

CITY OF GARDEN GROVE

INTER-DEPARTMENT MEMORANDUM

To:	Matthew J. Fertal	From:	Kingsley Okereke
Dept:	City Manager/General Manager	Dept:	Finance
Subject:	APPROVAL OF THE ISSUANCE OF GARDEN GROVE WATER REVENUE BONDS SERIES 2010 A, B and C	Date:	April 27, 2010

OBJECTIVE

The purpose of this report is to request that the City Council and City of Garden Grove Public Financing Authority Board approve and authorize the execution and delivery of all necessary legal and financing documents, agreements, and related staff actions to complete the sale and delivery of not to exceed \$20 million Water Revenue Bonds (the "Bonds") series 2010 A, B and C, to finance the acquisition, expansion, construction and improvement of certain additional water facilities of the Water System of the City of Garden Grove (the "City"), and to fund a Reserve Fund for the Bonds, and pay certain costs of issuance.

BACKGROUND

In July 2007, City Council adopted a Ten-Year Water Financial Plan (Plan) prepared by Black & Veatch, which included five years of incremental annual rate adjustments of (40 percent, 20 percent, 7.5 percent, 5 percent, and 5 percent to be applied to the service charge and commodity adjustment charges) and the issuance of a \$32 million debt obligation that will be used to fund the identified capital program. The debt would be issued in two installments, and the amount of each installment will be determined by need and staff ability to execute projects, and market conditions.

The City completed a Water Master Plan in September 2008, which includes a detailed list of capital projects replete with costs and timelines for execution. These projects will be executed over the next ten years with the 2010 revenue bond proceeds, augmented with revenues. The Plan identifies critical capital needs necessary to promote the water system's continuous improvement, provide fire flow capability, ensure consistent compliance with drinking water standards and mitigate cash flow constraints.

On December 8, 2009 the City Council adopted a Resolution authorizing the issuance of the Water Revenue obligations, and to engage the services of the required financing team that includes a Financial Advisor, Bond Counsel, Disclosure Counsel, Fiscal Agent, Trustee, Verification Agent, and when necessary, an Underwriter required to prepare, market and actually sell the revenue bonds. Staff,

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with the assistance of the Financial Advisor, formally selected E. J. De La Rosa & Co., Inc. as the underwriter for this water revenue bond offering.

DISCUSSION

The Water Revenue Bonds Series 2010 will be issued in the aggregate amount not to exceed \$20 million. The Bonds may be issued in three series, designated the Series 2010A (Tax-Exempt) in the estimated principal amount of \$10.8 million (the "Series A Bonds"), the Series 2010B (Federally Taxable Direct Pay Build America Bonds) in the estimated principal amount of \$3.5 million (the "Series B Bonds"), and the Series 2010C (Federally Taxable Direct Pay Build America/Recovery Zone Economic Development Bonds) in the estimated principal amount of \$3.2 million (the "Series C Bonds"). The Series B and C Bonds will only be issued if they present net interest cost savings to the City over a traditional tax-exempt series.

The Series B Bonds will be issued as Build America Bonds under Section 1531 of the American Recovery and Reinvestment Act, which was signed into law by President Obama on February 17, 2009, which makes the City eligible for a cash subsidy payment from the United States Treasury equal to 35% of the interest payable with respect to the Series B Bonds.

The Series C Bonds will be issued as Recovery Zone Economic Development Bonds under Section 1400U-2 of the American Recovery and Reinvestment Act, pursuant to which the City has received an allocation in the amount of \$3,196,000. This designation entitles the City to a cash subsidy payment from the United States Treasury equal to 45% of the interest payable with respect to the Series C Bond.

At the time of pricing the Bonds, the Finance Director, in consultation with the Financial Advisor, will determine whether issuance of a portion of the Bonds as Build America Bonds or Recovery Zone Economic Development Bonds makes economic sense, taking into account the related federal subsidy. If the taxable bonds do not reduce the City's net effective borrowing cost below that which would be obtained by issuing the bonds on a tax-exempt basis, the Bonds will be issued as tax-exempt Series A Bonds instead.

On April 7, 2010 staff with the assistance of the financing team presented city and water specific information to Standard and Poors, the preferred bond credit rating agency for the purposes of securing a credit rating for the Water Revenue Bond. The information presented included City's demographic and economic profile, the Water System profile, the water system capital needs and plans, and the financial plan to finance the capital requirements including all the water rate adjustments approved by the City Council over the past couple of years. Based on all the information presented, Standard and Poors, on April 14, 2010 reaffirmed the City's Water System underlying credit rating of AA. This is a very good and solid AA rating that will enhance the Authority's ability to secure a very good interest rate on the Water Revenue Bonds. (See Attachment 7)

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The stage is now set to actually sell the Water Revenue Bonds. The closing and sale of the Bonds is scheduled for May 5, 2010, but could change based upon the bond sales conditions that exit during the order period. To consummate the sale by this date, it is necessary to have several related documents and agreements approved at this time. They include the following:

