



Pomona Public Financing Authority Staff Report

December 18, 2017

To: Board Members

From: Linda Lowry, Chairperson

By: Onyx Jones, Treasurer

Subject: **Refunding of 2007 Sewer Revenue Bonds Series BA – A “RESOLUTION OF THE POMONA PUBLIC FINANCING AUTHORITY AUTHORIZING THE REFUNDING OF ITS 2007 REVENUE BONDS, SERIES BA (SEWER PROJECTS) AND AUTHORIZING THE DELIVERY OF CERTAIN DOCUMENTS AND THE UNDERTAKING OF CERTAIN ACTIONS IN CONNECTION THEREWITH.”**

OVERVIEW

Recommendation - Approve and adopt the Resolution authorizing the refunding of the 2007 Revenue Bonds, Series BA (Sewer Projects), the delivery of certain documents, and the undertaking of certain actions—including substituting Zions as the Trustee with respect to the Authority’s 2016 Revenue Refunding Bonds (Sewer Projects Refunding), Series BB and Taxable Series BD.

Fiscal Impact – Estimated average annual savings to the Sewer Enterprise Fund of approximately \$110,000 for a total savings of \$3.2 million over the life of the bonds to Fiscal Year 2047. Savings achieved through a reduction in interest rate from 4.5% to approximately 4.0%.

Previous Authority Action – The Authority issued its 2007 Revenue Bonds, Series BA (Sewer Projects), pursuant to an Indenture of Trust dated as of January 1, 2007 by and between the Authority and The Bank Of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as Trustee. Additionally, the Authority issued its 2016 Revenue Refunding Bonds, Series BB and Series BD (Sewer Projects Refunding), pursuant to an Indenture of Trust dated as of November 1, 2016 by and between the Authority and The Bank of New York Mellon Trust Company, N.A.

EXECUTIVE SUMMARY

On March 15, 2007, the Pomona Public Financing Authority issued \$15,575,000 of 2007 Revenue Bonds, Series BA (Sewer Projects). The proceeds were used to finance sewer system

improvements. There are \$14.18 million Series BA Bonds still outstanding; the average interest rate (or “coupon” rate) on the Bonds is 4.5% with a final maturity in the 2046-47 Fiscal Year.

The Authority issued its 2007 Revenue Bonds, Series BA (Sewer Projects), pursuant to an Indenture of Trust dated as of January 1, 2007 by and between the Authority and The Bank Of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as trustee. Additionally, the Authority issued its 2016 Revenue Refunding Bonds, Series BB and Series BD (Sewer Projects Refunding), pursuant to an Indenture of Trust dated as of November 1, 2016 by and between the Authority and The Bank of New York Mellon Trust Company, N.A. The payments of principal of and interest on the BA, BB, and BD Bonds are secured by certain payments to be made by the City of Pomona pursuant to their respective Installment Sale Agreements.

The City has determined to issue 2018 Taxable Refunding Revenue Bonds, Series BH (Sewer Projects), for the purpose of prepaying and defeasing the 2007 Installment Sale Agreement, which will cause the redemption and defeasance of the 2007 BA Bonds. The City anticipates refunding the Series BA Bonds at an interest rate of approximately 4%. The reduction in interest rate will reduce debt service payments, on average, by about \$110,000 per year, for a total savings of over \$3.2 million through Fiscal Year 2046-47.

Additionally, the City intends to appoint Zions Bank as the Trustee for the BH Bonds and requests that the Authority substitute Zions as the Trustee with respect to the Authority’s 2016 Revenue Refunding Bonds.

DISCUSSION

With City Council and Authority approval, staff expects to issue the Series BH Bonds as soon as feasibly possible. The refunding bonds will be issued on an equal or parity basis to Series BB and BD, and the total issuance is expected to be approximately \$13.385 million. All proceeds net of issuance costs of the Series BH Bonds will be used to refund the Series BA Bonds. The proposed refinancing seeks to reduce the debt service associated with the City’s sewer debt through a reduction in interest rate (from approximately 4.5% to approximately 4.0%).

