

City of Piedmont
COUNCIL AGENDA REPORT

DATE: November 6, 2017

TO: Mayor and Council

FROM: Paul Benoit, City Administrator

SUBJECT: Introduction and 1st Reading of Ordinance 736 N.S., Authorizing a Refinancing of Limited Obligation Bonds Related to Undergrounding Assessment Districts and Approval of a Resolution Taking Actions Related to the Transaction

RECOMMENDATION

Take the following actions related to the refinancing of limited obligation bonds issued for the Dudley/Blair/Mountain/Pacific/Hagar & Vicinity Undergrounding Assessment District; Wildwood/Crocker Avenues Undergrounding Assessment District; and the Piedmont Hills Underground Assessment District:

Staff recommends that the City Council take the following action:

1. Approve a resolution appointing a finance team for the issuance, sale and delivery of City of Piedmont Limited Obligation Refunding Bonds and adopting a Debt Management Policy as required by state law.
2. Conduct a first reading of Ordinance 736 N.S., which authorizes the issuance, sale and delivery of limited obligation refunding bonds not to exceed \$4,115,000.

BACKGROUND

Between 2002 and 2009, the City Council created three Undergrounding Assessment Districts. For each of these districts, limited obligation bonds, were issued to pay for the undergrounding of overhead utilities in three specific areas of the city. These bonds are not obligations of the City, rather, they are obligations of the property owners in the districts and are paid by assessments on the properties in the districts.

The three series of bonds are as follows:

(i) Dudley/Blair/Mountain/Pacific/Hagar & Vicinity Undergrounding Assessment District Limited Obligation Improvement Bonds, Series 2002-A,

(ii) Wildwood/Crocker Avenues Undergrounding Assessment District Limited Obligation Improvement Bonds, Series 2005-A, and

(iii) Piedmont Hills Underground Assessment District Limited Obligation Improvement Bonds Series 2009-A.

Due to favorable market conditions, the City can refinance the prior bonds through the issuance of limited obligation refunding bonds, via a private placement transaction to a bank or other financial institution,. The refunding bonds would be issued by the City pursuant to applicable provisions of the California Streets and Highways Code, and be secured by the reassessments to be levied within a combined single reassessment district. The bonds would be designated the “City of Piedmont Limited Obligation Refunding Bonds, Reassessment District No. 2017-1.”

Although the bonds would be authorized pursuant to an ordinance, the bonds, as noted above, are not general obligations of the City. The Bonds are “Limited Obligation Refunding Improvement Bonds” and payable solely from and secured solely by the reassessments and the amounts in certain funds created under the authorizing resolution for the bonds.

Section 2.11(5) of the City’s Charter provides that the City Council may only authorize the borrowing of money pursuant to the adoption of an ordinance. Accordingly, Ordinance 736 N.S. is before the Council this evening to authorize the transaction. If approved, it will be considered by the Council a second time at a future meeting, and would take effect thirty days after that second reading. It is anticipated that the second reading of the ordinance will take place at the November 20th City Council meeting.

The resolution before the City Council this evening would authorize staff to commence the process of refinancing the prior bonds via a private placement process. This proposed resolution takes several actions regarding the refunding of the bonds.

First, as required by state law, if a local agency intends to issue new debt, it must first establish a Debt Management Policy. The intent of the policy is to facilitate improved financial transparency and public accessibility to information regarding public debt. Currently, the City has no general obligation debt. This policy would apply to all future issuances of debt, whether general or limited obligation.

In accordance with state law, the debt management policy specifies:

- 1) The purposes for which debt proceeds may be used;
- 2) The types of debt that may be issued by the City;
- 3) The relationship between and integration with any debt issued and the City’s Capital Improvement Program;
- 4) Policy goals related to the issuance of debt; and
- 5) Internal control procedures to ensure that the proceeds of the proposed debt issuance will be directed to the intended use.

The resolution also appoints the financing team for the refunding being considered by the

Council tonight. The team consists of the following organizations: FirstSouthwest, a division of Hilltop Securities Inc., to serve as municipal advisor, the firm of Jones Hall, A Professional Law Corporation, to serve as bond counsel, the firm of NBS to serve as reassessment engineer, and the firm of Stifel, Nicolaus & Company, Inc. to serve as placement agent for the refunding bonds.

Debt Management Policy. Senate Bill 1029 (SB 1029), which became effective on January 1, 2017, amended California Government Code 8855 to add certain requirements related to the issuance and administration of debt by local agencies, including requiring the adoption of a debt policy meeting the requirements of California Government Code 8855.

