



# ***Agenda Report***

## ***Fullerton City Council***

**MEETING DATE:** OCTOBER 20, 2020

**TO:** CITY COUNCIL

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

**PREPARED BY:** ELLIS CHANG, DIRECTOR OF ADMINISTRATIVE SERVICES  
STEVEN AVALOS, BUDGET ANALYST

**SUBJECT:** ISSUANCE AND SALE OF 2020 REFUNDING BONDS TO REFINANCE OUTSTANDING 2013 TAXABLE JUDGMENT OBLIGATION BONDS

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### **SUMMARY**

Consideration of resolution to authorize issuance and sale of Refunding Bonds (the "2020 Bonds") to refinance outstanding 2013 Taxable Judgment Obligation Bonds (the "2013 Bonds") and approve necessary documents and authorizing certain other actions.

### **RECOMMENDATION**

Adopt Resolution No. 2020-XX.

RESOLUTION NO. 2020-XX – A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF FULLERTON, CALIFORNIA AUTHORIZING THE ISSUANCE AND SALE OF 2020 REFUNDING BONDS TO REFINANCE OUTSTANDING 2013 TAXABLE JUDGMENT OBLIGATION BONDS, APPROVING THE FINAL FORM OF RELATED FINANCING DOCUMENTS AND APPROVING OFFICIAL ACTIONS

### **BUDGET POLICY PRIORITY STATEMENT**

This item matches the following Budget Policy Priority Statement:

- Fiscal and Organizational Stability.

### **FISCAL IMPACT**

It is estimated that the issuance of the 2020 Bonds for the purpose of refunding outstanding 2013 Bonds will result in approximately \$359,000 of debt service savings

through April 1, 2033, with an average annual reduction in debt service payments of approximately \$27,000. Final savings achieved from refunding of the 2013 Bonds will be determined upon the sale of the 2020 Bonds. The Financing Team will proceed with the sale of the 2020 Bonds when market conditions are suitable as determined by the Underwriter, Hilltop Securities Inc. and recommended by the City's Municipal Advisor, Urban Futures, Inc.

## DISCUSSION

In 2013, the City of Fullerton issued \$7,250,000 in Taxable Judgment Obligation Bonds (the "2013 Bonds") for the primary purpose of satisfying the obligations of the City in respect of a judgment rendered on December 4, 2012, in the case of *Hanson vs. City of Fullerton*. The 2013 Bonds are currently outstanding in the amount of \$5,320,000 and can be refunded at par on any date beginning April 1, 2023. Savings can be achieved for the City's General Fund by refunding the portion of 2013 Bonds that are subject to refunding on April 1, 2023.

On February 4, 2020, Staff provided a report to City Council summarizing the City's existing debt and opportunities for refinancing. As of February 4, 2020, a refunding of the 2013 Bonds did not produce positive savings based on market conditions at the time. Since February, tax-exempt and taxable interest rates approached all-time historic lows and a refunding of the 2013 Bonds is expected to generate positive cash flow savings.

On May 5, 2020, City Council approved the agreement to retain Urban Futures, Inc. (UFI) to serve as the City's municipal advisor.

On August 18, 2020, the City approved a resolution authorizing Staff to engage the financing team members, including Bond Counsel, Disclosure Counsel and Underwriter, in order to proceed with the issuance of the 2020 Bonds for the purpose of refunding the 2013 Bonds.

The City will issue the 2020 Bonds in an aggregate principal amount sufficient to refund the 2013 Bonds. Similar to the 2013 Bonds, it is intended for the 2020 Bonds to be issued as Judgment Obligation Bonds, payable from any source of legally available funds of the City, including amounts on deposit in the General Fund. The 2020 Bonds will be issued with a true interest cost not to exceed 2.60%, which results in minimum net present value (NPV) savings of approximately 7% of refunded par, the minimum savings threshold being recommended by Staff and the Municipal Advisor (Urban Futures, Inc.).

Current market conditions do not support the desired minimum NPV savings at this time. However, Staff is still seeking City Council authorization to issue the 2020 Bonds and approval of financing documents to facilitate Staff and the Financing Team to take advantage of conditions when the market supports the minimum or greater NPV savings sought with this refunding.

### Financing Structure

The financing documents presented for approval tonight assume the 2020 Bonds would be sold as Judgment Obligation Bonds, payable from any source of legal available funds of the City. As an alternative structure, the City could pursue issuing the 2020 Bonds as Lease Revenue Bonds, whereby the City would pledge certain essential assets (i.e. City-

own building or park, etc.) as leased property. A lease revenue bond offers additional security to investors and may result in a lower interest rate. According to the Underwriter, however, it would require the City to pledge essential assets. At this time, Staff is requesting approval for documents assuming a Judgment Obligation Bonds structure.

It is also currently anticipated that the 2020 Bonds will be sold through a public sale. However, the resolution also allows for the 2020 Bonds to be sold on a private placement basis if Staff determines it is in the best interests of the City to do so. In its RFP response, Hilltop Securities, the Underwriter, provided an analysis comparing a public offering versus a private placement for the 2020 Bonds. At the time, a public sale transaction provided greater savings than a private placement. This was confirmed in August 2020 and Staff elected to move forward with a public sale offering under a judgment obligation bond structure. In response to rising taxable interest rates in the public market since August 2020, the Underwriter has solicited additional feedback on interest rates from private placement banks. The Financing Team continues to evaluate the public sale versus private placement options to determine the lowest cost financing and maximum savings the City can achieve.

