City of Atwater
Board Workshop Presentation on
Atwater Debt Issues and Refinancing Opportunities
March 28, 2017

Background on A. M. Peche & Associates LLC

- A. M. Peche & Associates LLC was founded in 1996 and has served as Financial Advisor on over $843 million of debt issuance

- Manager Albert Peche as been in the securities industry for 39 years since 1978 and directly in the Public Finance sector for 32 years since 1985.   He has passed the Municipal Securities Rule Making Board (“MSRB”) Pilot Series 50 Municipal Advisor exam that was instituted in 2016

- A. M. Peche & Associates LLC is registered with the Securities Exchange Commission and the MSRB. The Firm and Mr. Peche have a fiduciary responsibility to the City

City and Redevelopment Agency Outstanding Bond Issues

City Bond Issues

- $20,020,000 Wastewater Revenue Bonds, Series 2008
- $54,345,000 Wastewater Revenue Bonds, Series 2010
- $10,000,000 Wastewater Revenue Bonds, Series 2011

Revelopment/Successor Agency Bond Issues

- $2,600,000 Tax Allocation Refunding Bonds, 1998 Series A
- $8,475,000 2007 Tax Allocation Bonds, Series A
- $2,325,000 2007 Taxable Housing Tax Allocation Bonds, Series B

City Wastewater Bonds

- Wastewater Bonds are repayable from Net Revenues of the Wastewater Enterprise. Net Revenues are defined as:

  Gross Revenues of the Enterprise minus Operating Expenses

  (Net Revenues = Gross Revenues – Operating Expenses)

  - Bond Covenants require that the City will maintain Sewer Rates at or greater than1.20 times annual debt service.

    (Net Revenues/Debt Service > 1.20 times)
  - Wastewater Bonds were rated A by S&P when issued. Subsequently downgraded to BB+. Currently rated BBB- as of February 27, 2017
  - Fitch rated only the Series 2008 Bonds which are rated BBB- as of January 26, 2017
  - Assured Guaranty through AGC/AGM insured all issues and were initially rated AAA by S&P. Current AGC/AGM rating is AA.

City Wastewater Bonds

- $20,020,000 Wastewater Revenue Bonds, Series 2008
  - Issued on April 16, 2008.
  - Refinanced prior Sewer Portion of Series 2003A Bonds with an escrow of $10.2 million (2003A Bonds refinanced prior 1993A Bonds; 1993A Bonds refinanced prior 1989 and 1990 Bonds)
  - Provided $10,000,000 on new money for the Treatment Plant (this reimbursed the City for upfront costs it paid)
  - Funded a Debt Service Reserve (DSR) Fund of $1.3 million (currently valued at $1.3 million)
  - $17,890,000 remain outstanding. Final maturity May 1, 2038

- $54,345,000 Wastewater Revenue Bonds, Series 2010
  - Issued on January 27, 2010
  - Provided $48.2 million of new money for the Treatment Plant
  - Funded a DSR Fund of $4.372 million (currently valued at $4,317 million)
  - $51,105,000 remain outstanding. Final maturity May 1, 2045

City Wastewater Bonds

- $10,000,000 Wastewater Revenue Bonds, Series 2011
  - Issued on May 6, 2011
  - Provided $9.4 million of new money for the Treatment Plant
  - Purchased DSR Surety instead of a cash funded DSR
  - $9,340,000 remain outstanding. Final maturity May 1, 2045

Wastewater Bonds Refinancing Opportunities

- The 2011 Bonds can be called on May 1, 2019 at a 2% premium. Treasury securities can be purchased and deposited into an Escrow Fund to make payments and then pay off the Bonds on May 1, 2019
- The City can issue wastewater refunding bonds (the “2017 Refunding Bonds”) to refinance the 2011 Bonds, <u>without</u> extending the maturity. The 2017 Refunding Bonds will be sold to investors through an official statement
- The City would have to apply for a new S&P rating but, given that S&P did a recent Surveillance Review, it is likely that the 2017 Refunding Bonds would receive a BBB- underlying rating if issued in the near future
- The 2017 Refunding Bonds would have to have bond insurance from Assured Guaranty AGC/AGM, as well as a DSR Surety. This would give the issue an AA rating. There are no savings from just a BBB- rated issue without bond insurance and a DSR surety
- The 2017 Refunding Bonds would be issued on parity with the 2008 and 2011 Bonds.