In connection with the issuance of new debt, the City will need to submit to the California Debt and Investment Advisory Commission (CDIAC) a preliminary report of debt issuance describing the proposed debt to be issued. Part of the preliminary report of debt issuance is a certification that the applicable issuer has adopted a debt policy that meets the requirements of the new legislation.

Additional actions regarding the refunding bonds will be presented to the Council in one or more resolutions to be considered by the Council at a later date.

FISCAL IMPACT

All savings achieved by the refunding bonds will accrue to the homeowners paying assessments in the three assessment districts involved in the transaction. Given current market conditions, City staff estimates the overall savings (after taking into account all costs of issuance of the transaction) will be approximately \$531,000 or 13.2% on a net present value basis. Market rates may change prior to closing based on the responses from qualified Purchasers of the direct placement financing. Assuming City Council approval of the Resolution and introduction of the Ordinance, the refinancing transaction is expected to close in December 2017.

This refinancing should have no impact on the City's General Fund. In the event that the transaction is successful, the costs for the service providers listed above will be paid through the proceeds of the bonds. Most of the financing team is working on a contingency basis, meaning if the transaction does not go through, they will not be paid. In the unlikely event that the transaction does not go through, the City would be liable for fees to one service provider, NBS, in the amount of approximately \$29,500. This circumstance is highly unlikely.

Attachments: A) Ordinance 736 N.S.
 B) Resolution
 C) Debt Management Policy

By: Michael Szczech, Finance Director

ORDINANCE 736 N.S.

AN ORDINANCE AUTHORIZING THE ISSUANCE, SALE AND DELIVERY
OF NOT TO EXCEED \$4,115,000 OF CITY OF PIEDMONT LIMITED
OBLIGATION REFUNDING BONDS; AND AUTHORIZING RELATED
ACTIONS

The City Council of the City of Piedmont hereby ordains:

SECTION 1. RECITALS

a. The City Council of the City of Piedmont (“City”), previously issued the following obligations (collectively, the “Prior Bonds”), in each case, payable from assessments levied on the parcels within the applicable assessment district: (i) City of Piedmont : Dudley/Blair/Mountain/Pacific/Hagar & Vicinity Undergrounding Assessment District Limited Obligation Improvement Bonds, Series 2002-A, (ii) City of Piedmont : Wildwood/Crocker Avenues Undergrounding Assessment District Limited Obligation Improvement Bonds, Series 2005-A, and (iii) City of Piedmont : Piedmont Hills Underground Assessment District Limited Obligation Improvement Bonds Series 2009-A.

b. Section 2.11(5) of the Charter of the City of Piedmont provides that the City Council may only authorize the borrowing of money pursuant to the adoption of an ordinance.

c. The City Council wishes by this ordinance to authorize the issuance of a series of bonds, under and pursuant to the Refunding Act of 1984 for 1915 Improvement Act Bonds, Division 11.5 of the Streets and Highways Code of California (“Act”), to be designated the “City of Piedmont Limited Obligation Refunding Bonds, Reassessment District No. 2017-1” (“Bonds”), or such other similar designation and payable from the reassessments to be levied on the parcels within said reassessment district.

d. The Bonds are expected to be sold to a bank or other financial institution in a private placement transaction, with the proceeds being used to defease and redeem the Prior Bonds, and to pay the costs of issuing the Bonds.

e. Additional proceedings will be brought before the City Council in the future related to the establishment of Reassessment District No. 2017-1 and the pledge of reassessments levied therein as security for the repayment of the Bonds.

f. Being fully advised in the matter of the financing, the City Council wishes to proceed with the implementation of said financing.

SECTION 2. ISSUANCE OF BONDS AUTHORIZED.

Pursuant to the Act, the Bonds shall be issued in the aggregate principal amount not to exceed \$4,115,000 and payable from the reassessments to be levied on the parcels within said reassessment district; provided, however, that all of the requirements of the Act for the issuance

of the Bonds shall be satisfied. Additional details regarding the Bonds shall be set forth in one or more resolutions to be approved by the City Council at a later date.

SECTION 3. LIMITED OBLIGATION.

The Bonds shall not be general obligations of the City, but shall be limited obligations, payable solely from the reassessments and the funds pledged therefore pursuant to the authorizing resolution for the Bonds. Neither the faith and credit of the City nor of the State of California or any political subdivision thereof shall be pledged to the payment of the Bonds. The Bonds shall be “Limited Obligation Refunding Improvement Bonds” and shall be payable solely from and secured solely by the reassessments and the amounts in certain funds created under the authorizing resolution for the Bonds.

