




AGENDA REPORT

TO: Edward D. Reiskin
City Administrator

FROM: Erin Roseman
Director of Finance

SUBJECT: City of Oakland 2022-2023 Tax and
Revenue Anticipation Notes

DATE: May 9, 2022

City Administrator Approval 

Date: May 26, 2022

RECOMMENDATION

Staff Recommends That The City Council Adopt A Resolution Providing For The Borrowing Of Funds For Fiscal Year 2022-2023 And The Issuance And Sale Of The City Of Oakland 2022-2023 Tax And Revenue Anticipation Notes In An Amount Not To Exceed \$165,000,000, 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 proposed resolution will provide for the borrowing of funds for Fiscal Year 2022-23 ("FY22-23") and the issuance and sale of the City of Oakland 2022-23 Tax and Revenue Anticipation Notes (the "Notes") in an aggregate amount not to exceed one hundred sixty-five million dollars (\$165,000,000) by authorizing terms and provisions of the Notes, the sale of the Notes, and the forms of agreements relating to the Notes. 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 FY22-23. The City will receive a 3.33% prepayment discount from CalPERS for the "pre-funding," which is expected to exceed the cost of borrowing, estimated to be 2.80% as of April 20, 2022. Issuance of the Notes and pre-funding of the City's annual CalPERS UAL contribution is expected to generate net cost savings of \$900,000 for FY22-23.

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 "Purchaser") 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 a true interest cost ("TIC") 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 Agreement ("NPA"). Debt service on the Notes will be secured by taxes and revenues received by the City for FY22-23. The proposed resolution authorizes the City Administrator or other officers as designated by the City Administrator to execute required certificates, agreements and other documents, including but not limited to, a rate lock agreement that may include a breakage fee related to the Notes and a fiscal agent agreement.

City Council
June 7, 2022

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 and an ordinance authorizing the borrowing of funds and issuance and sale of the notes was submitted to Council on May 17, 2022.

ANALYSIS AND POLICY ALTERNATIVES

The Citywide priority advanced by this recommended policy action meets the goal of a responsive, trustworthy government.

The proposed resolution authorizes the terms and provisions of the Notes, the sale of the Notes, and the forms of agreements relating to the Notes, including but not limited to the form of the NPA, and other related documents.

Staff recommends issuance of the Notes to fund the prepayment of the City's FY22-23 UAL contribution to CalPERS for savings. By making a lump sum payment by July 31, 2022 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. The Normal Cost¹ 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 \$900,000 for FY22-23. Final savings will be dependent on interest rates at the time of pricing.

If the transaction does not produce sufficient savings due to an increase in interest costs, the City will not proceed with the financing and will provide an update to Council. A lack of savings will result in an increase to costs as the savings are factored into the City's budgeted fringe rate.

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 greater efficiency. A private placement also requires less documentation

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. If not prepaid, the UAL is billed monthly. As of July 1, 2017, only the UAL portion of the employer contribution can be pre-funded.

and no underwriter resulting in lower costs of issuance. Given the rising interest rate environment and continued volatility, the City is currently exploring options with several prospective Purchasers. 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 **Table 1** below.

Table 1: Proposed Financing Schedule

Date	Activities
5/17/2022	1st reading of ordinance at City Council
6/7/2022	2nd reading of ordinance and adoption of resolution by City Council
7/11/2022	Pricing of the Note
7/14/2022	Closing of the Note
7/29/2022	Deadline to submit prepayment of FY22-23 UAL to CalPERS

The form of Note, attached to the resolution as Exhibit A, will be issued in one or more taxable series or maturities maturing not later than 13 months from the date of issuance. The TIC (per the form of NPA attached to the resolution as Exhibit B) will not exceed 3.50% per annum. The Default Rate will be subject to the Maximum Rate in the manner set forth in the form of NPA. The Maximum Rate will not exceed 10% per annum. The principal amount of the Notes, together with the interest thereon (i.e. debt service), will be payable from taxes, revenues, income, cash receipts and other moneys which are received by the City for FY22-23 and which are available for the payment of current expenses and other obligations of the City. The resolution authorizes the City Administrator or other officers as designated by the City Administrator to execute required certificates, agreements and other documents, including but not limited to, a rate lock agreement that may include a breakage fee payable by the City related to the Notes if not issued and a fiscal agent agreement. **Table 2** provides the currently estimated finance charges for the Notes.

Table 2: Finance Charges of the Notes²

Statistics	Estimate as of 4/20/2022
True interest cost of the Notes	2.80%
Notes Issuance Cost	\$150,000
Notes proceeds received by the City	\$136,650,000
Total payment amount	\$140,481,440

The ordinance, resolution, form of Note, form of NPA and required financing documents have been prepared by qualified consultants working with staff. Urban Futures, Inc. will serve as municipal advisor. Hawkins Delafield & Wood LLP, will serve as bond counsel. The Notes and NPA will be reviewed by the Purchasers and their counsel.

² Interest rates for the Notes are a current estimate; actual rates will depend on market conditions at the time of pricing of the Notes.

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 \$900,000 for FY22-23. Debt service on the Notes will be secured by taxes and revenues received for FY22-23. Fees associated with issuance of the Notes are estimated to be \$150,000, will be paid from proceeds of the Notes, contingent upon closing of the transaction, and are factored into the calculation of net savings.

If the transaction does not produce sufficient savings due to an increase in interest costs, the City will not proceed with the financing and will provide an update to Council. A lack of savings will result in an increase to costs as the savings are factored into the City's budgeted fringe rate.

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 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 A Resolution Providing For The Borrowing Of Funds For Fiscal Year 2022-2023 And The Issuance And Sale Of The City Of Oakland 2022-2023 Tax And Revenue Anticipation Notes In An Amount Not To Exceed \$165,000,000, And Approving The Execution Of One Or More Note Purchase Agreements Relating To Such Notes And Authorizing Other Actions In Connection Therewith.

For questions regarding this report, please contact David Jones, Treasury Administrator, at (510) 238-6508.

Respectfully submitted,



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