



Legislation Text

File #: 21-0333, **Version:** 1

TO:

Honorable Mayor and Members of the City Council

THROUGH:

Bruce Moe, City Manager

FROM:

Steve Charelian, Finance Director
Julie Bondarchuk, Financial Controller
Libby Bretthauer, Financial Services Manager

SUBJECT:

Consideration of a Resolution Approving the Issuance of Refunding Certificates of Participation Not-to-Exceed \$8.0 Million to Refinance Outstanding Metlox and Water/Wastewater Certificates of Participation and Related Documents (Finance Director Charelian).

ADOPT RESOLUTION NO. 21-0104

RECOMMENDATION:

Staff recommends that the City Council adopt Resolution No. 21-0104 approving the issuance of Refunding Certificates of Participation to Refinance Outstanding Certificates of Participation and approving the execution and delivery of related documents. Resolution No. 21-0104 approves a Site and Facilities Lease, a Lease Agreement, a Trust Agreement, a Certificate Purchase Contract, an Escrow Agreement, an Official Statement, a Continuing Disclosure Certificate; and authorizes the taking of certain actions in connection with the issuance of Refunding Certificates of Participation in an amount not to exceed \$8 million.

FISCAL IMPLICATIONS:

The City's Certificates of Participation (Metlox and Water/Wastewater Refunding) Series 2012 (2012 COPs) are currently outstanding in the principal amount of \$7,695,000, of which \$6,985,000 is callable starting January 1, 2022. The 2012 COPs are eligible for a tax-exempt refunding 90 days before the call date at the earliest and in the current market, may be refinanced for debt service savings.

A preliminary refunding analysis indicates total budget savings of approximately \$680,000 or average annual savings of \$68,000. The net present value savings is approximately \$639,000 or 8.3% of the refunded 2012 COPs.

BACKGROUND:

On October 18, 2021, the Finance Subcommittee was presented with this refunding opportunity. It was recommended to proceed based on the estimated savings.

DISCUSSION:

The City's Certificates of Participation (Metlox and Water/Wastewater Refunding) Series 2012 (2012 COPs) are currently outstanding in the principal amount of \$7,695,000, of which \$6,985,000 is callable starting January 1, 2022. The 2012 COPs are eligible for a tax-exempt refunding 90 days before the call date at the earliest and in the current market, may be refinanced for debt service savings.

In order to refinance the 2012 COPs, a new series of Refunding Certificates of Participation (2021 Refunding COPs) will be issued as a General Fund lease. In consultation with Bond Counsel, the Underwriter (BofA Securities, Inc.) and Municipal Advisor, it was determined that it is advantageous to issue the 2021 Refunding COPs pursuant to a lease related to City Hall. This property, along with Parking Lot #3, currently serves as the leased assets securing the 2012 COPs. Given the lower borrowing amount of the 2021 Refunding COPs, Parking Lot #3 can be released as an asset.

Issuing the 2021 COPs under the City Hall lease results in the COPs being more attractive to investors since the City is pledging an essential facility as collateral. In doing so, investors are reassured that the City will continue to make lease payments in order to retain the use of the facility, and in turn, are willing to accept a lower yield, resulting in a lower cost of borrowing for the City. As a result, the documents presented for City Council and Capital Improvements Corporation approval reflect that structure.

A preliminary refunding analysis indicates total budget savings of approximately \$680,000 or annual savings of \$68,000. The net present value savings is approximately \$639,000 or 8.3% of the refunded 2012 COPs. The saving are based on historic low interest rates, the true interest rate for the refunding is estimated at 1.13%.

Several documents require Council and/or Capital Improvements Corporation approval in order to move ahead with this refinancing. In the interest of source reduction, all of the documents, regardless of whether approved by one or both entities, are presented once within this staff report. A brief description of each document is listed as well.

Resolution No. 21-0104

If adopted, the City resolution approves the documents (Trust Agreement, Site and Facilities Lease, Lease Agreement, Escrow Agreement, Certificate Purchase Contract, Official Statement, and Continuing Disclosure Certificate) and authorizes the execution and delivery of COPs for the refunding of outstanding certificates of participation.

Capital Improvements Corporation Resolution No. CIC-11

(If adopted by the Capital Improvements Corporation ("CIC") later this evening, the CIC resolution approves the documents (Trust Agreement, Site and Facilities Lease, Lease Agreement, Escrow Agreement, Certificate Purchase Contract, Assignment Agreement) and authorizes the execution and delivery of COPs for the refunding of outstanding certificates of participation.

