



FILED
OFFICE OF THE CITY CLERK
OAKLAND

2013 DEC 30 PM 2: 26

AGENDA REPORT

TO: DEANNA J. SANTANA
CITY ADMINISTRATOR

FROM: Katano Kasaine

SUBJECT: Sewer Revenue Refunding Bonds
2014 Series A

DATE: December 16, 2013

City Administrator:
Approval

Deanna Santana

Date

12-26-13

COUNCIL DISTRICT: City-Wide

RECOMMENDATION

Staff is recommending that the City Council adopt a resolution approving the issuance and sale of not to exceed \$70,000,000 aggregate principal amount of the City of Oakland Sewer Revenue Refunding Bonds, 2014 Series A to refund Sewer Revenue Bonds, 2004 Series A and to finance capital improvements; approving the form of and authorizing the execution and delivery of a second supplemental indenture, escrow agreement, continuing disclosure agreement and bond purchase agreement; approving the form of and authorizing the distribution of a preliminary official statement and authorizing the execution and delivery of an official statement; and authorizing necessary actions related thereto.

EXECUTIVE SUMMARY

In December 2004, the City of Oakland (the "City") issued \$62,330,000 of Sewer Revenue Bonds, 2004 Series A (the "2004 Series A") for the purpose of financing the costs of constructing, rehabilitating and installing certain capital improvements.

Staff recommends refunding of the 2004 Series A to achieve debt service savings in addition to issuing approximately \$15 million of new project money for capital improvement given the low interest rate market environment. Based upon market conditions as they existed on December 13, 2013, the refunding would represent approximately \$4.30 million or 8.88% in net present value savings which is approximately \$11.40 million in debt service savings. The industry standard and the City's debt policy for undertaking a refunding of bonds is achieving net present value savings of 3% or greater.

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Staff recommends adoption of the resolution authorizing the issuance of the Sewer Revenue Refunding Bonds, 2014 Series A (the "2014 Series A") and authorizing the execution of such related documents as may be necessary in order to structure the 2014 Series A.

OUTCOME

Issuing the 2014 Series A will fully refund the 2004 Series A, resulting in an annual debt service reduction. Based upon market conditions as they existed on December 13, 2013, the refunding would generate approximately \$4.30 million or 8.88% in net present value savings which is approximately \$11.4 million in debt service savings. In addition, approximately \$15 million of proceeds will be available to use towards capital improvements for the outdated sewer system.

BACKGROUND/LEGISLATIVE HISTORY

The Sewer System serves an area of approximately 56 square miles and provides collection and transport for all wastewater generated within the City. The Sewer System contains approximately 920 miles of pipes with diameters ranging from six inches to 66 inches, 31,500 access structures (manholes, lamp holes and cleanouts) and seven pump stations. The City is the sole and exclusive provider of sewer service within the corporate limits of the City.

Much of the Sewer System was built in the mid 1900's with the first sewers dating back to the late 1800's. The City conducted an evaluation of the Sewer System in the mid 1980's in order to identify deficiencies and recommend cost-effective improvements. Based upon such study, the City developed a program to improve the overall condition of the Sewer System and to reduce infiltration/inflow into the system. That program became the compliance plan for a Cease and Desist Order by the Regional Water Quality Control Board (RWQCB), San Francisco Bay Region in 1986. Similar orders were issued to the neighboring sewer collection jurisdictions in the East Bay. Orders required the City and the other subject jurisdictions to undertake improvements to their respective sewer systems to decrease discharges of untreated wastewater due to wastewater overflows and bypasses during periods of wet weather. The City's order was modified in 2009 and is on schedule to be completed in 2018.

In 2004, the City issued its \$62,330,000 aggregate principal amount of Sewer Revenue Bonds, 2004 Series A to finance the rehabilitation and, where necessary, replacement of sections of the existing Sewer System, including the sewer pipelines and connections to private sewer lines. The issuance of the 2004 Series A Bonds permitted the City's Public Works Agency to accelerate the rehabilitation of the Sewer System in accordance with the City's program and in satisfaction of the RWQCB order. The rehabilitated or replaced sewer lines will have a useful life of at least 50 years.

Currently, there is \$48,710,000 in outstanding bonds. The debt services is payable from the net revenues generated from the sewer system.

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ANALYSIS

Refunding Structure

In an effort to find ways to restructure and reduce existing annual debt service obligations to City's bonds, staff has been reviewing refunding opportunities on all of the City's outstanding debt. Given the continued favorable interest rate market, refunding the 2004 Series A will reduce the annual debt service payments thus providing savings. Refunding all of the 2004 Series A will generate debt service savings of approximately \$11.4 million. The net present value savings is expected to be \$4.30 million or 8.88% of the refunded bonds. In addition, approximately \$15 million of new money will be issued to the Public Works Agency to use for capital improvements of the sewer system.

The industry standard and the City's debt policy for undertaking a refunding of bonds is a net present value (NPV) savings of 3% or greater. The refunding of the 2014 Series A exceeds the NPV savings of 3% as presented in the table below.

