

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL MEMBERS
FROM: KIMBERLY ZUNINO, DEPUTY DIRECTOR ADMINISTRATION
SANTA ROSA WATER
SUBJECT: WASTEWATER REVENUE BONDS, SERIES 2020A AND
WASTEWATER REVENUE REFUNDING BONDS, SERIES 2020B
(FEDERALLY TAXABLE)

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by the Finance Department, the Water Department, and the Board of Public Utilities that the Council, by resolution, approve the forms of the Preliminary Official Statement, Continuing Disclosure Certificate, Twenty-First Supplemental Indenture of Trust, Escrow Deposit and Trust Agreement and Bond Purchase Agreement in connection with the issuance of Wastewater Revenue Bonds, Series 2020A (the “2020A Bonds”) and Wastewater Revenue Refunding Bonds, Series 2020B (Federally Taxable) (the “2020B Bonds”; collectively with the 2020A Bonds, the “2020 Bonds”). The 2020A Bonds will be issued to fund capital projects of the wastewater system, and the 2020B Bonds will be issued on a taxable basis to redeem certain outstanding wastewater revenue bonds for debt service savings.

EXECUTIVE SUMMARY

The proposed resolution would provide for the approval of the documents listed above and attached to this staff report in substantially the form presented, subject to the insertion of principal amounts, interest rates and other pricing information following sale of the 2020A and 2020B Bonds. The resolution authorizes the Mayor, the City Manager, the Assistant City Managers and the Chief Financial Officer to execute and deliver the documents with such changes, insertions and omissions as they deem necessary, in some cases subject to approval of the City Attorney and Bond Counsel.

BACKGROUND

The City intends to issue the 2020A Bonds to finance, among other things, a proposed Ultraviolet Disinfection and Diversion Improvements Project (the “Project”). The Project

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will be located at the southwesterly corner of the Laguna Wastewater Treatment Plant and is expected to consist of the following: 1) replacement and relocation of ultraviolet light disinfection facilities; 2) construction of new flow diversion facilities; 3) construction of new electrical load center; 4) modification and consolidation of stormwater improvements; and 5) replacement and relocation of the construction trailer. The total project cost is estimated at \$70 million.

Additionally, the City has previously issued multiple series of wastewater revenue bonds (“Bonds”) pursuant to an Indenture of Trust dated as of February 1, 1988 (the “Master Indenture”), by and between the City and U.S. Bank National Association (the “Trustee”), as successor trustee, and multiple supplements to the Master Indenture, including the City of Santa Rosa Wastewater Revenue Refunding Bonds, Series 2012A, which were issued pursuant to a Seventeenth Supplemental Indenture, dated as of May 1, 2012 (the “Series 2012A Bonds”) and are callable on September 1, 2022. Staff has determined that the City can generate debt service savings by issuing its Wastewater Revenue Refunding Bonds, Series 2020B (Federally Taxable) (the “Series 2020B Bonds”) at this time for the purpose of defeasing, paying, and redeeming the outstanding Series 2012A Bonds. The 2020B Bonds are to be issued on a taxable basis to comply with federal tax law.

PRIOR CITY COUNCIL REVIEW

Not applicable.

ANALYSIS

The maximum effective interest rate on the proposed Series 2020A Wastewater Revenue Bonds is capped at 4.5%. Debt service on the 2020A Bonds is estimated to increase annual payments on the City’s outstanding wastewater debt initially by approximately \$2.29 million, for a total of approximately \$26.5 million through 2030, dropping down to approximately \$4.54 million annually through the final maturity of the 2020A Bonds, which is expected to be September 1, 2051.

The underwriter’s compensation on the Series 2020A Wastewater Revenue Bonds is capped at 0.5% of the par amount of bonds sold. Other transaction costs are estimated at \$252,000 and will be paid from the proceeds of the bonds.

The 2020B Bonds will be issued to defease, pay, and refund all or a portion of the Series 2012A Bonds. The maximum effective interest rate on the proposed Series 2020B Wastewater Revenue Refunding Bonds is capped at 3.5% and the par amount of the bonds may not exceed \$70,000,000. The underwriter’s compensation on the 2020B Bonds is capped at 0.5% of the par amount of 2020B Bonds sold. Other transaction costs are estimated at \$248,000 and will be paid from the proceeds of the 2020B Bonds. The 2020B Bonds will not extend the term of the 2012A Bonds being refinanced.