Trust Agreement

This document establishes/continues the City's existing relationship with U.S. Bank as trustee to encompass the 2021 Refunding COPs. U.S. Bank will be responsible for receiving proceeds of the 2021 Refunding COPs and distributing funds, handling on-going principal and interest payments, as well as other expenses associated with the 2021 Certificates of Participation. (Executed by City and

Capital Improvements Corporation)

Site and Facilities Lease

This agreement leases City Hall from the City to the City's Capital Improvements Corporation to encompass the 2021 Refunding COPs. (Executed by City and Capital Improvements Corporation)

Lease Agreement

This agreement leases the property from the City's Capital Improvements Corporation back to the City. This establishes the framework for lease payments to be made by the City to the Capital Improvements Corporation. The Capital Improvements Corporation assigns these lease payments to the Trustee, who then pays the investors (in practice, the actual payments are made directly from the City to the Trustee - see the Assignment Agreement below). (Executed by City and Capital Improvements Corporation)

Escrow Agreement

This agreement establishes U.S. Bank as escrow agent to hold funds in escrow in an amount sufficient to redeem the 2012 COPs on the call date. U.S. Bank is also directed to provide timely notice of prepayment to the holders of the 2012 COPs. (Executed by City)

Certificates Purchase Contract

This agreement is among the Underwriter (BofA Securities, Inc.), the City, and the Capital Improvements Corporation whereby BofA Securities, Inc. agrees to purchase the 2021 Refunding COPs from the City for marketing purposes. (Executed by City and Capital Improvements Corporation)

Official Statement

This document is used to market the 2021 Refunding COPs and includes demographic, financial and other information about the City. Under federal securities laws, this document must contain all relevant information relating to the financing and to City finances generally that would be material to investors. For approval purposes, the statement is preliminary, subject to minor modifications. (Executed by City and Capital Improvements Corporation)

Assignment Agreement

This document assigns the rights of the Capital Improvements Corporation to receive lease payments from the City pursuant to the lease agreement directly to the Trustee (U.S. Bank). (Executed by Capital Improvements Corporation only; the CIC will consider approving this agreement upon its consideration of CIC Resolution CIC No. 11.)

Continuing Disclosure Certificate

This document, executed by the City, includes a list of annual City reporting requirements and events that, if they were to occur, would require disclosure during the life of the 2021 Refunding COPs.

Good Faith Estimates

In compliance with SB 450, the City has obtained from its Municipal Advisor good faith estimates of total costs to be incurred by the City in connection with the 2021 Refunding COPs. The estimates are an attachment to this report.

Copies of all of the documents have been included with this report. These documents are in

substantially final form; however, minor modifications may need to be made during the course of the financing including the final terms of the pricing subject to the thresholds included in the Resolution. By adopting Resolutions 21-0104 (and CIC-11) the City Council (and Board of Directors) authorize the Mayor (President) and City Manager (Chief Administrative Officer) to negotiate those changes, and execute the final versions of the agreements when in final form. All final documents will be approved as to form by the Special Counsel. If the financing is approved, the documents will be finalized with the sale of the certificates of participation expected to take place in late November, subject to market conditions.

Marketing of Certificates of Participation

As has been approved by City Council for recent debt issuances, staff has included BofA Securities, Inc. as the underwriter. BofA Securities, Inc. has retail and institutional marketing channels, which will ensure a successful sale of the 2021 Refunding COPs. In addition to the usual channels, BofA Securities, Inc. will place an advertisement in The Beach Reporter to notify residents of the opportunity to purchase the 2021 Refunding COPs. In past City bond sales, this approach has generated a high degree of interest among residents.

Capital Improvements Corporation

The Manhattan Beach Capital Improvements Corporation was formed in 1996 to facilitate the execution and delivery of COPs for improvements to the water and wastewater systems (which were refunded in 2012). The Capital Improvements Corporation was also the conduit for the Marine Sports Field COPs in 2002 (refunded in 2016), the Metlox Public Improvements in 2003 (also refunded in 2012), the original Police & Fire Facility financing in 2004 (refunded in 2013), and the Fire Station #2 financing in 2021.

On the agenda this evening is a meeting of the City's Capital Improvements Corporation. That meeting is an integral part of the approval process. Please refer to the associated staff report for that agenda item.

Rating

Staff has requested a rating from Standard and Poor's (S&P) for this issue. The actual rating is expected to be received by November 15th in advance of marketing the 2021 Refunding COPs. With the City's maintenance of a Triple-A General Obligation (G.O.) Bond rating from S&P, the expected rating of this issue is AA+. It is standard that COPs, which are not backed by the City's general taxing authority, are rated one level below the G.O. rating, which places this at the AA+ level. Staff will advise the City Council upon receipt of the rating from S&P.

PUBLIC OUTREACH:

After analysis, staff determined that public outreach was not required for this issue.

ENVIRONMENTAL REVIEW:

The City has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that the activity is not a "Project" as defined under Section 15378 of the State CEQA Guidelines; therefore, pursuant to Section 15060(c)(3) of the State CEQA Guidelines the activity is not subject to CEQA. Thus, no environmental review is necessary.

LEGAL REVIEW:

The City Attorney has reviewed this report and determined that no additional legal analysis is

necessary. Bond Counsel has prepared the draft resolution and approved it as to form.

ATTACHMENTS:

1. Resolution No. 21-0104
2. CIC Resolution No. CIC-11
3. Trust Agreement
4. Site and Facilities Lease
5. Lease Agreement
6. Escrow Agreement
7. Certificates Purchase Contract
8. Official Statement
9. Assignment Agreement
10. Continuing Disclosure Certificate
11. Good Faith Estimates