



Agenda Report

20-434

Agenda Date: 4/7/2020

REPORT TO COUNCIL

SUBJECT

Action on a Resolution Authorizing Documents and Actions Relating to Execution and Delivery of Three (3) Loan Agreements with Bank of America, N.A. and the Issuance and Delivery of the City's Subordinated Electric Revenue Refunding Bonds, Series 2020-1, Series 2020-2 and Series 2020-3 [Council Pillar: Deliver and Enhance High Quality Efficient Services and Infrastructure]

BACKGROUND

Historical low interest rates provide an opportunity for the City to refund certain outstanding electric system bonds for debt service savings. In light of tax law changes made under the Tax Cuts and Jobs Act of 2017 which repealed the authority for municipalities to issue tax-exempt advance refunding bonds after December 31, 2017, in order to capitalize on the current market conditions, following a request for qualifications process and a review of proposals received, the Staff is recommending a refinance strategy through a direct placement transaction with Bank of America, N.A. (the "Bank"). In this transaction, the Bank will provide three loans to the City to refund (i) all of the City's outstanding Senior 2011 A Electric Revenue Bonds, (ii) all or a portion of the City's outstanding Senior 2013 A Electric Revenue Bonds, and (iii) the City's 2014 Subordinate Electric Revenue Bond, through the issuance of separate series of subordinated electric revenue bonds, Subordinate 2020-1, 2020-2, and 2020-3 Bonds (defined below), to be delivered to the Bank as evidence of the repayment obligations of the City for the respective loans.

The Subordinate 2020-1 and 2020-2 Bonds will initially be issued on a taxable basis, with the potential to be converted to a tax-exempt rate in the future. This structure allows the City to take advantage of low interest rates currently available in the market to lock in a threshold level of net present value savings with the potential to capture additional savings upon a conversion of the interest rate to a tax-exempt rate when the bonds could otherwise be current refunded under applicable tax law.

2020-1 Loan and Bonds

The Loan Agreement (2020-1) and the issuance and delivery of the City's Subordinated Electric Revenue Refunding Bonds, Series 2020-1 (Subordinate 2020-1 Bonds) will provide for the refunding of the City's \$54,830,000 outstanding fixed rate Electric Revenue Refunding Bonds, Series 2011 A (Senior 2011 A Bonds) and pay the costs of issuance associated with this transaction.

The Authorizing Resolution authorizes the borrowing by the City and issuance of the Subordinate 2020-1 Bonds in a principal amount not to exceed \$70 million and with a final maturity not later than July 1, 2032, the current maturity of the Senior 2011 A Bonds. The loan and the Subordinate 2020-1 Bonds will initially be issued on a taxable basis, with the potential to be converted to a tax-exempt rate in the future not more than 90 days prior to the redemption date (July 1, 2021) of the refunded

Senior 2011 A Bonds or if the current tax law changes. The indicative taxable rate as of February 21, 2020 was 2.48% and is expected to be in this general range in April. The interest rates will be determined and locked in two days before closing, which is estimated to occur by the end of April 2020.

2020-2 Loan and Bonds

The Loan Agreement (2020-2) and the issuance and delivery of the City's Subordinated Electric Revenue Refunding Bonds, Series 2020-2 (Subordinate 2020-2 Bonds) will provide for the refunding of all or a portion of the City's \$43,705,000 outstanding fixed rate Electric Revenue Refunding Bonds, Series 2013 A (Senior 2013 A Bonds) and pay the costs of issuance associated with this transaction. It is currently expected that the \$30,725,000 callable portion that is maturing on and after July 1, 2023 will be refunded.

The Authorizing Resolution authorizes the borrowing by the City and the issuance of the Subordinate 2020-2 Bonds in a principal amount not to exceed \$50 million and with a final maturity not later than July 1, 2028, the current maturity of the Senior 2013 A Bonds. Similar to the Senior 2011 A Bond refunding, the loan and the Subordinate 2020-2 Bonds will initially be issued on a taxable basis, with the potential to be converted to a tax-exempt rate in the future not more than 90 days prior to the redemption date (January 1, 2023) of the refunded Senior 2013 A Bonds or if the current tax law changes. The indicative taxable rate as of February 21, 2020 was 2.07% and is expected to be in this general range in April. The interest rates will be determined and locked in two days before closing, which is estimated to occur by the end of April 2020.

2020-3 Loan and Bonds

The Loan Agreement (2020-3) and the issuance and delivery of the City's Subordinated Electric Revenue Refunding Bonds, Series 2020-3 (Subordinate 2020-3 Bonds) will provide for the refinancing of the loan received by the City from Banc of America Preferred Funding Corporation, an affiliate of the Bank, in 2014 (2014 Loan) and the refunding of the related \$19,413,000 outstanding fixed rate Subordinated Electric Revenue Bond (2014 Subordinate Bond) and pay the costs of issuance associated with this transaction. The 2014 Loan funded costs of the City's Phase Shifting Transformer project and the acquisition of certain property.

The Authorizing Resolution authorizes the borrowing by the City and the issuance of the Subordinate 2020-3 Bonds in a principal amount not to exceed \$25 million and with a final maturity not later than July 1, 2024, the current maturity of the 2014 Loan and 2014 Subordinate Bond. Since the 2014 Loan and 2014 Subordinate Bond can be currently refunded under the tax law, the new loan and the Subordinate 2020-3 Bonds will be issued on a tax-exempt basis. The interest rate on the 2014 Loan and 2014 Subordinate Bond is 2.67%. The indicative tax-exempt rate as of February 21, 2020 was 1.38% and is expected to be in this general range in April. The interest rate will be determined and locked in two days before closing, which is estimated to occur by the end of April 2020.

