Agenda Report

Fullerton City Council

MEETING DATE: **FEBRUARY 4, 2019**

TO: **CITY COUNCIL / SUCCESSOR AGENCY**

FROM: **KENNETH A. DOMER, CITY MANAGER**

PREPARED BY: **ELLIS CHANG, DIRECTOR OF ADMINISTRATIVE SERVICES**

SUBJECT: **MUNICIPAL ADVISORY SERVICES AND DEBT REFUNDING**

SUMMARY

This report provides an overview of the City's existing debt issuances and opportunities for refinancing. City staff seek authorization to obtain municipal advisory services and to refund the City's 2005 Tax Allocation Bonds.

RECOMMENDATION

1. Authorize staff to obtain municipal advisory services.
2. Authorize City Manager or designee to execute agreement with municipal advisor.
3. Adopt Resolution No. 2020-XX.

   RESOLUTION NO. 2020-XX – A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF FULLERTON, CALIFORNIA, AUTHORIZING REFUNDING OF THE CITY'S 2005 TAX ALLOCATION REVENUE BONDS

BUDGET POLICY PRIORITY STATEMENT

This item matches the following Budget Policy Priority Statement:

- Fiscal and Organizational Stability.

FISCAL IMPACT

Any municipal advisory services will be paid from any debt refundings. Further, any refunding costs for bond counsel, disclosure counsel, underwriters, trustee, verification agent, etc. will be paid from any debt refundings. The estimated savings shown in this report is net of all costs of issuance.

The benefits identified with refunding the 2005 Tax Allocation Revenue Bonds is as follows:

- 2005 Tax Allocation Revenue Bonds (TARBs)
    - Estimated present value savings to the City of Fullerton of $948,506.

Should City Council move to adopt the resolution to refund the 2005 Tax Allocation Revenue Bonds, Staff will begin the competitive bid process to retain a municipal advisory services firm. The municipal advisor will assist with this refunding and support Staff with ongoing debt and liability assessments including Pensions and Other Post-Employment Benefits and with drafting a Debt Policy. The selected municipal advisor will work with the Staff to obtain required County Oversight Board approvals and assist with the competitive bids for refinancing services such as underwriters, trustee, verification agent, etc.

DISCUSSION

Purpose of Review of Outstanding Debt

Since interest rates are at all-time lows, the City, with support from Urban Futures, Inc. (UFI), reviewed its outstanding debt issues to identify whether a refinancing would produce economic savings or some other benefit to the City. Savings from a refinancing is highly dependent on the outstanding debt issues' final maturity, interest rate and redemption provisions.

Should City Council direct staff to obtain municipal advisory services, it is important to note that UFI will likely submit a proposal to provide municipal advisory services to the City of Fullerton.

Overview of Existing Debt

As of June 30, 2019, the City has a total of seven bond issues outstanding, totaling $84 million. These issues can be placed into four different groups, based on the underlying source of repayment:

- *General Fund Bonds* – Debt payments paid directly from the General Fund.
- *Water Revenue Bonds* – Bonds issued by the City's Water Department and supported from the net operating revenues generated by the Water Enterprise Fund.
- *Tax Allocation Bonds* – Successor Agency (prior Redevelopment Agency) debt, which is supported solely by the tax increment generated in the respective project area.
- *Community Facilities District Bonds (CFDs)* – Bonds issued to pay for public infrastructure within each designated Community Facility District and repaid with special taxes levied on the property owners within each Community Facilities District. CFDs are not direct obligations of the City, and therefore, this debt is not placed directly on the City's balance sheet.

General financing provisions for these bond issues are summarized in the chart below.

