurer

Subject: **Refunding of 2006 Lease Revenue Bonds Series AU and AV and partial refunding of Series 2006 AR Pension Obligation Refunding Bonds – “RESOLUTION OF THE BOARD OF DIRECTORS OF THE POMONA PUBLIC FINANCING AUTHORITY, POMONA, CALIFORNIA, AUTHORIZING THE EXECUTION AND DELIVERY BY THE AUTHORITY OF A GROUND LEASE, LEASE AGREEMENT, INDENTURE, ASSIGNMENT AGREEMENT, ESCROW AGREEMENTS AND BOND PURCHASE AGREEMENT IN CONNECTION WITH THE ISSUANCE OF POMONA PUBLIC FINANCING AUTHORITY 2017 LEASE REVENUE REFUNDING BONDS, SERIES BG (FEDERALLY TAXABLE), AUTHORIZING THE ISSUANCE OF SUCH BONDS IN AN AGGREGATE PRINCIPAL AMOUNT OF NOT TO EXCEED \$52,000,000, AUTHORIZING THE DISTRIBUTION OF AN OFFICIAL STATEMENT IN CONNECTION WITH THE OFFERING AND SALE OF SUCH BONDS AND AUTHORIZING THE EXECUTION OF NECESSARY DOCUMENTS AND CERTIFICATES AND RELATED ACTIONS.”**

## OVERVIEW

**Recommendation** - Approve and adopt the Resolution authorizing issuance of lease revenue refunding bonds; approving form of certain documents; and authorizing certain actions in connection therewith.

**Fiscal Impact** – The current annual debt service payment for the PFA’s Series AU and Series AV Bonds and the City’s Series AR Bonds is \$3.7M and under the current debt repayment schedule that amount is scheduled to increase by over \$100K each year. In FY 2035-36, the annual debt service payment amount would have topped out at \$6.1M.

Restructuring of the existing pension bond and lease debt (AR, AU, & AV) will create an estimated savings to the City’s General Fund of approximately \$2.1M in Fiscal Year 2017-18 and it will level off the annual debt service payments at \$3.6M per year. Although, the proposed refunding has a negative total savings over the life of the bonds of (\$754K), the proposed net present value savings over the life of the bond is \$5.5M.

The net present value measures the change in debt service over the next 28 years in today's dollars. This refunding will also address the City's immediate need to find ways to offset the projected PERS cost increases over the next ten years because this bond refunding will save the City \$9.1M in debt service payments during that same time period. It should also be noted that the proposed refunding will have the same maturity date as the AU and AV bonds. (See Table 1)

**Previous PFA Action** – The issuance of the Series AU Bonds and Series AV Bonds was approved by the PFA at the time of issuance.

**Previous Council Action** – The issuance of Series AU, AV and AR 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 AU, AV and AR and confirmed the financing team. On May 15, 2017, the City Council approved the issuance of the Series BG Bonds, proposed herein to refinance the Series AU, AV and AR Bonds.

## **EXECUTIVE SUMMARY**

On December 06, 2006, the Pomona Public Financing Authority (the "PFA") issued \$2,540,000 of 2006 Lease Revenue Bonds, Series AU and \$10,790,000 of 2006 Taxable Lease Revenue Bonds, Series AV. The proceeds were used to refund outstanding lease revenue bonds and finance \$8.2 million of public projects. There are \$12.145 million of Series AU and AV Bonds still outstanding; the maximum interest rate (or "coupon" rate) on the Bonds is 5.7% with a final maturity in the 2044-45 Fiscal Year.

