

City of Santa Rosa

Proposed Refinance of the
2003 Pension Obligation Refunding Bonds,
Series A (Variable Rate) & Series B (Fixed Rate)

Agenda

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2. 2003 POBs Series A (Variable Rate)

3. 2003 POBs Series B (Fixed Rate)

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6. Market Update

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1. Overview

Overview

- In July 2003, the City issued \$50.67 million of Pension Obligation Bonds (POBs) and the maturity date is 9/1/2024

(\$ in millions)

2003 POBs Series A Variable Rate	2003 POBs Series B Fixed Rate	TOTAL
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Original Par Amount	\$20.50	\$30.17	\$50.67
Outstanding	\$14.19	\$24.13	\$38.32

- The proceeds from the sales of POBs were delivered to CalPERS to pay a portion of pension unfunded liability

Overview

- Since the recession in 2008, the Federal Reserve has been keeping its short-term interest rate low to stimulate economic recovery
- This creates an opportunity to capture the historically low fixed rate environment and to refinance the POBs with a lower fixed rate

Overview

- Proposed POBs refinancing:
 - Maintain current maturity date
 - Refinance only the outstanding principal and cost of issuance
 - Take into consideration of CalPERS employer contribution rates increase in FY 2015/16 due to amortization and smoothing policies change
- The Financing Team including
 - PFM - City's Financial Advisor
 - Jones Hall - Bond Counsel
 - Stifel, Nicolaus & Co. - Underwriter

2. 2003 POBs, Series A (Variable Rate)

2003 POBs Series A (Variable Rate)

- Original par amount \$20.50 M
- Outstanding \$14.19 M
- The variable rates have been extraordinary low due to Federal Reserve action
- The current all-in cost is about 1.10% and is expected to rise
- Based on the history of variable rates over the past 30 years, the projected all-in cost over the remaining term of the POBs would be approximately 3.62%

2003 POBs Series A (Variable Rate)

- The variable rate bonds require an Irrevocable Letter of Credit (LOC) issued by a bank
- The current LOC with Wells Fargo Bank will expire in June 2014
- Complying with LOC requirement has become a challenge due to financial uncertainty with California governments and very few LOC banks in the market
- The LOC would require a renewal and replacement every 1 to 3 years with the potential of rising costs at each renewal

2003 POBs Series A (Variable Rate)

- The consequences of not providing a substitute LOC is that the bonds become ‘bank bonds’
- The ‘bank bonds’ bear interest at a rate of
 - 7% or higher for the first 180 days and
 - 8% or higher thereafter
- In addition, the Bonds held by the bank convert to a 3-year term loan and must be fully repaid by the end of the third year
- This would create a severe financial hardship for the City

2003 POBs Series A (Variable Rate)

- Refinancing Objectives:
 - Reduce the risk of obtaining a LOC
 - Reduce the risk of rising LOC costs due to fewer LOC banks in the market
 - Remove the risk of short term rates increasing
 - Capture historically low fixed rate environment
 - Provide for predictable budgeting and planning

2003 POBs Series A (Variable Rate)

- Since 2005, the City has budgeted annual debt services of the 2003 POBs Series A (Variable Rate) at the higher fixed rate
- This has allowed the City to pay down an additional \$3.05 million of principal

2003 POBs Series A (Variable Rate)

- The proposed refinancing includes a City contribution of \$4 million to pay down principal of the POBs

\$1.65 M - Property Tax Admin. Fee settlement

\$0.81 M - Enterprise & Internal Services Funds

\$1.54 M - Debt Services Fund

\$4.00 M TOTAL

3. 2003 POBs, Series B (Fixed Rate)

2003 POBs Series B (Fixed Rate)

- Original par amount \$30.17 M
- Outstanding \$24.13 M
- Current interest rate 4.30%
- 2014 interest rate 4.90% ↑
- 2019 interest rate 5.40% ↑

- In the current market, the weighted average interest rate is estimated at 3.40%

2003 POBs Series B (Fixed Rate)

- Refinancing Objectives:
 - Capture historically low fixed rate environment
 - Refinance to a lower fixed rate over the remaining term of the POBs

Current Debt Services Vs New Debt Services

(\$ in millions)

