

*“Placerville, a Unique Historical Past Forging into a Golden Future”***City Manager's Report****April 26, 2022, City Council Meeting****Prepared by: Dave Warren, Assistant City Manager/Director of Finance****Item #: 12.1****Subject:** Take the following actions:

1. Adopt a resolution:
  - A. Ratifying the term sheet with JPMorgan Chase Bank, N.A. for a tax exempt private placement financing for the refunding of the Wastewater Refunding and Improvement Project Revenue Bonds, Series 2006 in an approximate amount of \$15,189,700; and
  - B. Authorizing the City Manager or his designee to take any actions, negotiate any remaining terms, and execute any documents related to the said private placement financing.
2. Adopt a Resolution providing for the issuance and sale of wastewater revenue bonds and approving the execution of a trust indenture and other documents and actions related thereto.

**Purpose:**

To refinance the Wastewater Refunding and Improvement Project Revenue Bonds, Series 2006 with a direct placement financing with JPMorgan Chase Bank, N.A. thereby reducing the overall cost of the financing and its impact on ratepayers.

**Background:**

At its meeting held on March 22, 2022, the City Council directed the Assistant City Manager/Director of Finance and the City's Municipal Advisor to pursue the refunding of the Wastewater Refunding and Improvement Project Revenue Bonds, Series 2006 with a direct placement financing and return to the City Council at the next available meeting for the approval of the proposed financing terms and documentation. The Council also authorized the City Manager to negotiate a professional services agreement with Hilltop Securities, Inc. (HS) for Placement Agent services for the not to exceed amount of \$24,000, negotiate a professional services agreement with Norton Rose Fulbright US LLP (NRF) for Bond Counsel services for a not to exceed amount of \$55,000 for the said Bond refunding, and authorized the City Manager to execute the same. Both agreements were successfully negotiated and executed. Shortly thereafter, HS prepared a Request for Proposals (RFP) and distributed it to twenty-five reputable banks. The City received proposals from five banks. NRF prepared the attached resolution and trust indenture. Tonight, staff and the City's consultants will present the results of the RFP, provide additional analysis and an overview of the indenture, and answer any questions the City Council and the Public may have about the proposed direct placement financing. Staff recommends the City Council adopt the two resolutions thereby approving the indenture and the direct placement financing with JPMorgan Chase Bank, N.A. (JPMCB) in the amount of approximately \$15,189,700.

**Discussion:**

The proposals from the five banks that responded to the RFP are listed below:

Bank	Tax Exempt Rate to 9/1/34	Rate Lock	Call Feature	Legal Fees	Bank Fees (not legal)	Reporting Requirements	Other
Bank "A"	3.950%	did nto state	7yr 3,3,3,2,2,1,1	\$ 10,000	NA	Audits within 270 day and budgets within 30	1.20 rate covenant and ABT
Bank "B"	3.220%	locked through June 7, 2022 unless rates move then subject to adjustment -(see term sheet)	any payment date at 100	\$ 7,500	NA	Audits within 270 day	1.2 rate covenant and ABT. Will allow maximum of 4 wires at closing
Bank "C"	3.440%	locked to May 3 as long as 10yr UST is between 2.78 and 2.88 but locked upon verbal award	9/1/29 at 100	NA	NA	Upon request, as soon as available, the Borrower shall send COPF a copy of its audited financial statements	
Bank "D"	3.550%	locked for 30 days from 4/18	callable anytime with 30 days notice	NA	NA	did not state	
JMPC Non Call	2.850%	when term sheet is signed but rate good until 4/19	non call	\$ 10,000	NA	Audits within 270 day and budgets within 30	1.25 rate covenant and ABT. Bank has right to sell or assign
JPMC 3yr call	3.130%	when term sheet is signed but rate good until 4/20	3 yr par call	\$ 10,000	NA	Audits within 270 day and budgets within 31	1.25 rate covenant and ABT. Bank has right to sell or assign
JPMC 5yr call	2.970%	when term sheet is signed but rate good until 4/21	5yr par call	\$ 10,000	NA	Audits within 270 day and budgets within 32	1.25 rate covenant and ABT. Bank has right to sell or assign

As you can see, JPMCB have the best terms overall. JPMCB's original proposal included a 1.25% debt coverage ratio requirement. Both the adopted sewer rate study, performed by Bartle Wells in 2018, and the City's Fiscal Year 2021/2022 Sewer Enterprise Fund Operating Budget assume a coverage ratio of 1.20% due to the associated covenants for both the current 2006 Wastewater Revenue Bonds and the 2006 State Revolving Fund Loan. Since the refunding bonds will be issued on parity with the 2006 State Revolving Fund Loan ("2006 SRF Loan"), the same covenants associated with the 2006 SRF Loan will apply. JPMCB's proposal also included a "breakage" fee for an unknown amount if, for some reason, the City did not follow through with the refinancing. The JPMCB also had a one-day "lock in" period, and staff immediately negotiated the elimination of the "breakage" fee and the reduction in the debt coverage ratio from 1.25 to 1.20 to adhere to the existing legal covenants. In order to do so, JPMCB required that a new term sheet be prepared. When we received the new term sheet, it included the following interest rates which are slightly higher than the previous ones:

Option A: 2.87% indicative, fixed with no optional redemption

Option B: 3.15% indicative, fixed with optional redemption on or after September 1, 2025 at par plus accrued interest

Option C: 2.99% indicative, fixed with optional redemption on or after September 1, 2028 at par plus accrued interest

The City tried to negotiate restoring the original interest rates. However, JPMCB refused to restore the old rates citing the revisions that had to be made to the original Term Sheet. It is important to note that market interest rates have been rapidly rising over the past couple of weeks, and the City needed to lock in rates by Wednesday, April 20, 2022, or within hours of receiving the revised term

sheet. Nevertheless, the revised interest rates remain very competitive at this time, and staff and the City’s Municipal Advisor believed Option “C” is the best option for the City at this time.