The proposed 2018 Bonds will generate an estimated total debt service savings of \$3.2 million over the life of the bonds; on average, about \$110,000 per year through the 2046-47 Fiscal Year. The net present value savings of approximately \$650,000 represents about 4.5% of the amount of debt being refinanced. This exceeds the GFOA goal for current refundings of 3.0% of the amount refinanced.

Upon City Council and Authority approval, the underwriter expects to begin marketing the bonds in early January. The sale would be expected to be completed on or about January 9, with a delivery/closing date on or about January 31.

As the Trustee for the 2007 BA Bonds, the Bank of New York Mellon Trust Company, N.A., will serve as the Escrow Agent for the redemption of the 2007 BA Bonds. Zions Bank will serve as Trustee for the 2018 BH Bonds. Additionally, after issuance of the 2018 BH Bonds, with the approval of the Authority, Zions Bank would also serve as Trustee for the 2016 BB and BD Bonds. The 2016 Indenture of Trust provides for the Issuer to remove the Trustee thereunder and appoint a successor Trustee by taking the actions described in the Indenture.

COMPLIANCE WITH SENATE BILL 450

Senate Bill 450 (Chapter 625 of the 2017-2018 Session of the California Legislature) (“SB 450”) requires that the Authority obtain from an underwriter, municipal advisor or private lender and disclose, prior to authorization of the issuance of bonds, including debt instruments such as the Series BH Bonds, good faith estimates of the following information in a meeting open to the public: (a) the true interest cost of the Bonds, (b) the sum of all fees and charges paid to third parties with respect to the Bonds, (c) the amount of proceeds of the Bonds expected to be received net of the fees and charges paid to third parties and any reserves or capitalized interest paid or funded with proceeds of the Bonds, and (d) the sum total of all debt service payments on the Bonds calculated to the final maturity of the Bonds plus the fees and charges paid to third parties not paid with the proceeds of the Bonds.

The following information was obtained from the Municipal Advisor and the Underwriter:

1. True Interest Cost of the Bonds: Based on market interest rates prevailing at the time of preparation of this information, a good faith estimate of the true interest cost of the Bonds, which means the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the Bonds, is 4.03%.
2. Finance Charge of the Bonds: Based on market interest rates prevailing at the time of preparation of this information, a good faith estimate of the finance charge of the Bonds, which means the sum of all fees and charges paid to third parties (or costs associated with the Bonds), is \$220,578.70 at issuance from bond proceeds, plus an estimated annual Trustee fee of \$1,750 paid until the Bonds mature or are redeemed.
3. Amount of Proceeds to be Received: Based on market interest rates prevailing at the time of preparation of this information, a good faith estimate of the amount of proceeds expected to be received by the City for sale of the Bonds less the finance charge of the Bonds described in paragraph 2 above and any reserves or capitalized interest paid or funded with proceeds of the Bonds, is \$13,164,421.30.
4. Total Payment Amount: Based on market interest rates prevailing at the time of preparation of this information, a good faith estimate of the total payment amount, which means the sum total of all payments the City will make to pay debt service on the Bonds plus the finance charge of the Bonds described in paragraph 2 above not paid with the proceeds of the Bonds, calculated to the final maturity of the Bonds, is \$23,982,324.71.

SUMMARY OF DOCUMENTS

Escrow Agreement – This document appoints the Escrow Agent for the purpose of establishing an irrevocable Escrow Fund to be funded, held, and administered for the purpose of prepaying the 2007 Series BA Bonds. This document describes the duties of the Escrow Agent.

Agreement of Removal, Appointment and Acceptance – This document substitutes Zions Bank as the Trustee for the 2016 Series BB and BD Bonds.

The documents are on file with the City Clerk.

Attachments: A) Resolution
B) Escrow Agreement
C) Agreement of Removal, Appointment, and Acceptance