



City Council Memorandum

City of Arts & Innovation

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: AUGUST 5, 2025**

FROM: FINANCE DEPARTMENT **WARDS: ALL**

SUBJECT: PUBLIC HEARING – ISSUANCE OF 2025A REFUNDING 2015A SEWER REVENUE BONDS

ISSUE:

Conduct a Public Hearing to receive comments relative to the proposed financing transaction to refund all the outstanding 2015A Sewer Revenue Bonds, approve the City's Financing Team as described herein; approve the financing documents referenced herein; and approve the Resolution to authorize the issuance of the 2025A Refunding Sewer Revenue Bonds in an aggregate principal amount not-to-exceed \$165 million.

RECOMMENDATIONS:

That the City Council:

1. Conduct a Public Hearing in consideration of the 2025A Refunding Sewer Revenue Bonds and receive comments relative to the proposed financing transaction;
2. Adopt a Resolution and other financing documents referenced herein to authorize the issuance of the 2025A Refunding Sewer Revenue Bonds;
3. Approve the City's Financing Team as described herein for this transaction and authorize the Chief Financial Officer or any duly authorized designee to pay the costs of such firms in connection with the issuance from bond proceeds;
4. Delegate to the City's Financing Team, at the time of Bond sale, the determination of specific maturities to be refunded;
5. Authorize the City Manager, or designee, to execute all the documents necessary to close the bond refinancing and make certain non-substantive changes to the final documents necessary to complete the transaction; and
6. With at least five affirmative votes, upon closing of the 2025A Refunding Sewer Revenue Bonds, authorize the Chief Financial Officer, or designee, to make the necessary budget adjustments and/or appropriations to properly record the refunding and financing expenses in accordance with governmental accounting standards.

BACKGROUND:

The City's Sewer Fund currently has two outstanding bond issues.

- (1) **2015A Sewer Revenue Bonds:** In June 2015, the City issued \$200 million of bonds to (1) fund \$144 million of Sewer Fund capital improvements and (2) refund a portion of the 2014 bonds, which were originally issued to fund the Regional Water Quality Control Plant (WQCP) and collection system under its Capital Improvement Plan (CIP) and Rate Study. \$161.1 million of the 2015A Bonds remain outstanding, with a final maturity of August 1, 2040, and an average coupon (interest rate) of 4.9%. ***The 2015A Bonds are callable (pre-payable) at no penalty starting August 1, 2025, and can be refinanced now for significant savings to the Sewer Fund and it's ratepayers.***
- (2) **2018A Sewer Revenue Refunding Bonds:** In November 2018, the City issued \$153.7 million of bonds to refund the 2009B Taxable Sewer Revenue Bonds (Build America Bonds). \$128.5 million of the 2018A Bonds remain outstanding, with a final maturity of August 1, 2039 and an average coupon (interest rate) of 4.9%. The 2018A Bonds are callable at no penalty (pre-payable) starting on August 1, 2028.

DISCUSSION:

The City works with financial advisors to monitor the market for savings opportunities. NHA Advisors, the City's contracted firm for Sewer Fund financing, has been monitoring the potential refinancing of the 2015A Bonds for the past several years.

With the first optional redemption date (call date) approaching on August 1, 2025, the City is now legally able to proceed with a "current refunding." Given rising operating costs and no Sewer rate increases since FY 2018, the City's Financing Team and Public Works teams have been proactively evaluating refunding bond structures that will concentrate cash flow savings in the near term to help moderate upcoming rate increases.

Preliminary discussions with the City's rate consultant and Public Works team indicate a potential 5-year rate plan with 6.0% annual increases beginning January 1, 2027. While a formal approval and adoption process is planned for 2026, this assumption is being used for the projected revenues and expenses in the Preliminary Official Statement.

Without this refunding, significantly higher rate increases would be required to meet the City's legal debt covenants and operational needs. Delay in implementation would further exacerbate financial pressures.

Refunding Savings Estimates:

As shown in the table below, and based on current interest rates in the municipal market, the financing team estimates that the refunding will generate **\$17.3 million of cumulative cash flow savings through FY 2041. On a present value basis, this equates to \$14.8 million, or 9.6% of the refunded par amount, which is significantly higher than the industry minimum standard of 3.0%.** This analysis assumes an interest rate (inclusive of financing costs) of 3.60%, which is 1.3% less than the average coupon/rate of the 2015A Bonds. As shown in the projected savings table below, the refunding is estimated to deliver \$2.5 million of savings in FY 2026, \$4.0 million in FY 2027, \$1.7 million in FY 2028, and then approximately \$708,000 annually thereafter through FY 2041. This strategic savings pattern targets a goal of 125% debt service

coverage in each of the next three years (without use of the rate stabilization fund) and then spreads the remainder of the savings (~\$9.2 million, or ~\$708,000 annually) through the remainder of the bond term (FY 2041). Actual savings will be determined based on interest rates at the time of the bond sale (currently scheduled for mid-August) and may be lower or higher than the estimates above.

