



CITY OF SANTA BARBARA SANTA BARBARA FINANCING AUTHORITY AGENDA REPORT

AGENDA DATE: May 7, 2013

TO: Mayor and Councilmembers
Board of Directors, Santa Barbara Financing Authority

FROM: Administration Division, Finance Department
City Attorney's Office

SUBJECT: 2013 Water Revenue Refunding Certificates Of Participation

RECOMMENDATION:

- A. That the Board adopt, by reading of title only, A Resolution of the Board of Directors of the Santa Barbara Financing Authority Authorizing the Execution and Delivery by the Santa Barbara Financing Authority of an Installment Sale Agreement and a Trust Agreement in Connection With the Execution and Delivery of City of Santa Barbara Water Revenue Refunding Certificates of Participation, Series 2013, Authorizing the Execution and Delivery of Such Certificates Evidencing Principal in an Aggregate Amount of Not to Exceed \$30,000,000, and Authorizing Related Actions; and
- B. That Council adopt, by reading of title only, A Resolution of the City Council of the City of Santa Barbara Authorizing the Execution and Delivery by the City of an Escrow Agreement in Connection With the Execution and Delivery of City of Santa Barbara Water Revenue Refunding Certificates of Participation, Series 2013, Approving a Notice of Intention to Sell and Authorizing the Distribution of an Official Notice of Sale in Connection with Authorizing the Execution and Delivery of Such Certificates Evidencing Principal in an Aggregate Amount of Not to Exceed \$30,000,000, Authorizing the Distribution of a Preliminary Official Statement in Connection Therewith, and Authorizing Related Actions.

EXECUTIVE SUMMARY:

Over the last several months, City staff from the Finance Department, Public Works Department and the City Attorney's Office have been evaluating the feasibility and merits of refinancing certain long-term debt of the Water Fund to capitalize on the historically low interest rate environment, thereby lowering its overall debt service costs.

After considerable effort, staff is now prepared to move forward with the sale of Water Revenue Refunding Certificates of Participation (COPs), scheduled for late May. On April 16, 2013, the City Council took its first action towards the sale of Water COPs with

the adoption of an ordinance approving an Installment Sale Agreement, Trust Agreement and Continuing Disclosure Agreement. The next step is today's adoption by the City Council and the Board of Santa Barbara Financing Authority of resolutions authorizing the sale of Water COPs.

The Santa Barbara Financing Authority ("Authority") is a joint power authority created under state law between the City and the Redevelopment Agency of the City of Santa Barbara (RDA). The Authority was originally formed in 2002 in connection with the 2002 Water COPs and was used most recently in the sale of the 2009 Airport Revenue Bonds that were used to fund the construction of the recently completed airline terminal. With the dissolution of the RDA, the Successor Agency will assume the role of the former RDA, which is permissible and specifically provided for in the legislation that eliminated RDAs statewide. The Authority will be entity issuing the Water COPs.

With today's adoption of the two companion resolutions, the City will be able to solicit offers from prospective investment bankers for the sale of COPs in amount not exceed \$30 million, the proceeds of which will be used to retire the existing 2002 Water Refunding Certificates of Participation. The actual amount of COPs sold is dependent upon whether the prepayment of the 2003 State Revolving Fund loan is included in the transaction, as further discussed below.

DISCUSSION:

Summary of Existing Debt and Proposed Prepayments

As of June 30, 2012, the Water Fund had a total of \$50,031,313 in outstanding long-term debt as shown in the table below:

Description of Debt	Balance as of June 30, 2012
1994 Water Revenue Bonds	\$ 2,065,000
2002 Refunding COPs	11,095,000
2002 State Revolving Loan - Cater	12,622,653
2003 State Revolving loan – Sheffield	15,553,279
2010 State Revolving Loan – Cater/Ortega	8,695,381
Total	<u>\$ 50,031,313</u>

The primary purpose of issuing Water Bonds is to prepay all outstanding 2002 Refunding Certificates of Participation (COPs) which have interest rates ranging from 4.25% to 5.125% and a maturity date of September 2026. Although interest rates and general market conditions change daily, prepaying the 2002 COPs is estimated to generate cash flow savings of approximately \$1.6 million over the remaining term, more than \$150,000 per year.

Staff may also include in this bond transaction the prepayment of the outstanding 2003 State Revolving Fund (SRF) Loan, which has an interest rate of 2.793%. Since the interest rate is already low, the prepayment of this loan will be strictly dependent upon the market conditions at the time we go to market with the bond offering.