On February 8, 2006, the City of Pomona (the "City") issued \$42,280,684.10 of Pension Obligation Refunding Bonds, Series 2006AR. These bonds included \$36,205,000 of Current Interest Bonds ("CIBs", which are typical bonds which pay interest semi-annually), and \$6,075,684.10 of Capital Appreciation Bonds ("CABS", which are zero-coupon bonds which pay interest at maturity only). The proceeds were used to refund outstanding City pension obligation bonds series AJ & AK, the proceeds of those bonds, were primarily used to fund the City's Unfunded Actuarial Accrued Liability (UAAL) with CalPERS. There are \$35,855,000 million of Series AR CIBs still outstanding; the maximum interest rate (or "coupon" rate) on the Bonds is 5.832% with a final maturity in the 2036 Fiscal Year. There are \$4,241,233.20 of CABS which are not eligible to be refinanced and which will remain outstanding; the CABS will all fully mature by July 1, 2029.

On February 22, 2016, the City Council authorized the hiring of the finance team to work on this refunding. On February 6, 2017, the City Council directed staff to continue with its refunding efforts and confirmed the financing team. On May 15, 2017, the City Council approved this proposed financing.

The documents approved with this action will allow the Series AR, AU and AV Bonds to be refunded at an interest rate that is currently 4.6%. The reduction in interest rate will reduce debt service payments in Fiscal Year 2018 by about \$2.1 million and generate approximately 5.5M in net present value savings. **The savings generated in the City's General Fund over the next 18 years is expected to partially offset anticipated increases in the City's CalPERS cost.**

## DISCUSSION

The proposed refunding seeks to restructure the debt service associated with the City's outstanding pension and lease revenue bond debt. As demonstrated in Table 1, the debt service will not be extended from the current final maturity in Fiscal Year 2045. Interest rates on the proposed refunding are still favorable; the City expects to sell its debt with an average interest rate near 4.6%.

<b>Fiscal Year</b>	<b>Existing Payments</b>	<b>Est. New Payments</b>	<b>Savings</b>	<b>Present Value Savings</b>
2018	3,736	1,549	2,187	2,157
2019	3,842	3,673	169	137
2020	3,949	3,669	280	232
2021	4,057	3,670	387	316
2022	4,174	3,673	501	398
2023	4,291	3,669	622	477
2024	4,413	3,672	741	548
2025	4,534	3,669	865	615
2026	4,665	3,673	992	678
2027	4,799	3,673	1,126	738
2028	4,935	3,670	1,265	796
2029	5,080	3,669	1,411	851
2030	5,223	3,672	1,551	897
2031	5,331	3,670	1,661	921
2032	5,497	3,669	1,828	972
2033	5,646	3,673	1,973	1,005
2034	5,806	3,670	2,136	1,043
2035	5,966	3,673	2,293	1,073
2036	6,140	3,671	2,469	1,106
2037	848	3,669	(2,821)	(1,225)
2038	849	3,668	(2,819)	(1,172)
2039	849	3,669	(2,820)	(1,123)
2040	848	3,672	(2,824)	(1,076)
2041	849	3,669	(2,820)	(1,029)
2042	849	3,670	(2,821)	(986)
2043	847	3,669	(2,822)	(944)
2044	848	3,671	(2,823)	(905)
2045	1,026	3,672	(2,646)	(814)
<b>Total</b>	<b>99,900</b>	<b>100,654</b>	<b>(754)</b>	<b>5,685</b>
<b>Note: Dollars in thousands (000s). Totals may not add due to rounding.</b>				

Table 1

The net present value savings of approximately \$5.5 million (the \$5.7 million of present value savings shown above less \$200,000 of funds related to the prior debt that will be used in the refinancing) represents about 11.5% 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 meet the parameters outlined in

the Pomona Debt Policy, which were approved by the City Council on April 3, 2017. The Pomona Debt Policy is compliant with the new requirements under Senate Bill 1029 (enacted in September 2016 by the State), and conforms with GFOA standards.

The source of repayment of the 2017 Bonds would lease payments made by the City's General Fund on several City-owned assets, including City Hall (and the related Council chamber and meeting room), the City corporate yard, and City-owned facilities at Ganesha, Westmont and Palomares Parks.

