



## **STAFF REPORT TO THE CITY COUNCIL**

**DATE:** Regular Meeting of November 12, 2019

**TO:** Members of the City Council

**SUBMITTED BY:** Edwin Gato, Director of Finance

**SUBJECT:** Approval of City of Hercules Assessment District No. 2005-1 (John Muir Parkway) Limited Obligation Improvement Bonds Refinancing and Related Actions

### **RECOMMENDED ACTION:**

1. Adopt a Resolution of the City Council of the City of Hercules Declaring its Intention to Levy Reassessments and to Issue Refunding Bonds; and
2. Adopt a Resolution of the City Council of the City of Hercules Authorizing the Issuance of Refunding Bonds and Approving and Authorizing Related Documents and Actions; and
3. Adopt a Resolution of the City Council of the City of Hercules Adopting a Reassessment Report, Confirming and Ordering the Reassessment by Summary Proceedings and Authorizing and Directing Related Actions.

### **FISCAL IMPACT OF RECOMMENDATION:**

The 2019 Refunding Bonds are payable solely from Reassessment amounts collected from property owners in the Reassessment District; therefore, there is no cost to the City of Hercules relating to the proposed issuance of the 2019 Refunding Bonds. Property owners within the District are estimated to save a range of \$157 to \$183 per residential parcel and \$3,280 per the mix-used parcel annually from 2021 through 2035. The net present value of savings is \$544,029 (17.78% on \$3,060,000 of bonds outstanding). The estimated savings are net of all financing costs.

In accordance with California Government Code Section 5852.1, good faith estimates are provided with respect to the 2019 Refunding Bonds in Appendix A.

### **DISCUSSION:**

#### **Background**

On January 25, 2005, the City formed Assessment District No. 2005-1 (John Muir Parkway). On July 27, 2005, the City issued Limited Obligation Improvement Bonds that are secured by

assessments levied on parcels within the Assessment District. The Bonds were issued to fund a portion of the costs of certain public improvements associated with the Bayside and Muir Pointe developments, costs related to the bond issuance, and a debt service reserve fund. The public improvements that are of special benefit to property within the boundaries of the District and that were authorized to be financed by the District consisted primarily of road, bridge, storm drain, sewer, water, and miscellaneous improvements to John Muir Parkway, generally located from Alfred Nobel Drive on the east, westerly to the westerly boundary of the Muir Pointe subdivision.

The assessment lien associated with the Muir Pointe development north of John Muir Parkway has been paid off. The Bonds associated with the unpaid assessments on parcels within the District were issued in the original principal amount of \$6,550,345, have interest rates ranging from 4.85% to 5.10%, have a final maturity of September 2, 2035, and are currently callable on any Interest Payment Date (September 2 or March 2, with the next call date on March 2, 2020) without premium. The principal amount of Bonds currently outstanding is \$3,060,000.

Municipal bond rates are currently near historical lows; and refunding all the outstanding Assessment District No. 2005-1 (John Muir Parkway) Limited Obligation Improvement Bonds will achieve savings for property owners within the District by reducing the remaining annual debt service payments.

The proceedings for the reassessment and refunding will be conducted pursuant to the Refunding Act of 1984 for 1915 Improvement Act Bonds (Division 11.5, Sections 9500 through 9707 of the California Streets and Highways Code). In order to proceed with the refunding, City Council must adopt a Resolution declaring its intent to levy reassessments and to issue refunding bonds, a Resolution authorizing the issuance of refunding bonds and approving and authorizing related documents and actions, and a Resolution adopting a Reassessment Report, confirming and ordering the reassessment by summary proceedings and authorizing and directing related actions.

### Analysis

Working with the City's Municipal Advisor (Urban Futures, Inc.), Requests for Proposals were sent out to six Bond Counsel firms and five Underwriters/Placement Agents. Three Bond Counsels and all five Underwriters/Placement Agents responded. Urban Futures, Inc. presented an evaluation of all the proposals to City staff. Ultimately, Stradling Yocca Carlson & Rauth was selected as Bond Counsel, and Hilltop Securities was selected as Underwriter/Placement Agent, based on their qualifications and lowest fee bids.

On September 13, 2019, and based on discussions with Hilltop Securities, Urban Futures prepared a memorandum for consideration by City staff, analyzing whether to proceed with a public offering or private placement for the 2019 Refunding Bonds. At the time, estimated rates indicated that a private placement would achieve higher savings and save staff time.

Hilltop then proceeded to solicit bids from 21 banks to lock the interest rate through the closing of the 2019 Refunding Bonds on December 4th. After receiving five bids on October 7th, ranging from 2.27% to 2.95%, the financing team evaluated the lowest bid against indicative public offering rates; and it was, once again, confirmed that a private placement was more economical.