Option “C” would provide the City with the flexibility to take advantage of an opportunity in the future to pay off the private placement financing or refinance it on or after September 1, 2028. In order to “lock in” these terms, the City Manager signed the term sheet on behalf of the City as a “good faith” commitment until such time when the City Council has an opportunity to formally approve the financing.

Below are the amortization schedules for the current 2006 Wastewater Revenue Bonds (prior debt service) and the proposed direct placement financing (refunding debt service):

**SAVINGS**

**Placerville Public Financing Authority  
2022 Refunding Revenue Bonds (Private Placement)**

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**Preliminary, subject to change**

<i>Date</i>	<i>Prior Debt Service</i>	<i>Refunding Debt Service</i>	<i>Savings</i>	<i>Present Value to 05/03/2022 @ 2.9903752%</i>
09/01/2022	627,625.63	628,818.50	-1,192.87	-1,181.32
09/01/2023	1,030,407.50	1,028,670.54	1,736.96	4,226.53
09/01/2024	1,035,126.26	1,133,759.44	-98,633.18	-89,515.27
09/01/2025	1,039,188.76	1,237,779.60	-198,590.84	-177,383.40
09/01/2026	1,042,595.00	1,338,253.30	-295,658.30	-257,473.25
09/01/2027	1,044,575.00	1,434,074.56	-389,499.56	-329,957.58
09/01/2028	1,045,857.50	1,534,270.26	-488,412.76	-402,166.57
09/01/2029	2,891,442.50	1,634,398.24	1,257,044.26	1,013,987.85
09/01/2030	2,895,537.50	1,732,641.88	1,162,895.62	910,450.72
09/01/2031	2,899,750.00	1,732,735.40	1,167,014.60	886,600.11
09/01/2032	2,900,500.00	1,732,689.40	1,167,810.60	860,853.49
09/01/2033	2,905,250.00	1,734,268.00	1,170,982.00	837,526.91
09/01/2034	2,908,500.00	1,735,381.50	1,173,118.50	814,084.58
	24,266,355.65	18,637,740.62	5,628,615.03	4,070,052.79

**Savings Summary**

PV of savings from cash flow	4,070,052.79
Less: Prior funds on hand	-1,776,193.71
Plus: Refunding funds on hand	4,967.80
<b>Net PV Savings</b>	<b>2,298,826.88</b>

As you can see, the overall gross savings are \$5,628,615 or \$2,298,827 net present value savings over the term of the financing. Staff is recommending a seven year “step up” amortization schedule. From 2024 through 2030, the annual debt service payments will increase by approximately \$100,000 more each year as compared to the previous year’s payment to build up to the ultimate payment amount in 2030 that will remain relatively level through the remaining term of the financing in 2034. This schedule will incrementally increase the payment in the early years to avoid the large “balloon” payments included in the later years of the old 2006 Wastewater Revenue Bonds. This approach will also help minimize and smooth out the impact to the ratepayers from year to year when the City needs to raise its wastewater rates in the future.

The private placement financing includes a not to exceed \$10,000 independent bank counsel fee that is payable to JPMCB. In order to secure the private placement refinancing, the City Council will

need to approve the two resolutions as presented, and the City will need to close the refinancing on or before May 3, 2022.

Both the City's Municipal Advisor, Anna Sarabian, Ph.D., Principal from Fieldman Rolapp & Associates, and the City's Bond Counsel, Stepan Haytayan, Senior Counsel from Norton Rose Fulbright, will be available during the meeting to answer any questions about the proposed refinancing and the associated documents.

### Options:

1. Take the various actions as recommended by staff.
2. Take other actions.
3. Take no action.

### Cost:

The independent bank counsel fee that is payable to JPMCB is for a not to exceed amount of \$10,000. It is expected that this fee will be included and payable from the costs of issuance associated with the refinancing.

### Budget Impact:

The proposed not to exceed \$10,000 independent bank counsel fee that is payable to JPMCB is not included in the Fiscal Year 2021/2022 Sewer Enterprise Fund Operating Budget. If approved, this cost would be paid for by the proceeds from the proposed direct placement refinancing. The direct placement refinancing is projected to potentially save the City approximately \$5.6 million in gross debt service over the remaining term of the financing.

To date, the refinancing has encumbered the following costs:

John Driscoll, Past City Attorney	\$ 310
Fieldman Rolapp & Associates	30,000
Government Financial Strategies	844
Hilltop Securities, Inc. (Proposed Agreement)	24,000
JPMorgan Chase Bank, N.A. (Proposed)	10,000
Norton Rose Fullbright US LLP (Original Agreement)	15,000
Norton Rose Fullbright US LLP (Proposed Agreement)	55,000
Robert Thomas	1,250
City Personnel	4,033
<b>Total</b>	<b><u>\$ 140,437</u></b>

Staff anticipates the \$140,437 in costs of issuance will be reimbursed from the proceeds of the direct placement refinancing.

**Recommendation:**

Take the following actions:

1. Adopt a resolution:
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**M. Cleve Morris, City Manager**



**Dave Warren, Assistant City  
Manager/Director of Finance**

**Attachments:**

- Attachment A: Presentation and Analysis
- Attachment B: Resolution-Private Placement Financing with JPMorgan Chase Bank, N.A.
- Attachment C: Resolution-Indenture
- Attachment D: Draft Indenture
- Attachment E: SB 450 Good Faith Estimate Sheet