Based on market conditions as of October 5, 2020, and assuming a public sale of judgment obligation bonds, it is anticipated that a refunding of the 2013 Bonds maturing in 2028 and 2033 will produce NPV savings of approximately \$303,000. Debt service savings are expected to be \$359,000 through 2033, resulting in an average annual reduction in debt service payments of approximately \$27,000. NPV savings represent the present value of savings in “today’s dollars”. The debt service savings represent the total reduction in debt service over the life of the indebtedness. The final savings levels will depend upon market conditions at the time of sale. The savings estimates below are based on a potential closing in December 2020 should market conditions support the desired savings.

<b><i>Summary of Proposed Savings<sup>1</sup></i></b>	
Refunded Bonds Amount	\$4,370,000
Current Interest Rates (on Outstanding Bonds)	5.74%
Par Amount	\$5,130,000
True Interest Cost	2.63%
Net Present Value Savings (\$)	\$303,427
Net Present Value Savings (% of Par Value Refunded)	6.94%
Average Annual Cash Flow Savings	\$27,646
Total Cash Flow Savings	\$359,399

The savings estimates assume a refunding of the 2013 Bonds that mature on April 1, 2028 and April 1, 2033, which are subject to optional redemption on April 1, 2023. The City would continue to make regular debt service payments on the portion of 2013 Bonds maturing on and before April 1, 2023.

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<sup>1</sup> Based on market conditions as of October 5, 2020 and estimates provided by Underwriter assuming a bond closing in December 2020.

Net proceeds of the 2020 Bonds will be placed into an Escrow Fund and invested in Federal Securities, in accordance with the Escrow Agreement, 2020 Bonds Indenture and the 2013 Bonds Indenture for the purpose of providing funds to refund the 2013 Bonds on April 1, 2023.

Next Steps

Staff is recommending to adopt Resolution No. 2020-XX to approve all financing documents and actions needed to authorize the issuance and sale of the 2020 Bonds, including the following substantially final form financing documents together with any changes or additions deemed advisable and approved by any "Authorized Officer". As stated previously, it is anticipated that the 2020 Bonds will be sold through a public sale. However, the resolution also allows for the 2020 Bonds to be sold on a private placement basis if Staff determines it is in the best interest of the City to do so.

The 2020 Bonds financing documents hereto attached are as follows:

- Indenture of Trust between the City and the Trustee (U.S. Bank, N.A), which sets forth the material terms and provisions relating to the 2020 Bonds and whereby the Trustee agrees to certain rights and duties related to the 2020 Bonds.
- Escrow Agreement between the City and the Escrow Agent (U.S. Bank, N.A.), containing terms by which the Escrow Agent will hold the 2020 Bond proceeds on behalf of the owners of the 2013 Bonds to pay and discharge the Prior Bonds on the redemption date and give proper notice to the owners.
- Bond Purchase Agreement between the City and the Underwriter (Hilltop Securities), pursuant to terms and provisions of which the 2020 Bonds will be sold with a negotiated method of sale, such terms and provisions including a true interest cost of the 2020 Bonds not to exceed 2.60% and the underwriter's discount not to exceed 0.7% of the par amount of the 2020 Bonds.
- Preliminary Official Statement (POS) which will be distributed to prospective purchasers of the 2020 Bonds that must contain all facts material to the 2020 Bonds and the City (with certain permitted exceptions to be completed in the final Official Statement) and must not omit any material facts. The POS is required to satisfy the City's obligation under federal securities laws to provide material information to potential purchasers of the 2020 Bonds and must be accurate and complete in all material respects.
- Continuing Disclosure Certificate delivered by the City for the benefit of owners of the 2020 Bonds and in order to assist the Underwriter in complying with Rule 15c2-12(b)(5), adopted by the Securities and Exchange Commission. This document describes various annual and period reporting and disclosure obligations of the City while the 2020 Bonds are outstanding, as required by federal securities laws.

If approved, Staff will assess the next steps based on market conditions in November 2020. If market conditions are favorable to sell the 2020 Bonds as Judgment Obligation Bonds in the public market, the Financing Team will proceed with the documents being approved tonight, obtain a credit rating from Standard & Poor's and take necessary steps to price and close the 2020 Bonds. If savings remain below the 7% threshold, the

Financing Team will monitor the market and move forward at a time when market conditions are more favorable. Staff may elect to proceed with a lease revenue bonds structure for purposes of enhancing savings. A change in the legal documents to sell lease revenue bonds would require City Council approval should this occur.

Attachments:

- Attachment 1 – PowerPoint Presentation
- Attachment 2 – Resolution No. 2020-XX
- Attachment 3 – Indenture of Trust
- Attachment 4 – Escrow Agreement
- Attachment 5 – Bond Purchase Agreement
- Attachment 6 – Preliminary Official Statement
- Attachment 7 – Continuing Disclosure Certificate