



CITY OF MARTINEZ

**CITY COUNCIL AGENDA
October 19, 2011**

TO: Mayor and City Council

FROM: Alan H. Shear, Assistant City Manager
Cathy Spinella, Finance Manager

SUBJECT: Refinancing of the Certificates of Participation 1999 Water System Improvement Project Bond

DATE: October 4, 2011

RECOMMENDATION:

Staff recommends the City Council adopt a resolution directing staff to take actions related to the refinancing of the Certificates of Participation (1999 Water System Improvement Project) bond and issuing new bond money up to \$5 Million for future water projects

BACKGROUND:

In 1999, the City issued \$6,040,000 in Certificates of Participation (the “1999 Certificates”) to finance various improvements to the City’s municipal water system. The interest rates on the 1999 Certificates range from 4.95% in 2012 to 5.375% in their final maturity of December 1, 2026.

DISCUSSION:

The City may have an opportunity to refund and refinance the 1999 Certificates in today’s market, keep the same amortization of the obligations and realize average annual savings of approximately \$52,135. The total nominal dollar savings from the refunding of the 1999 Certificates would be approximately \$782,029. The present value of these future savings would be \$628,468 for a net present value savings as a percentage of the outstanding Certificates of 14.15%. The industry rule of thumb is that anytime the net present value savings exceeds 3% the City should undertake the refunding. The 1999 Certificates are able to be refunded anytime after December 1, 2009 and are callable on any date, and without premium beginning on December 1, 2011. There is currently \$4,440,000 principal outstanding on the issue.

The Water Treatment Plant Master Plan is scheduled for completion in approximately a month. It has identified the following projects as necessary improvements to the water system in order to maintain a reliable and high quality water supply in Martinez:

- Water Treatment Plant Major Electrical Projects
- Water Treatment Plant Structural reinforcing Projects
- Harbor View Reservoir Replacement

Staff is requesting the authority to take actions related to issuing new bond money of up to \$5 Million for these projects. At this point, staff is requesting authority to work with the appropriate financial and legal advisors to refund and refinance the 1999 Certificates and issue an additional amount up to \$5 Million in new money proceeds.

FINANCING STRUCTURE AND FISCAL IMPACT

The transaction is being structured assuming an underlying rating of AA by Standard and Poor's rating services, and the procurement of bond insurance and a surety bond for the reserve fund. The procurement of bond insurance would give the issue an AA+ rating. Although the City's underlying credit rating is very strong, purchasing bond insurance provides the opportunity to purchase a surety bond for the reserve fund through the bond insurer (in lieu of a cash/bond proceeds funded reserve fund). This provides the best savings overall. If the original issue had been structured with a cash/bond proceeds funded reserve fund, refunding the COPs could be structured with just the published underlying rating, without bond insurance.

Staff is recommending that the refunding of the 1999 Certificates to be done through a public offering. Through this type of sale, an underwriter purchases bonds from the issuer with the intent to resell the bonds to investors. The sale of bonds can be made to large investors such as mutual funds and insurance companies, commonly known as institutional investors, or to individual investors, commonly known as retail investors.

The new project fund of up to \$5 Million is also recommended for a public offering at a 15 year term, to match the final maturity of the 1999 COPs. For a public offering of combined refunding and \$5 Million of new bond money at a 15 year term, the annual average debt service is \$810,562. There is an option to extend the new project fund money to a 20 year term; the combined refunding and \$5 Million of new bond money would have an annual average debt service of \$754,982 for the first 15 years and then \$325,940 for the last five years.

Financing Team Participants

In order to proceed with the financing it is necessary that the City hire the expert consultants to perform the technical work associated with this type of financial transaction. Included in the Resolution that Council is being asked to adopt is the authorization from Council for Staff to enter into agreements for consulting services with the following firms in the following capacities:

<u>Name of Firm</u>	<u>Role</u>
Jones Hall	Bond and Disclosure Counsel
Brandis Tallman LLC	Underwriter

All fees associated with this financing will be paid from Certificate proceeds.

Financing Schedule

The following is the tentative financing schedule:

Date	Action Item	Date
Week 1	Council approval to proceed with refunding	Oct. 19
Week 2	Distribute first draft of legal documents/POS	Oct. 24
Week 3	Comments on documents	Oct. 31
Week 4	Distribute second draft of legal documents/POS	Nov. 7
	Distribute information to rating agency/bond insurer	
Week 5	Receive Rating	Nov. 14
Week 6	Comments due on second draft of documents and POS	Nov. 21
Week 7	Receive insurance quotes	Nov. 28
	Agenda deadline for documents and POS	
Week 8	City Council Meeting	Dec. 7
Week 9-10	Final preparation of POS	Dec. 14
Week 12	POS distributed to investors	Jan. 2
Week 13	Pre-price and Price Bonds	Jan. 9
Week 14	Closing Preparation	Jan. 16
Week 15	Close and fund transaction	Jan. 23

ACTION:

Motion approving a resolution directing staff to take actions related to the refinancing of the Certificates of Participation (1999 Water System Improvement Project) and issuing new bond money up to \$5 million for future water projects.

APPROVED BY:



City Manager