City of Culver City, California

City Council Agenda Item Report

Meeting Date: 06/22/09	Item Number: C-8
AGENDA ITEM: Adoption of Resolutions and Approval of Agreements Needed for Refunding of the 1999 Wastewater Facilities Refunding Revenue Bonds	
Contact Person/Dept.: Jeff Muir, CFO	Phone Number: 310-253-5865
Fiscal Impact: Yes [X] No []	General Fund: Yes [] No [X]
Public Hearing: [] Action Item: [X]	Attachments: [X]
Public Notification: Master E-Mail Notification List (6/17/09); Fieldman Rolapp via email (6/17/09); Richards Watson Gershon via email (6/17/09); Stone & Youngberg via email (6/17/09)	
Department Approval: Jeff Muir (06/11/09)	City Attorney Approval: Carol Schwab (by H. Baker) (06/17/09)
Chief Financial Officer Approval: Jeff Muir (06/11/09)	City Manager Approval: Mark Scott (06/18/09)

RECOMMENDATION:

Staff recommends the City Council approve the resolutions and agreements required for the refunding of the Wastewater Facilities Refunding Revenue Bonds, 1999 Series A.

BACKGROUND:

In 1999, the City issued $25 million in Revenue Bonds for the Wastewater (Sewer) utility. These bonds primarily refunded prior debt, as well as provided about $6 million in additional funds used for capital improvements to the sewer system. The 1999 bonds had a ten year restriction on when they could be refunded, meaning 2009 is the first opportunity to refund the bonds.

We have worked closely with our financial advisors, Fieldman Rolapp & Associates, to analyze the feasibility of refunding these bonds. Based on the current market conditions, it is estimated the Sewer Fund could recognize up to approximately $900,000 in net present value savings by refunding the bonds at this time. This is an approximate savings of nearly $75,000 per year in debt service costs for the Sewer Fund. These savings can be used to offset operational cost increases or capital costs.

There is a general rule of thumb in the municipal finance sector that if a debt refunding can achieve at least a 3% savings, it is worth pursuing. In this case, the estimated savings based on the current market is 4.2%, which is beyond the 3% threshold. Based on the current favorable interest rates in the bond market, it is recommended that the 1999 Bonds be refunded. Staff believes that the fund balance of the wastewater enterprise is sufficient for anticipated capital improvement projects and does not recommend raising additional proceeds for capital through this re-financing.

DISCUSSION:

Based on today's bond market, Stone and Youngberg (the City's Underwriter) and Fieldman Rolapp & Associates (the City's Financial Advisor) recommend issuing approximately $21.2 million in Wastewater Facilities Refunding Revenue Bonds, 2009 Series A (the "Refunding Bonds") to refund the 1999 Bonds to realize economic savings. The Refunding Bonds will be paid over 20 years with the same 2029 final maturity as the 1999 Bonds. The Refunding Bonds will reduce the annual debt payments from approximately $1.71 million to approximately $1.64 million; a decrease of approximately $70,000 per year. In today's dollars, this represents approximately $900,000 of savings. The operating revenues generated from the City's Wastewater Enterprise Fund will be the sole revenues pledged for repayment of these bonds (no General Funds will be obligated).

Staff is recommending that City Council approve the issuance of up to $23 million of Refunding Bonds. Council authorization of a maximum issuance of $23 million in Refunding Bonds provides staff with the flexibility to capture optimum benefits from the refinancing as interest rates continue to shift.

Moving forward with the issuance of these bonds will require the approval of a Master Resolution and Supplemental Resolution by the City Council. These resolutions authorize all of the necessary actions relating to the proposed bond financing, including the approval of the various financing documents (available for review at the City Clerk's Office), and authorizing and directing City officials to execute all of the related documents to successfully complete the transaction.

Attached separately is the draft Preliminary Official Statement (the bond prospectus). The Preliminary Official Statement contains excerpts from various draft bond documents along with a history of the operating revenues of the Wastewater Enterprise Fund which are pledged for repayment of the bonds.

Also attached is the Continuing Disclosure Agreement, which details certain information the City will provide on an annual basis to bondholders and interested parties. The Escrow Agreement and Bond Purchase Agreement are also attached for approval to complete the transaction.

FISCAL ANALYSIS:

The fiscal impact of the issuance of the proposed $21.2 million of Refunding Bonds by the City will result in refunding approximately $20.7 million in outstanding 1999 Bonds. The net operating revenues of the Wastewater Enterprise Fund will be sufficient to support the repayment of the new bonds and shall be the sole revenues pledged for repayment of the new bonds. The City shall not have any obligation to pay these bonds from any other sources of revenues.

ATTACHMENTS:

1. Master Resolution
2. First Supplemental Resolution
3. Preliminary Official Statement
4. Continuing Disclosure Agreement
5. Escrow Agreement
6. Bond Purchase Agreement

MOTION:

That the City Council:

1. Adopt the Master Resolution and First Supplemental Resolution allowing the refunding of the 1999 Wastewater Facilities Refunding Revenue Bonds; and,

2. Approve the Preliminary Official Statement for the 2009 Series A Wastewater Facilities Refunding Revenue Bonds; and,

3. Approve the Continuing Disclosure Agreement, Escrow Agreement and Bond Purchase Agreement allowing the refunding of the 1999 Wastewater Facilities Refunding Revenue Bonds; and,

4. Authorize the City Attorney to review/prepare the necessary documents; and,

5. Authorize the Mayor, City Manager, and other appropriate City Officials to execute such documents on behalf of the City.