



THE CITY OF SAN DIEGO  
**REPORT TO THE CITY COUNCIL**

DATE ISSUED: February 9, 2016 REPORT NO: 16-011

ATTENTION: Council President and City Council

SUBJECT: Public Facilities Financing Authority of City of San Diego Senior Sewer Revenue Refunding Bonds

REFERENCE: City Council Meeting Report No. 15-059, titled Public Facilities Financing Authority of City of San Diego Senior Sewer Revenue Refunding Bonds. dated May 19, 2015

REQUESTED ACTIONS:

1. Authorize the form of and distribution of the Preliminary Official Statement for the Public Facilities Financing Authority of the City of San Diego Senior Sewer Revenue Refunding Bonds, Series 2016A (the "2016A Bonds") and authorize the execution, delivery and distribution of the Official Statement. (The City Attorney will separately docket the Public Facilities Financing Authority ("PFFA") action item for the February 9, 2016 PFFA agenda).
2. Authorize the City Attorney to retain and enter into an agreement with Bond and Disclosure Counsel, Kutak Rock LLP for the 2016A Bonds, in an amount not to exceed \$57,500, plus out-of-pocket expenses not to exceed \$1,500. In the event that the bond offering is not completed, no payment for professional services and the out of pocket expenses will be made to Bond and Disclosure Counsel.
3. Confirm Wells Fargo Bank, National Association, Academy Securities, Bank of America Merrill Lynch and Drexel Hamilton as the Underwriting syndicate for the Series 2016A Bonds, U.S. Bank National Association as the Trustee and Escrow Agent for the Series 2016A Bonds.
4. Authorize the Chief Financial Officer to establish one or more special interest bearing account(s) for the proceeds of the 2016A Bonds.

## STAFF RECOMMENDATION:

Approve the requested actions.

## SUMMARY:

### **I. Background**

In June 2015, the City Council approved an Ordinance (O-2015-21) authorizing the issuance of Senior Sewer Revenue Refunding Bonds in one or more series, through June 30, 2017, in an amount not to exceed \$848.1 million. This Ordinance authorized the refunding of eligible outstanding Sewer Bonds (Series 2009A, 2009B, and 2010A) and outstanding State Revolving Fund (“SRF”) loans subject to the savings thresholds established in the City’s Debt Policy. On September 24, 2015, under this financing authorization, the 2015 Sewer Refunding Bonds (“2015 bonds”) were issued in a par amount of \$313.6 million to advance refund a portion of the 2009A&B Bonds and 2010A Bonds. No SRF loans became eligible for refunding based on the savings threshold established in the City’s Debt Policy. After the issuance of the 2015 Bonds, there is a remaining refunding authorization of \$534.5 million that can be utilized to refinance additional outstanding sewer revenue bonds due to further improvement in tax exempt interest rates.

### **II. Discussion**

#### **A. Plan of Finance**

- **Issuer:** Public Facilities Financing Authority of the City of San Diego.
- **Refunding of Sewer Refunding Bonds:** The current market allows for the advance refunding of all remaining callable 2009A&B Bonds and the 2010A Bonds, totaling \$429.3 million, to achieve the required net present value (NPV) savings of 4% or more.
- **Structure:** Wastewater System supported Sewer Revenue Bonds. Issued under the 2009 Master Indenture and the 1993 Master Installment Purchase Agreement. Sewer System revenue is the repayment pledge with rate covenant protection for bondholders.
- **Debt Service Reserve Fund:** An amendment was introduced through the 2015 bonds (via a Supplemental Indenture) to have the option to eliminate DSRF for 2015 and future bonds. The amendment is expected to go into effect with the execution of the 2016A Bonds and the 2016A Bonds will not have a Debt Service Reserve Fund. Approximately \$10.6 million in reserves associated with the refunded bonds will be released on the closing date of the 2016A Bonds and will be available to partially fund the refunding escrow (see page 5 “Estimated Sources and Uses” for more details).
- **Method of Sale:** Public Offering; Negotiated Sale.

