



FILED
OFFICE OF THE CITY CLERK
OAKLAND

2018 MAY 10 PM 2:01

AGENDA REPORT

TO: Sabrina B. Landreth
City Administrator

FROM: Katano Kasaine
Director of Finance

SUBJECT: City of Oakland 2018-2019 Tax and
Revenue Anticipation Note

DATE: April 30, 2018

City Administrator Approval

Date:

5/9/18

RECOMMENDATION

Staff Recommends That The City Council Adopt:

- 1. An Ordinance Providing For The Borrowing Of Funds And The Issuance And Sale Of 2018-2019 Notes Payable From Revenues Received During The Fiscal Year 2018-2019 In An Amount Not To Exceed \$105,000,000 And Approving Certain Related Matters; And**
- 2. A Resolution Of The Council Of The City Of Oakland Providing For The Borrowing Of Funds For Fiscal Year 2018-19 And The Issuance And Sale Of The City Of Oakland 2018-2019 Tax And Revenue Anticipation Note In An Amount Not To Exceed \$105,000,000, And Approving The Execution Of A Note Purchase Agreement Relating To Such Note And Authorizing Other Actions In Connection Therewith.**

EXECUTIVE SUMMARY

The ordinance and resolution will authorize the borrowing of funds for Fiscal Year 2018-19 ("FY18-19") and the issuance and sale of the City of Oakland 2018-2019 Tax and Revenue Anticipation Note (the "Note") in an amount not to exceed \$105,000,000 as a single, taxable series to be purchased by Bank of America, N.A. ("Bank of America") to finance the prepayment of the City of Oakland's (the "City") Employer Unfunded Accrued Liability ("UAL") contribution to California Public Employees' Retirement System ("CalPERS") for FY18-19. The City will receive a 3.50 percent (3.50%) prepayment discount from CalPERS for the "pre-funding." The Note will mature not later than 13 months from the date of issuance and bear an Interest Rate not to exceed 3.50 percent (3.50%) per annum per the Note Purchase Agreement (the "Purchase Agreement"). The Maximum Rate will not exceed ten percent (10%) per annum per the Purchase Agreement. Debt service on the Note will be secured by taxes and revenues received by the City for FY18-19. Issuance of the Note and pre-funding of CalPERS will generate net cost savings estimated at \$1.1 million for FY18-19.

Item: _____

Finance and Management Committee
May 22, 2018

BACKGROUND / LEGISLATIVE HISTORY

Pursuant to Section 53850 et seq. of the Government Code of the State of California (the "Government Code") contained in Article 7.6 thereof on or after the first day of any fiscal year (being July 1), a city may borrow money by issuing notes for any purpose for which a city is authorized to expend moneys, including but not limited to current expenses, capital expenditures, and the discharge of any obligation or indebtedness of a city.

Pursuant to Section 219 of the Charter of the City, an ordinance is required to authorize the borrowing of money.

ANALYSIS AND POLICY ALTERNATIVES

Staff recommends issuance of the Note to fund the prepayment of the City's FY18-19 UAL contribution to CalPERS for savings. By making a lump sum payment by July 31, 2018 instead of monthly payments throughout the fiscal year, the City will receive from CalPERS a prepayment discount of 3.50 percent (3.50%) of the required annual UAL contribution. As of July 1, 2017, only the UAL portion of the employer contribution can be pre-funded. The Normal Cost¹ portion of the employer contribution will be made as part of the regular payroll reporting process. Issuance of the Note and pre-funding of the City's annual CalPERS UAL contribution will generate net cost savings estimated at \$1.1million for FY18-19 depending on interest rates at the time of pricing.