1. Resolution of issuance of the City of Garden Grove authorizing the execution of all documents and agreements related to the sale and delivery of the Water Revenue Bonds, Series 2010 in an amount not to exceed \$20 million.
2. Resolution of issuance of the Garden Grove Public Financing Authority, approving the attached Installment purchase agreement with the City of Garden Grove and other related documents to the sale and delivery of the Water Revenue Bonds, Series 2010.
3. Indenture of Trust. An agreement by and among U.S Bank National Association (Trustee) and Garden Grove Public Financing Authority and City of Garden Grove, that outlines the underlying security pledges for the Water Revenue Bonds, Series 2010, terms of the issue, responsibilities and duties of the trustee, and rights of the Revenue bond buyers/holders.
4. Preliminary Official Statement (POS). The offering circular, largely a representation of the issuer (City of Garden Grove Public Financing Authority), used by the issuer and underwriter to inform the marketplace of the terms and underlying securities of the issue.
5. The Continuing Disclosure Agreement between the City of Garden Grove, the Garden Grove Public Financing Authority and the Trustee, acting as dissemination agent (the "Continuing Disclosure Agreement"). (See Appendix F of the POS)
6. Installment Purchase Agreement. An agreement between the Garden Grove Financing Authority and the City of Garden Grove that outlines the terms under which the Authority agreed to finance the water projects and sell it to the City of Garden Grove in consideration of the periodic installment (Debt Service) payments made by the City of Garden Grove.
7. Bond Purchase Agreement (the "Purchase Agreement") by and among the City of Garden Grove, the Authority and E. J. De La Rosa & Co., Inc. (the "Underwriter") outlining the terms and conditions for the purchase by the underwriter of the Water Revenue Bonds, Series 2010.

FINANCIAL IMPACT

The finalized principal amount of the Water Revenue Bonds, Series 2010 is estimated at \$17.5 million. The finance structure includes a debt service reserve fund with initial funding estimated at \$715,000. The net proceeds of the bond sale is estimated at about \$16.5 million in the projects fund and will be used to begin the rehabilitation, replacement and improvement of the Garden Grove Water System. Total issuance cost and underwriter's discount is estimated at approximately \$250 thousand.

The coupon on the series 2010 A tax-exempt bonds will range from an estimated 3% to 5% over the 20-year life of the bond. Coupons on the 2010 Series B and C Bonds are estimated to be 6.75% and 6.85% respectively. The true interest cost of the issue is estimated to be 4.00%. The overall average annual debt service is an estimated \$1.3 million over the life of the Water Revenue Bonds. The revised water rate structure as approved by the City Council will be sufficient to meet the debt service requirements.

RECOMMENDATION

It is recommended that the City of Garden Grove City Council take the following action:

- Adopt the Resolution authorizing the execution and delivery of documents relating to the sale and delivery of not to exceed \$20 million Water Revenue Bonds, Series 2010, and authorizing certain documents and directing certain actions in connection therewith.

It is also recommended that the Board of Directors of the Garden Grove Financing Authority take the following actions:

- Adopt the Resolution approving an installment purchase agreement with the City of Garden Grove and certain other documents in connection with the execution and delivery of the Water Revenue Bonds, Series 2010 in a principal amount not to exceed \$20 million.

In adopting these Resolutions, the City of Garden Grove and the Garden Grove Public Financing Authority thus approves, authorizes and directs the following.

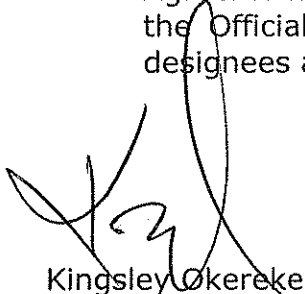
- The Authorized Officers, the City Manager, the Finance Director of the City, and other duly authorized officers and employees of the City and Garden Grove Financing Authority are each hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which each may deem necessary or advisable in order to consummate the sale, execution and delivery of the revenue bonds, and

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otherwise to carry out, give effect to and comply with the terms and intent of this Resolution, the revenue bonds, the Installment Purchase Agreement, the Trust Agreement, the Assignment Agreement, the Continuing Disclosure Agreement, the Purchase Agreement, the Preliminary Official Statement, and the Official Statement. Such actions heretofore taken by such officers or designees are hereby ratified, confirmed and approved.



Kingsley Okereke
FINANCE DIRECTOR

Attachment:

1. Resolution of Issuance of the City of Garden Grove Garden Grove
2. Resolution of Issuance of the Public Financing Authority
3. Indenture of Trust
4. Preliminary Official Statement and Continuing Disclosure Agreement (Appendix F)
5. Installment Purchase Agreement
6. Bond Purchase Agreement
7. Standard & Poors Rating, April 2010

Recommended for Approval



Matthew Fertal
City Manager

Attachments for this staff report are available from the City Clerk's Office.