

REPORT TO THE CITY COUNCIL



DATE: July 7, 2020

TITLE: Proposed Refinancing of the California Communities Transportation Revenue (Installment Sale) Certificates of Participation, Series 2012A (TRIP – Total Road Improvement Program)

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Reviewed by: Buchheim, Finance Director

RECOMMENDATION

Adopt a Resolution of the City Council Approving the Execution and Delivery of California Statewide Communities Development Authority Transportation Revenue (Installment Sale) Certificates of Participation, Series 2020 (T.R.I.P. – Total Road Improvement Program) Pursuant to a Trust Agreement to Prepay and Refund the City’s 2012 Installment Sale Agreement and Related Certificates of Participation, Authorizing the Execution and Delivery of an Installment Sale Agreement, a Trust Agreement, Certificate Purchase Agreement and an Escrow Agreement, Authorizing the Distribution of an Official Statement in Connection with the Offering and Sale of such Certificates, and Authorizing Other Matters Relating Thereto”

Background

In 2012, the City of Desert Hot Springs (‘City’) participated in the Total Road Improvement Program (‘TRIP’) established by the California Statewide Communities Development Authority (‘CSCDA’) to finance street and roadway improvements, which consisted primarily of street resurfacing and improvements within its jurisdiction (‘Project’).

CSCDA is a joint powers authority that was co-founded by the League of California Cities and California State Association of Counties to provide California local governments and private entities access to low-cost, tax-exempt financing programs. CSCDA implemented TRIP in 2008 to assist cities and counties in their efforts to finance large-scale street improvement projects. Over the years, local agencies have found participating in TRIP beneficial because documentation is standardized and the overall process is very efficient and cost effective. Under TRIP, CSCDA causes the execution and delivery of Certificates of Participation (‘Certificates’) on behalf of local agency participants on a stand-alone basis or when advantageous, through a financing pool to generate economies of scale. The City is currently a member of CSCDA.

The California Communities Transportation Revenue (Installment Sale) Certificates of Participation, Series 2012A (“2012 Certificates”) were executed and authorized in the amount of \$5,925,000 on behalf of the City. The 2012 Certificates were structured with a final term of 2042 and a final interest rate of 6.00%. The call date of the 2012 Certificates is September 1, 2022. As of June 2, 2020, there is approximately \$4,955,000 of principal outstanding.

The City has always been proactive in monitoring outstanding debt for refunding candidates and given the low interest rate environment, there is currently an opportunity to refinance the 2012 Certificates for savings. Furthermore, CSCDA has recently formed a pool of other local agencies in Riverside County (currently comprised of the cities of Menifee and Moreno Valley) looking to refinance similar outstanding debt. As previously mentioned, a pooled financing through CSCDA will create economies of scale and save the City issuance and interest costs when compared to a stand-alone financing.

This evening, Council is being asked to approve the execution of a 2020 Installment Sale Agreement and causing the execution and delivery of refunding Certificates and all related documents, as further described herein. If the refinancing is approved this evening, staff will work with the financing team on finalizing all legal documents and the preliminary official statement with the goal of pricing the refunding Certificates in late August or early September.

Discussion

The proposed CSCDA Transportation Revenue (Installment Sale) Certificates of Participation Series 2020 (TRIP – Total Road Improvement Program) (Federally Taxable) (“2020 Refunding Certificates”) would be in a par amount of approximately \$5.3 million with a final maturity in 2042, the same final maturity as the 2012 Certificates. In other words, there will be no extension of the original terms. The final interest rate structure will be determined if, and when, the 2020 Refunding Certificates are priced and sold.

CSCDA would cause the execution and delivery of certificates on behalf of the financing pool, which as previously mentioned, is comprised of the City and the cities of Menifee and Moreno Valley. Each local agency participant would be responsible for installment payments relating to their pro-rata portion of the Certificates. Local agency payments are made under separate, individual Installment Sale Agreements. No agency is responsible for any other agency’s obligations under TRIP.

The Tax Cuts and Jobs Act of 2017 (the “Act”) eliminated the tax exemption for interest on advance refunding bonds (refunding bonds issued more than 90 days before the optional call date). As such, the 2020 Refunding Certificates contemplate refinancing the 2012 Certificates on a taxable basis. Refinancing the 2012 Certificates today on a taxable basis does not preclude the City from refinancing on a tax-exempt basis in the future. As a side note, given the favorable taxable interest rate environment, many issuers have pursued taxable advance refundings since the Act passed in 2017. If Congress acts to change the Tax Code to remove the prohibition on advance refundings of tax-exempt debt prior to the completion of this transaction, the Resolution will authorize the documents to provide for the 2020 Installment Sale Agreement to constitute a tax-exempt obligation.

The 2020 Refunding Certificates are expected to qualify for an investment grade rating and bond insurance, which would lead to a lower cost of borrowing. Furthermore, the 2020 Refunding Certificates may also qualify for a reserve fund surety policy. With a reserve fund surety policy, the 2020 Bonds would not need to cash fund a debt service reserve (estimated to be \$520,000) as part of the issuance. This would enable the City to downsize their portion of the 2020 Refunding Certificates, thereby lowering annual payments and increasing savings.