- **Tax Status:** The Sewer Refunding Bonds issued as a tax-exempt issuance. Interest on the Sewer Refunding Bonds will not be included in gross income for federal income tax purpose and will be exempt from present State of California personal income taxes.
- **Repayment Source:** Payable solely from Sewer System Revenues.
- **Final Maturity:** No change from the refunded bonds at 2039.

## **B. City Council Authorization**

The City Council is requested to (i) authorize the Preliminary Official Statement (ii) have the City Attorney appoint the Bond and Disclosure Counsel (iii) confirm the Underwriters, Bond Trustee and Escrow Agent and (iv) authorize the Chief Financial Officer to establish one or more special interest-bearing accounts for the bond proceeds contingent upon approval of the bond documents and contingent upon the issuance of the bonds.

## **C. Legal Documents**

The forms of the Supplemental Indenture, the Supplement of the Master Installment Purchase Agreement, the Escrow Agreement, the Continuing Disclosure Certificate and the Bond Purchase Agreement were all approved during the June 2, 2015 City Council Meeting.

**Preliminary Official Statement** (*the attached document contains various blank placeholders which will be filled in by bond counsel at the time of the bond sale or the bond closing period*):

The Preliminary Official Statement for the 2016A Bonds describes the bond offering to the marketplace and includes information about the structure and plan of refunding, sources and uses of funds, security and sources of payment of the bonds, risk factors and a description of pertinent financial, regulatory, and operational information regarding the Wastewater System. In addition, it provides information that a reasonable investor for this offering would require to make an informed investment decision. Excerpts of the Fiscal Year 2015 Comprehensive Annual Financial Report related to the Wastewater System are incorporated into the POS as an appendix.

In accordance with the Disclosure Practices Working Group (“DPWG”) Controls and Procedures, a Financing Group convened to assist in the preparation of the POS and in identifying and soliciting material from City departments. The Financing Group consisted of the Disclosure Counsel, Deputy City Attorney for Finance, and staff from Public Utilities, Debt Management, and Office of the City Comptroller. Other City departments that contributed to the POS include Risk Management, Financial Management, City Treasurer’s and Human Resources. All of the aforementioned City departments and SDCERS were available to address questions from the Disclosure Counsel, DPWG, and underwriters and their counsel. Representatives from the underwriting syndicate, consisting of senior manager and the underwriter’s counsel have reviewed the POS.

DPWG has reviewed and approved the POS. Consistent with the DPWG Controls and Procedures, necessary certifications from various City management staff involved in the preparation or review of the disclosures will be compiled by DPWG. The certifications of the Mayor, the City Attorney, the Chief Financial Officer, and DPWG will be provided to the City Council prior to the City

Council hearing. Concurrent with this POS authorization, the Public Facilities Financing Authority will convene to approve the form and distribution of the POS, and delivery and distribution of the Official Statement (“OS”).

The POS for the 2016A Bonds is expected to be released during the week of February 29, 2016, prior to which any changes or updates to the POS will be distributed electronically to the City Council by Disclosure Counsel after DPWG review and approval. The 2016A Bonds are planned to be priced in early March, 2016 and bond closing is anticipated to occur in late March/early April 2016.

**FISCAL CONSIDERATIONS:**

**Bond Proceeds, Interest Rate, Projected Debt Service and Savings**

Based on current market conditions approximately all of the outstanding callable 2009A&B and 2010A Bonds are expected to be refunded (\$429.3 million) with the issuance of the 2016A Bonds. The market has seen interest rates move rapidly in the past few months.

The Estimated Sources and Uses are based on interest rates as of January 8, 2015. The total proceeds from the 2016A Bonds are expected to be approximately \$491 million which, together with the monies released from the 2009A&B and 2010A Bonds debt service reserve fund, will be used for the refunding and pay for financing costs of issuance. The estimated \$491 million deposit in the Escrow Fund, along with earnings on the securities in the Escrow Fund, will be utilized by the Escrow Agent to pay the interest due on the refunded bonds until the call dates, and to call the refunded bonds on the respective call dates.