On a related but separate track, staff will be prepaying the outstanding 1994 Water Revenue Bonds from cash reserves in the Water Fund. The interest rates range from 4.3% to 4.8%. As of the current date, the balance on these bonds is \$1,425,604. After applying bond reserves held by the trustee for the benefit of the bondholders, the payoff amount is \$647,814. Since the Water Fund has more than sufficient reserves above policy requirements, prepaying the 1994 bonds and thus foregoing the interest costs is financially prudent.

It is unlikely that any significant savings could be realized from the prepayment of the 2002 SRF Loan. Therefore, it is not part of the proposed bond sale. Staff and its consultants have received initial approval from the Department of Water Resources to retain the subordinate status of the 2002 SRF Loan to the 2013 Refunding Certificates which would help the Water Fund meet required debt coverage ratios on existing parity debt.

The 2010 SRF loan carries an interest rate of 2.5% and is still an active loan in that construction is still underway and the fully authorized loan of \$29.92 million has not been fully drawn down. Therefore, this loan will not be included in bond deal.

Financing Structure

To facilitate the prepayment of the 2002 Refunding COPs, and potentially the 2003 SRF Loan, the bonds will be sold as “certificates of participation” secured by installment payments to be made by the City to the Santa Barbara Financing Authority pursuant to an Installment Sale Agreement.

The detailed financing structure is as follows:

- a. The original bonds sold by the Water Fund in 1992, which were refunded through the 2002 Water COPs, were used to finance improvements to the Water system. Similarly, the 2003 SRF Loan was used to remove a large open reservoir (Sheffield) and replaced it with two buried 6.5 MG reservoirs.
- b. The City of Santa Barbara will sell the “improvement project” to the Santa Barbara Financing Authority (Authority) for an amount not to exceed \$30 million. The proceeds of this sale will be used by the City to prepay the 2002 Water COPs and potentially the 2003 SRF Loan.

- c. The Authority will concurrently sell back to the City the “improvement project” under an Installment Sale Agreement. Pursuant to that Agreement, the Water Fund will make annual installment payments to the Authority in amounts corresponding to the debt service requirements on the new 2013 Water Refunding COPs.
- d. The Authority will make the annual debt service payments funded from the installment payments received from the City.

This type of financing structure is very common, particularly for enterprise-type operations. A similar financing structure was used in connection with the sale of the 2002 Water Refunding COPs.

Adoption of Authorizing Resolutions

The resolutions subject to adoption by Council and the Authority contained in this agenda report are required documents to authorize the sale of bonds. Since both the City and the Santa Barbara Financing Authority are part of the transaction, a separate resolution is needed for each and each will approve its respective resolution.

Because of the financing structure, the resolutions contain items unique and necessary to the City as well as the Financing Authority. A summary of the resolutions proposed for adoption is provided below.

Santa Barbara Financing Authority Resolution

1. Approve the Installment Sale Agreement in aggregate principal amount not to exceed \$30 million.
2. Approve the *form* of the Trust Agreement (the Trust Agreement was approved by the City Council by adoption of Ordinance No. 5616 on April 16th, 2013).
3. Authorize the Executive Director and Treasurer to execute all documents, and to make necessary changes for the sale of the certificates of participation.

City of Santa Barbara Resolution

1. Authorize the execution and delivery of the Certificates in an amount not to exceed \$30 million.
2. Approve the *form* of the Escrow Agreement for the escrow account to be used to hold the proceeds of the new 2013 Water COPs until the redemption date of the 2002 Water COPs, at which time the outstanding COPs will be fully retired.
3. Approve the Notice of Intention to Sell, which will be used to advertise the City’s intent to sell bonds to prospective bidders.

4. Authorize the approval and distribution of the Official Notice of Sale by an authorized officer (City Administrator or Finance Director). The Notice of Sale will set forth the date and time that bids will be received as well as other items of the sale.
5. Authorize the approval and distribution of the Preliminary Official Statement, which is the official offering document and prospectus.

Next Steps

With adoption of the resolutions by the City and Santa Barbara Financing Authority, City staff, led by its financial advisor, will proceed with the planned sale of 2013 Water Revenue Certificates of Participation, scheduled for May 22, 2013.