SECTION 4. GENERAL AUTHORIZATION RESPECTING OTHER ACTIONS.

The City Administrator, or his or her designee, is hereby authorized and directed, jointly and severally, to do any and all things, to take such actions, and to execute and deliver any and all documents, including but not limited to agreements, certificates and opinions which they may deem necessary or advisable in consultation with the City Attorney, and Jones Hall, A Professional Law Corporation, as the City’s bond counsel, in order to carry out, give effect to and comply with the terms and intent of this ordinance.

SECTION 5. EFFECTIVE DATE OF ORDINANCE.

This ordinance shall be posted at City Hall after its second reading and adoption by the City Council for at least 30 days and shall become effective 30 days after its adoption.

[END OF ORDINANCE]

RESOLUTION NO. _____**RESOLUTION APPOINTING FINANCE TEAM FOR THE ISSUANCE, SALE AND DELIVERY OF CITY OF PIEDMONT LIMITED OBLIGATION REFUNDING BONDS AND ADOPTING DEBT MANAGEMENT POLICY**

WHEREAS, this City Council of the City of Piedmont (“City”), previously issued the following obligations (collectively, “Prior Bonds”), in each case, payable from assessments levied on the parcels within the applicable assessment district: (i) City of Piedmont: Dudley/Blair/Mountain/Pacific/Hagar & Vicinity Undergrounding Assessment District Limited Obligation Improvement Bonds, Series 2002-A, (ii) City of Piedmont: Wildwood/Crocker Avenues Undergrounding Assessment District Limited Obligation Improvement Bonds, Series 2005-A, and (iii) City of Piedmont: Piedmont Hills Underground Assessment District Limited Obligation Improvement Bonds Series 2009-A; and

WHEREAS, the City Council intends to authorize the issuance of a series of bonds to refund the Prior Bonds, under and pursuant to the Refunding Act of 1984 for 1915 Improvement Act Bonds, Division 11.5 of the Streets and Highways Code of California (“Act”), to be designated the “City of Piedmont Limited Obligation Refunding Bonds, Reassessment District No. 2017-1” (“Bonds”), or such other similar designation and payable from the reassessments to be levied on the parcels within said reassessment district; and

WHEREAS, the City Council desires to authorize and direct City staff to enter into services contracts with consultants to the City to assist with the refinancing of the Prior Bonds via the issuance, sale and delivery of the Bonds; and

WHEREAS, Senate Bill 1029 (SB 1029), which became effective on January 1, 2017, amended California Government Code 8855 to add certain requirements related to the issuance and administration of debt by local agencies such as the City, including the adoption of a debt policy meeting the requirements of California Government Code 8855; and

WHEREAS, the City Council wishes at this time to approve a debt policy that is compliant with California Government Code 8855 to govern future issuances of debt by the City, including the Bonds.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Piedmont does hereby resolve, declare, determine, and order as follows:

SECTION 1. The above recitals are correct and are incorporated into this Resolution as findings of the City Council.

SECTION 2. In connection with the refinancing transaction described in this Resolution, the firm of FirstSouthwest, a division of Hilltop Securities Inc., is hereby designated to serve as municipal advisor, the firm of Jones Hall, A Professional Law Corporation, is hereby designated to serve as bond counsel, the firm of NBS is hereby designated to serve as reassessment engineer, and the firm of Stifel, Nicolaus & Company, Incorporated is hereby designated to serve

as placement agent for the Refunding Bonds.

SECTION 3. The City Council hereby approves and adopts the Debt Management Policy in the form presented to the City Council, and attached hereto. The Debt Management Policy shall govern the issuance and administration of debt issued by the City, in accordance and subject to the conditions set forth in such policy.

SECTION 4. Official Actions. Whenever in this Resolution any officer of the City is directed to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf in the case such officer is absent or unavailable.

[END OF RESOLUTION]

City of Piedmont

Debt Management Policy

Adopted by City Council of the City of Piedmont
on _____, 2017

This Debt Management Policy (the “Debt Policy”) of the City of Piedmont, a charter city and municipal corporation (the “City”), was approved by the City Council to be effective as of the date first set forth above. The Debt Policy may be utilized by staff with the discretion to deviate as determined appropriate by the City Administrator or Finance Director, and may be amended by the City Council as it deems appropriate from time to time in the prudent management of the debt and capital financing needs of the City.