The Subordinate 2020-1 Bonds, Subordinate 2020-2 Bonds and Subordinate 2020-3 Bonds will be payable from net revenues of the Electric Utility on a subordinate basis to the payment of the City's Senior Electric Revenue Bonds.

DISCUSSION

Adopting the attached Resolution will authorize the City to execute and deliver the three (3) Loan Agreements with Bank of America, N.A. and to issue the Subordinated Electric Revenue Refunding

Bonds, Series 2020-1, Series 2020-2 and Series 2020-3 to provide for the refunding of Senior 2011 A Bonds, Senior 2013 A Bonds, and the 2014 Subordinated Bond. The primary documents to be authorized for approval and execution by this Resolution include:

Loan Agreements (3)

The Loan Agreement (2020-1) provides the terms and conditions upon which Bank of America N.A. will make the loan to the City to provide for the refunding of the City's outstanding Senior 2011 A Bonds and to pay the costs of issuance associated with that transaction. The Loan Agreement (2020-2) provides the terms and conditions upon which Bank of America N.A. will make the loan to the City to provide for the refunding of all or a portion of the City's outstanding Senior 2013 A Bonds and to pay the costs of issuance associated with that transaction. The Loan Agreement (2020-3) provides the terms and conditions upon which Bank of America N.A. will make the loan to the City to provide for refinancing the 2014 Loan made by the Bank's affiliate to the City and the refunding of the related 2014 Subordinate Bond and to pay the costs of issuance associated with that transaction.

Under the Loan Agreements, the City is obligated to set electric rates in each fiscal year in an amount sufficient to provide for the payment of all of the City's obligations payable from electric system revenues, including the repayment of the Loans under the Loan Agreements. Under the Loan Agreements, the City makes various representations, warranties and covenants to the Bank. The City's repayment obligations under the Loan Agreements are payable from net revenues of the Electric Utility on a subordinate basis to the existing electric revenue bonds of the City to remain outstanding after the refunding.

Bond Order, Fiscal Agent Agreement and Pricing Certificate

The Bond Order, Fiscal Agent Agreement and Pricing Certificate of the City (the "Bond Order") provides for the issuance of the Subordinated Electric Revenue Refunding Bonds, Series 2020-1, Series 2020-2 and Series 2020-3 and their delivery to the Bank to secure repayment of the related Loan made under the Loan Agreements. The Bond Order details certain terms of the Subordinated Electric Revenue Refunding Bonds, Series 2020-1, Series 2020-2 and Series 2020-3, including principal and interest payment and due dates and interest rates. Under the Bond Order, the City pledges Available Electric Revenues (as defined in the Bond Order) as security for the repayment of the Subordinated Electric Revenue Refunding Bonds, Series 2020-1, Series 2020-2 and Series 2020-3 and the related Loans under the Loan Agreements on a basis subordinate to the pledge made for the City's bonds issued under its existing electric revenue bond indenture. The Bond Order appoints The Bank of New York Mellon Trust Company, N.A. to act as Fiscal Agent of the City to maintain the bond register and to make the payments due to Bank of America from funds received from the City. The Bond Order establishes various funds and accounts to facilitate these payments.

Escrow Agreements (2)

The Escrow Agreement relating to the Senior 2011 A Bonds provides for the deposit and application of proceeds of the Subordinate 2020-1 Bonds and related Loan to refund the outstanding Senior 2011 A Bonds and to cause their prior payment and redemption on July 1, 2021. The Escrow Agreement relating to the Senior 2013 A Bonds provides for the deposit and application of proceeds of the Subordinate 2020-2 Bonds and related Loan to refund certain of the outstanding Senior 2013 A Bonds and to cause their prior payment and redemption on January 1, 2023.

ENVIRONMENTAL REVIEW

The action being considered does not constitute a "project" within the meaning of the California

Environmental Quality Act (CEQA) pursuant to CEQA Guidelines section 15378(a) as it has no potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment

FISCAL IMPACT

Based on current interest rates, this transaction is expected to achieve a threshold of net present value savings of approximately \$14 million in aggregate under the taxable rate for the Subordinate 2020-1, 2020-2 and 2020-3 Bonds. Upon a conversion of the interest rate for the Subordinate 2020-1, 2020-2 and 2020-3 Bonds to a tax-exempt rate when the bonds could otherwise be current refunded under applicable tax law, this transaction is expected to achieve additional present value savings of approximately \$4 million.

The associated budget actions to recognize the loan proceeds and appropriate funds to refund the bonds will be brought forward based on the final transaction. FY 2020/21 and future years' debt service budget amounts in the Electric Utility Debt Service Fund will be amended when finalized debt service schedule becomes available.

COORDINATION

This report has been coordinated with the Finance Department and City Attorney's Office.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall Council Chambers. A complete agenda packet is available on the City's website and in the City Clerk's Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk's Office at (408) 615-2220, email clerk@santaclaraca.gov <<mailto:clerk@santaclaraca.gov>> .

RECOMMENDATION

Adopt the Resolution authorizing and approving the execution and delivery of three Loan Agreements between Bank of America N.A. and the issuance and delivery of the City's Subordinated Electric Revenue Refunding Bonds, Series 2020-1, Series 2020-2 and Series 2020-3 for the refunding of certain outstanding bonds of the City, and authorize the City Manager to execute all necessary documents, in substantially similar form as presented, in connection with the issuance, and authorize certain actions related thereto to complete the transactions.

Reviewed by: Manuel Pineda, Chief Electric Utility Officer

Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. Resolution
2. Loan Agreement (2020-1)
3. Loan Agreement (2020-2)
4. Load Agreement (2020-3)
5. Bond Order, Fiscal Agent Agreement and Pricing Certificate 4817-2459-896
6. Escrow Agreement, Series 2011 A
7. Escrow Agreement, Series 2013 A