	Fiscal Year	2003 POBs A&B Debt Services	2013 POBs Debt Services
1	2013/14	\$3.10	\$0.63
2	2014/15	\$3.47	\$4.10
3	2015/16	\$3.83	\$3.60
4	2016/17	\$3.96	\$3.60
5	2017/18	\$4.17	\$3.60
6	2018/19	\$4.24	\$3.60
7	2019/20	\$4.32	\$3.60
8	2020/21	\$4.39	\$3.60
9	2021/22	\$4.47	\$3.60
10	2022/23	\$4.56	\$3.60
11	2023/24	\$4.64	\$3.60
12	2024/25	\$4.72	\$3.60

4. Bond Refunding Documentation

Chris Lynch, Jones Hall

Bond Refunding Documentation

- Documents presented will accomplish the Refunding of the 2003 POBs:
- **City Council Authorizing Resolution**
 - Authorize the use of Property Tax Administration Fee settlement, Enterprise, Internal Services and Debt Services Funds to pay down \$4 million principal of 2003 POBs
 - Authorize the issuance and sale of the Bonds, and approve associated legal documents

Bond Refunding Documentation

- **City Council Authorizing Resolution-Cont.**
 - Principal amount of the Bonds will not exceed \$35 million
 - True interest cost (rate) on the Bonds will not exceed 4%
 - Approve the sale of the Bonds to Stifel, Nicolaus & Company (Underwriter)
 - Discount paid will not exceed one-half of one percent of the par amount of the Bonds

Bond Refunding Documentation

- **Indenture of Trust**
 - Contract between the City and U.S. Bank National Association (the Trustee)
 - Establish the flow of funds to the Trustee and then to Bondholders
 - Provide the mechanics for the payoff of the 2003 POBs Series A (Variable Rate) on the Closing Date
 - Set forth the terms of the Bonds, including interest rates, redemption and payment terms

Bond Refunding Documentation

- **Escrow Agreement**
 - Contract between the Trustee, acting as Escrow Bank, and City, providing for the funding of the Escrow and payment of redemption price of the 2003 POBs Series B (Fixed Rate)
- **Preliminary Official Statement**
 - Offering document which describes the City, the economic activity in the City and Sonoma County area, the Bond structure, security and terms

Bond Refunding Documentation

- **Bond Purchase Agreement**
 - Contract between the City and the Underwriter, in which the City agrees to sell the Bonds to the Underwriter
 - Underwriter agrees to buy the Bonds at agreed upon interest rates and maturity amounts
 - Bond Purchase Agreement sets forth the key terms of the Bonds, and conditions to the City's and the Underwriter's obligations to complete the closing of the Bond sale and closing (expected in early August)

5. Projected Savings

Sarah Hollenbeck, PFM

Projected Refunding Savings (\$000s)

2003A Debt Service (Estimated)	\$ 16,772
2003B Debt Service	\$ 33,086
Subtotal 2003 A&B Debt Service	\$ 49,858
Projected 2013 Debt Service	\$ 40,691
Cash Flow Savings	\$ 9,167
Present Value Savings	\$ 7,351
Less Principal Paydown	\$ 4,000
Less 2013 Debt Service Payment	\$ 2,481
Net Present Value Savings	\$ 870

Costs of Issuance

Public Financial Management	\$ 57,500
Bond Counsel	\$ 50,000
Rating Agency (S&P's)	\$ 25,000*
Disclosure Counsel	\$ 35,000
Other Costs (Verification Agent, Trustee/Escrow, Printing)	\$ 10,523*
Contingency	\$ 11,977
Total	\$ 190,000

* Estimated

- Underwriter's Discount, a fee per \$1,000 of bonds sold, is estimated at \$60,039 (\$1.83/bond)

