



CITY OF WHEATLAND

CITY COUNCIL MEETING STAFF REPORT

November 12, 2019

SUBJECT: Council Discussion and Consideration of Adoption of Resolution 39-19 Authorizing Issuance, Sale and Delivery of Revenue Refunding Bonds to Refinance Outstanding Prior Obligations of the Wastewater System and Water System and Approving Related Agreements and Actions.

PREPARED BY: Susan Mahoney, Finance Director

Recommendation

Adopt Resolution 39-19 authorizing the City to issue and deliver revenue refunding bonds to refinance prior obligations (USDA loans) of the Wastewater System and the Water System.

Background

As noted at the Council's October 8th meeting, 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 of 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 an all-in fixed interest rate in the range of 3.15% to 3.45%. This results in the potential for a combined annual cash flow savings of approximately \$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 11.6% on a net present value basis or approximately \$665,000. In addition, this refinancing frees up restricted cash associated with the USDA Loans. Currently, there is about \$206,000 in the Wastewater Fund and \$172,000 in the Water Fund that will become unrestricted upon the close of this financing.

Authorizing Resolution

This resolution authorizes the City to use sale, issue and deliver revenue bonds to refinance the three USDA loans, subject to the following conditions:

- 1) The minimum net present value savings shall be at least equal to 5% of the par value of the bonds
- 2) The underwriter's discount shall not exceed 0.5%.
- 3) The par value of the bonds for the Wastewater System shall not exceed \$3.7 million
- 4) The par value of the bonds for the Water System shall not exceed \$2.8 million.

Other Legal Documents

The authorizing resolution approves as to form the following documents:

Series A Trust Indenture

This is the basic loan document for the refinancing of the 2007 USDA loan for the Wastewater System. Key provisions of the document are (1) a covenant of the City to raise rates as required to cover operating expenses and debt service and (2) a formal pledge of revenues net of operating expenses to pay debt service on the bonds. This document is prepared by the City's bond counsel, Jones Hall.

Series B Trust Indenture

This is the basic loan document for the refinancing of the 2001 and 2002 USDA loans for the Water System. Key provisions of the document are (1) a covenant of the City to raise rates as required to cover operating expenses and debt service and (2) a formal pledge of revenues net of operating expenses to pay debt service on the bonds. This document is prepared by the City's bond counsel, Jones Hall.

Bond Purchase Agreement

This is the agreement between the City and the bond underwriter, Hilltop Securities, under which Hilltop Securities agrees to buy both the Series A and Series B bonds from the City and sell them to bond investors. The agreement describes the various conditions and assumptions for both parties to carry out the transaction. This document was prepared by the underwriter's counsel, Kutak Rock.

Official Statement

This document describes the credit condition of both the Wastewater System and the Water System for the benefit of potential bond investors. This document is prepared by the City's disclosure counsel, Jones Hall. It will be distributed by the bond underwriter, Hilltop Securities, to potential investors in the Series A and Series B bonds.

Proposed Schedule

The schedule for the proposed refinancing of the USDA loans calls for the City to receive a rating from S&P Global Ratings, as well as bond insurance commitments, the week of November 18. The refinancing bonds would be sold the first week of December, with a bond closing in mid-December.

Alternatives

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

Fiscal Impact

There is the potential for the City to save approximately \$30,000 per year in combined debt service payments from the Water and Wastewater Funds, as well as free up funds for operating expenses and/or capital improvements that are currently restricted (held in reserve).