Refinancing Opportunities

Generic CA Insured Water/Sewer Scale
PRELIMINARY

Date	Prior Debt Service	Refunding Debt Service	Savings	Present Value to 07/01/2017 @ 4.2326963%
05/01/2018	682,300.00	648,468.75	33,831.25	35,261.47
05/01/2019	681,300.00	642,162.50	39,137.50	37,363.14
05/01/2020	684,906.26	645,262.50	39,643.76	36,284.86
05/01/2021	682,687.50	643,062.50	39,625.00	34,780.30
05/01/2022	684,867.50	648,262.50	36,605.00	30,904.19
05/01/2023	681,317.50	642,412.50	38,905.00	31,415.54
05/01/2024	682,298.76	640,912.50	41,386.26	31,970.52
05/01/2025	682,548.76	645,312.50	37,236.26	27,676.36
05/01/2026	681,888.76	641,312.50	40,576.26	28,872.57
05/01/2027	680,493.76	641,812.50	38,681.26	26,454.71
05/01/2028	682,837.50	641,562.50	41,275.00	27,034.60
05/01/2029	684,337.50	646,162.50	38,175.00	24,017.20
05/01/2030	684,993.76	644,856.26	40,137.50	24,159.70
05/01/2031	684,806.26	647,781.26	37,025.00	21,406.51
05/01/2032	683,775.00	644,731.26	39,043.74	21,596.02
05/01/2033	680,775.00	641,318.76	39,456.24	20,897.66
05/01/2034	681,875.00	642,068.76	39,806.24	20,189.05
05/01/2035	681,775.00	641,268.76	40,506.24	19,671.00
05/01/2036	680,475.00	639,868.76	40,606.24	18,885.97
05/01/2037	682,975.00	642,868.76	40,106.24	17,868.03
05/01/2038	683,475.00	645,068.76	38,406.24	16,395.10
05/01/2039	682,443.76	645,887.50	36,556.26	14,952.20
05/01/2040	684,881.26	645,881.26	39,000.00	15,247.21
05/01/2041	680,481.26	640,050.00	40,431.26	15,115.80
05/01/2042	684,550.00	643,600.00	40,950.00	14,643.61
05/01/2043	681,475.00	640,437.50	41,037.50	14,037.03
05/01/2044	681,562.50	641,425.00	40,137.50	13,131.24
05/01/2045	684,506.26	646,350.00	38,156.26	11,935.59
	19,116,608.86	18,020,168.85	1,096,440.01	652,167.17

Savings Summary

PV of savings from cash flow	652,167.17
Plus: Refunding funds on hand	2,156.44
Net PV Savings	654,323.61

Savings Summary and Sensitivity Analysis

- The remaining combined Debt Service on 2011 Bonds is $19,116,608
- Based on recent bond insured generic interest rates, new Debt Service on the 2017 Refunding Bonds is estimated to be $18,020,168, providing an estimated gross savings of $1,096,440 or $654,323 of net present value savings or 7.12% of the 2011 Bonds.
- Government Finance Officers Association Standards recommend a net present value savings of at least between 3% and 5% for an economic refinancing. Therefore this constitutes a good economic refinancing
- The savings are net of an estimated: cost of issuance of $202,000, cost for bond insurance and the debt service reserve fund surety of $206,000, and an underwriters discount of $97,000. All costs are contingent except for rate consultant projections estimated at $10,000 and the cost for the rating of $20,000, which will need to be paid once the rating process is started.
- The following shows how interest rate movements would affect net present value savings

SENSITIVITY ANALYSIS
PRELIMINARY

Coupon Offset	Par	Bond Yield	Escrow Yield	Net Present Value Savings	Refunded PV Savings Pct
(0.500%)	10,740,000.00	3.711%	1.212%	1,340,822.64	14.582%
(0.250%)	10,745,000.00	3.971%	1.212%	990,490.10	10.772%
0.000%	10,755,000.00	4.233%	1.212%	654,323.61	7.116%
0.250%	10,765,000.00	4.494%	1.212%	332,659.73	3.618%
0.500%	10,770,000.00	4.756%	1.212%	24,481.16	0.266%

Redevelopment Agency
Tax Allocation Bonds

- Tax Allocation Bonds are repayable from tax increment from the Downtown Redevelopment Project Area.
  - Tax increment is generated from property taxes from the 1976-77 base year assessed value of the Project Area to the current assessed value. Due to State Legislation, Redevelopment ended in February 2012 and the Atwater Successor Agency took over administrative functions of the former Redevelopment Agency.
  - Current Moody's Rating is Baa2 and Fitch rating is BBB+