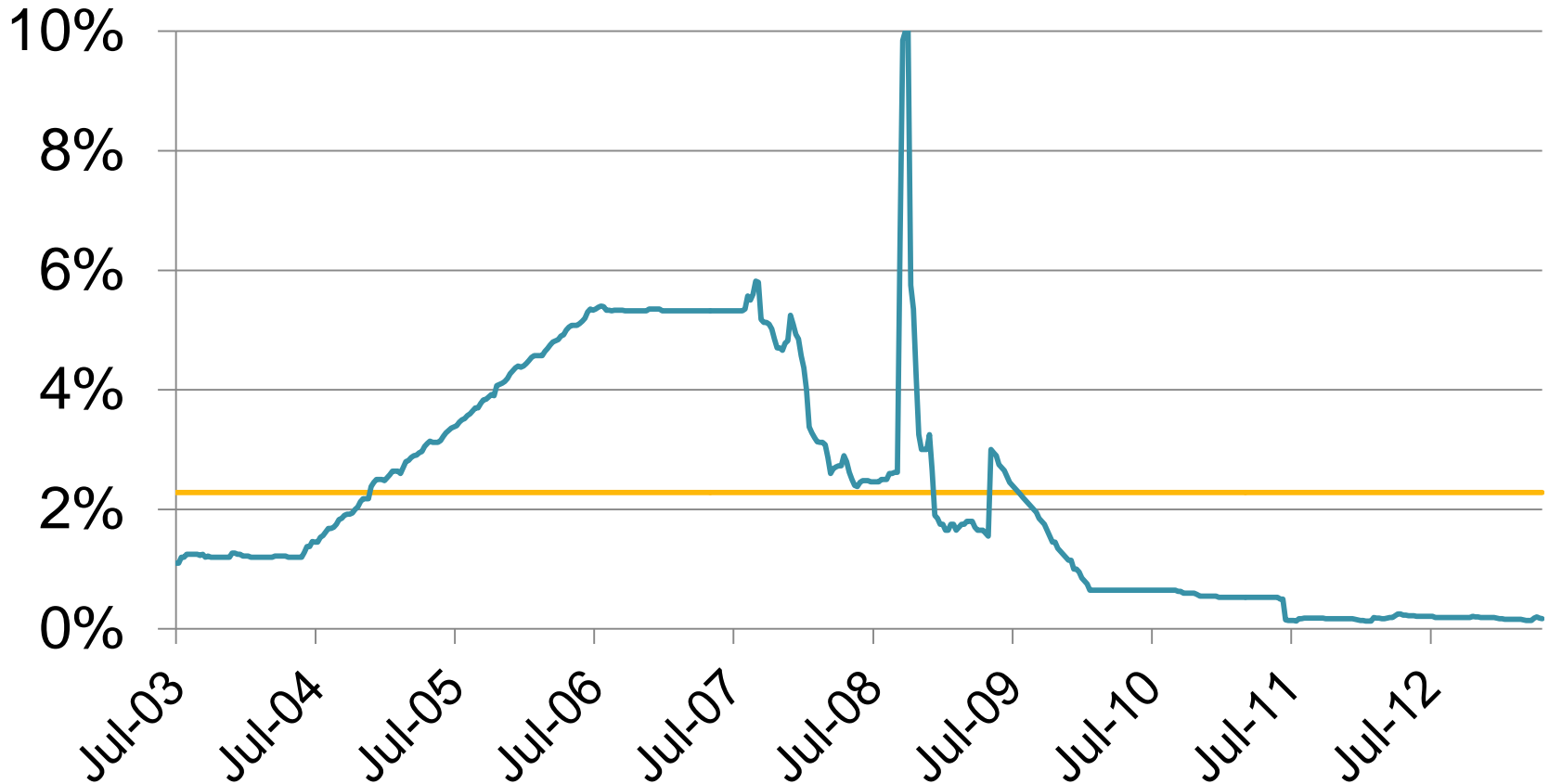
2003 POBs Series A (Variable Rate)

Considerations

- Short term rates are being held artificially low as a result of the Federal Reserve's stimulus policy
- Current variable rate on 2003 POBs Series A is 0.17%
- Historic average weekly rate since issuance in 2003 is 2.28%
- In addition to the weekly interest rate, the City pay support costs currently totaling about 0.95%

Short Term Rates

2003A Variable Rates Since Issuance



— Average Rate Since 7/16/03 (2.28%) — 2003A Bonds

Letter of Credit (LOC) Considerations

- Shrinking LOC market, deterioration of bank credit ratings
 - Pool of creditworthy LOC banks has shrunk
 - More difficult to get bids and negotiate favorable terms
- Every 1-3 years the City faces risk of renewing or replacing LOC and the costs may rise

Letter of Credit (LOC) Considerations, (cont'd)

- Credit risks associated with relying on an LOC bank
 - If City's credit rating decreases, the LOC fees increase
 - If the LOC bank's credit rating decreases, the variable rate will increase

