



CITY OF WHEATLAND

CITY COUNCIL MEETING STAFF REPORT

October 8, 2019

SUBJECT: Council Discussion and Consideration of Adoption of Resolution 36-19 Authorizing Staff to Enter into Professional Service Agreements for Municipal Advisory and Bond Counsel Services Associated with a Potential Water and Wastewater Debt Refinancing

PREPARED BY: Susan Mahoney, Finance Director

Recommendation

Adopt Resolution 36-19 authorizing the City Manager to enter into a Professional Services Agreement with NHA Advisors LLC for municipal advisory services and a Professional Services Agreement with Jones Hall for bond counsel services associated with a potential water and wastewater debt refinancing. The City used both firms for creating the Heritage Oaks Community Facilities District.

Background

The City has three outstanding loans from the United States Department of Agriculture (USDA). These loans are secured by net revenues of the City's Water and Wastewater Funds. Based on current market conditions, the City has an opportunity to refinance this debt at a significantly lower interest rate. The following chart is a summary of the current debt.

Outstanding Debt	Initial Balance	Balance Remaining	Interest Rate	Final Maturity
2001 Water	\$1,981,030	\$1,537,000	4.50%	12/1/2041
2002 Water	\$1,139,000	\$884,000	4.50%	12/1/2041
2007 Sewer	\$4,000,000	\$3,382,100	4.125%	5/1/2047

Discussion

Mark Northcross, with the firm NHA Advisors, has provided a preliminary analysis of the estimated cost savings from a potential debt refinancing. Without extending the amortization period, all three loans could be refinanced now at a fixed interest rate in the range of 3.2% to 3.3%. This results in the potential for a combined annual cash flow savings in excess of \$30,000 per year. Per the City's debt policy, adopted by Council September 10, 2019, a refinancing will only be considered when there is a net economic benefit from the refinancing of at least five percent on

a net present value basis. The estimated net economic benefit from refinancing all three loans is 11.8% on a net present value basis or approximately \$675,000.

The retention of a municipal advisor and bond counsel is critical to the success of the potential bond issue. The municipal advisor will work with bond counsel in the development of the transactional documentation and assist the rating agency in completing its analysis. The legal documents for the transaction will be brought to the City Council for approval at the regularly scheduled meeting on October 22, 2019.

Except for rating agency costs, the City only incurs costs if the bonds are sold and all costs associated with the potential refinancing are paid from the proceeds from the sale of the bond issue. The estimated net present value savings of \$675,000 is net of all issuance costs. Issuance costs are estimated to be \$87,000 for the Water Bonds and \$110,000 for the Wastewater Bonds. These amounts include costs for bond counsel, disclosure counsel, municipal advisor, underwriter, and trustee.

Municipal Advisor – advises the issuer on matters, such as: structure, timing, marketing, fairness of pricing, terms, and bond ratings

Bond Counsel – renders a legal opinion as to the validity of the bonds under applicable laws and the federal and state income tax status of the interest on the bonds

Disclosure Counsel – provides advice regarding securities law disclosure rules and prepares the official statement

Underwriter or Investment Banker – intermediary between the issuer of the bonds and the investors who purchase them

Trustee – the financial institution that ensures bond interest and principal payments are made as scheduled

Should the Council adopt Resolution 36-19, bond rating services will be required. Bond rating services will also be paid from bond proceeds. Note that bond rating services are not contingent upon the bonds being sold. Should current favorable market conditions change suddenly, and the bonds are not sold after a rating has been issued, the bond rating services would be paid from the General Fund. Bond rating services are approximately \$30,000.

A Bond Rating is a letter grade (AAA to BBB-) assigned to bonds that indicates their credit quality. Private independent rating services such as Standard & Poor's evaluate a bond issuer's financial strength, or its ability to pay a bond's principal and interest, in a timely fashion. Bond ratings are vital to alerting investors to the quality and stability of the bond in question. These ratings consequently greatly influence interest rates, marketability, and bond pricing.

Alternatives

1. Direct staff to not pursue a refinancing at this time.

Fiscal Impact

There is the potential for the City to save over \$30,000 per year in combined debt service payments from the Water and Wastewater Funds. Issuance costs are contingent upon the bonds being sold and are paid from the proceeds of the bond sale. If the bonds are not sold there are no issuance costs. Rating services costs are also paid from the proceeds of the bond sale. If for some unforeseen reason the bonds are not sold after securing a bond rating (Council does not authorize the legal documents or changes in the market reduce the net economic benefit to less than 5%), the rating services costs would be paid from the General Fund.

Attachments

1. Resolution 36-19

RESOLUTION NO. 36-19

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF WHEATLAND
AUTHORIZING STAFF TO ENTER INTO PROFESSIONAL SERVICES
AGREEMENTS FOR MUNICIPAL ADVISORY AND BOND COUNSEL SERVICES
ASSOCIATED WITH A POTENTIAL WATER AND WASTEWATER DEBT
REFINANCING**

WHEREAS, the City has three outstanding loans from the United States Department of Agriculture secured by the net revenues of the City's Water and Wastewater Funds; and,

WHEREAS, the City has the opportunity to refinance this debt at a significantly lower interest rate resulting in the potential for a combined annual cash flow savings in excess of \$30,000 per year; and,

WHEREAS, the net economic benefit from the potential refinancing is 11.8% on a net present value basis which is greater than the 5% required by the City's adopted debt policy; and

WHEREAS, the City previously retained the services of, and was satisfied with the work performed by, NHA Advisors LLC and Jones Hall regarding the creation of the Heritage Oaks Community Facility District.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Wheatland does hereby authorize the City Manager to enter into professional services agreements with NHA Advisors LLC for municipal advisory services and Jones Hall for bond counsel services associated with a potential water and wastewater debt refinancing.

PASSED AND ADOPTED by the City Council of the City of Wheatland on the 8th day of October 2019 by the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

ATTEST:

Joe Henderson, Mayor

Lisa J. Thomason, City Clerk