Staff has explored various alternatives including public and private placement. Based on current market conditions, the analysis resulted in the private placement option, like last year, generating the maximum savings to the City. The process of completing a private placement typically requires fewer steps than a public sale of notes resulting in cost benefits to the City. A private placement would save the City a variety of fees or costs associated with selling the Note in the open market such as lower cost of issuance and interest costs. With the private placement, the interest cost will be reduced for the City due to the ability to pay principal quarterly versus only at maturity of the Note. Therefore, staff recommends proceeding with Bank of America as the direct purchase bank through a private placement. A proposed financing schedule is included as **Table 1**.

¹ The minimum required employer contribution includes the sum of two components: 1) Normal Cost ("NC") Rate, which represents the annual cost of service accrual for the upcoming fiscal year, for active employees. Normal cost is shown as a percentage of payroll and paid as part of the payroll reporting process. 2) Annual payment on the Unfunded Accrued Liability ("UAL") is the amortized dollar amount needed to fund past service credit earned (or accrued) for members who are currently receiving benefits, active members, and for members entitled to deferred benefits, as of the valuation date. The UAL is billed monthly.

Table 1: Proposed Financing Schedule

Date	Item
5/22/2018	Ordinance and resolution heard at Finance & Management Committee
5/29/2018	1 st reading of ordinance at and resolution adopted by City Council
6/5/2018	2 nd reading of ordinance at City Council
7/05/2018	End of ordinance referendum period
7/16/2018	Pricing of the Note
7/18/2018	Closing of the Note
7/31/2018	Deadline to submit prepayment of FY18-19 UAL to CalPERS

The Note, attached to the resolution as **Exhibit A**, will be issued in one taxable series maturing not later than 13 months from the date of issuance. The Interest Rate (per the Purchase Agreement attached to the resolution as **Exhibit B**) shall not to exceed 3.50 percent (3.50%) per annum. The Maximum Rate (per the Purchase Agreement) shall not exceed ten percent (10%) per annum. The Default Rate (per the Purchase Agreement) and Increased Costs per Section 2.04 of the Purchase Agreement shall be subject to the Maximum Rate per Section 2.03(d) of the Purchase Agreement. The principal amount of the Note, together with the interest thereon (i.e. debt service), shall be payable from taxes, revenues, income, cash receipts and other moneys which are received by the City for FY18-19 and which are available for the payment of current expenses and other obligations of the City. **Table 2** and **Attachment A** describe the finance charges for the Note per Section 5852.1 of the Government Code.

Table 2: Finance Charges of Note²

Item	Estimate as of 3/12/2018
True interest cost of the bonds	2.74%
Finance charge of the bonds	\$172,000
Bond proceeds received by the City	\$83,435,000
Total payment amount	\$84,736,908

The ordinance, resolution, Note and required financing documents have been prepared by qualified consultants working with staff. KNN Public Finance has been retained to serve as municipal advisor. Orrick, Herrington & Sutcliffe LLP has been retained to serve as bond counsel. The Purchase Agreement was prepared by the Bank of America with their counsel and reviewed by staff, the municipal advisor and bond counsel.

² Interest rates for the Note will depend on market conditions at the time of sale of the Note.

FISCAL IMPACT

Debt service on the Note will be secured by taxes and revenues received for FY18-19. Fees associated with issuance of the Note will be paid from proceeds of the Note, contingent upon closing of the transaction. Issuance of the Notes and pre-funding of CalPERS will generate net cost savings estimated at \$1.1 million for FY18-19.

PUBLIC OUTREACH / INTEREST

This item did not require public outreach other than the required posting on the City's website.

COORDINATION

This report was prepared by the Treasury Bureau in coordination with the Finance Department, Office of the City Attorney and Budget Bureau.

SUSTAINABLE OPPORTUNITIES

Economic: This item supports the City's ongoing operations and ability to serve its constituents.

Environmental: There are no environmental opportunities associated with this item.

Social Equity: This item supports the City's ongoing operations and ability to serve its constituents.