The 2020 Refunding Certificates will be secured by Measure A Revenues and Gas Tax Revenues, maintaining the same pledge of the 2012 Certificates. Measure A Revenues consist of amounts received by the City from a 0.5% countywide retail and transaction use tax (sales tax) approved by voters in 2002. The revenues from the Measure A sales tax are collected Countywide, and then apportioned to local agencies based on specified factors, including population. Gas Tax Revenues consist of amounts received by each local agency from taxes imposed statewide on the sale of motor vehicle fuels. The revenues from the gas tax are collected Statewide, and then apportioned to local agencies based on specified factors, including population. TRIP will obtain written approval from the State Controller’s office as to the eligibility of the 2020 installment payment schedule as eligible for the expenditure of Gas Tax Revenues.

The General Fund will not be responsible for making payments on the 2020 Refunding Certificates.

Based on current interest rates, total savings over the life of the 2020 Refunding Certificates are estimated to be \$1.2 million. This translates to annual savings of approximately \$57,000 from 2021 to 2042. Net present value (NPV) savings are estimated to be approximately \$490,000. As measured against the par value of the 2012 Certificates, NPV savings reflect 9.9%. The attached resolution sets an NPV savings threshold of 3%. As a side note, GFOA (Government Finance Officers Association) Best Practices frequently mentions between 3-5% NPV savings to determine the appropriateness of a refinancing.

Estimated savings are net of all costs. The accompanying table highlights the savings statistics based on current interest rates. Good Faith Estimates, as required by Government Code Section 5852.1, are provided as an attachment.

The attached resolution authorizes and approves the issuance of the 2020 Refunding Certificates, subject to the compliance of certain criteria, including that: (i) the principal amount of the 2020 Refunding Certificates does not exceed \$6.0 million (\$6,000,000); (ii) the NPV % savings does not fall below 3.0%; and (iii) the Underwriter's Discount does not exceed \$70,000.

Estimated Financing Stats and Savings

2012 Certificates Summary

| | |
|-------------|-------------|
| Par Amount | \$4,995,000 |
| Avg. Coupon | 5.7% |
| Call Date | 1-Jun-22 |

2020 Refunding Certificates Summary

| | |
|----------------------|-------------|
| Par Amount | \$5,315,000 |
| Avg. Borrowing Yield | 3.6% |
| Escrow Yield | 0.1% |
| NPV Savings (\$) | 9.9% |
| NPV Savings (%) | \$490,538 |
| Avg. Annual Savings | \$57,000 |
| Total Savings | \$1,254,856 |

All Numbers are Preliminary; Subject to Change.

Documents Subject to Approval

Approval of the Resolution authorizes the execution of the following documents:

- § **Preliminary Official Statement:** The document pursuant to which the 2020 Refunding Certificates will be offered for purchase by investors. This document must contain all facts material to the 2020 Refunding Certificates, CSCDA, and the City (with certain permitted exceptions to be completed in the final Official Statement) and must not omit any such material facts;
- § **Installment Sale Agreement:** The Agreement between the City and CSCDA to continue installment payments as the purchase price for the 2012 Project, in consideration of which the City will obligate itself to make installment payments for the 2012 Project for CSCDA in the amounts and on the dates set forth in the Installment Purchase Agreement;
- § **Trust Agreement:** The Trust Agreement defines the terms and conditions of the Certificates, the rights and obligations of the City, CSCDA, the municipal bond insurer, if any, the trustee (Wilmington Trust, N.A.), and the Certificate holders;
- § **Certificate Purchase Agreement:** This document contains the obligation of the underwriter to accept and pay for the 2020 Refunding Certificates, provided that all of the covenants and representations of the City are met and certain other conditions excusing performance by the underwriter do not exist;
- § **Escrow Agreement:** This document contain terms by which the 2012 Trustee will hold 2020 Refunding Certificate proceeds on the behalf of the owners of the 2012 Certificates to pay and discharge the 2012 Certificates on the redemption date; and
- § **Continuing Disclosure Agreement:** Executed for the benefit of bondholders, the Continuing Disclosure Agreement obligates the City to file an annual report that includes, among other things, the most recent audited financial statements of the City and financial

data of the underlying improvement areas. The City is also required to report certain events that are significant to bondholders, if, and when they occur.

These documents listed above have been reviewed by staff and its financing team.

FISCAL IMPACT

If, and when, the 2020 Refunding Certificates price, the City is estimated to save roughly \$63,000 of the aforementioned pledged revenues (Measure A Revenues and Gas Tax Revenues) annually through 2042, based on current market conditions. The savings quoted above are net of all financing costs (including the cost of purchasing bond insurance and a reserve fund surety policy). There is no impact to the General Fund.

EXHIBITS

- 1) Resolution
- 2) Preliminary Official Statement
- 3) Installment Sale Agreement
- 4) Trust Agreement
- 5) Certificate Purchase Agreement
- 6) Escrow Agreement
- 7) Continuing Disclosure Agreement (Appendix D of Preliminary Official Statement)
- 8) Good Faith Estimates (Exhibit A of City Resolution)