**Estimated Sources and Uses of Funds \***

**Estimated Sources**

2016 Bond Proceeds	\$480,634,987
Release of excess funds from common DSRF <sup>(1)</sup>	\$10,652,910
<b>Total Sources of Funds</b>	<b>\$491,287,897</b>

**Estimated Uses**

Escrow Fund to refund 2009A&B and 2010A Bonds <sup>(2)</sup>	\$490,428,587
Costs of Issuance <sup>(3)</sup>	\$859,310
<b>Total Uses of Funds</b>	<b>\$491,287,897</b>

\* Preliminary; subject to change. Based on interest rates as of January 8, 2016. Assumes an April 6, 2016 delivery date.

<sup>(1)</sup> DSRF is Debt Service Reserve Funds.

<sup>(2)</sup> Includes debt service on the refunded portion of the 2009A&B and 2010A Bonds to their respective call dates (May 15, 2019 and May 15, 2020) and redemption of remaining principal (\$429.3 million) on the call date, net of escrow earnings.

<sup>(3)</sup> Costs of Issuance includes underwriter’s discount, bond and disclosure counsel fees, municipal advisory fees, trustee and escrow fees, verification agent fees, bidding agent fees, rating agency fees, Preliminary Official Statement and Official Statement electronic printing/posting costs. All eligible costs of issuance will be paid from bond proceeds.

This advance refunding scenario provides a cumulative cash flow savings to the Wastewater System of approximately \$74 million over the remaining years of the refunding, an average annual cash flow savings of approximately \$2.3 million in Fiscal Years 2016-2019, \$5.7 million in Fiscal Years 2020-2022, \$2.0 million in Fiscal Years 2023-2026, \$4.6 million in Fiscal Years 2027-2029 and approximately \$2.6 million in Fiscal Years 2030-2039. With the refunding, the new total debt service of the 2016 Bonds is \$654.7 million compared to \$728.8 million of the refunded bonds. The savings are a result of both lower interest rates and use of the DSRF release to fund the escrow. The net present value savings is estimated at 11.2%.

The combined cash flow savings of the 2015 Bonds and the proposed 2016A Bonds refinancing's is anticipated to be in excess of \$100 million in aggregate over next 24 years (FY 2016 – FY 2039) for the Sewer System.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

On January 28, 2015, Debt Management presented four proposed economic refunding items to the Budget and Government Efficiency Committee, of which one was the 2015 Bonds. The Budget and Government Efficiency Committee forwarded the 2015 Bonds to the City Council for approval.

On June 2, 2015, Debt Management presented City Council Meeting Report No. 15-059, titled Public Facilities Financing Authority of City of San Diego Senior Sewer Revenue Refunding Bonds, dated May 19, 2015 which included Ordinance (O-2015-21) that City Council approved.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

In February 2015, the Sewer Refunding Plan was presented to the Independent Rates Oversight Committee (IROC) as an informational item.

In 2007, the Public Utilities Department conducted a Proposition 218 noticing process as part of the approval for the rate increases necessary to support the CIP and corresponding bond issuance projections for the Wastewater Utility.

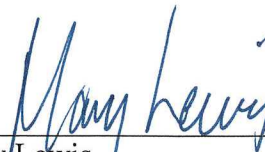
The Public Utilities Department regularly conducts community outreach on a project basis.

KEY STAKEHOLDERS:

Business entities included in the financing: Kutak Rock LLP (Bond and Disclosure Counsel); US Bank, National Association (Trustee/Escrow Agent); Wells Fargo, Academy Securities, Bank of America Merrill Lynch, Drexel Hamilton (Underwriters)



Lakshmi Kommi  
Debt Management Director



Mary Lewis  
Chief Financial Officer