Letter of Credit (LOC) Bank Ratings

LOC Bank	Moody's ¹	S&P ¹
J.P. Morgan	Aa3/P-1	A+/A-1
Bank of America	A3/P-2	A/A-1
Citigroup	A3/P-2	A/A-1
Wells Fargo	Aa3/P-1	AA-/A-1+
U.S. Bancorp	Aa3/P-1	AA-/A-1+
PNC	A2/P-1	A/A-1
SunTrust	A3/P-2	BBB+/A-2
Fifth Third	A3/P-2	BBB+/A-2
Regions	Baa3/P-3	BBB/A-2
KeyCorp	A3/P-2	A-/A-2

¹Long Term/Senior Unsecured and Short Term/Commercial Paper

2003 POBs Series B (Fixed Rate) Projected Savings

- By refunding 2003 POBs Series B (Fixed Rate), the City expects to lower the average interest rate of the outstanding bonds from 5.18% to approximately 3.40%
- This results in significant savings:
 - \$1.75 million in net present value savings, representing 7.26% of the refunded 2003 POBs Series B principal
 - \$4.33 million in gross cash flow (budgetary) savings

2013 POBs Debt Service Structure

- Debt service on the 2013 refunding bonds will be \$4.1 million in fiscal year 2015 and level in each subsequent fiscal year
- The City is making a responsible financial decision to pay substantially level debt service, instead of the escalating debt service structure which was used on the 2003 refunded bonds
- Converting the 2003 POBs Series A (Variable Rate) bonds to fixed rate creates budget certainty and eliminates risk

Estimated Financing Schedule

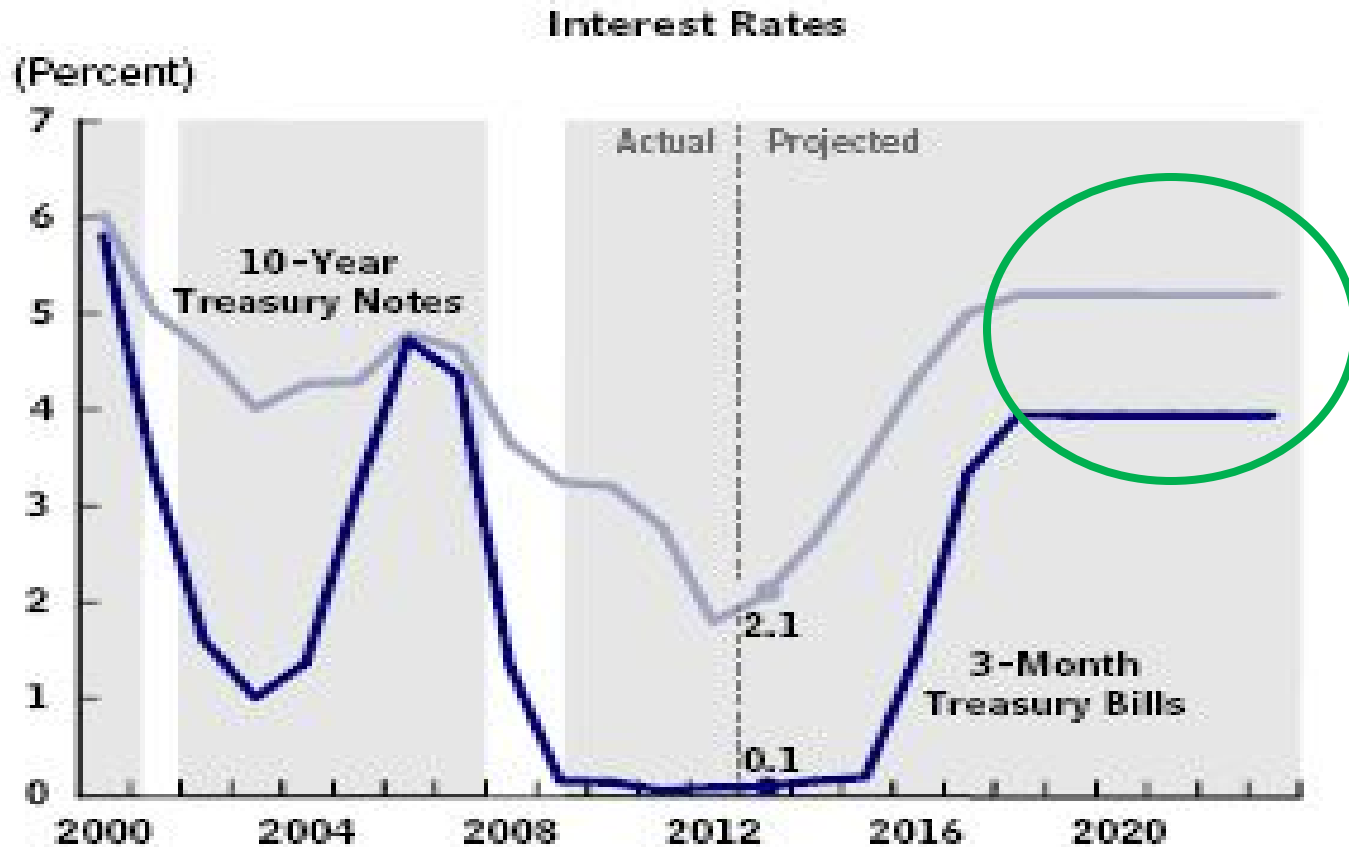
Date	Action Item
May 21	City Council Presentation
June 3	Meeting with Standard & Poor's
Mid-June	Receive Rating
Early July	Post Preliminary Official Statement
Mid-July	Pricing of 2013 POBs
Mid-August	Closing – Delivery of funds Redeem 2003A Variable Rate Bonds
September 3	Redeem 2003B Fixed Rate Bonds