Issue Date	Name of Issue	Issue Amount	Outstanding as of 6/30/19	Prepayment Features	Coupon	Final Maturity
General Fund Debt						
12/29/2010	2010 Lease Revenue Bond	$ 4,435,000	$ 1,865,000	Make-whole call	4.0%	5/1/2031
9/5/2013	2013 Taxable Judgement Obligation	7,250,000	5,615,000	4/1/2023 @ 100	6.0%	4/1/2033
	General Fund Debt	**$ 11,685,000**	**$ 7,480,000**			
Water & Sewer Enterprise Debt						
3/11/2014	Water Rev Ref 2014	$ 6,810,000	$ 4,775,000	9/1/2024 @ 100	5.0%	9/1/2033
	Enterprise Debt	**$ 6,810,000**	**$ 4,775,000**			
Successor Agency Debt						
2/10/2015	2015 Tax Allocation Ref Bonds	$ 11,975,000	$ 6,385,000	9/1/2022 @ 100	5.0%	3/1/2025
12/27/2005	2005 Tax Allocation Rev Bonds	74,600,000	43,040,000	9/1/2015 @ 100	5.0%	9/1/2027
	Successor Agency Debt	**$ 86,575,000**	**$ 49,425,000**			
Private-Purpose Fund						
5/14/2014	CFD 2014 Special Tax Bonds	$ 7,570,000	$ 7,385,000	9/1/2023 @ 100	5.0%	9/1/2044
10/31/2012	CFD 2012 Special Tax Ref Bonds	19,040,000	14,950,000	9/1/2022 @ 100	5.0%	9/1/2032
	Private Purpose Debt	**$ 26,610,000**	**$ 22,335,000**			
Grand Total		**$ 131,680,000**	**$ 84,015,000**			

In addition to the outstanding bonds, the City has four outstanding long-term tax-exempt equipment leases totaling $4.4 million. These leases were issued to finance: street lighting equipment (US Bank), fire trucks (Oshkosh Capital), 800 MHz radio equipment (Motorola) and airport hangers (Citizen's Business Bank). Loan terms ranged from 8 -15 years, with interest rates ranging from 2.70% to 4.55%.

General financing provisions for these leases are summarized in the chart below.

Issue Date	Name of Issue	Description	Issue Amount	Outstanding as of 6/30/2019	Interest Rate	Final Maturity
Governmental Fund Debt						
7/2016	2016 Lease	Acquisition of 800 MHz Radio Equipment	$ 2,472,439	$ 2,166,304	2.81%	7/1/2026
9/2017	2017 Lease	Acquisition of street lighting equipment	1,400,000	1,214,843	4.55%	9/1/2025
	Governmental Fund Debt		**$ 3,872,439**	**$ 3,381,147**		
Equipment Replacement Internal Services Fund Debt						
12/2013	2013 Lease	Acquire two fire pumpers	$ 949,810	$ 451,379	2.70%	12/19/2023
	ERISF Debt		**$ 949,810**	**$ 451,379**		
Enterprise Fund Debt						
12/2004	2004 Lease	Acquire and construct 18 airport tee-hangers & 43 executive and airport wash hangers	$ 6,262,000	$ 546,457	4.15%	12/3/2019
	Enterprise Fund Debt		**$ 6,262,000**	**$ 546,457**		
Grand Total			**$ 11,084,249**	**$ 4,378,983**		

Refinancing Analysis

The City analyzed its outstanding bonds and lease obligations to see if there are opportunities for the City to save on interest cost. Below is a summary of the analysis and the reason why a refinancing may or may not be beneficial for the City.

Issue	Refinancing Opportunity	Why
2013 Taxable Judgment Obligation	No	Call date is in 2023; spreads for taxable bonds have increased significantly over the past few months
2010 Lease Revenue Bonds	**Yes, but with economic cost**	**Prepayment cost but there may be a benefit to the City with regard to golf course operating structure**
2014 Water Bonds	No	Call date is in 2024; New tax law prohibits refinancing on tax-exempt basis today
2015 Tax Allocation Bonds	No	Call date is in 2022; New tax law prohibits refinancing on tax-exempt basis today
2005 Tax Allocation Bonds	**Yes, with economic savings**	**Call date started in 2015. Outstanding interest rate of 5% vs. 1.5% today**
2014 Special Tax Bonds	No	Call date is in 2023; New tax law prohibits refinancing on tax-exempt basis today
2012 Special Tax Bonds	No	Call date is in 2022; New tax law prohibits refinancing on tax-exempt basis today
Lease Obligations	No	Most leases are in the 2% range; 2017 lease is at 4.55% but only $1.2 million is outstanding

Review of 2005 Tax Allocation Revenue Bonds Refinancing Opportunity

On December 27, 2005, the Redevelopment Agency issued $74,600,000 in Tax Allocation Revenue Bonds to finance certain improvements in three project areas: the OrangeFair Redevelopment Project Area, the Central Fullerton Redevelopment Project Area and the East Fullerton Redevelopment Project Area.

