



CITY COUNCIL AGENDA REPORT

REPORTS

AGENDA ITEM NO. K.1.

DATE: January 21, 2020

TO: City Council

FROM: Kevin Riper, Chief Financial Officer, (805) 385-7475, kevin.riper@oxnard.org

SUBJECT: Approval of 2020 Gas Tax Revenue Refunding Bonds (Refinancing of the Gas Tax Revenue Certificates of Participation (2007 Street Improvement Program)). (20/10/5)

RECOMMENDATION

That the City Council approve the following Resolution:

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF OXNARD AUTHORIZING THE ISSUANCE AND SALE OF GAS TAX REVENUE REFUNDING BONDS, SERIES 2020 TO REFINANCE OUTSTANDING OBLIGATIONS, AUTHORIZING EXECUTION OF AN INDENTURE OF TRUST, AND AUTHORIZING EXECUTION OF AND APPROVING RELATED AGREEMENTS AND OFFICIAL ACTIONS.

(Finance & Governance Committee approved 3-0)

BACKGROUND

In 2007, the City of Oxnard (the "City") issued \$27,675,000 Gas Tax Revenue Certificates of Participation (2007 Street Improvement Program) (the "2007 COPs"). Proceeds of the 2007 COPs were used to improve the neighborhood street system within the City, including the construction of roadways, resurfacing, handicap ramps, improvement of sidewalks, pavement, curbs, and gutters, and replacement and upgrade of all striping and street name signs.

The 2007 COPs are outstanding in an amount of \$20,715,000 with an average interest rate of 4.66% and a final maturity of September 1, 2037. The 2007 COPs are currently callable (pre-payable) at no penalty. Average annual debt payment is approximately \$1.725 million, and the bonds are secured by, and paid from, dedicated State gas tax revenues. The City's General Fund has no obligation to make 2007 COP debt service payments.

Prior to the issuance of the 2007 COPs, the City's ability to pledge gas tax revenues toward the repayment of the 2007 COPs was judicially validated through the Ventura County Superior Court during the second half of 2007. Several other cities issued gas tax revenue COPs in 2007 and 2008, including the cities of Santa Ana and Coachella. However, in the years following these issuances, the State Controller's Office disallowed the issuance of certain types of gas tax-secured debt, and in some cases, deemed gas tax revenues ineligible for repayment of any bond debt service, forcing a burden on the general fund of affected issuers to repay debt service. The City of Oxnard, however, was granted authority to continue the pledge of gas tax revenues to repay its 2007 COPs. In June 2019, the City (and several other cities) submitted a letter to the State Controller formally requesting confirmation that a refinancing of the 2007 COPs would not jeopardize the pledge of gas tax revenues. The City received a letter on July 25, 2019, from the State Controller's office confirming that it would take no negative action if the City were to refinance the 2007 COPs. Specifically, the letter states that "any refunding thereof, for debt service savings, will not be considered a new issue and debt service payments on such refunding obligations will be treated as eligible expenditures by State Controller." A copy of the letter is attached.

Each year, the City currently collects about \$4.2 million in Highway User Tax Account revenues, leaving approximately \$2.5 million available for other projects after paying the \$1.725 million debt payment on the 2007 COPs.

After the City’s four-year underwriting pool was presented to the Finance and Governance Committee on November 12, 2019, a limited request for proposals (RFP) was sent to the three firms that had ranked the highest for gas tax financings through the initial RFP process. After review by City staff and the City’s Municipal Advisor, it was determined that Ramirez & Co. (“Ramirez”) was the most qualified underwriter for the upcoming 2020 Gas Tax Bonds based on relevant experience, ideas presented, and fees. In recent years, only two gas tax transactions have been sold – the \$4,775,000 City of Coachella 2019 Gas Tax Revenue Refunding Bonds sold in October and the \$44,650,000 City of Santa Ana 2019 Gas Tax Revenue Refunding Bonds sold in November 2019. Ramirez served as the sole senior manager on the most recent Santa Ana transaction and was able to set more aggressive interest rate spreads than those set on the Coachella transaction. In addition to having the most recent and relevant experience, Ramirez also (1) included the most comprehensive structuring and rating strategy discussion and (2) was instrumental over the last nine months in helping to obtain formal approval from the State Controller.

In December of 2019, S&P Global Ratings (“S&P”) upgraded its rating on the 2007 COPs from an “A” with a Stable Outlook to an “A+” with a Positive Outlook. The letter upgrade for the 2007 COPs reflected S&P’s assessment of the strong economic fundamentals and coverage profile of the obligations, distinct from actions taken by the City. However, the change in outlook from “Stable” to “Positive” reflected the favorable view of S&P on the City as an obligor, with S&P acknowledging the positive institutional and financial developments achieved by the City, in line with the conclusions reached by the rating agency in assessing a positive outlook on the City’s issuer credit rating for the 2019A Lease Revenue Bonds. The proposed 2020 Refunding Bonds will likely carry the same “A+” rating, but will ultimately be determined in early January once the review process is completed by S&P.

ESTIMATED REFUNDING SAVINGS

The 2007 COPs can be redeemed with no premium (principal plus accrued interest) and the financial benefit of refinancing given current market rates is significant. As shown below, estimated interest rates from a refinancing are currently 2.79% (including all financing costs), significantly lower than the current 4.66% interest rate. Present value (PV) savings are estimated at \$3.6 million or about 17.4% of refunded par. Annual debt payments are estimated to be reduced from \$1.725 million to about \$1.375 million. The annual \$351,394 of average annual cash flow savings will be available in the gas tax fund and applied to additional street and road projects.