6. Market Update

Sohail Bengali, Stifel, Nicolaus & Co.

CBO* Outlook (Q1:2013) on Economy & Interest Rates (Long Term)

5-10 Year Horizon: 10-yr Treasury rising to 5% by 2018



* Congressional Budget Office Projections

Where are Taxable Interest Rates Headed (Near Term)? Our View.

Short Term Outlook has little change,
Medium Term Outlook portends higher rates

- Federal's zero interest rate policy is in place for at least two more years
- Rates to fluctuate within very narrow ranges throughout 2013. A modest trend toward slightly higher yields and an incrementally steeper yield curve

Where are Taxable Interest Rates Headed (Near Term)? Our View.

Market-Surveyed Forecasts¹ (%)

	Current 03/10/13	Q1 '13 Forecast	Q2 '13 Forecast	Q3 '13 Forecast	Q4 '13 Forecast
Fed Funds Target ²	0.25	0.25	0.25	0.25	0.25
2-Year T-note	0.25	0.26	0.29	0.36	0.43
10-Year T-note	2.05	1.86	2.00	2.15	2.31
30-Year Bond	3.25	3.03	3.15	3.26	3.41

Current Rates³ (%)

Securities Industry and Financial Markets Association (SIFMA) Index	0.10
Bond Buyer 20 – Bond Index GO	3.86
Bond Buyer Revenue Bond Index	4.31

Economic Data⁴ (%)

	Q4 '12 Actual	Q1 '13 Forecast	Q2 '13 Forecast	Q3 '13 Forecast	Q4 '13 Forecast
Real GDP	0.10	1.80	2.00	2.50	2.70
Consumer Prices	1.90	1.60	2.00	1.90	2.00
Unemployment (%)	7.83	7.80	7.80	7.60	7.50

¹ Bloomberg Surveys as of March 10, 2013.

² On December 16, 2008, the Fed lowered its target rate to a range of 0.00% - 0.25%.