The sale of the certificates will be done through a competitive bid process, which means the bidder offering the lowest total interest costs, who otherwise meets all other requirements specified in the offering documents, will be awarded the contract. The bidders are typically large investment bankers who purchase the entire lot of certificates for subsequent marketing and sale to individual and institutional investors.

At the time of the sale, based on the market conditions, staff and its financial advisors will determine whether the prepayment of the 2003 SRF Loan will be included in the transaction. This decision will be made strictly on price; that is, whether prepayment will generate any real interest savings, factoring in any incremental costs that would be incurred if they were included.

A detailed report of this item will be presented to the Finance Committee on the same day that this item is presented to Council, May 7, 2013, at 11:30 a.m. in the David Gebhard Room, located at 630 Garden Street.

BUDGET AND FINANCIAL IMPACTS:

The prepayment of the 2002 Water COPs is currently estimated to generate debt service savings to the Water Fund of approximately \$1.6 million over the remaining fifteen year term of the debt. Any savings on refunding the 2003 loan would add to those estimated savings. These savings are net of any transaction costs associated with the sale of the new 2013 Water Revenue Certificates of Participation, including bond counsel/disclosure fees, financial advisor fees, and other related costs. These costs will be paid out of the COP proceeds, and therefore have no budget impact.

The overall transaction will ultimately impact amounts budgeted for debt service on the new debt as well as remaining debt. Once these final numbers have been determined, staff will return to Council when and if appropriate to adjust the Water Fund budget for any adjustments needed to budgeted debt service costs.

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SUBMITTED BY: Bob Samario, Finance Director
Sarah J. Knecht, Deputy City Attorney

APPROVED BY: City Administrator's Office



CITY OF SANTA BARBARA

Water Enterprise Fund



Proposed Sale of Refunding Certificates of Participation
May 7, 2013

WATER REFUNDING COPs Bond Financing Team

◆ City Staff

- Rebecca Bjork, Water Resources Manager
- Michele DeCant, PW Business Manager
- Sarah Knecht, Assistant City Attorney
- Bob Samario, Finance Director

◆ Financial Advisors (KNN)

- Marian Breitbart, Vice President
- David Brodsly, Managing Director

◆ Bond/Disclosure Counsel (OH&S)

- Bill Bothwell, Partner
- Kevin Hale, Attorney



BACKGROUND

- ◆ Extremely low interest rate environment
- ◆ Existing debt reviewed for opportunities to reduce interest costs
- ◆ Opportunities exist:
 - Water Fund
 - 2002 Water Refunding COPs
 - Perhaps the 2003 State Revolving Loan

SUMMARY OF EXISTING DEBT

Water Fund

Outstanding Debt as of June 30, 2012

	Amount	MADs	Maturity
1994 Water Revenue Bonds ⁽¹⁾	\$ 2,065,000	\$ 738,400	9/1/2014
2002 Refunding COPs	\$ 11,095,000	1,065,339	9/1/2026
2002 SRF-Cater (Subordinate)	\$ 12,622,653	1,144,246	7/1/2025
2003 SRF-Sheffield	\$ 15,553,279	1,311,870	1/1/2027
2010 SRF ⁽²⁾	\$ 8,695,381	1,910,480	2035
Total	\$ 50,031,313	\$ 6,170,335	

⁽¹⁾ Called with cash on hand May 2013

⁽²⁾ Funding agreement for maximum of \$29,283,000 at 2.5017%

⁽³⁾ CCWA debt of approximately \$1.7M/year expected to be paid off in 2023 per CCWA budget

DEBT BEING CONSIDERED IN REFUNDING

- ◆ 2002 Refunding COPs
 - Current Interest Rates of 4.25% - 5.125%
 - Maturity Date of September 2026
 - Debt service savings of ~\$1.6 million over remaining 13 years (\$150,000/yr)
 - Net of transaction costs
- ◆ 2003 State Revolving Loan (May be Refunded)
 - Interest rate of 2.793%
 - Maturity date of January 2027
 - Savings unknown

APPLICABLE STATE LAW & CHARTER PROVISIONS

- ◆ General Obligation Bonds
 - Considered “Indebtedness”
 - Requires 2/3 vote and tax levy
- ◆ Enterprise Fund Revenue Bonds
 - State law does not require voter approval
 - However, City Charter requires majority vote approval
- ◆ Enterprise Fund Certificates of Participation
 - A form of municipal security, nearly identical to a “bond”
 - Technically, represents an interest in an installment purchase/sales agreement
 - Does not require voter approval