- $2,600,000 Tax Allocation Refunding Bonds, Series 1998A
  - Issued on April 1, 1998
  - Along with the $4,495,000 1998B Bonds, the 1998A Bonds refinanced prior 1991 Bonds with an escrow of $6 million
  - Funded a Debt Service Reserve (DSR) Fund of $574,043 for both the 1998A and 1998B bonds. (The current 1998A DSR amount is estimated to be $195,175)
  - Insured by ACA with an A rating. ACA is no longer rated
  - $965,000 remain outstanding. Final maturity June 1, 2022

Redevelopment Agency
Tax Allocation Bonds

- $8,745,000 Tax Allocation Refunding Bonds, Series 2007A
  - Issued on April 18, 2007
  - Refinanced prior 1991B Bonds with an escrow of $3.9 million and had $4.7 million of new money for Redevelopment Projects
  - Bonds Insured by Radian Assurance that also provided a Debt Service Reserve Fund Surety
  - $5,580,000 remain outstanding. Final maturity June 1, 2026

- $2,325,000 Taxable Housing Tax Allocation Refunding Bonds, Series 2007B
  - Issued on April 18, 2007
  - Bonds Insured by Radian Assurance that also provided a Debt Service Reserve Fund Surety
  - Provided $2.1 million for Low and Moderate Housing
  - $1,530,000 remain outstanding. Final maturity June 1, 2026

Tax Allocation Bonds Refinancing Opportunities

- The 1998A Bonds can now be called on any date at par, without premium. The 2007A and Taxable 2007B Bonds can be called starting on June 1, 2017 at par, without premium, on any date

- Treasury securities can be purchased to fund an Escrow Fund to make payments and then pay off the 1998A, 2007A and 2007B Bonds on or after the call date

- The Successor Agency ("SA") can issue tax-exempt tax allocation refunding bonds (the "2017 Tax Allocation Bonds") to refinance the 1998A and 2007A Bonds without extending the maturity on the 2007A Bonds. Also the SA can issue taxable tax allocation refunding bonds (the "2017 Taxable Tax Allocation Bonds") to refinance the Taxable Series 2007B Bonds, <u>without</u> extending the maturity

- The 2017 Tax Allocation Bonds and 2017 Taxable Bonds (together the "2017 SA Bonds") can possibly be sold through a Direct Placement, also known as a Private Placement, to one investor thereby saving rating fees, and preparation and printing costs for the official statement. Any potential buyer may or may not require a Debt Service Reserve Fund

Refinancing Opportunities for 1998A, 2007A and 2007B Bonds

AGGREGATE
Private Placement
PRELIMINARY

Date	Prior Debt Service	Refunding Debt Service	Savings	Present Value to 07/01/2017 @ 2.7502599%
06/30/2018	1,032,333.76	472,295.42	560,038.34	547,258.13
06/30/2019	1,030,028.76	1,029,205.00	823.76	1,420.04
06/30/2020	1,036,001.26	1,035,457.50	543.76	1,064.29
06/30/2021	1,029,766.26	1,028,700.00	1,066.26	1,440.37
06/30/2022	1,031,818.76	1,030,367.50	1,451.26	1,668.35
06/30/2023	1,031,866.26	1,031,125.00	741.26	945.00
06/30/2024	1,032,346.26	1,030,955.00	1,391.26	1,393.04
06/30/2025	1,030,583.76	1,029,892.50	691.26	721.28
06/30/2026	1,031,360.00	1,029,920.00	1,440.00	1,211.93
	9,286,105.08	8,717,917.92	568,187.16	557,122.44

Savings Summary

PV of savings from cash flow	557,122.44
Less: Prior funds on hand	(195,175.00)
Plus: Refunding funds on hand	813.85
Net PV Savings	362,761.29

Savings Summary

- The remaining combined Debt Service on 1998A, 2007A and 2007B Bonds (the “Prior RDA Bonds”) is $9,236,105

- Based on recent generic Direct Placement interest rates, new Debt Service on the 2017 SA Bonds is estimated to be $8,717,917 providing an estimated gross savings of $568,187 or $362,761 of net present value savings or 4.88% of the Prior RDA Bonds without extending the maturity

- This upfront savings structure provides for $560,038 of savings in the first year to maximize usefulness of the refinancing to the City General Fund