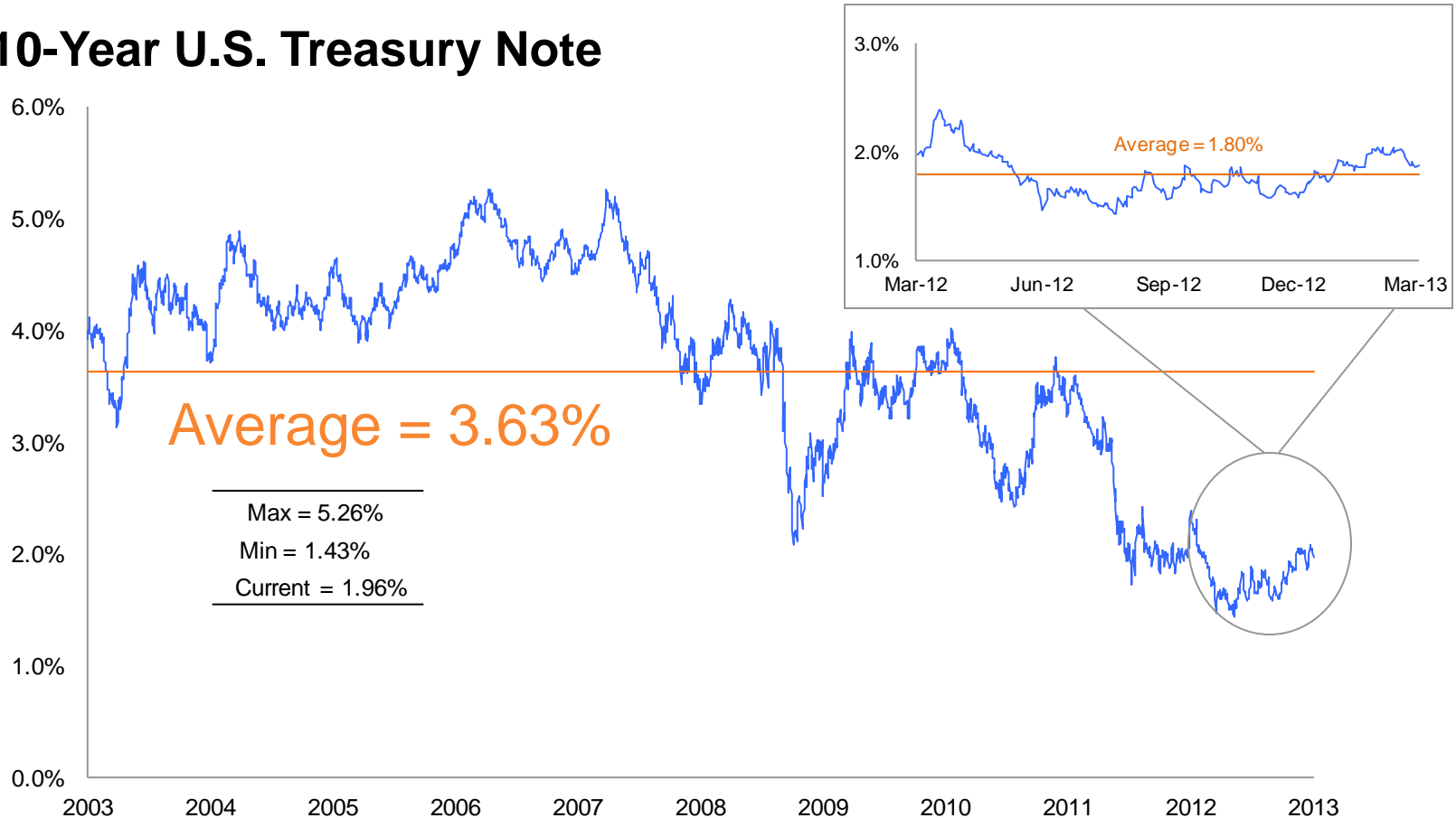
³ Market data as of March 10, 2013.

⁴ Bloomberg Surveys as of March 10, 2013.

10-Year Treasury Yields: Index for 2003 POBs Series B (Fixed Rate)

Well below average & unique opportunity to lock in low fixed rates

10-Year U.S. Treasury Note



7. Summary and Recommendations

Summary

- Proposed financing:
 - Remove the risk associate with renewing a required Letter of Credit
 - Remove the risk of short term interest rates increasing
 - Capture historically low fixed interest rate
 - Provide for predictable budgeting and planning

Recommendations

It is recommended by the Finance Department that the Council, by Resolution,

- (1) Approve the refunding of outstanding 2003 POBs Series A (Variable Rate) and Series B (Fixed Rate)
- (2) Approve an appropriation of City funds to the prepayment of the 2003 POBs in the amount of \$4 million from the one-time Property Tax Administration Fee settlement, Enterprise, Internal Services and Debt Services Funds

Recommendations (cont'd)

- (3) Approve the issuance of POBs (Federally Taxable), Series 2013 in a principal amount of not-to-exceed \$35 million
- (4) Approve a Preliminary Official Statement
- (5) Approve and authorize the execution of related documents by the City Manager, Chief Financial Officer or their respected delegates and action with respect thereto

Questions