Good Faith Estimates

In accordance with Government Code Section 5852.1, the following information has been obtained and disclosed to the City Council prior to the issuance of the Bonds: (i) the estimated true interest cost (being the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the Bonds) is 3.05% (Series A Bonds) and 2.74% (Series B Bonds), respectively, (ii) the estimated finance charge (being the sum of all fees and charges paid to third parties) is \$167,000 (Series A Bonds) and \$113,000 (Series B Bonds), respectively, (iii) the estimated proceeds expected to be received, net of proceeds for finance charges in (ii) above to paid from the principal amount of the Bonds and any reserves or capitalized interest paid or funded with Bonds is \$3,404,000 (Series A Bonds) and \$2,364,000 (Series B Bonds), respectively, and (iv) the estimated total payment amount (being the sum of debt service plus finance to be paid to final maturity, plus any financing costs not paid from proceeds of the Bonds) is \$5,270,000 (Series A Bonds) and \$3,347,000 (Series B Bonds), respectively. This information is based on good-faith estimates provided by the City's financial advisor.

Attachments

1. Resolution Authorizing Issuance of Bonds
2. Indenture of Trust – Series A Bonds (Wastewater System)
3. Indenture of Trust – Series B Bonds (Water System)
4. Preliminary Official Statement describing the Bonds
5. Bond Purchase Agreement between the City and Hilltop Securities, as underwriter

RESOLUTION NO. 39-19

**A RESOLUTION OF THE CITY OF WHEATLAND AUTHORIZING THE
ISSUANCE, SALE AND DELIVERY OF REVENUE REFUNDING
BONDS TO REFINANCE OUTSTANDING PRIOR OBLIGATIONS OF
THE WASTEWATER SYSTEM AND WATER SYSTEM, AND
APPROVING RELATED AGREEMENTS AND ACTIONS**

WHEREAS, the City of Wheatland (the "City") owns and operates a public enterprise for the collection, treatment and disposal of wastewater within the service area of the City (the "Wastewater System"), and a public enterprise for the supply, storage, treatment and distribution of water within the service area of the City (the "Water System"); and

WHEREAS, in order to construct improvements to the Wastewater System, the City previously borrowed \$4,000,000 from the United States Department of Agriculture, Rural Development ("USDA"), by entering into an Installment Sale Agreement and a Trust Agreement, each dated May 8, 2007, pursuant to which the City pledged the net revenues of the Wastewater System to repay its obligations thereunder (the "Prior Wastewater Obligation"); and

WHEREAS, in order to construct improvements to the Water System, the City previously borrowed \$1,981,030 from USDA, by entering into an Installment Sale Agreement and a Trust Agreement, each dated December 1, 2001, pursuant to which the City pledged the net revenues of the Water System to repay its obligations thereunder (the "2001 Water Obligation"); and

WHEREAS, in order to construct additional improvements to the Water System, the City previously borrowed \$1,139,000 from the USDA, by entering into an Installment Sale Agreement and a Trust Agreement, each dated October 1, 2002, pursuant to which the City pledged the net revenues of the Water System to repay its obligations thereunder (the "2002 Water Obligation" and together with the 2001 Water Obligation, the "Prior Water Obligations"); and

WHEREAS, in order to realize interest rate savings, the City Council has determined at this time to refinance the Prior Wastewater Obligation and the Prior Water Obligations via the issuance of revenue refunding bonds under the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said code (the "Bond Law"); and

WHEREAS, the information required to be obtained and disclosed with respect to the refunding bonds by the City Council in accordance with Government Code Section 5852.1 is set forth in the staff report accompanying this Resolution; and

WHEREAS, the City Council of the City has duly considered such transactions and wishes at this time to approve said transactions in the public interests of the City.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Wheatland as follows:

Section 1. Authorization of Series A Bonds (Wastewater System). In order to refinance the Prior Wastewater Obligation, the City Council hereby authorizes the issuance of revenue refunding bonds (the "Series A Bonds") under the Bond Law payable from the net revenues of the Wastewater System, as described in more detail in the Indenture of Trust related to the Series A Bonds on file with the City Clerk, in an amount not to exceed \$3,700,000.

Section 2. Authorization of Series B Bonds (Water System). In order to refinance the Prior Water Obligations, the City Council hereby authorizes the issuance of revenue refunding bonds (the "Series B Bonds") under the Bond Law payable from the net revenues of the Water System, as described in more detail in the Indenture of Trust related to the Series B Bonds on file with the City Clerk, in an amount not to exceed \$2,800,000.