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The Net Present Value savings generated by the refunding will be at least 3% of the outstanding principal amount of the Series 2012A Bonds. Current Net Present Value savings are estimated at approximately \$6.8 million, or 12.1%. The estimated annual cashflow savings (based on current market conditions, which may change between now and the time that the 2020B Bonds are issued) are approximately \$527,000.

The 2020 Bonds are payable from net revenues of the City's wastewater system (the "Wastewater System"). The attached Preliminary Official Statement has been reviewed and approved for transmittal to the City Council by City staff and its financing team. The Preliminary Official Statement must include all facts that would be material to an investor in the 2020 Bonds. Material information is information that there is a substantial likelihood would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the 2020 Bonds. Members of the City Council may review the Preliminary Official Statement and/or question staff and consultants to make sure they feel comfortable that it includes all material facts. The key provisions of the Preliminary Official Statement include:

- The terms of the 2020A and 2020B Bonds are summarized on the cover/inside cover and the section entitled "THE SERIES 2020 BONDS."
- The security for the 2020 Bonds is described in the section entitled "SECURITY FOR THE SERIES 2020 BONDS." The 2020 Bonds are secured by a pledge of and payable from net revenues of the Wastewater System.
- The Wastewater System is described in the section entitled "THE ENTERPRISE."
- The key risk factors posed to owners of the 2020 Bonds are summarized in the section entitled "RISK FACTORS."

FISCAL IMPACT

The issuance of the 2020A Bonds is estimated to increase the annual debt service obligations of the wastewater system by \$2.29 million, to a total of approximately \$26 million through FY2030, dropping down thereafter to \$4.54 million from FY2035 through FY2051. The issuance of the 2020B bonds is expected to generate approximately \$527,000 in annual debt service savings through FY2034.

The proposed refunding of the Series 2012A Bonds offers an additional benefit to the Wastewater System. The Nineteenth Supplemental Indenture related to the City's Wastewater Revenue Refunding Bonds, Series 2016A ("Series 2016A Bonds") contained a "springing amendment" that would, upon its effectiveness, amend the Master Indenture to, among other things, eliminate the requirement for the City to fund the Reserve Account as a condition to the issuance of Bonds. The Nineteenth Supplemental Indenture provided that the springing amendment would become effective at such time as the Series 2016A

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Bonds and any series of Bonds issued thereafter constitute at least a majority in aggregate principal amount of the Bonds then Outstanding.

Upon the issuance of the Series 2020 Bonds, and assuming full redemption of the Series 2012A Bonds, the Series 2016A Bonds, the City's Wastewater Revenue Refunding Bonds, Series 2018A ("Series 2018A Bonds") and the Series 2020 Bonds together will equal at least a majority in aggregate principal amount of the Bonds Outstanding and the Springing Amendment in the Nineteenth Supplemental Indenture will become effective. As a result, the City will not need to fund a deposit to the Reserve Account for the Series 2020 Bonds and the City will be able to withdraw approximately \$4,000,000 in the Reserve Account related to the Series 2016A Bonds and the Series 2018A Bonds for expenditure on capital projects of the Wastewater Enterprise.

ENVIRONMENTAL IMPACT

This action is exempt from the California Environmental Quality Act (CEQA) because it is not a project that has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, pursuant to CEQA Guideline section 15378.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

At its October 15, 2020 meeting the Board of Public Utilities, by resolution, recommended that the City Council authorize issuance of the Series 2020A and 2020B Bonds.

NOTIFICATION

Not applicable.

ATTACHMENTS

- Attachment 1 – Preliminary Official Statement (including Continuing Disclosure Certificate as an exhibit)
- Attachment 2 – Twenty-First Supplemental Indenture of Trust
- Attachment 3 – Escrow Deposit and Trust Agreement
- Attachment 4 – Bond Purchase Agreement
- Resolution

CONTACT

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