City of Culver City, California

City Council Agenda Item Report

Meeting Date: 06/08/09	Item Number: C-4
AGENDA ITEM: Approval of Members of Financing Team for Refunding of the 1999 Wastewater Facilities Refunding Revenue Bonds and Approval of Professional Services Agreements with Fieldman Rolapp and Associates and Richards, Watson, and Gershon.	
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: [] Attachments: []	
Public Notification: Master E-Mail Notification List (6/3/09); Fieldman Rolapp via email (6/4/09); Richards Watson Gershon via email (6/4/09)	
Department Approval: Jeff Muir (06/02/09)	City Attorney Approval: Carol Schwab (by H. Baker) (06/03/09)
Chief Financial Officer Approval: Jeff Muir (06/02/09)	City Manager Approval: Mark Scott (06/03/09)

RECOMMENDATION:

Staff recommends the City Council approve the selection of Fieldman Rolapp & Associates, Inc. for financial advisory services and Richards, Watson & Gershon to serve as bond and disclosure counsel, for the refunding of the Wastewater Facilities Refunding Revenue Bonds, 1999 Series A and approve related professional services agreements.

BACKGROUND/DISCUSSION:

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. A bond refunding is basically refinancing existing debt to take advantage of lower market rates, much like a homeowner would refinance their mortgage to get a lower interest rate. Staff has worked closely with the City's 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 would recognize approximately $1.7 million in net present value (NPV) savings by refunding the bonds. This is an approximate savings of nearly $140,000 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% NPV savings, it is worth pursuing. In this case, the estimated NPV savings based on the current market is 8.3%, well beyond the 3% threshold. Therefore, the Finance Department, after consultation with the Public Works Department and City Manager, has started the process to refund the 1999 bonds.

Part of the process in the refunding is approval of the Financing Team. The Financing Team includes the City staff and the professionals hired to consummate the transaction. The primary members of the financing team besides staff are the bond/disclosure counsel and the financial advisor.

Richards, Watson & Gershon is a professional law firm that is well known and widely respected in the municipal bond market. They have an extremely long history in Culver City, having previously served as bond/disclosure counsel on the City's earlier Wastewater bonds as well as the Redevelopment Agency Tax Allocation bonds. Because of their familiarity with the City and its sewer operation, staff recommends Richards, Watson & Gershon serve as bond and disclosure counsel for this transaction.

Fieldman Rolapp is a financial and investment advisory firm with extensive experience in various municipal finance sectors, including water agencies, cities, redevelopment agencies, school districts, and utilities. Fieldman Rolapp has provided general financial advisory services to the Culver City Redevelopment Agency since February 2006 and the City since April 2007. It was Fieldman Rolapp that presented the information that the 1999 Wastewater bonds were a prime candidate for refunding. Staff recommends Fieldman Rolapp continue to serve as the City's financial advisor for this transaction.

As additional information for the City Council, staff has also gone through an RFP process to select an underwriting firm for this transaction. An RFP was sent to six underwriting firms, and proposals were evaluated and ranked based on various criteria in conjunction with Fieldman Rolapp. Stone & Youngberg was selected as the most qualified firm for this transaction. They have a strong focus in the revenue bond market, and are very knowledgeable of the City having served as underwriter on the City's previous Wastewater bonds as well as the Agency's various bond deals. The formal agreement with Stone & Youngberg will be documented in the Bond Purchase Agreement which will be brought to the Council at the meeting of June 22nd. The City Council will also be asked to approve the Preliminary Official Statement and related bond documents at this meeting. Staff anticipates being out to market in early July and closing prior to the end of July.

FISCAL ANALYSIS:

The total fee for Richards, Watson & Gershon to serve as bond and disclosure counsel is $77,000 plus out-of-pocket expenses up to $1,500. The fee for Fieldman Rolapp is $57,500. These fees will be included in the cost of issuance and paid through the bond proceeds. There will be no direct payment made by the City. This transaction is estimated to result in a net present value savings to the Sewer fund of $1.7 million.

MOTION:

That the City Council:

1. Approve a professional services agreement with Fieldman Rolapp & Associates, Inc. in a not to exceed amount of $57,500; and,

2. Approve a professional services agreement with Richards, Watson & Gershon in a not to exceed amount of $78,500; and,

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

4. Authorize the City Manager to execute such documents on behalf of the City.