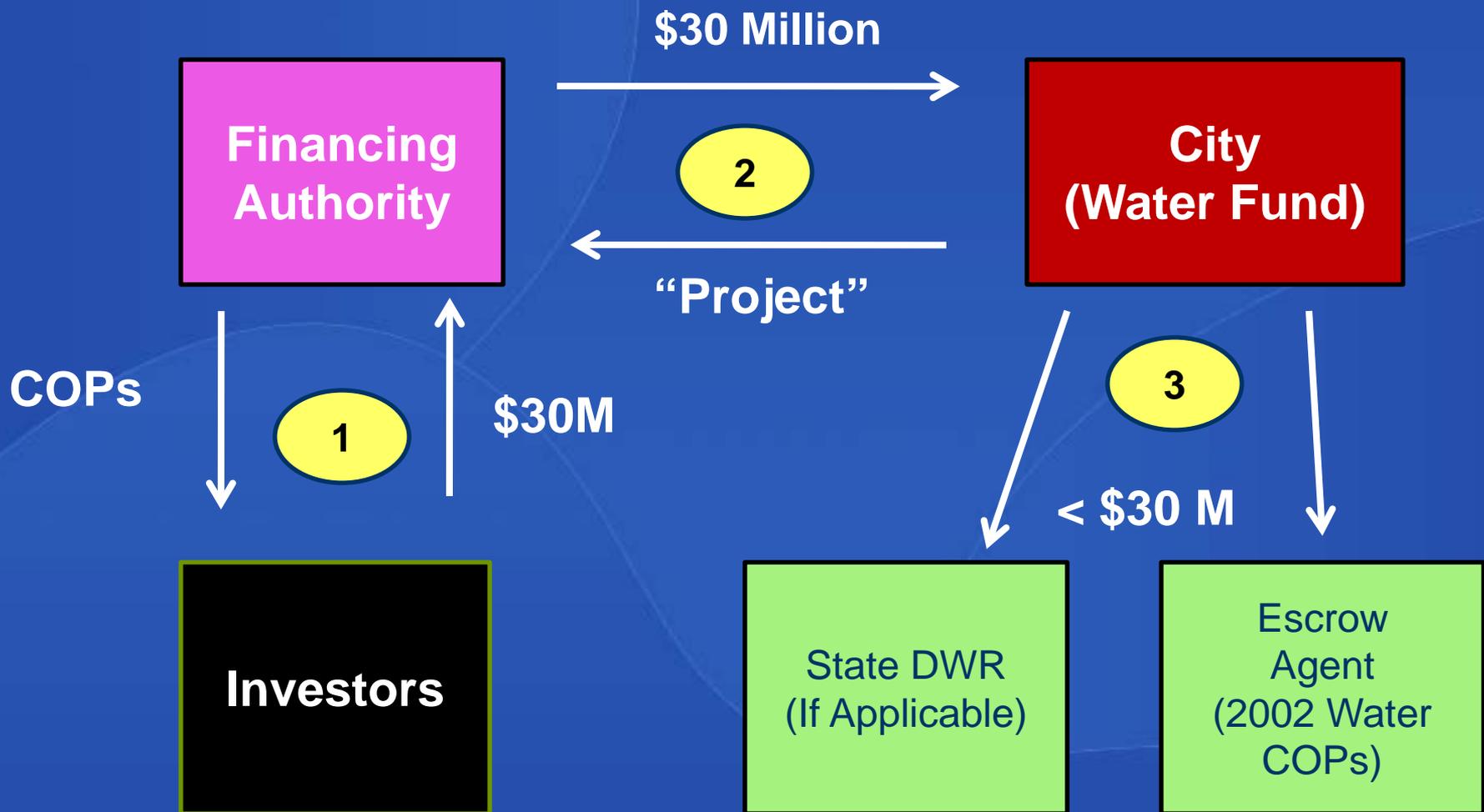
FINANCING STRUCTURE

Installment Sales Requirements

- ◆ Issuance of Certificates of Participation requires the execution of an installment sale agreement between two parties:
 - The City and the Santa Barbara Financing Authority
- ◆ Santa Barbara Financing Authority
 - Joint Powers Authority
 - Formed in 2002 in connection with the 2002 Water COPs
 - Originally made up of the City and the City's RDA
 - Under the RDA dissolution laws, Successor Agencies are allowed to assume the role of the former RDA