If the subject Resolution and documents are approved by the PFA, the underwriter expects to begin marketing the bonds immediately. The sale would be expected to be completed on or about May 24, with a delivery/closing date on or about June 21.

## FINANCING SUMMARY

With PFA Board approval, staff expects to issue Series BG as soon as feasibly possible. The total issuance is expected to be approximately \$50 million. Based on current interest rates of approximately 4.6%, estimated savings will be approximately \$2.1 million in FY 2017-18, with a total net present value savings of \$5.5M. All proceeds net of issuance costs of Series BG will be used to refund Series AU, AV and AR.

Refunding of Series AU, AV and AR	
<i>Key Statistics</i>	
Outstanding Principal	\$ 47,825,000
Estimated New Bond Principal	\$ 49,760,000
Outstanding Interest Rate	5.7%
Estimated New Interest Rate	4.6%
Net Present Value (NPV) Savings	\$ 5,500,000
NPV as % of Refunded Principal	11.5%
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.	

Table 2

The estimated Costs of Issuance are as follows:

### City of Pomona

Tax-Exempt Refunding Bonds Series AU, AV and AR

*Estimated Costs of Issuance (as of 5/1/2017)*

		Estimated Par Amount	\$ 49,760,000
Service	Firm	Total Fees & Expenses	
Bond/ Disclosure Counsel	Stradling	\$	75,000
Financial Advisor	Urban Futures, Inc.		50,000
1 Rating Agency	Standard & Poor's		40,000
1 Title Insurance	To be determined		40,000
City Attorney	Alvarez-Glasman & Colvin		7,500
1 Verification Agent	Grant Thornton		4,000
Trustee & Counsel	Zions Bank		4,000
1 Escrow Bank & Counsel	Bank of New York		1,500
1 Printing	ImageMaster		5,000
Contingency	-		15,000
Subtotal		<b>TOTAL</b>	<b>\$ 242,000</b>
		Underwriter's Discount (\$4.93/Bond)	\$ 245,317
<b>TOTAL ESTIMATED ISSUANCE COSTS (Including Underwriter's Discount)</b>		<b>\$</b>	<b>487,317</b>
		% of Overall Proposed Issuance	0.98%

#### Notes:

1 Estimated Fee

In addition to the Costs of Issuance shown above, the PFA may choose to purchase an insurance policy on the Bonds. The insurance policy improves the marketability of the Bonds, by improving the credit rating. The City's General Fund was most recently rated "A+" by Standard & Poor's (in 2016); the credit rating of the bond insurer would likely be "AA" (a higher rating). The estimated cost of \$40K for the insurance policy of \$500,000 is included in the figures estimated in this staff report. The presence of the insurance policy is expected to produce more than \$500,000 in additional savings from the corresponding reduction in interest rate on the Bonds, thereby creating a net benefit to the City from accepting an insurance bid (if received).

## **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, 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 and the legal security for investors, along with other terms of the borrowing.

Ground Lease and Lease Agreement – this document outlines the specific terms of the lease of certain City assets related to the financing.

Escrow Agreement – this document outlines the specific terms and instructions for the redemption and retirement of the outstanding Series AU, AV and AR.

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

Assignment Agreement – this document outlines the terms by which the PFA's right to receive payments under the Lease Agreement is assigned to Zions Bank, as trustee for the 2017 Bonds.

The documents for the 2017 Bonds are on file with the Secretary of the PFA.

### **Attachments:**

- 1) Resolution
- 2) Preliminary Official Statement – Series BG
- 3) Indenture of Trust – Series BG
- 4) Ground Lease Agreement – Series BG
- 5) Lease Agreement – Series BG
- 6) Escrow Agreements – Series AU
- 7) Escrow Agreements – Series AV
- 8) Escrow Agreements – Series AR
- 9) Bond Purchase Agreement – Series BG
- 10) Assignment Agreement