Section 3. Approval of Indenture of Trust for Series A Bonds and Series B Bonds. The Series A Bonds shall be issued under an Indenture of Trust related thereto between the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), and the Series B Bonds shall be issued under an Indenture of Trust related thereto, between the City and the Trustee. Each Indenture of Trust is hereby approved in substantially the form on file with the City Clerk, together with any changes therein or additions thereto deemed advisable by the City Manager or the Finance Director (each, an "Authorized Officer"), and the execution thereof by an Authorized Officer shall be conclusive evidence of the approval of such changes and additions. The City Council hereby authorizes and directs an Authorized Officer to execute, and the City Clerk to attest, each Indenture of Trust for and in the name of the City. The City Council hereby authorizes the delivery and performance of each Indenture of Trust.

Section 4. Sale of the Bonds; Approval of Bond Purchase Agreement. The City Council hereby authorizes and directs that the Series A Bonds and the Series B Bonds (together, the "Bonds") shall be sold on a negotiated basis to Hilltop Securities, Inc., as underwriter, pursuant to the Bond Purchase Agreement, in substantially the form on file with the City Clerk, together with any changes therein or additions thereto deemed advisable by an Authorized Officer, whose execution thereof shall be conclusive evidence of the approval of any such changes or additions. An Authorized Officer is hereby authorized and directed to execute the final form of the Bond Purchase Agreement for and in the name and on behalf of the City; provided, that the principal amount of the Series A Bonds and Series B Bonds shall not exceed the amounts set forth in Sections 1 and 2 of this Resolution, respectively, the minimum net present value savings on an overall basis shall be at least equal to 5.0%, and the Underwriter's discount shall not exceed 0.5%.

Section 5. Official Statement. The City Council hereby approves the preliminary Official Statement describing the Bonds, the Wastewater System and the Water System in the form on file with the City Clerk, and authorizes an Authorized Officer to approve revisions to said preliminary Official Statement. At the request of the purchaser of the Bonds, an Authorized Officer shall execute a certificate deeming the preliminary Official Statement, as so revised, to be final within the meaning of Rule 15c2-12 of the Securities Exchange Act of 1934. Distribution of the Preliminary Official Statement to prospective purchasers of the Bonds by the Underwriter is hereby approved. An Authorized Officer is hereby authorized and directed to approve any changes in or additions to a final form of said Official Statement, and the execution thereof by an Authorized Officer shall be conclusive evidence of approval of any such changes and additions. The City Council hereby authorizes the distribution of the final Official Statement. The final Official

Statement shall be executed in the name and on behalf of the City by an Authorized Officer.

Section 6. Continuing Disclosure Certificate. The City Council hereby approves the Continuing Disclosure Certificate to be executed by the City in connection with the issuance of the Bonds, the form of which is attached as an exhibit to the Preliminary Official Statement. Each of the Authorized Officers is hereby authorized and directed to approve any changes in or additions to a final form of said Continuing Disclosure Certificate, and the execution thereof by an Authorized Officer shall be conclusive evidence of approval of any such changes and additions. The final Continuing Disclosure Certificate shall be executed in the name and on behalf of the City by an Authorized Officer.

Section 7. Official Actions. The Mayor, the City Manager, the Finance Director, the City Clerk and any and all other officers of the City are hereby authorized and directed, for and in the name and on behalf of the City, to do any and all things and take any and all actions, including execution and delivery of any and all assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance, warrants and other documents, which they, or any of them, may deem necessary or advisable in order to consummate the transactions described by this Resolution. Whenever in this Resolution any officer of the City is authorized to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf if such officer is absent or unavailable.

Section 8. Effective Date. This Resolution shall become effective immediately upon its passage and adoption.

PASSED AND ADOPTED by the City Council of the City of Wheatland, State of California this 12th day of November 2019, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Joseph Henderson, Mayor

ATTEST:

Lisa Thomason, City Clerk