

SUBJECT: CONSIDERATION OF PREPAYING 2013 RABOBANK LEASE AGREEMENT

SOURCE: Administration


COMMENT: In June 1998, the City issued \$20 million in tax-exempt Certificates of Participation (COP) for the purposes of financing the widening of bridges and streets. In November 2005, the City refunded the 1998 COP issue for debt service savings, with the preclusion that the new tax-exempt COP issue could not be again refunded "tax-exempt" sooner than July 1, 2015. However, the 2005 COP could be refunded with a taxable bond issue. Given the favorable financing the City received in the refinancing of its 1997 Sewer Bond issue to initiate the current Annexation Sewer Districts Project, the City began to evaluate the potential advantage of the favorable financing environment to achieve debt service savings on the 2005 COP issue.

At its meeting on September 18, 2012, the City Council approved proceeding with a recommended financing approach to issue a taxable revenue bond, utilizing a Variable Rate Demand Obligation (VRDO) bond structure. One of the requirements of the VRDO refinance was to secure a bank Letter of Credit (LOC). During the course of meeting with banking institutions to secure the LOC, several banks declined to provide a LOC either because they have been (or potentially were to be) "burned" in several municipal bankruptcies (San Bernardino, Stockton, and Vallejo) or that the refinance amount was either too small or beyond their capacity. However, Rabobank indicated significant interest to work with the City, but rather in a direct lending relationship instead of a VRDO financing structure.

Rabobank is one of the highest rated banks internationally and, given their business model emphasis on agriculture, was interested in increasing its presence in the Central Valley, including the South Tulare County/Porterville area. Rabobank completed its due diligence of the City's finances, and satisfied with its review, offered a Term Sheet for the City Council's consideration and approval at its meeting on April 2, 2013.

Under the Rabobank financing effective July 1, 2013, the City defeased the 2005 COP issue with a total lease amount of \$21.06 million, and is

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Appropriated/Funded 

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Item No. 19

making interest-only payments for up to three years based upon a fixed 3.3% interest rate, followed by a 17-year term at United States Dollar (USD) 1-month Libor +2.125% with a “floor” of 3.3%. Currently, USD Libor is 0.16800%, and over the past two years has not exceeded 0.208%. The City is projected to have saved \$1,468,680 in debt service payments through July 1, 2015, when the City is again able to evaluate a tax-exempt bond issuance.

With current instability and weakness of international economies and finances, as well as domestic inflation not meeting the annual target of two percent (2%) given only moderate economic growth and significantly reduced oil prices, the Federal Reserve has indicated that the federal funds rate will likely continue to be held near zero through 2015 (currently 0.12%) and possibly into early 2016, placing the City in an optimum position with the option to switch from the direct loan to either a variable or fixed rate tax exempt bond issue, affording the City with the most financing flexibility and options given historical low interest rates.

Over the past several months, the Mayor, Vice Mayor and City staff have met with Mr. John Fitzgerald and Mr. Ben Levine, who assisted the City with the Rabobank refunding of the 2005 COP issue. The purpose of these meetings have been to evaluate the potential in continuing to take advantage of the current favorable financing environment in the conversion of the Rabobank loan into a new bond issue. In coordination with Mr. Fitzgerald and Mr. Levine, options have been considered in the refinancing of the lease. Given current bond financing rates, the City could refund the Rabobank loan with an annual debt service estimated savings of between \$200,000 and \$400,000 over the remaining 21 years of the lease term, for a total savings value of approximately \$1.5 million, and a net savings of approximately \$2.7 million including the 2 years of reduced debt service under the lease.

The recommended financing approach is to issue new Certificates of Participation, which the current 30-year rate is 2.70%. For the Council’s consideration, a draft resolution has been provided to begin the proceedings toward the refunding of the Rabobank lease issue.

RECOMMENDATION: That the City Council consider proceeding with the refunding of the Rabobank lease issue with the issue of new Certificates of Participation.

ATTACHMENT:

1. 2015 Certificates of Participation – 4% Average Rates
2. 2015 Certificates of Participation – 5% Average Rates
3. Draft Resolution

PORTERVILLE PUBLIC IMPROVEMENT CORPORATION
City of Porterville
2015 CERTIFICATES OF PARTICIPATION

Comparison of Average Taxable Rates of 4.00% with 2015 COPs
(Final Maturity of the 2015 COPs - 2036)