1. Findings

This Debt Policy is intended to comply with Government Code Section 8855(i), and shall govern all debt undertaken by the City. In all cases, the provisions of the Charter of the City of Piedmont shall be complied with, as and to the extent applicable to the issuance of any debt contemplated by this Debt Policy.

The City hereby recognizes that a fiscally prudent debt policy is required in order to:

- Maintain the City’s sound financial position.
- Ensure the City has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses.
- Protect the City’s credit-worthiness.
- Ensure that all debt is structured in order to protect both current and future taxpayers, ratepayers and constituents of the City.
- Ensure that the City’s debt is consistent with the City’s planning goals and objectives and capital improvement program or budget, as applicable.

2. Policies

A. Charter Compliance

Any debt issued by the City must comply with the provisions of the City Charter.

B. Purposes For Which Debt May Be Issued

Long-Term Debt. Long-term debt, defined as obligations that come due in more than one year, may be issued to finance such initiatives as the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment and land to be owned and operated by the City. Long-term debt financings are appropriate when any of the following conditions exist:

- When the project to be financed is necessary to provide desired services.
- When the project to be financed will provide benefit to constituents over multiple years.
- When total debt does not constitute an unreasonable burden to the City and its taxpayers and/or ratepayers, as applicable.
- When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring.

Long-term debt financings will not generally be considered appropriate for current operating expenses and routine maintenance expenses. The City may use long-term debt financings subject to the following conditions:

- The project to be financed must be approved by the City Council.
- The weighted average maturity of the debt (or the portion of the debt allocated to the project) will not exceed the average useful life of the project to be financed by more than 20%.
- The City estimates that sufficient revenues will be available to service the debt through its maturity.
- The City determines that the issuance of the debt will comply with all applicable state and federal law.

Short-term debt. Short-term debt, defined as obligations that come due within one year, may be issued to provide financing for the City's operational cash flows in order to maintain a steady and even cash flow balance. Short-term debt may also be used to finance short-lived capital projects; for example, the City may undertake lease-purchase financing for equipment.

C. Types of Debt

The following types of debt are allowable under this Debt Policy, and may be issued via a public offering or on private placement basis:

- General obligation bonds (GO Bonds)
- Bond or grant anticipation notes (BANs)
- Lease revenue bonds, certificates of participation (COPs) and lease-purchase transactions
- Other revenue bonds and COPs
- Tax and revenue anticipation notes (TRANS)
- Land-secured financings, such as special tax revenue bonds issued under the Mello-Roos Community Facilities Act of 1982, as amended, and limited obligation bonds issued under applicable assessment statutes
- Refunding Obligations
- State Revolving Fund (SRF) Loans
- Lines of Credit

The City Council may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt without an amendment of this Debt Policy. Debt shall be issued as fixed rate debt unless the City makes a specific determination as to why a variable rate issue would be beneficial to the City in a specific circumstance.

D. Relationship of Debt to Capital Improvement Program and Budget

The City is committed to long-term capital planning. The City is authorized to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the

City's capital budget and any capital improvement plan.

The City shall strive to fund the upkeep and maintenance of its infrastructure and facilities due to normal wear and tear through the expenditure of available operating revenues.

The City shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund.

E. Policy Goals Related to Planning Goals and Objectives

The City is committed to long-term financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration. The City is authorized to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the City's annual operations budget.

It is a policy goal of the City to protect taxpayers, ratepayers (if applicable) and constituents by utilizing conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical borrowing costs.

The City will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related taxes, assessments, rates and charges.

When refinancing debt, it shall be the policy goal of the City to realize, whenever possible, and subject to any overriding non-financial policy considerations, minimum net present value debt service savings equal to or greater than 3.0% of the refunded principal amount.

F. Internal Control Procedures

When issuing debt, in addition to complying with the terms of this Debt Policy, the City shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds. Without limiting the foregoing, the City will periodically review the requirements of and will remain in compliance with the following:

- Any continuing disclosure undertakings entered into by the City in accordance with SEC Rule 15c2-12.
- Any federal tax compliance requirements, including, without limitation, arbitrage and rebate compliance.
- The City's investment policies as they relate to the use and investment of bond proceeds.

Proceeds of debt will be held either (a) by a third-party trustee or fiscal agent, which will disburse such proceeds to or upon the order of the City upon the submission of one or more written requisitions by the Finance Director of the City (or his or her written designee), or (b) by the City,

to be held and accounted for in a separate fund or account, the expenditure of which will be carefully documented by the City.

END OF DEBT MANAGEMENT POLICY