2004 Series A	
Debt Service Savings	\$11,399,201
Net Present Value Savings	4,326,478
Net Present Value Savings	8.88%

The transaction is being structured as tax-exempt and fixed rate bond issue. The 2014 Series A will be issued as current interest refunding bonds and the true interest cost on the 2014 Series A will not exceed five and half percent per annum (5.5%). The 2014 Series A will be sold through a negotiated bid process to provide structuring flexibility. The debt service on the 2014 Series A will be payable from net revenues derived from the operation of the Sewer System.

It is expected that the transaction will close on or before March 18, 2013. All documents referred to in this staff report shall be placed on file in the Office of the City Clerk.

PUBLIC OUTREACH/INTEREST

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

COORDINATION

This report has been prepared by the Treasury Division in coordination with City Attorney's Office, Public Works Agency and Budget Office.

COST SUMMARY/IMPLICATIONS

The 2014 Series A debt service payments will be payable from net revenues generated by the Sewer System in Fund 3100. Any additional fees associated with issuing the 2014 Series A will be paid from bond proceeds and contingent upon closing of the transaction.

SUSTAINABLE OPPORTUNITIES

Economic: The refunding will result in savings by reducing debt service costs. The refunding would generate a total of approximately \$4.30 million in net present value savings, or 8.88% of the amount of the refunded bonds which is approximately \$11.4 million in debt service savings.

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

Social Equity: There are no social equity opportunities associated with this report.

CEQA

This report is not a project under CEQA.

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

Respectfully submitted,



KATANO KASAINE
Treasurer, Treasury Division

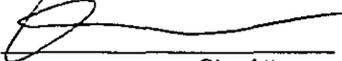
Reviewed by:
David Jones, Principal Financial Analyst
Treasury Division

Prepared by:
Dawn Hort, Financial Analyst
Treasury Division

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Approved as to Form and Legality


City Attorney

OAKLAND CITY COUNCIL

RESOLUTION NO. _____ C.M.S.

RESOLUTION APPROVING THE ISSUANCE AND SALE OF NOT TO EXCEED \$70,000,000 AGGREGATE PRINCIPAL AMOUNT OF CITY OF OAKLAND SEWER REVENUE REFUNDING BONDS, 2014 SERIES A TO REFUND SEWER REVENUE BONDS, 2004 SERIES A AND TO FINANCE CAPITAL IMPROVEMENTS; APPROVING THE FORM OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF A SECOND SUPPLEMENTAL INDENTURE, ESCROW AGREEMENT, CONTINUING DISCLOSURE AGREEMENT AND BOND PURCHASE AGREEMENT; APPROVING THE FORM OF AND AUTHORIZING THE DISTRIBUTION OF A PRELIMINARY OFFICIAL STATEMENT AND AUTHORIZING THE EXECUTION AND DELIVERY OF AN OFFICIAL STATEMENT; AND AUTHORIZING NECESSARY ACTIONS RELATED THERETO

WHEREAS, the City of Oakland (the "City") is a municipal corporation and charter city duly organized and existing under a charter pursuant to which the City has the right and power to make and enforce all laws and regulations in respect to municipal affairs and certain other matters in accordance with and as more particularly provided in Sections 3, 5 and 7 of Article XI of the Constitution of the State of California and Section 106 of the Charter of the City (the "Charter"); and

WHEREAS, the City Council of the City, acting under and pursuant to the powers reserved to the City under Sections 3, 5 and 7 of Article XI of the Constitution of the State of California and Sections 106 and 812 of the Charter, adopted Ordinance No. 12624 C.M.S. to authorize, and establish the procedures for, the sale and issuance of sewer revenue bonds by the City for the purpose of financing improvements to the City's sewer system (the "Sewer System"); and

WHEREAS, the City by execution and delivery of a Master Indenture dated as of December 1, 2004 (the "Master Indenture"), as supplemented by a First Supplemental Indenture dated as of December 1, 2004 (the "First Supplemental Indenture" and collectively with the Master Indenture, the "Indenture") by and between the City and Wells Fargo Bank, National Association, as trustee (the "Trustee"), issued its \$62,330,000 City of Oakland Sewer Revenue Bonds, 2004 Series A (the "Prior Bonds"); and

WHEREAS, the Indenture provides for the issuance of additional bonds; and

WHEREAS, the City wishes to issue bonds under the Indenture by the execution and delivery of a Second Supplemental Indenture in compliance with the provisions of the Master Indenture (the "Second Supplemental Indenture"); and

WHEREAS, the Second Supplemental Indenture shall set forth the terms and provisions relating to the issuance of the City of Oakland Sewer Revenue Refunding Bonds, 2014 Series A (the "Bonds"), shall provide for the application of the proceeds of the Bonds, including the refunding of the Prior Bonds, and shall set forth other terms and provisions relating to the Bonds; and

WHEREAS, the City desires to sell the Bonds by negotiated sale to Siebert Brandford Shank & Co., L.L.C. and Blaylock Robert Van, LLC (the "Underwriters") pursuant to a bond purchase agreement (the "Bond Purchase Agreement"); and