<u>Refinancing Summary</u>
Amount Outstanding: \$20,715,000
Average 2007 COP Interest Rate: 4.66%
Estimated 2020 Bonds Interest Rate: 2.79%
PV Savings: \$3.6 million; 17.4% of refunded par
Average Annual Cash Flow Savings: \$351,394
Total Cumulative Gross Savings: \$6.33 million

FINANCING TEAM AND SCHEDULE

The financing team for the proposed 2020 Bonds is proposed to include NHA Advisors, LLC (Municipal Advisor), Best Best & Krieger (Bond Counsel), Nixon Peabody (Disclosure Counsel) and Ramirez & Co. (Underwriter).

Upon City Council approval on January 21, the City and its financing team plan to enter the market as soon as possible to secure currently low interest rates and maximize cash flow savings. The target timeline involves pricing the bonds in late January or early February, and closing the 2020 refinancing later in February.

DOCUMENTS TO BE APPROVED

Approval of the Resolution and related bond documents will authorize the execution of the following documents:

- 1. Indenture of Trust** - This document contains the terms of the Bonds, including payment and redemption provisions, definition and pledge of Revenues to pay the Bonds, Rights and Duties of the Trustee, remedies upon a default in the payment of the Bonds, and final discharge of the Bonds and other related matters.
- 2. Escrow Agreement** - This document contains terms by which the Trustee will hold 2020 Refunding Bond proceeds on the behalf of the owners of the 2007 COPs to pay and discharge all the 2007 COPS on the call date.
- 3. Preliminary Official Statement** - This is the City's document pursuant to which the Bonds will be offered for purchase by the public. This document must contain all facts material to the Bonds and the City (with certain permitted exceptions to be completed in the final Official Statement) and must not omit any such material facts.
- 4. Bond Purchase Agreement** - This document contains the obligation of the underwriter to accept and pay for the Bonds, 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.
- 5. Continuing Disclosure Agreement** - This document outlines the City's requirements to provide certain annual reports to investors in order to allow the underwriter to comply with federal securities laws.

STRATEGIC PRIORITIES

This agenda item is a routine operational item or does not relate to the four strategic plans adopted by City Council on May 17, 2016.

FINANCIAL IMPACT

The proposed 2020 Bonds will generate an estimated \$6.33 million of gross cash flow savings over the life of the bond. Net present value savings is \$3.6 million, or 17.4% of the refunded par amount, net of all costs related to the issuance of this debt, and the term of the Bonds will remain the same as the 2007 COP being refunded (9/1/2037). The source of payment for the Bonds is the City's pledged Gas Tax revenue (includes Sections 2105, 2106, and 2107; excludes Sections 2103 and 2107.5) from the State's Highway User Tax Account.

The refinancing is estimated to generate approximately \$351,394 in annual cash flow savings for the next 18 years, beginning in FY 2020-21.

GOOD FAITH ESTIMATES

The following information was obtained from NHA Advisors, as municipal advisor for, and is provided in compliance with Senate Bill 450 (Chapter 625 of the 2017-2018 Session of the California Legislature) with respect to the Bonds:

Information to be disclosed per Government Code Section 5852.1:

Estimates

2020 Gas Tax Revenue Refunding Bonds

True interest cost of the bonds (the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the

purchase price received for the new issue of bonds)	2.59%
Finance charge of the bonds (the sum of fees/charges paid to third parties)	\$414,557
Amount of proceeds received by the public body from the sale of the bonds, less the finance charge of the bonds and any reserves or capitalized interest paid or funded with proceeds of the bonds	\$21,197,021
The total payment amount (the sum total of all debt service payments on the bonds, plus the finance charge of the bonds not paid from bond proceeds)	\$24,707,250

Attention is directed to the fact that the foregoing information constitutes good faith estimates only. The actual interest cost, finance charges, amount of proceeds and total payment amount may vary from the estimates above due to variations from these estimates in the timing of Bond sales, the amount of Bonds sold, the amortization of the Bonds sold and market interest rates at the time of each sale. The actual interest rates at which the Bonds will be sold will depend on the bond market at the time of each sale. The actual amortization of the Bonds will also depend, in part, on market interest rates at the time of sale. Market interest rates are affected by economic and other factors beyond the City's control.

The City Council resolution also puts certain parameters upon any sale of the Bonds. These parameters are: (1) the par amount of the bonds cannot exceed \$22 million, (2) the underwriters' discount cannot exceed 0.55% of the par amount of the Bonds, and (3) the net present value savings (% of refunded par) of the refunding must be equal to or greater than 3.0%.

COMMITTEE OUTCOME

The Finance and Governance Committee approved 3-0 on October 22, 2019 the staff recommendation to forward the item for Council approval.

Prepared by: NHA Advisors, Donna Ventura, Assistant Chief Financial Officer

ATTACHMENTS

1. Oxnard - State AG Letter (Gas Tax)-c1-c1
2. Oxnard 2020 Gas Tax Revenue Refunding - Resolution of the City Council-c1R
3. Oxnard 2020 Gas Tax Revenue Refunding - Indenture of Trust-c1R
4. Oxnard 2020 Gas Tax Revenue Refunding - Escrow Deposit and Trust Agreement-c1
5. Oxnard 2019 Gas Tax Refunding Bonds - Preliminary Official Statement 4835-7334-5706 v.3 (1)
6. Bond Purchase Agreement - City of Oxnard Gas Tax Revenue Refunding Bonds Series 2020, 4811-4758-0079_2
7. Oxnard 2020 Gas Tax Bonds - Continuing Disclosure Certificate
8. Oxnard Gas Tax Refinancing CC Presentation for Jan 21 2020