CITY OF RIVERSIDE

City of Arts & Innovation

City Council Memorandum

TO:	**HONORABLE MAYOR AND CITY COUNCIL**	**DATE: APRIL 25, 2017**
FROM:	**FINANCE DEPARTMENT**	**WARDS: ALL**

SUBJECT: PUBLIC HEARING AND APPROVAL OF RESOLUTION TO REFINACE THE TAXABLE 2016 BOND ANTICIPATION NOTES (2016 BANS) WITH A 10 YEAR TAXABLE 2017 PENSION OBLIGATION REFUNDING BOND (2017 POB) NOT TO EXCEED $34.5 MILLION AGGREGATE PRINCIPAL WITH AN AVERAGE INTERST RATE NOT TO EXCEED 5.5% AND APPROVE THE FINANCING TEAM

ISSUE:

Approve a resolution authorizing the issuance of a not to exceed $34.5 million aggregate principal Taxable Pension Obligation Refunding Bonds with an average interest rate not to exceed 5.5%, 2017 Series A (the "POB") to refund the bond anticipation note issued in 2016 and maturing on June 1, 2017, representing the Series B variable rate portion of the outstanding debt originally issued in 2005 to fund a portion of the City's pension obligation with the California Public Employees Retirement System and approve the financing team.

RECOMMENDATIONS:

That the City Council:

1. Conduct a public hearing to receive comments regarding the issuance of the Bonds;

2. Adopt the resolution authorizing the execution and delivery of the notes authorizing the issuance of a not to exceed $34.5 million aggregate principal Taxable Pension Obligation Refunding Bonds with an average interest rate not to exceed 5.5%;

3. Give staff direction on which Refinancing Option they prefer; and,

4. Approve the financing team.

COMMITTEE RECOMMENDATION:

The Finance Committee met on February 8, 2017 with Chair Soubirous, Vice Chair Burnard and Member Perry present, to consider an analysis on refunding options related to the City's current outstanding POBs, and specifically the approximately $31.2 million 2008 Pension Obligation Bonds Anticipation Notes (BANs). After discussion, the Committee unanimously voted to recommend that the City Council approve issuance of a 10-year Pension Obligation Bond to refinance the current outstanding $31.2 million 2008 Bond Anticipation Note (BAN) using Measure Z funds.

BACKGROUND:

In June 2005, the City Council approved the issuance of pension obligation bonds (2005 POBs) to partially fund the City's then outstanding unfunded liability with the California Public Employees Retirement System (PERS), which was primarily related to the increase in the retirement formula for the City's miscellaneous (non-safety) employees.

The 2005 bonds were issued in two series – a Series A $30 million series of fixed rate bonds with a 15 year term and a Series B $30 million series of variable rate debt as auction rate securities (ARS). The Series B variable rate bonds would be interest only bonds for 15 years and both principle and interest paid in the last five years with all the debt repaid in 20 years (2025). In 2008, the variable rate ARS market become very unstable and City interest rates on this debt were as high as 15%. Thus, the City refinanced the debt into interest only one year BANs, with principal being paid as "balloon" payments in the last few remaining years of the BANs.

In February 2017, staff briefed the Finance Committee on refinancing alternatives for all the outstanding POB's including the 2005 BANs. It was determined that the City's 2004 POB and 2005 Series A bonds could not be refinanced. The 2005 Series B (now the 2016 BANs) could be refinanced. Based on the Committee's review of various financing alternatives, the consensus approach is outlined below.

DISCUSSION:

Proposed Pension Obligation Bond (POB) Structure

The issuance of the new 2017 Series A Pension Obligation Bond (POB) as recommended in the accompanying resolution (Attachment 1) will allow the City to refinance the rolling 2016 BANs into a ten-year fully amortized (i.e. with no "balloon" payment) taxable debt. As a result, principal and interest payments will begin in FY 2017-2018 and go through FY 2027-2028. The source of payment for the new POB will be Measure Z funds.

There are two options to these 2017 Series A POBs. They are:

> **Option 1- Level Payment Plan**: The Bonds will be issued as taxable bonds with fixed interest rates. Further, the Bonds will be structured with level debt service payments through final maturity. The average annual payment is expected to be approximately $3.94 million for ten years.
>
> **Option 2 – Variable Payment Plan "A"**: The Bonds will be issued as taxable bonds with fixed interest rates. Further, the Bonds will be structured with a modified amortization in conjunction with expected availability of Measure Z funds. As a result, the Bonds will be "interest only" in FY 2017-18, FY2018-19 and FY2020-21. Debt service payments will range from $1.24 million to $6.50 million.

A comparison of these options is summarized as follows:

	OPTION 1 LEVEL PAYMENT PLAN	OPTION 2 VARIABLE PAYMENT PLAN "A"
Bond Interest Rate*	4.28%	4.39%
Term	FY2017-18 to FY 2026-27 (10 years)	FY2017-18 to FY 2026-27 (10 years)
Bond Principal **Total Bond Interest** **Total Payments*, ****	$31,465,000 7,895,557 **$39,360,557**	$31,460,000 9,798,984 **$41,258,984**
2018	$3,938,124	$1,385,778
2019	3,935,510	1,363,061
2020	3,934,708	4,498,061
2021	3,936,511	1,242,990
2022	3,938,503	6,497,990
2023	3,935,308	5,251,755
2024	3,935,021	5,252,902
2025	3,937,841	5,256,439
2026	3,935,696	5,253,358
2027	3,933,336	5,256,653
Total	**$39,360,557**	**$41,258,984**

Staff is meeting with multiple Rating Agencies in the coming weeks and expect affirmation or even an improvement of investment grade ratings from Standard & Poor's and Fitch Investor Services from the current "A+" and "AA-", ratings to possibly AA- and AA. Discussions are also occurring with Moody's to determine if a rating from them will better enhance the City's market credibility and position.

Attached to this report is the required resolution and other key documents authorizing the sale of the 2017 Series A Pension Obligation Bonds and the refunding of the 2016 BANs.

Financing Team

The transaction requires an underwriting bank to sell the Bonds, as well as bond and disclosure counsel to prepare the appropriate documentation and disclosure information. The firm of Stifel, Nicolaus and Company, Inc. was originally selected as the underwriting bank for this transaction and Stradling Yocca Carlson & Rauth as bond counsel. Jones Hall will serve as disclosure counsel and Urban Futures, Inc. will serve as financial advisor. The estimated bond issuance costs will be about $450,000. Each firm has extensive experience working on similar transactions, and using them is deemed to be in the best interests of the City.

FISCAL IMPACT:

The 2017 Series A POBs will be issued in an amount not to exceed $34.5 million, are being issued as taxable fixed rate financing with payments of principal and interest in a ten-year term. These bonds will be used to refinance the 2016 BANs. The debt service associated with the proposed transaction will be payable with Measure Z funds.

Prepared by: Scott G Miller, PhD, Chief Financial Officer/City Treasurer
Certified as to
availability of funds: Scott G. Miller, PhD, Chief Financial Officer/City Treasurer
Approved by: Marianna Marysheva, Assistant City Manager
Approved as to form: Gary G. Geuss, City Attorney

Concurs with;

Mike Soubirous, Chair
Finance Committee

Attachments:

1. Resolution
2. Notice of Public Hearing
3. Eleventh Supplemental Trust Agreement
4. Escrow Agreement
5. Preliminary Official Statement
6. Bond Purchase Agreement
7. Presentation