



# AGENDA REPORT

**TO:** Steven Falk  
Interim City Administrator

**FROM:** Adam Benson  
Director of Finance

**SUBJECT:** City of Oakland 2020-2021 Tax and  
Revenue Anticipation Notes

**DATE:** May 5, 2020

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City Administrator Approval

Date: 5-11-2020

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## RECOMMENDATION

**Staff Recommends That The City Council Adopt:**

- 1. An Ordinance Providing For The Borrowing Of Funds And The Issuance And Sale Of 2020-2021 Notes Payable From Revenues Received During The Fiscal Year 2020-2021 In An Amount Not To Exceed \$135,000,000 And Approving Certain Related Matters; and**
- 2. A Resolution Providing For The Borrowing Of Funds For Fiscal Year 2020-2021 And The Issuance And Sale Of The City Of Oakland 2020-2021 Tax And Revenue Anticipation Notes In An Amount Not To Exceed \$135,000,000, And Approving The Execution Of One Or More Note Purchase Agreements Relating To Such Notes And Authorizing Other Actions In Connection Therewith.**

## EXECUTIVE SUMMARY

Adoption of the ordinance and resolution will authorize the borrowing of funds for Fiscal Year 2020-21 ("FY20-21") and the issuance and sale of the City of Oakland 2020-21 Tax and Revenue Anticipation Notes (the "Notes") in an aggregate amount not to exceed one hundred thirty-five million dollars (\$135,000,000). The Notes will be issued to finance the prepayment of the City of Oakland's (the "City") Employer Unfunded Accrued Liability ("UAL") contribution to the California Public Employees' Retirement System ("CalPERS") for FY20-21. The City will receive a 3.33% prepayment discount from CalPERS for the "pre-funding," significantly greater than the cost of borrowing, estimated to be 2%. Issuance of the Notes and pre-funding of the City's annual CalPERS UAL contribution is expected to generate net cost savings of \$1,458,785 for FY20-21.

The Notes will be issued in one or more series, to be sold by the City to one or more banks or other lenders (the "Purchasers") to be selected by the City Administrator or his designee, maturing no later than 13 months from the date of issuance. The Notes will bear an interest rate not to exceed 3.50% per annum per the Resolution and carry a maximum rate in the event of default not to exceed 10% per annum per the Note Purchase Agreements ("NPA"). Debt service on the Notes will be secured by taxes and revenues received by the City for FY20-21.

City Council  
May 19, 2020

## **BACKGROUND / LEGISLATIVE HISTORY**

Pursuant to Section 53850 et seq. of the Government Code of the State of California 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 Notes to fund the prepayment of the City's FY20-21 UAL contribution to CalPERS for savings. By making a lump sum payment by July 31, 2020 instead of monthly payments throughout the fiscal year, the City will receive from CalPERS a prepayment discount of 3.33% 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 Cost<sup>1</sup> portion of the employer contribution will be made as part of the regular payroll reporting process. Issuance of the Notes and pre-funding of the City's annual CalPERS UAL contribution is expected to generate net cost savings of \$1,458,785 for FY20-21 dependent on interest rates at the time of pricing.

Staff has explored various alternatives including public offering and private placement of the Notes. Based on current market conditions, the analysis resulted in the private placement option, as in previous years, generating the maximum benefit and flexibility to the City. A private placement allows for more flexibility in amortization structure and sale process than a public offering resulting in lower expected interest costs. A private placement also requires less documentation and no underwriter resulting in lower costs of issuance. Given the volatility in financial markets for the foreseeable future, the City is currently exploring options with several banks. The City Administrator, the Director of Finance or such other officer as the City Administrator shall designate, will be authorized to select one or more Purchasers. A proposed financing schedule is included in the following **Table 1**.

While the Notes are expected to be purchased by a bank, staff is also monitoring State and Federal developments should they implement a program enabling them to serve as a direct lender to the City in time for the pre-funding. At this time, no such program is currently in place.

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<sup>1</sup> 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. If not prepaid, the UAL is billed monthly.

Table 1: Proposed Financing Schedule

Date	Activities
5/19/2020	1st reading of ordinance and adoption of resolution by City Council
6/2/2020	2nd reading of ordinance at City Council
7/2/2020	End of ordinance referendum period
7/13/2020	Pricing of the Note
7/15/2020	Closing of the Note
7/31/2020	Deadline to submit prepayment of FY20-21 UAL to CalPERS

The form of Note, attached to the resolution as **Exhibit A**, will be issued in one or more taxable series maturing not later than 13 months from the date of issuance. The Interest Rate (per the form of NPA attached to the resolution as **Exhibit B**) shall not exceed 3.50% per annum. The Default Rate shall be subject to the Maximum Rate in the manner set forth in Section 2.03(d) of the form of NPA. The Maximum Rate shall not exceed 10% per annum. The principal amount of the Notes, 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 FY20-21 and which are available for the payment of current expenses and other obligations of the City. **Table 2** provides the finance charges for the Notes.

Table 2: Finance Charges of the Notes<sup>2</sup>

Statistics	Estimate as of 4/15/2020
True interest cost of the Notes	2.00%
Notes Issuance Cost	\$169,500
Notes proceeds received by the City	\$109,240,000
Total payment amount	\$111,364,111

The ordinance, resolution, form of Note, form of NPA and required financing documents have been prepared by qualified consultants working with staff. KNN Public Finance, LLC will serve as municipal advisor. Jones Hall, A Professional Law Corporation, will serve as bond counsel. The Notes and NPA will be reviewed by the Purchasers and their counsel.

**FISCAL IMPACT**

Issuance of the Notes and pre-funding of the City’s annual CalPERS UAL contribution is expected to generate net cost savings of \$1,458,785 for FY20-21. Debt service on the Notes will be secured by taxes and revenues received for FY20-21. Fees associated with issuance of the Notes will be paid from proceeds of the Notes, contingent upon closing of the transaction, and are factored into the calculation of net savings.

<sup>2</sup> Interest rates for the Notes are a current estimate; actual rates will depend on market conditions at the time of sale of the Notes.

**PUBLIC OUTREACH / INTEREST**

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

**COORDINATION**

This report was prepared by the Finance Department in coordination with the Office of the City Attorney.

**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.

***Race and 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 2020-2021 Notes Payable From Revenues Received During The Fiscal Year 2020-2021 In An Amount Not To Exceed \$135,000,000 And Approving Certain Related Matters; and
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For questions regarding this report, please contact David Jones, Treasury Administrator, at (510) 238-6508.

Respectfully submitted,



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Adam Benson  
Director of Finance, Finance Department

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Treasury Bureau