

REPORT TO THE CITY COUNCIL



DATE: February 21, 2017

TITLE: (City Council)
Resolution Approving Documents and Actions Relating to
the Refinancing of 2004 Certificates of Participation and
2004 Judgment Obligation Bonds

Prepared by: Joseph M. Tanner, Jr., Administrative Services Director

RECOMMENDATION

Adopt a Resolution of the City Council of the City of Desert Hot Springs Approving Documents and Actions Related to the Refinancing of 2004 Certificates of Participation and 2004 Judgment Obligation Bonds.

BACKGROUND

At the City Council meeting on February 7, 2017, staff and Council discussed several viable refunding candidates that, based on current market conditions, provide interest savings to the City. The refunding candidates, originally issued in 2004, were issued 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.

In addition to addressing the refunding candidates, Council and staff discussed the impact of issuing an additional \$3 million in debt to finance new city hall construction concurrent with refinancing the outstanding bonds, given the favorable interest rate environment. Ultimately, Council provided staff with direction to proceed with refinancing the outstanding debt and issuing \$3 million in new money.

The City’s municipal advisor, underwriter and bond counsel have advised that the above described goals could best be accomplished utilizing a lease financing. The customary format involves a “certificates of participation” (as was the format for the 2004 COPs) or a lease revenue bond issuance, as either fits the subject matter of the financing and the desired time frame for issuance. The City’s consultants have concluded that the most desirable structure for the financing is lease revenue bonds, wherein the City leases property to the Desert Hot Springs Financing Authority and leases it back, creating a payment stream which supports the bonds.

With direction provided at the last Council meeting, staff now asks City Council to approve a Site Lease, Lease Agreement, an Indenture, Termination Agreement, Continuing Disclosure Certificate and a Bond Purchase Agreement in connection with issuing the 2017 Lease Revenue Bonds (the “2017 LRBs”).

STAFF RECCOMENDATION

Staff recommends that Council take the following actions:

1. Adopt a Resolution of the City Council of the City of Desert Hot Springs Approving Documents and Actions relating to the Refinancing of 2004 Certificates of Participation and 2004 Judgment Obligation Bonds).

A description of each of the bond documents covered in the resolution is as follows:

- *Site and Facility Lease.* Under this agreement, the City leases the Leased Property to the Authority. The Leased Property is expected to include the properties mentioned below.
- *Lease Agreement.* Under this agreement, the City leases the Leased Property from the Authority. The term of this agreement ends on the date on which the Trust Agreement is discharged. This agreement requires the City to make semi-annual lease payments and requires the City to insure and maintain the Leased Property throughout the term of the Lease.
- *Trust Agreement.* Under this agreement, the Trustee will hold, invest and disburse proceeds of the 2017 LRBs and will collect lease payments from the City for disbursement to the investors.
- *Escrow Deposit.* This document provides for the defeasance and refunding of the 2004 COPs and 2004 JOBs. A portion of the proceeds of the 2017 LRBs will be deposited with Wells Fargo, as escrow bank (the "Escrow Bank"), and invested and applied for the redemption of the 2004 COPs and 2004 JOBs on the first possible optional redemption date.
- *Purchase Agreement.* This agreement provides for the purchase of the 2017 LRBs by the Underwriter from the City.
- *Preliminary Official Statement.* This is the offering document (similar to a prospectus) that provides a detailed description of the City, the 2017 LRBs and the sources of payment. This documents permits prospective investors to make an informed investment decision regarding a purchase of the certificates. The distribution of the Preliminary Official Statement by the City is subject to federal securities laws, including the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. These laws require the Preliminary Official Statement to include all facts that would be material to an investor in the 2017 LRBs. "Material" information is information that there is a substantial likelihood would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the 2017 LRBs. The resolution authorizes the Underwriter to distribute the Preliminary Official Statement and authorizes either the City Manager or Finance Officer/City Treasurer to deem the Preliminary Official Statement final for purposes of Rule 15c2-12 of the Securities and Exchange Commission, with such changes as such officer concludes are appropriate.

DISCUSSION

Under a "lease revenue bond" financing, the City would lease certain City-owned assets (including, among others, City Hall, the Police Station, Pierson and Karen Fire Stations, the Library, and Tedesco, Wardman, and Mission Springs Park) to a joint powers authority for a nominal amount who would then lease these assets back to the City for a fixed annual rental payment (rental payments). These rental payments would be pledged by the joint powers authority toward repayment of annual bond payments (in a like amount). The City's rental payments would be payable from the City's General Fund.

The City's general fund currently does not carry an underlying credit rating. Therefore, 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.

If direction to proceed is given today, the financing team will engage both Standard & Poor's to secure a rating and a municipal bond insurance firm for insurance and a surety reserve fund policy. 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.

FISCAL IMPACT

The City will issue not-to-exceed \$15.0 million of 2017 LRBs which will generate proceeds in an amount sufficient to refund the 2004 COPs and 2004 JOBs, cover the \$3 million cost related to city hall, and pay for costs of issuing the 2017 LRBs. Annual lease payments are expected to be approximately \$870,000 based on current market conditions, which are approximately \$120,000 more than current annual lease payments paid from the General Fund. The exact principal amount of the 2017 LRBs, interest rates and annual lease payments will not be determined until the 2017 LRBs are sold to investors. The final payment date of the 2017 LRBs is in 2047 (expected 30-year bond issuance).

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 lease payments would change. Any final numbers would be subject to market conditions if and when the refinancing goes to market and the bonds are sold.

EXHIBIT(S)

- 1) Resolution of the City Council of the City of Desert Hot Springs Approving Documents and Actions Related to the Refinancing of 2004 Certificates of Participation and 2004 Judgment Obligation Bonds and Financing Additional Capital
- 2) Site Agreement
- 3) Lease Agreement between Desert Hot Springs Public Financing Authority and the City of Desert Hot Springs
- 4) Indenture of Trust
- 5) Escrow Agreement
- 6) Preliminary Official Statement
- 7) Desert Hot Springs – Appendix A
- 8) Purchase Agreement