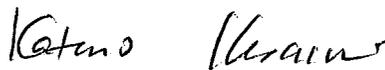
ACTION REQUESTED OF THE CITY COUNCIL

Staff requests that the City Council adopt:

1. An ordinance providing for the borrowing of funds and the issuance and sale of 2018-2019 notes payable from revenues received during the fiscal year 2018-2019 in an amount not to exceed \$105,000,000 and approving certain related matters; and
2. A resolution of the Council of the City of Oakland providing for the borrowing of funds for fiscal year 2018-19 and the issuance and sale of the City of Oakland 2018-2019 Tax and Revenue Anticipation Note in an amount not to exceed \$105,000,000.00, and approving the execution of a note purchase agreement relating to such note and authorizing other actions in connection therewith.

For questions regarding this report, please contact Katano Kasaine, Director of Finance, at (510) 238-2989.

Respectfully submitted,



Katano Kasaine
Director of Finance, Finance Department

Reviewed by:
David Jones, Treasury Administrator

Prepared by:
Jennifer Chin, Treasury Analyst III
Treasury Bureau

Attachments (1):

Attachment A: Good Faith Financial Statements Related to the Note

Attachment A
GOOD FAITH FINANCIAL ESTIMATES RELATED TO THE NOTE

The good faith financial estimates set forth herein are provided with respect to the Note in accordance with California Government Code Section 5852.1. Such good faith estimates have been provided to the City by KNN Public Finance, LLC the City's Municipal Advisor (the "Municipal Advisor").

Principal Amount. The Municipal Advisor has informed the City that, based on the City's financing plan and current market conditions, its good faith estimate of the aggregate principal amount of the Note to be sold is \$83,435,000 (the "Estimated Principal Amount").

True Interest Cost of the Note. The Municipal Advisor has informed the City that, assuming that the respective Estimated Principal Amount of the Note is sold, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the true interest cost of the Note, which means the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the Note, is 2.74%.

Finance Charge of the Note. The Municipal Advisor has informed the City that, assuming that the Estimated Principal Amount of the Note is sold, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the finance charge for the Note, which means the sum of all fees and charges paid to third parties (or costs associated with the Note), is \$172,000.

Amount of Proceeds to be Received. The Municipal Advisor has informed the City that, assuming that the Estimated Principal Amount of the Note is sold, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the amount of proceeds expected to be received by the City for sale of the Note, less the finance charge of the Note, as estimated above, and any reserves funded with proceeds of the Note, is \$83,435,000.

Total Payment Amount. The Municipal Advisor has informed the City that, assuming that the Estimated Principal Amount of the Note is sold, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the total payment amount, which means the sum total of all payments the City will make to pay debt service on the Note, plus the finance charge for the Note, as described above, not paid with the proceeds of the Note, calculated to the final maturity of the Note, is \$84,736,908.

The foregoing estimates constitute good faith estimates only and are based on market conditions prevailing at the time of preparation of such estimates. The actual principal amount of the Note issued and sold, the true interest cost thereof, the finance charges thereof, the amount of proceeds received therefrom and total payment amount with respect thereto may differ from such good faith estimates due to (a) the actual date of the sale of the Note being different than the date assumed for purposes of such estimates, (b) the actual principal amount of Note sold being different from the respective Estimated Principal Amounts, (c) the actual amortization of the Note being different than the amortization assumed for purposes of such estimates, (d) the actual market interest rates at the time of sale of the Note being different than those estimated for purposes of such estimates, (e) other market conditions, or (f) alterations in the City's financing plan, or a combination of such factors. The actual date of sale of the Note and the actual principal amount of Note sold will be determined by the City based on various factors.

The actual interest rates borne by the Note will depend on market interest rates at the time of sale thereof. The actual amortization of the Note will also depend, in part, on market interest rates at the time of sale thereof. Market interest rates are affected by economic and other factors beyond the control of the City.

2018 MAY 10 PM 2:01

Approved as to Form and Legality
Kathleen Salena Boyd
CITY ATTORNEY
by P.A.K.

OAKLAND CITY COUNCIL

ORDINANCE NO. _____ C.M.S.