Date	2013 Taxable Rabo Bank Loan				2015 Refunding Certificates of Participation				Savings (Cost)
	Principal	Coupon	Interest	Debt Service	Principal	Coupon	Interest	Debt Service	
2013	0	3.300	319,007	319,007	0	3.30	319,007	319,007	0
2014	0	3.300	694,980	694,980	0	3.30	694,980	694,980	0
2015	0	3.300	694,980	694,980	0	0.00	540,838	540,838	154,142
2016	0	3.300	768,690	768,690	0	0.00	556,843	556,843	211,848
2017	575,000	4.00 *	837,700	1,412,700	720,000	0.70	556,843	1,276,843	135,858
2018	725,000	4.00 *	812,500	1,537,500	770,000	0.95	551,803	1,321,803	215,698
2019	805,000	4.00 *	782,600	1,587,600	825,000	1.20	544,488	1,369,488	218,113
2020	875,000	4.00 *	749,800	1,624,800	860,000	1.40	534,588	1,394,588	230,213
2021	955,000	4.00 *	714,000	1,669,000	900,000	1.60	522,548	1,422,548	246,453
2022	1,035,000	4.00 *	675,000	1,710,000	940,000	1.75	508,148	1,448,148	261,853
2023	1,125,000	4.00 *	632,700	1,757,700	980,000	1.90	491,698	1,471,698	286,003
2024	1,205,000	4.00 *	586,900	1,791,900	1,025,000	2.10	473,078	1,498,078	293,823
2025	1,295,000	4.00 *	537,800	1,832,800	1,060,000	2.25	451,553	1,511,553	321,248
2026	1,420,000	4.00 *	485,000	1,905,000	1,085,000	2.70	427,703	1,512,703	392,298
2027	1,525,000	4.00 *	426,800	1,951,800	1,110,000	2.70	398,408	1,508,408	443,393
2028	1,595,000	4.00 *	365,100	1,960,100	1,140,000	2.70	368,438	1,508,438	451,663
2029	1,660,000	4.00 *	300,500	1,960,500	1,185,000	2.70	337,658	1,522,658	437,843
2030	1,715,000	4.00 *	233,600	1,948,600	1,215,000	2.70	305,663	1,520,663	427,938
2031	1,775,000	4.00 *	164,400	1,939,400	1,250,000	3.35	272,858	1,522,858	416,543
2032	1,835,000	4.00 *	92,800	1,927,800	1,290,000	3.35	230,983	1,520,983	406,818
2033	940,000	4.00 *	18,800	958,800	1,335,000	3.35	187,768	1,522,768	(563,968)
2034	0	0.00	0	0	1,375,000	3.35	143,045	1,518,045	(1,518,045)
2035	0	0.00	0	0	1,425,000	3.35	96,983	1,521,983	(1,521,983)
2036	0	0.00	0	0	1,470,000	3.35	49,245	1,519,245	(1,519,245)
	<u>21,060,000</u>		<u>10,893,657</u>	<u>31,953,657</u>	<u>21,960,000</u>		<u>9,565,158</u>	<u>31,525,158</u>	<u>428,499</u>

Preliminary Present Value of Savings/(Cost) (2/26/2015 to 7/1/2036) @	2.86989%	=	1,572,076
Add: Savings realized from 4/13/2013 to 2/26/2015		=	1,130,685
NET PRESENT VALUE OF SAVINGS @	2.86989%	=	<u>2,702,761</u>

* Assumed Average Rate for the Taxable Rabo Bank Loan

PORTERVILLE PUBLIC IMPROVEMENT CORPORATION
City of Porterville
2015 CERTIFICATES OF PARTICIPATION

Comparison of Average Taxable Rates of 5.00% with 2015 COPs
(Final Maturity of the 2015 COPs - 2036)

Date	2013 Taxable Rabo Bank Loan				2015 Refunding Certificates of Participation				Savings (Cost)
	Principal	Coupon	Interest	Debt Service	Principal	Coupon	Interest	Debt Service	
2013	0	3.30	319,007	319,007	0	3.30	319,007	319,007	0
2014	0	3.30	694,980	694,980	0	3.30	694,980	694,980	0
2015	0	3.30	694,980	694,980	0	3.30	540,838	540,838	154,142
2016	0	3.30	873,990	873,990	0	3.30	556,843	556,843	317,148
2017	575,000	5.00	* 1,047,125	1,622,125	720,000	0.70	556,843	1,276,843	345,283
2018	725,000	5.00	* 1,015,625	1,740,625	770,000	0.95	551,803	1,321,803	418,823
2019	805,000	5.00	* 978,250	1,783,250	825,000	1.20	544,488	1,369,488	413,763
2020	875,000	5.00	* 937,250	1,812,250	860,000	1.40	534,588	1,394,588	417,663
2021	955,000	5.00	* 892,500	1,847,500	900,000	1.60	522,548	1,422,548	424,953
2022	1,035,000	5.00	* 843,750	1,878,750	940,000	1.75	508,148	1,448,148	430,603
2023	1,125,000	5.00	* 790,875	1,915,875	980,000	1.90	491,698	1,471,698	444,178
2024	1,205,000	5.00	* 733,625	1,938,625	1,025,000	2.10	473,078	1,498,078	440,548
2025	1,295,000	5.00	* 672,250	1,967,250	1,060,000	2.25	451,553	1,511,553	455,698
2026	1,420,000	5.00	* 606,250	2,026,250	1,085,000	2.70	427,703	1,512,703	513,548
2027	1,525,000	5.00	* 533,500	2,058,500	1,110,000	2.70	398,408	1,508,408	550,093
2028	1,595,000	5.00	* 456,375	2,051,375	1,140,000	2.70	368,438	1,508,438	542,938
2029	1,660,000	5.00	* 375,625	2,035,625	1,185,000	2.70	337,658	1,522,658	512,968
2030	1,715,000	5.00	* 292,000	2,007,000	1,215,000	2.70	305,663	1,520,663	486,338
2031	1,775,000	5.00	* 205,500	1,980,500	1,250,000	3.35	272,858	1,522,858	457,643
2032	1,835,000	5.00	* 116,000	1,951,000	1,290,000	3.35	230,983	1,520,983	430,018
2033	940,000	5.00	* 23,500	963,500	1,335,000	3.35	187,768	1,522,768	(559,268)
2034	0	0.00	0	0	1,375,000	3.35	143,045	1,518,045	(1,518,045)
2035	0	0.00	0	0	1,425,000	3.35	96,983	1,521,983	(1,521,983)
2036	0	0.00	0	0	1,470,000	3.35	49,245	1,519,245	(1,519,245)
	<u>21,060,000</u>		<u>13,102,957</u>	<u>34,162,957</u>	<u>21,960,000</u>		<u>9,565,158</u>	<u>31,525,158</u>	<u>2,637,799</u>

