



CITY OF SANTA BARBARA SANTA BARBARA FINANCING AUTHORITY AGENDA REPORT

AGENDA DATE: November 22, 2016

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

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

SUBJECT: 2016 Sewer Revenue Refunding Bonds

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 Authority of an Installment Sale Agreement and a Trust Agreement in Connection With the Execution and Delivery of Santa Barbara Financing Authority Sewer Revenue Refunding Bonds, Series 2016; Authorizing the Execution and Delivery of Such Bonds in the Principal of not to Exceed \$13,500,000 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 Distribution of an Official Notice of Sale and Official Statement in Connection with the Delivery and Sale of Santa Barbara Financing Authority Sewer Revenue Refunding Bonds, Series 2016; and Authorizing Related Actions.

DISCUSSION:

Over the last several months, 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 Wastewater Fund to capitalize on the historically low interest rate environment, thereby lowering its overall debt service costs.

Staff is now prepared to move forward with the sale of Sewer Revenue Refunding Bonds (Bonds), scheduled for early December 2016. On October 18, 2016, the City Council took its first action towards the sale of Bonds with the adoption of an ordinance approving an Installment Sale Agreement, Trust Agreement and Continuing Disclosure Agreement. The next step is today's adoption of resolutions by the City Council and the Board of Santa Barbara Financing Authority authorizing the sale of Sewer Bonds.

The Santa Barbara Financing Authority (“Authority”) is a joint powers authority created under state law between the City and the former Redevelopment Agency of the City of Santa Barbara (RDA). The Authority was originally formed in 2002 in connection with the 2002 Water Certificates of Participation (COPs) and was used most recently in the sale of the 2013 Water Refunding COPs. 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 Sewer Bonds.

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 bonds in amount not exceed \$13.5 million, the proceeds of which will be used to retire the existing 2004 Sewer Revenue Bonds.

Financing Structure

To facilitate the prepayment of the 2004 Sewer Revenue Bonds, the new bonds will be secured by installment payments to be made by the City through the Wastewater Fund to the Santa Barbara Financing Authority pursuant to an Installment Sale Agreement.

The detailed financing structure is as follows:

- a. The City will sell the “improvement project” to the Authority for an amount not to exceed \$13.5 million. The proceeds of this sale will be used by the City to prepay the 2004 Sewer Bonds.
- b. The Authority will concurrently sell back to the City the “improvement project” under an Installment Sale Agreement. Pursuant to that Agreement, the Wastewater Fund will make annual installment payments to the Authority in amounts corresponding to the debt service requirements on the new 2016 Sewer Revenue Refunding Bonds.
- c. 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 2013 Water Refunding Certificates of Participation.

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 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 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 \$13.5 million (the Installment Sale Agreement was approved by the City Council by adoption of Ordinance No. 5772 on October 18, 2016).
2. Approve the *form* of the Trust Agreement.
3. Authorize the Executive Director and Treasurer to execute all documents, and to make necessary changes for the sale of the bonds.

City of Santa Barbara Resolution

1. Approve the Notice of Sale, which will be used to advertise the City's intent to sell bonds to prospective bidders and authorize its distribution.
2. Approve the Official Statement and in connection with the delivery and sale of the revenue bonds.
3. Authorize the City Administrator and Finance Director to execute all documents, and make necessary changes for the sale of the bonds.

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 2016 Sewer Revenue Refunding Bonds, scheduled for early December 2016.

The sale of the bonds will be done through a competitive bid process, which means the bidder offering the lowest total interest costs, and 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.

A detailed report of today's recommended Council action will first be presented to the Finance Committee at 12:30 p.m. on November 22, 2016 in the David Gebhard Room, located at 630 Garden Street.

A copy of the Preliminary Official Statement and Notice of Sale will be available for review in the City Clerk's Office.

BUDGET AND FINANCIAL IMPACTS:

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 Wastewater Fund budget for any adjustments needed to budgeted debt service costs.

PREPARED BY: Robert Samario, Finance Director

SUBMITTED BY: Robert Samario, Finance Director
Sarah J. Knecht, Assistant City Attorney

APPROVED BY: City Administrator's Office