**ORDINANCE PROVIDING FOR THE BORROWING OF FUNDS AND THE
ISSUANCE AND SALE OF 2018-2019 NOTES PAYABLE FROM REVENUES
RECEIVED DURING THE FISCAL YEAR 2018-2019 IN AN AMOUNT NOT TO
EXCEED \$105,000,000 AND APPROVING CERTAIN RELATED MATTERS**

WHEREAS, pursuant to Section 53850 et seq. of the Government Code of the State of California (the "Government Code") contained in Article 7.6 thereof, on or after the first day of any fiscal year (being July 1), a city may borrow money for any purpose for which a city is authorized to expend moneys, including but not limited to current expenses, capital expenditures, and the discharge of any obligation or indebtedness of a city; and

WHEREAS, the City intends to borrow, for the purposes set forth above, an amount not to exceed \$105,000,000; and

WHEREAS, pursuant to Section 219 of the Charter of the City, an ordinance is required to authorize the borrowing of money; now, therefore

**THE CITY COUNCIL OF THE CITY OF OAKLAND DOES ORDAIN AS
FOLLOWS:**

Section 1. Recitals. All of the above recitals are true and correct, and the City Council so finds and determines.

Section 2. Authorization of Notes. This City Council hereby authorizes the issuance and sale of one or more series of obligations (the "Notes"), which may be taxable or tax-exempt and have one or more maturities. The Notes shall be issued in an aggregate principal amount not to exceed \$105,000,000, which amount shall be finally determined by the City Administrator, the Director of Finance or such other officer as the City Administrator shall designate in writing (each such officer being hereinafter referred to as an "Authorized Representative").

Section 3. Terms of the Notes. The Notes shall be issued as current interest notes. The Notes shall mature on one or more dates no later than 13 months from the date of issuance. The principal amount of the Notes, together with the interest thereon, shall be payable from taxes, revenues, income, cash receipts and other moneys which are received for or accrued to the General Fund of the City for the Fiscal Year 2018-2019, excluding moneys which, when received by the City, will be encumbered for a special purpose.

Section 4. Sale of Notes; Ancillary Agreements. The terms and provisions of the Notes, the sale of the Notes, and the agreements relating to the Notes, including but not limited to a note purchase agreement, an acquisition agreement, a loan agreement or other funding agreement, shall be approved by resolution of the City Council.

Section 5. Effective Date. This Ordinance shall be effective immediately upon final adoption if it receives six or more affirmative votes; otherwise, it shall become effective on the seventh day after final adoption.

IN COUNCIL, OAKLAND, CALIFORNIA, _____

PASSED BY THE FOLLOWING VOTE:

AYES- BROOKS, CAMPBELL WASHINGTON, GALLO, GIBSON MCELHANEY, GUILLÉN, KALB, KAPLAN AND PRESIDENT REID

NOES-

ABSENT-

ABSTENTION-

ATTEST: _____
LaTonda Simmons
City Clerk and Clerk of the
Council of the City of Oakland

DATE OF ATTESTATION: _____

FILED
OFFICE OF THE CITY CLERK
OAKLAND

2018 MAY 30 PM 12:28

NOTICE AND DIGEST

**ORDINANCE PROVIDING FOR THE BORROWING OF FUNDS AND THE
ISSUANCE AND SALE OF 2018-2019 NOTES PAYABLE FROM REVENUES
RECEIVED DURING THE FISCAL YEAR 2018-2019 IN AN AMOUNT NOT TO
EXCEED \$105,000,000 AND APPROVING CERTAIN RELATED MATTERS**

The Ordinance would authorize the City to borrow up to One Hundred Five Million Dollars (\$105,000,000) pursuant to California Government Code section 53850 et seq., to satisfy obligations of the City during Fiscal Year 2018-2019. The notes authorized would be payable from taxes, revenues, income, cash receipts and other moneys that are received by the City for the Fiscal Year 2018-2019.