As of June 30, 2019, there are currently $43,040,000 in 2005 TARBs outstanding, which mature in 2027. The remaining bonds are carrying coupons from 4.875% to 5.000%, and can be prepaid on any interest payment date without penalty. The opportunity to lock in savings is significant since the bond market is currently experiencing historically low interest rates. Moreover, there are only eight years remaining on these bonds and the savings can only be realized if the outstanding bonds are refunded. Delaying the refunding will result in lost opportunities for savings and could also result in higher refinancing rates. Therefore, moving forward with this refinancing is time sensitive.

Refunding the 2005 TARBs could generate $792,421 annual savings for a total of $6.3 million which benefits the taxing entities identified in the table below. The upfront, or present value, savings would be $6.0 million which is 14% of the refinanced principal. All costs associated with the refunding will be incorporated and paid by the bond proceeds of the new issue.

Of these savings, the City of Fullerton will be allocated 15.78% (illustrated in the table below) realized at either an annual savings amount of $125,075 or a present value savings amount of $948,506.

Below is a summary of the potential savings each taxing entity would receive through their allocated redevelopment property tax trust fund (RPTTF) distribution based on a total annual estimated savings amount of $6.3 million and total estimated present value savings of $6.0 million.

RPTTF Distribution to ATEs	% of Distribution	Annual Savings	Total Savings	Present Value Savings
City of Fullerton	**15.78%**	**125,075**	**1,000,597**	**948,506**
Counties	6.12%	48,523	388,181	367,972
Special Districts	7.67%	60,804	486,433	461,109
K-12 Schools	46.52%	368,655	2,949,241	2,795,705
Community Colleges	6.93%	54,940	439,523	416,642
County Office of Education	1.45%	11,455	91,639	86,868
Total ERAF	15.52%	122,969	983,751	932,537
Total	**100%**	**792,421**	**6,339,366**	**6,009,340**

Review of 2010 Lease Revenue Bonds (LRBs) Refinancing Opportunity

On December 22, 2010, the City of Fullerton issued 2010 Lease Revenue Bonds, Series A in the amount of $2,705,000. The bonds were issued as “Taxable Recovery Zone Economic Development Bonds” for the purposes of the American Recovery and Reinvestment Act of 2009 signed into law on February 17, 2009 (the “Recovery Act”). Pursuant to the Recovery Act, the City expected to receive a cash subsidy payment from the United States Treasury equal to 45% of the interest payable on or about each interest payment date. The subsidy payment is pledged under the indenture to payment of interest. Due to the federal sequestration, the subsidy was reduced about 6%.

Issuance of the debt was for the purpose of financing the acquisition and construction of certain capital improvements for the City of Fullerton and refinancing certain obligations of the City. The interest rates range from 6.50% to 7.75%. Interest and principal payments are due semiannually and annually, respectively, under the terms of the bond agreement with a final maturity date of May 1, 2031.

Issuance of debt under the Recovery Act required that the City change from leasing the golf course to entering into a management arrangement. Refinancing of this debt would lift the restriction of requiring the City to operate the golf course under a management agreement which would provide the City with flexibility in the operation of the golf course.

However, because of the prepayment cost, a refinancing is estimated to cost the City approximately $500,000 on a present value basis.

Because of the prepayment cost, refinancing the 2010 LRBs at this time is not recommended. Should there be a future benefit to re-evaluate refunding this debt issuance, a recommendation to refund the 2010 LRBs will be brought forth for City Council consideration at a future date.

<u>Attachments:</u>

- Attachment 1 – Presentation
- Attachment 2 – Draft Resolution No. 2020-XX
- Attachment 3 – City of Fullerton Debt Profile, Credit Summary, Refinancing Opportunities prepared by UFI