Estimated Cashflow Savings by Fiscal Year (6/30)					
	Prior Debt	Refunding	Capitalized	Refunding	
FYE	Service	Debt Service	Interest	Net Debt Service	Savings
2026	3,799,200	3,012,613	1,673,542	1,339,070	2,460,130
2027	14,530,650	10,564,375	-	10,564,375	3,966,275
2028	14,531,025	12,828,500	-	12,828,500	1,702,525
2029	14,527,775	13,821,750	-	13,821,750	706,025
2030	14,529,900	13,822,250	-	13,822,250	707,650
2031	14,531,275	13,823,250	-	13,823,250	708,025
2032	14,530,900	13,818,875	-	13,818,875	712,025
2033	14,527,775	13,818,125	-	13,818,125	709,650
2034	14,530,650	13,819,750	-	13,819,750	710,900
2035	14,528,275	13,822,500	-	13,822,500	705,775
2036	14,529,400	13,820,250	-	13,820,250	709,150
2037	14,527,450	13,821,750	-	13,821,750	705,700
2038	14,529,250	13,820,625	-	13,820,625	708,625
2039	14,528,625	13,820,500	-	13,820,500	708,125
2040	14,530,875	13,819,875	-	13,819,875	711,000
2041	14,529,375	13,822,125	-	13,822,125	707,250
Total	221,742,400	206,077,113	1,673,542	204,403,570	17,338,830

Financing Schedule and Next Steps:

In February 2025, at the request of the City Treasurer and Sewer Management, the Finance Department, with support from its Municipal Advisor, issued an RFP to 10 underwriting firms for tax-exempt financing services. After evaluating nine qualified responses, the City selected BofA Securities, Inc. as Senior Underwriter and Cabrera Capital Markets as Co-Managing Underwriter based on their qualifications, bond structuring strategies, credit ratings and market timing approaches, interest rates and credit spread expectations, and competitive fees.

During this time, the City's Bond and Disclosure Counsel (Stradling, Yocca, Carlson & Rauth LLP) drafted the legal documents and Preliminary Official Statement (POS) now recommended for approval. The financing team will be delivering a comprehensive credit rating presentation to S&P and Moody's in mid-July, with bond pricing and closing expected in August 2025, subject to market and economic conditions. This schedule is tentative and subject to change should market and economic conditions substantially change.

Key Financing Team Members:

- City Staff from Finance, City Attorney, and Sewer/Public Works
- NHA Advisors (Municipal Advisor)
- BofA Securities, Inc. (Senior Underwriter) and Cabrera Capital Markets (Co-Managing Underwriter)
- Stradling, Yocca, Carlson & Rauth LLP (Bond and Disclosure Counsel)
- US Bank National Association (Escrow Agent & Trustee)

- Standard and Poor's and Moody's (Rating Agencies)
- Carollo (Sewer Rate Consultant)

Financing Costs:

As shown below in the Good Faith Estimates, total financing costs are estimated at \$659,114, or about 0.46% of the estimated bond amount. About \$260,000 of this amount is related to the underwriting fee, while the remaining \$400,000 is for fixed costs of issuance (S&P and Moody's Rating Agencies, Bond and Disclosure Counsel, Municipal Advisor, Trustee/Escrow Agent, Printing, etc.) This amount also includes about \$30,000 - \$40,000 of contingency in case of any unforeseen costs, but will be downsized prior to the bond sale to reduce final financing costs. All financing costs are paid from bond proceeds and have been incorporated into the refunding savings analysis shown above.

Good Faith Estimates:

California Senate Bill 450 requires, prior to new issuance of bonds, a public agency disclose in a public meeting good faith financing estimates provided by an Underwriter, Municipal Advisor, or private lender. The following estimates constitute good faith estimates only. The true interest cost of the Bonds, the finance charges allocable, the amount of net proceeds received, and total payment amount may differ from such good faith estimates due to (a) the actual date of the sale of each component of the Bonds being different than the date assumed for purposes of such estimates, (b) the actual net proceeds amount of Bonds sold being different from the estimated amount used for purposes of such estimates, (c) the actual amortization of the Bonds being different than the amortization assumed for purposes of such estimates, (d) the actual market interest rates at the time of sale for each component of the Bonds being different than those estimated for purposes of such estimates, (e) other market conditions, or (f) alterations in the City's financing plan, or a combination of such factors. The actual date of sale of the Bonds and the actual principal amount of Bonds sold will be determined by the City based on the timing of the need for proceeds of the Bonds and other factors. Market interest rates are affected by economic and other factors beyond the control of the City. The Good Faith Estimates are as follows:

- (A) **True Interest Cost of the 2025 Bonds:** 3.56%
- (B) **Finance Charge of the 2025 Bonds:** \$659,114
- (C) **Amount of Proceeds to be Received:** \$154,974,637
- (D) **Total Payment Amount of the 2025 Bonds:** \$206,077,113

The Finance Charge of the 2025 Bonds is the sum of all fees/charges to be paid to third parties. The Amount of Proceeds to be Received is net of Finance Charges, reserves and capitalized interest, if any. Of the Total Payment Amount, \$1,673,542 will be paid for from capitalized interest. These Good Faith Estimates assume an expected closing date of August 28, 2025.

FISCAL IMPACT:

The issuance of the 2025A Sewer Refunding Revenue Bonds will have a fiscal impact of approximately \$1.3 million in Fiscal Year 2025/26, \$10.6 million in Fiscal Year 2026/27, \$12.8 million in Fiscal Year 2027/28, and \$13.8 million per Fiscal Year from 2028/29-2040/41. These payments represent savings of approximately \$2.5 million in Fiscal Year 2025/26, \$4.0 million in Fiscal Year 2026/27, \$1.7 million in Fiscal Year 2027/28, and approximately \$708,000 annually from Fiscal Years 2028/29-2040/41, compared to current debt service obligations. Annual debt service payments will be funded by Sewer revenue and budgeted accordingly.

All professional fees and underwriting costs will be covered by the bond proceeds and not from the Sewer Fund.

Prepared by: Meline Carranza, Debt and Treasury Manager
Approved by: Sergio Aguilar, Deputy Finance Director
Certified as to
availability of funds: Kristie Thomas, Finance Director/Assistant Chief Financial Officer
Approved by: Edward Enriquez, Assistant City Manager/Chief Financial Officer/City
Treasurer
Approved as to form: Rebecca McKee-Reimbold, Interim City Attorney

Attachments:

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