Preliminary Present Value of Savings/(Cost) (2/26/2015 to 7/1/2036) @	2.86989%	=	3,365,976
Add: Savings realized from 4/13/2013 to 2/26/2015		=	1,130,685
NET PRESENT VALUE OF SAVINGS @	2.86989%	=	<u>4,496,661</u>

* Assumed Average Rate for the Taxable Rabo Bank Loan

RESOLUTION NO. _____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PORTERVILLE, COUNTY OF TULARE, STATE OF CALIFORNIA, AUTHORIZING THE COMMENCEMENT OF PROCEEDINGS FOR THE DELIVERY OF CERTIFICATES OF PARTICIPATION TO PROVIDE FUNDS TO PREPAY THE \$21,060,000 LEASE AGREEMENT, DATED AS OF APRIL 1, 2013, BY AND BETWEEN THE CITY OF PORTERVILLE AND THE PORTERVILLE PUBLIC IMPROVEMENT CORPORATION, ASSIGNED TO RABOBANK, N.A, AND APPOINTING UNDERWRITERS, BOND COUNSEL, DISCLOSURE COUNSEL AND A FINANCIAL CONSULTANT IN CONNECTION THEREWITH

WHEREAS, the City has been informed that, due to prevailing interest rates in the municipal bond market and for other reasons, there is an opportunity to prepay the \$21,060,000 Lease Agreement, dated as of April 1, 2013, by and between the City and the Porterville Public Improvement Corporation which was assigned to Rabobank, N.A. (the "2013 Lease") on a tax-exempt basis and to deliver certificates of participation for such purpose (the "2015 COPs");

WHEREAS, it is desirable to authorize the commencement of proceedings in connection with the prepayment of the 2013 Lease and the delivery of the 2015 Certificates and to appoint underwriters, bond counsel, disclosure counsel and a financial consultant in connection therewith;

NOW, THEREFORE, it is hereby DECLARED and ORDERED, as follows:

The Council authorizes appropriate officers and officials of the City to proceed with the preparation of the necessary documents in connection with the prepayment of the 2013 Lease and the delivery of the 2015 Certificates, subject to the final approval thereof by the Council at a subsequent meeting.

Wulff, Hansen & Co., San Francisco, California, and Gates Capital Corporation, New York, New York, are hereby designated as underwriters for the 2015 Certificates, the compensation for such services to be negotiated by the City Manager or his designee.

Quint & Thimmig LLP, Larkspur, California, is hereby designated as bond counsel and disclosure counsel to the City in connection with the delivery of the 2015 Certificates, the compensation for such services to be negotiated by the City Manager or his designee.

Ravi Chitkara, Fremont, California, is hereby designated as financial consultant to the City in connection with the delivery of the 2015 Certificates, the compensation for such services to be negotiated by the City Manager or his designee.

The Mayor, the Vice Mayor, the City Manager, Finance Director, the City Clerk and other appropriate officers and officials of the City are hereby authorized and directed to take such action and to execute such documents as may be necessary or desirable to effectuate the intent of this resolution.

This Resolution shall take effect from and after the date of its passage and adoption by this Council.

APPROVED AND ADOPTED this 3rd day of February, 2015.

Milt Stowe, Mayor

ATTEST:
John Lollis, City Clerk

By: _____
Patrice Hildreth, Chief Deputy City Clerk