



## **CITY OF SALINAS COUNCIL STAFF REPORT**

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**DATE:** DECEMBER 1, 2020

**DEPARTMENT:** FINANCE DEPARTMENT

**FROM:** MATT N. PRESSEY, CPA, FINANCE DIRECTOR

**TITLE:** WASTEWATER REVENUE REFUNDING BONDS, SERIES 2020A

### RECOMMENDED MOTION:

A motion to approve the attached Resolution approving the legal documentation for the Wastewater Revenue Refunding Bonds Series 2020A (“2020 Bonds”) in an amount not to exceed \$16,500,000 and approving the bond sale process to: (1) refinance the City’s Sanitary Sewer System Revenue Bonds, Series 2012 (“Prior Obligations”), and (2) finance costs of issuance.

### RECOMMENDATION:

Staff recommends City Council approve the Resolution approving the legal documentation whereby the City of Salinas (“City”) pledges revenues of the City’s Wastewater Enterprise Fund to refinance the Prior Obligations pursuant to the related Indenture and Escrow Agreement, establishing parameters for the issuance, approving a continuing disclosure certificate, designating bond counsel and an underwriter to execute a sale of the 2020 Bonds and approving the official statement to be used in conjunction with the sale of the 2020 Bonds.

### DISCUSSION:

On February 22, 2012, the City of Salinas issued the Sanitary Sewer System Revenue Bonds, Series 2012 to refinance the Sanitary Sewer System Revenue Bonds, Series 1998 and to finance improvements to the Wastewater System. These improvements included pipeline repairs and pump station upgrades totaling \$5.9 million.

The Prior Obligations may be refinanced without penalty on August 1, 2022. Pursuant to the Tax Act of 2017, the City may not refinance the Prior Obligations more than 90 days ahead of this redemption date on a tax-exempt basis. Therefore, the 2020 Bonds will be issued on a taxable basis to provide the City the flexibility to lock in low interest rates. As a taxable refinancing, the Prior Obligations, which are now outstanding in the amount of \$14,645,000, can be refinanced for savings.

The Resolution before the Council will enable staff to refinance the Prior Obligations to generate debt service savings for the Wastewater Enterprise Fund.

### Analysis:

Following a historic disruption in the markets in March in response to the COVID-19 pandemic, municipal interest rates rebounded to record lows in the summer of 2020. Propelled by the Federal Reserve's action to stabilize the bond market with programs aimed at reducing interest rates and maintaining confidence in the municipal market, rates remain low moving into the 4<sup>th</sup> quarter of 2020. Based on the existing favorable interest rate environment, it is prudent to place the City in position to refinance the Prior Obligations for savings.

The plan of finance would involve issuing not more than \$16,500,000 of 2020 Bonds that would be used to refinance the existing Prior Obligations and pay for issuance costs. The 2020 Bonds maintains the same term of the Prior Obligations—there is no extension to the term of the City's debt. The table below shows the refunding results by refunding component:

	<b>2020 Bonds</b>
<b>Outstanding Bond Amount</b>	\$14,645,000
<b>Prior Interest Rate</b>	4.15%
<b>Refunding Borrowing Cost</b>	2.92%
<b>Final Maturity</b>	8/1/2042
<b>Annual Savings</b>	\$92,000
<b>Total Savings</b>	\$2,000,000
<b>Present Value Savings</b>	\$510,000
<b>Present Value Savings (%)</b>	3.50%

Based on current interest rates, issuing the 2020 Bonds can save the City an estimated \$2,000,000 of cash flow savings over the remaining life of the Prior Obligations. All of the savings is net of all costs of issuance. As noted above, the 2020 Bonds do not extend the term of the existing debt. The net present value savings for the 2020 Bonds would be equal to \$510,000 (or 3.50% of the refunded bond amount). "Net present value savings" represents the annual cash flow savings in "today's dollars" and takes into account any savings benefit from using prior reserve fund monies. Typically, municipal issuers set a minimum net present value savings goal equal to 3.00% of the refunded bond amount to determine if a refinancing is worthwhile to pursue. This savings threshold corresponds the Government Finance Officer's Association ("GFOA") guidance. The projected net present value savings of 3.50% exceeds this typical savings goal.

The City's Wastewater Enterprise credit currently has an "AA-" from Standard & Poor's. This rating reflects an upgrade from the "A+" category achieved by the City upon reevaluation on August 28, 2015. It is expected that the upcoming 2020 Bonds will receive the same rating based on the stable credit characteristics of the Wastewater Enterprise. This rating will enable the City's bonds to garner better interest rates from investors relative to other bonds that are currently being sold in the municipal market.

In addition, we expect that the City will be able to issue the 2020 Bonds without the need for a reserve fund. Wastewater enterprise credits in the "AA-" category have been able to issue bonds without a reserve fund. By using this approach, the City will use the current reserve fund totaling \$1.03 million to reduce the overall principal amount of the 2020 Bonds by paying down the

escrow on the Prior Obligations and thereby enhancing savings. All costs associated with the transaction will be paid for from the issuance of the 2020 Bonds.

Depending on market conditions, the Bonds are scheduled to be sold the week of December 7, 2020 with an expected closing date of December 23, 2020. This expedited schedule will allow the City to take advantage of the current low interest rate environment. The City has the sole discretion to adjust this schedule based on prevailing market conditions and may opt to delay the sale to reach certain savings thresholds. Upon the successful sale and closing of the transaction, refunding bond proceeds will be deposited in an escrow fund and invested in permitted securities until each Prior Obligations' prepayment date.

As required by Government Code section 5852.1, Exhibit A attached to the Resolution includes information providing a good faith estimate of: (1) the true interest cost of the bonds, (2) the finance charge of the bonds (the sum of all fees and charges paid to third parties), (3) the estimated amount of proceeds and any reserves or capitalized interest and (4) the estimated total debt service on the bonds.

#### Effects of the Resolution:

Approval of the Resolution will accomplish the following:

- Approves the form of the following documents (attached), allowing designated Authorized Offices to execute such documents (except the Preliminary Official Statement), provided terms are consistent with certain parameters established in the Resolution:
  - Indenture
  - Escrow Agreement
  - Preliminary Official Statement
  - Continuing Disclosure Certificate
  - Bond Purchase Agreement
- Approves the appointment of bond counsel and underwriter to help with the bond sale process.

#### CEQA CONSIDERATION:

**Not a Project.** The City of Salinas has determined that the proposed action is not a project as defined by the California Environmental Quality Act (CEQA) (CEQA Guidelines Section 15378).

#### STRATEGIC PLAN INITIATIVE:

The proposed financing promotes the Council Goal of Operational Efficiencies.

#### FISCAL AND SUSTAINABILITY IMPACT:

To facilitate the refunding of certain Prior Obligation, the City will issue a single series of refunding bonds preliminarily scheduled for December 2020, provided the debt service payments

are within the parameters established in the attached Resolution. Staff anticipates that debt service payments will be paid from the net revenues of the Wastewater Enterprise Fund pursuant to the 2020 Bond Indenture and average \$935,000 annually through 2042.

ATTACHMENTS:

1. Resolution of City Salinas Wastewater Revenue Refunding Bonds, Series 2020A
2. Indenture
3. Escrow Agreement
4. Preliminary Official Statement
5. Continuing Disclosure Certificate
6. Bond Purchase Agreement