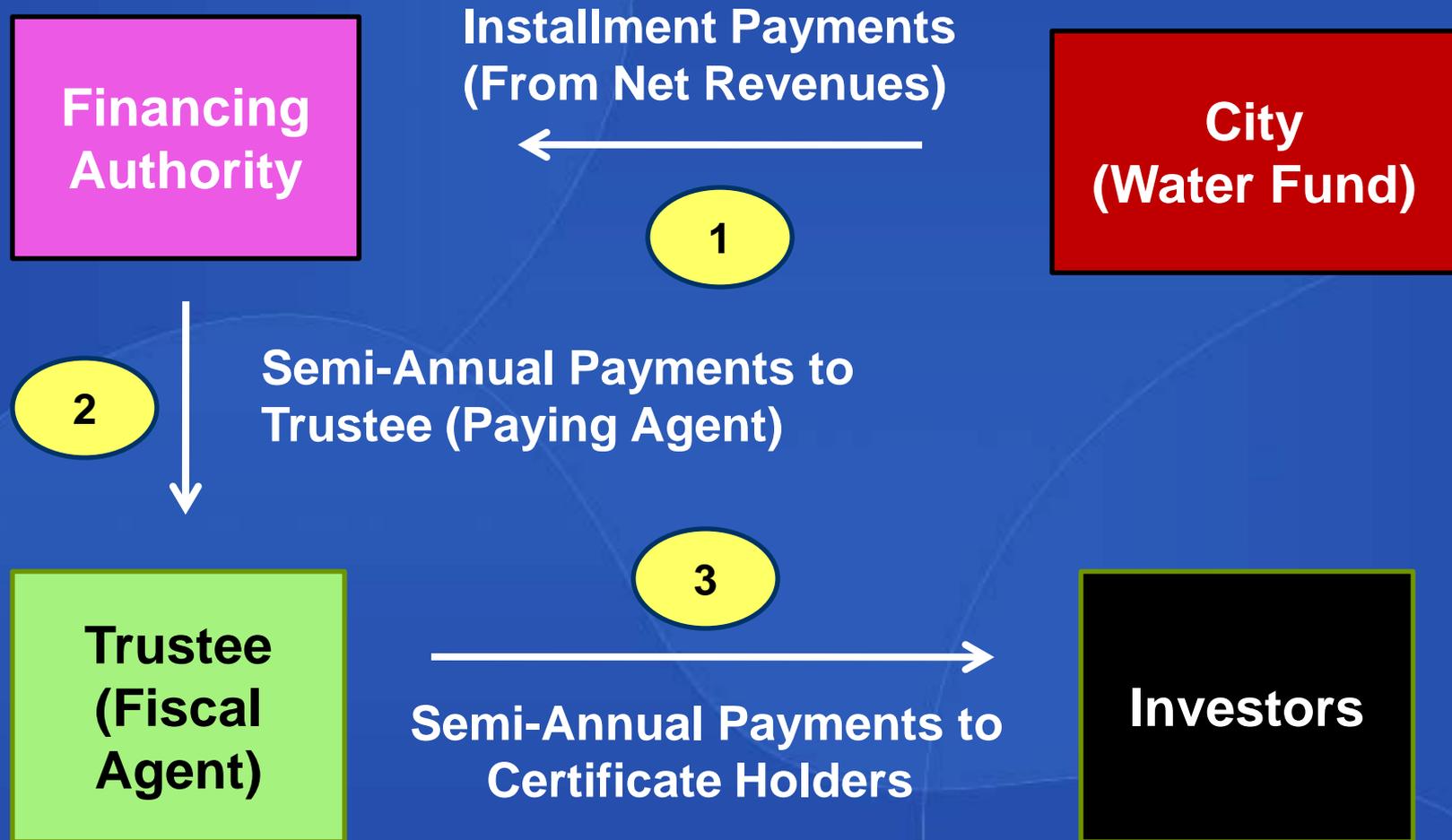
FINANCING STRUCTURE

Flow of Funds - Initial Sale



FINANCING STRUCTURE

Flow of Funds – Installment Pmts.



FINANCING STRUCTURE

Execution of Installment Sale Agmt.



NEXT STEPS

Date	Activity	Responsibility
Wednesday, May 8 (?)	Receive ratings	City, KNN
Tuesday, May 7	City Council approves financing	City
Thursday, May 16	Print/post POS	OH&S
Wednesday, May 22	Sell Bonds	City, KNN
Tuesday, June 11	Close Bonds	All



QUESTIONS...