



CITY OF POMONA COUNCIL REPORT

December 18, 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 Sewer Revenue Bonds Series BA – A “RESOLUTION OF THE CITY COUNCIL OF THE CITY OF POMONA AUTHORIZING THE ISSUANCE OF NOT TO EXCEED \$14,500,000 PRINCIPAL AMOUNT OF ITS 2018 TAXABLE REFUNDING REVENUE BONDS, SERIES BH (SEWER PROJECTS) AND APPROVING CERTAIN DOCUMENTS AND AUTHORIZING CERTAIN ACTIONS IN CONNECTION THEREWITH.”**

OVERVIEW

Recommendation - Approve and adopt the Resolution authorizing issuance of sewer revenue refunding bonds; approving form of Official Statement and other documents; and making certain determinations relating thereto.

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 Council Action – On February 6, 2017, the City Council approved the refunding plan of various City bond issues, including the 2007 Series BA Bonds, and hired the finance team for this and other refundings.

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.

On February 6, 2017, the City Council authorized the hiring of the finance team to work on this refinancing. The documents approved with this action will allow the Series BA Bonds to be refunded 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.

DISCUSSION

With City Council approval, staff expects to issue the Series BH Bonds as soon as feasibly possible. 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. Interest rates on the proposed refunding are favorable; the City expects to sell its debt with an average interest rate near 4%.

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.

The source of repayment of the 2018 Bonds would be limited to sewer enterprise revenues. The 2018 Bonds would not be a general debt of the City, but an obligation limited to the Sewer Enterprise. The City also has \$8.425 million of Series BB and \$3.88 million of Series BD sewer revenue bonds outstanding; the refunding bonds will be issued on an equal or parity basis to Series BB and BD. The outstanding sewer revenue bonds require the City to generate enough revenues (after operating expenses) in the Sewer Enterprise to pay current debt service, and to maintain enough cash in the fund equal to 110% of maximum annual debt service on outstanding bonds (estimated at \$1.46 million).

The City projects debt service coverage for the 2017-18 year after the bond refunding will be 1.6 (1.2 is the minimum), and cash in the Utility Fund is currently \$8.5 million.

If the subject Resolution and documents are approved by the City, 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.

COMPLIANCE WITH SENATE BILL 450

Senate Bill 450 (Chapter 625 of the 2017-2018 Session of the California Legislature) ("SB 450") requires that the City Council 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 City's 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 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

Preliminary Official Statement – This is the offering document that will be presented to potential investors in the 2018 Bonds, and includes information about the City and the Sewer Enterprise, as well as a summary of the terms and payment obligations for the 2018 Bonds. The City has an obligation under Federal securities laws to ensure that the POS includes all information that would be material to a prospective investor's decision whether to purchase the 2018 Bonds. While Disclosure Counsel prepares the POS and the Underwriter, Financial Advisor and other financing team members review and provide comments on the POS, the ultimate responsibility for ensuring the POS is complete and accurate lies with the City Council and Staff members.

Continuing Disclosure Certificate — This document, also included as an Appendix to the Preliminary Official Statement, commits the Issuer to file or cause to be filed Annual Reports with updated information as specified in the Certificate by the due date as specified in the Certificate. This is done for the benefit of bondholders in order to assist the Underwriter in complying with Rule 15(c)2-12.

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 Sewer Enterprise, the legal security for investors, the ability for additional borrowings from the Sewer Enterprise on a parity basis with Series BB, Series BD and the refunding, along with other terms of the borrowing.

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.

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.

The documents for the 2018 Bonds are on file with the City Clerk.

Attachments: A) Resolution
B) Preliminary Official Statement
C) Continuing Disclosure Certificate
D) Indenture of Trust
E) Bond Purchase Agreement
F) Escrow Agreement