REPORT TO THE CITY COUNCIL

DATE: **February 7, 2017**

TITLE: **Refinancing Opportunities and Funding Options for City Hall**

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Reviewed by: **Joseph M. Tanner, Administrative Services Director**

RECOMMENDATION

1) Review staff report and comment; and
2) Direct staff to proceed with one of the identified options and return to the next regularly scheduled City Council meeting for approval

BACKGROUND

After evaluating all of the City's outstanding General Fund debt for refinancing opportunities, staff has identified several viable candidates that, based on current market conditions as of February 1, provide interest savings to the City.

In October 2004, the City issued the following bonds for the purpose of financing certain claims and cash flow deficit attributable primarily to the bankruptcy proceedings in 2001:

- $9,725,000 initial principal amount of City of Desert Hot Springs Judgment Obligation Bonds (the "2004 JOBs"); and

- $3,060,000 initial principal amount of City of Desert Hot Springs Certificates of Participation (the "2004 COPs")

After March 1, 2017, there will be $9,725,000 of principal amount outstanding of the 2004 JOBs and $1,205,000 of principal amount outstanding of the 2004 COPs (in aggregate, $10,930,000 outstanding). Both issues are eligible to be refinanced, at interest rates lower than those at the time of original issuance.

DISCUSSION

For much of last year, the interest rate environment remained at or near all-time historic low levels but is widely expected to move up in 2017 as the market anticipates faster economic growth, higher inflation, and less accommodative monetary policy compared to the past eight years. Given the existing favorable interest rate environment and potential for future interest rate volatility in the municipal market, staff has worked closely with the City's financial advisor, Urban Futures, to provide several restructuring options for the Council's review and consideration as outlined on the following page. All of the numbers below are based on market conditions as of February 1, 2017.

Proposed Restructuring Options

1. As outlined below, by refinancing both the outstanding 2004 JOBs and 2004 COPs, the City can reduce current debt payments and generate annual savings of roughly $30,000 from 2018 to 2044 (final term of existing bonds). Under this option, total payments are estimated to be reduced by approximately $826,000.
2. Alternatively, the City can maintain current debt payments but shorten the final term of the debt. While the City will not generate any savings in the near term, it can shorten the final term by approximately 2 years to 2042. Total savings (primarily realized in 2043 and 2044) will amount to roughly $1.9 million.

3. Lastly, the City can maintain current debt payments but raise approximately $540,000 in new money for capital projects. The term of the debt and the annual payments will remain the same as existing debt.

Options	Description	Final Term	New Money	Annual Savings	Total Savings	Total Payments	Annual Payments
Current	Existing Debt Service	2044	-	-	-	$20,019,938	$741,479
1	Lower Payments; Maintain Term	2044	-	**$30,606**	**$826,370**	$19,193,568	$710,873
2	Maintain Payments; Shorten Term	**2042**	-	-	$1,894,814[1]	$18,150,124	$726,005
3	Maintain Payments and Term; Cash Out	2044	**$541,691**	-	-	$19,941,678	$738,581

Note: Numbers are preliminary and based on current market conditions as of February 1, 2017
[1]Savings Realized in 2043 and 2044

The City's general fund currently does not carry an underlying credit rating. Therefore, as part of the restructuring process for any of the options outlined above, the financing team would reach out to Standard & Poor's to secure a credit rating for the City's General Fund. Due to the City's improved financial condition over the past couple of years, it is assumed that the City would be assigned an investment grade rating and the bonds would qualify for and be structured with insurance and a reserve fund policy.

A more detailed description of the financing structure will be provided at the next regularly scheduled council meeting, should council decide to select an option above and move forward.

TIMELINE
If direction to proceed with one of the options is given today, the financing team will start drafting documents and bring them back for approval on February 21. Final interest rates would be determined when the bonds are sold, which would be scheduled sometime in March, assuming that rates remain attractive. The closing would take place two weeks after the scheduled pricing. Please note that directing staff to move forward tonight with one of the options does not authorize the issuance of bonds, but merely provides direction to bring the item back to Council for approval on February 21.

FISCAL IMPACT
Ultimately, the fiscal impact to the General Fund will depend on the option Council decides to select. If Council directs staff to pursue option 1, current debt service payments are expected to decrease roughly $30,000 annually. If option 2 is selected, then debt service would remain at current levels but would shorten the final term by approximately 2 years. Lastly, if option 3 is selected, the City would maintain existing debt payments but 'cash out' or raise approximately $540,000.

Please note that these figures are preliminary and based on current market conditions as of February 1, 2017. As previously stated, if interest rates move up, the estimated payments illustrated on the previous page would change. Any final numbers would be subject to market conditions if and when the refinancing goes to market and the bonds are sold.