- Government Finance Officers Association Standards recommend a net present value savings of at least between 3% and 5% for an economic refinancing. Therefore on a combined refinancing basis this constitutes a good economic refinancing

Savings Summary

- The savings are net of an estimated cost of issuance of $209,000 for both the 2017A and 2017B Taxable Bonds. If this is done as a Direct Placement, there will be no need for Bond Insurance, Underwriter, costs for preparing and printing an Official Statement. All costs are contingent except for preparation of the Fiscal Consultant Report which estimated at $25,000. If the issue does not close, this cost can be put on the Recognized Obligation Payment Schedule (ROPS).
- The following shows how interest rate movements would affect net present value savings

AGGREGATE
Private Placement
SENSITIVITY ANALYSIS
PRELIMINARY

Coupon Offset	Par	Bond Yield	Net Present Value Savings	Refunded PV Savings Pct
(0.500%)	7,469,000.00	2.250%	550,311.28	7.412%
(0.250%)	7,469,000.00	2.500%	455,738.61	6.138%
0.000%	7,469,000.00	2.750%	362,761.30	4.886%
0.250%	7,469,000.00	3.000%	271,190.55	3.652%
0.500%	7,456,000.00	3.250%	181,329.40	2.442%

Savings Flows to Affected Agencies and to pay the SERAF Loan

- Savings flow to the affected agencies that share the 1% property tax that include the City, Atwater Elementary School District, the Merced High School District, the County and other agencies
- The Supplemental Educational Revenue Augmentation Fund (SERAF) Loan
  - A loan of funds from the City to the former Redevelopment Agency's Housing Fund
  - Repayment is limited by a statutory formula based on annual residual revenue
  - The City is required to spend the received payments on affordable housing
  - Ideally, the Loan will be repaid no later than the bonds' final maturity, which the following 3 scenarios accomplish

Savings Flowing Directly to the City General Fund

- How much of the upfront savings can flow back to the City General Fund. The following was prepared by RSG, the Redevelopment Consultants to Atwater

Atwater Successor Agency Bonds Refunding, SERAF Repayment, and Savings

	Scenario 1: No refunding			Scenario 2: Private placement refunding and maximum SERAF payments			Scenario 3: Private placement refunding and delayed SERAF payments		
FY	SERAF Payment Schedule	Residual	City's Share of Residual	SERAF Payment Schedule	Residual	City's Share of Residual	SERAF Payment Schedule	Residual	City's Share of Residual
17-18	-	477,881	150,516	-	1,037,919	326,908	-	1,037,919	326,908
18-19	3,027	523,384	164,848	283,047	289,600	91,214	-	527,235	166,061
19-20	25,779	532,017	167,567	-	558,340	175,858	27,704	530,636	167,132
20-21	30,096	572,040	180,173	43,257	559,945	176,363	29,405	573,798	180,726
21-22	50,107	588,844	185,465	16,289	624,113	196,574	50,986	589,416	185,645
22-23	58,509	620,039	195,291	-	679,289	213,952	58,795	620,494	195,434
23-24	74,106	644,398	202,963	-	719,896	226,742	74,334	645,562	203,329
24-25	86,286	675,227	212,673	-	762,205	240,068	86,868	675,336	212,707
25-26	44,327	797,947	251,325	-	843,715	265,741	44,382	799,333	251,762
Total	$ 372,238	$ 5,431,778	$ 1,710,820	$ 342,593	$ 6,075,022	$ 1,913,419	$ 372,474	$ 5,999,729	$ 1,889,704
NPV @ 2.75%	312,564	4,706,993	1,482,538	321,128	5,293,461	1,667,255	312,562	5,259,014	1,656,405
Difference to Scenario 1									
Total				**(29,645)**	643,245	**202,600**	**236**	567,951	**178,885**
NPV @ 2.75%				**8,564**	586,468	**184,717**	(3)	552,021	**173,867**

Note: Refunding schedule based on information provided from Hilltop Securities

Questions/Next Steps

- Questions?

- Next Steps
  - If the Council would like to proceed on any of the refinancings, it can direct staff to bring Resolution(s) of Intent to the Council/Successor Agency to start the process
  - Legal documents will be brought back to the Council for final approval at a subsequent meeting
  - Refinancing process will take approximately 3 months for the Sewer Refinancing and 4-6 months for the Tax Allocation Bond refinancing because of the need to get Department of Finance approval. Final savings can be estimated, but not finalized, until the bonds are sold