The City selected Opus Bank as the purchaser of the 2019 Refunding Bonds. Opus Bank submitted the lowest bid at 2.27% and did not require onerous covenants. The Bank and the City have agreed on all the business terms and covenants reflected in the attached documents. They are ready to proceed to close the transaction after Council adoption of the three Resolutions.

Based on Opus Bank's bid, savings over the life of the bonds is \$923,680. The interest rate savings combined with the application of the cash in the Debt Service Reserve Fund for the 2005 Bonds would produce average annual cash flows savings of approximately \$61,512 from 9/2/2021 through 9/2/2035. The estimated savings are net of all financing costs. All interest rate savings generated from the proposed refinancing will be passed on to property owners within the District. The City will be reimbursed from bond proceeds for its time associated with the refinancing.

| <b><i>Summary of Savings Results for 2019 Refunding Bonds*</i></b>      |   |
|---|---|
| <b><i>Existing 2005 Bonds</i></b>                                       |   |
| Outstanding Amount  | \$3,060,000   |
| Current Interest Rates (on Outstanding Bonds)                           | 4.85 to 5.10%   |
| <b><i>2019 Refunding Bonds</i></b>                                      |   |
| Bond Amount   | \$3,026,094   |
| True Interest Cost  | 2.27%   |
| Net Present Value Savings (\$)  | \$544,029   |
| Net Present Value Savings (% of Par Value Refunded)                     | 17.78%  |
| Average Annual Savings from 2021 through 2035                           | \$61,512  |
| Average Annual Per Parcel Savings by Parcel Type from 2021 through 2035 | Mixed-Use Parcel<br>\$3,280<br><br>Residential (Tract 8853)<br>\$157<br><br>Residential (Tract 8852)<br>\$183 |

\*Preliminary, subject to change

#### Documents to be Approved

The second Resolution approves all documents and actions needed to authorize the issuance of the 2019 Refunding Bonds, including the following substantially final form financing documents together with any changes or additions deemed advisable and approved by authorized staff:

- Fiscal Agent Agreement between the City and BNY Mellon (Fiscal Agent) containing the terms of the 2019 Refunding Bonds, including payment and redemption provisions, rights and duties of the Fiscal Agent, creation of funds and accounts, application of proceeds and reassessments, remedies upon a default in the payment of the 2019 Refunding Bonds, and other related matters;
- Escrow Agreement between the City and BNY Mellon (Escrow Agent) containing terms by which the Escrow Agent will hold 2019 Refunding Bond proceeds on behalf of the

owners of the 2005 Bonds to pay and discharge these Bonds on March 2, 2020, and give proper notice to the owners;

- Placement Agent Agreement between the City and Hilltop Securities (Placement Agent) containing the description of Placement Agent services provided by Hilltop, the term of the agreement, compensation, and expense reimbursement.
- Purchaser's Term Sheet between the City and Opus Bank (Purchaser) summarizing the terms of the loan, including interest rate, repayment terms, prepayment options, debt service reserve fund requirement, closing date, and covenants including annual reporting requirements;
- Reassessment Engineer's Report prepared by Francisco & Associates (Reassessment Engineer) containing the debt service of bonds to be refunded, debt service of bonds to be issued, comparison of debt service of refunded bonds and bonds to be issued, sources and uses of funds, comparison of unpaid remaining assessment installments and proposed reassessment installments and revised remaining principal amount, auditor's reassessment roll, reassessment diagram, and certifications.

#### **ATTACHMENTS:**

1. Good Faith Estimates
2. Resolution Declaring its Intention to Levy Reassessments and to Issue Refunding Bonds
3. Resolution Authorizing the Issuance of Refunding Bonds and Approving and Authorizing Related Documents and Actions
4. Resolution Adopting a Reassessment Report, Confirming and Ordering the Reassessment by Summary Proceedings and Authorizing and Directing Related Actions
5. Fiscal Agent Agreement
6. Escrow Agreement
7. Placement Agent Agreement
8. Purchaser's Term Sheet
9. Reassessment Engineer's Report

| <i>Financial Impact</i>   |    |                |    |
|---|----|----------------|----|
| <b>Description:</b>   |    |                |    |
| <b>Funding Source:</b>  |    |                |    |
| <b>Budget Recap:</b>  |    |                |    |
| Total Estimated cost:   | \$ | New Revenue:   | \$ |
| Amount Budgeted:  | \$ | Lost Revenue:  | \$ |
| New funding required:   | \$ | New Personnel: | \$ |
| Council Policy Change: Yes <input type="checkbox"/> No <input type="checkbox"/> |    |                |    |