WHEREAS, there have been submitted and are on file with the City Clerk proposed forms of the Second Supplemental Indenture, an escrow agreement (the "Escrow Agreement"), by and between the City and Wells Fargo Bank, National Association, as escrow agent (the "Escrow Agent"); a continuing disclosure agreement (the "Continuing Disclosure Agreement"); an official statement (the "Official Statement"); and the Bond Purchase Agreement, all with respect to the Bonds proposed to be issued and sold; and now therefore be it

RESOLVED: that all of the above recitals are true and correct; and be it

FURTHER RESOLVED: that the issuance of the Bonds in an aggregate principal amount not to exceed \$70,000,000, is hereby authorized and approved. The City Administrator is hereby authorized and directed to execute (by manual or facsimile signature) the Bonds, and the City Clerk is hereby authorized and directed to affix and attest the seal of the City and to cause the Bonds to be authenticated and delivered in accordance with the Indenture. The proceeds of the Bonds shall be applied to refund the Prior Bonds and to pay costs of issuance of the Bonds and, if approved by the City Administrator, to finance capital improvements to the Sewer System. The true interest cost for the Bonds shall not exceed 5.5% per annum and the final maturity date of the Bonds shall be not later than June 15, 2045. The Bonds shall be in substantially the form set forth in the Second Supplemental Indenture, with such changes therein, deletions therefrom and additions thereto as the City Administrator or the City Treasurer, or a designee of either such official, and the City Attorney, shall approve, such approval to be conclusively evidenced by the execution and delivery of the Bonds; and be it

FURTHER RESOLVED: that the proposed form of Second Supplemental Indenture, on file with the City Clerk, is hereby approved. The City Administrator or the City Treasurer, or a designee of either such official, is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Second Supplemental Indenture, substantially in such form, with such changes therein as such officer may require or approve, such approval to be conclusively evidenced by the execution thereof; and be it

FURTHER RESOLVED: that the proposed form of Escrow Agreement, on file with the City Clerk, is hereby approved. The City Administrator or the City Treasurer, or a designee of either such official, is hereby authorized and directed, for and in the name and on

behalf of the City, to execute and deliver the Escrow Agreement, substantially in such form, with such changes therein as such officer may require or approve, such approval to be conclusively evidenced by the execution thereof; and be it

FURTHER RESOLVED: that the proposed form of Bond Purchase Agreement, on file with the City Clerk, is hereby approved. The City Administrator or the City Treasurer, or a designee of either such official, is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Bond Purchase Agreement, substantially in such form, with such changes therein as such officer may require or approve, such approval to be conclusively evidenced by the execution thereof; provided, however, that the underwriters' discount (exclusive of original issue discount) shall not exceed 0.5% of the aggregate principal amount of the Bonds; and be it

FURTHER RESOLVED: that the preparation and distribution of a Preliminary Official Statement relating to the Bonds (the "Preliminary Official Statement"), in substantially the form and substance on file with the City Clerk, is hereby ratified and approved. The City Administrator or the City Treasurer, or a designee of either such official, is authorized to deem such Preliminary Official Statement "final" for purposes of Securities and Exchange Commission Rule 15c2-12, and is further authorized to approve the final Official Statement with such changes therein, deletions therefrom and modifications thereto, such approval to be conclusively evidenced by the execution and delivery thereof by such officer; and be it

FURTHER RESOLVED: that the City hereby covenants and agrees that it will comply with and carry out all of the provisions of that certain Continuing Disclosure Agreement to be executed by the City and dated the date of issuance and delivery of the Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof; and be it

FURTHER RESOLVED: that First Southwest Company, is hereby appointed to serve as financial advisor, Orrick, Herrington & Sutcliffe LLP is hereby appointed to serve as bond counsel and Stradling Yocca Carlson & Rauth, P.C. is hereby appointed to serve as disclosure counsel in connection with the issuance of the Bonds; and be it

FURTHER RESOLVED: that the City Administrator or the City Treasurer, or a designee of either such official, and other appropriate officers of the City are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents and certificates which they deem necessary or advisable in order to consummate the execution and delivery of the documents mentioned herein and otherwise to effectuate the purposes of this Resolution and the transactions contemplated hereby; and be it

FURTHER RESOLVED: that all actions heretofore taken by the officers and agents of the City Council with respect to the transactions contemplated hereby are hereby ratified, confirmed and approved; and be it

FURTHER RESOLVED: that this Resolution shall take effect immediately upon its passage.

IN COUNCIL, OAKLAND, CALIFORNIA _____, 2014.

PASSED BY THE FOLLOWING VOTE:

AYES - BROOKS, GALLO, GIBSON MCELHANEY, KALB, KAPLAN, REID, SCHAAF, and
PRESIDENT KERNIGHAN

NOES -

ABSENT: -

ABSTENTION: -

ATTEST: _____

LaTonda Simmons
City Clerk and Clerk of the Council of the
City of Oakland, California