



Agenda Item

City Council

Item #: 3.6.

1/12/2021

File #: 20-359

TO: Honorable Mayor and Members of the City Council

THRU: Rick Otto, City Manager

FROM: Will Kolbow, Assistant City Manager/Administrative Services Director

1. SUBJECT

Authorize the engagement of two independent rating agencies, and approve the expenditure of an amount not to exceed \$250,000, to obtain bond rating services in conjunction with the City's issuance of pension obligation bonds.

2. SUMMARY

At its July 14 meeting, City Council adopted a resolution authorizing judicial validation proceedings relating to the issuance of pension obligation bonds, currently estimated at \$290 million. That validation was received on December 8, 2020. The next step in the process is to obtain independent ratings from two separate rating agencies, allowing a more accurate calculation of the long-term savings associated with the issuance. It is important to note that this action does not obligate the City in any way to actually issue and sell bonds. This is the next step in the process. Further action by the City Council will be required in order for bonds to actually be issued.

3. RECOMMENDED ACTION

1. Approve the expenditure of an amount not to exceed \$250,000 to obtain bond rating services.
2. Authorize the City Manager and City Clerk to execute agreements with two ratings agencies on behalf of the City.

4. FISCAL IMPACT

Upon successful issuance of the bonds, rating costs of \$250,000 will be recaptured as a cost of issuance through the bond funding. Bond ratings are not contingent upon the sale of the bonds. Once the ratings are requested and the rating processes is commenced, the City has a financial obligation. Should the bonds not be issued in a timely manner, the total expenditure will be funded through the General Fund (100).

5. STRATEGIC PLAN GOALS

Goal 2: Be a fiscally healthy community

- a: Expend fiscal resources responsibly.
- d: Effectively manage and develop City assets.

6. DISCUSSION AND BACKGROUND

At its July 14 meeting, City Council adopted a resolution authorizing judicial validation proceedings relating to the issuance of pension obligation bonds (POBs), currently estimated at \$290 million. That

validation was received on December 8, 2020.

The next step in the process is to obtain an independent bond rating; the size of the POBs requires a rating from two separate rating agencies. The rating conveys to investors the quality and stability of the bonds, and allows staff to predict the success of the bond issuance, as well as the net proceeds in the long-term bond market. The cost of a rating for an issuance of this type and size can range from \$100,000 to \$135,000.

S&P Global Ratings (Standard & Poor's or S&P) gave the recently issued Orange City Public Facilities Financing Authority Lease Revenue Bonds a AA- rating. We intend to use S&P as the lead agency and select one other.

It is important to note that this action does not obligate the City in any way to actually issue and sell bonds. This is the next step in the process. Further action by the City Council will be required in order for bonds to actually be issued.

With approval this evening, the City adheres to the requirements of the Purchasing Code and ensures the ability to maximize beneficial market conditions by issuing the bonds as soon as possible to capture interest savings of \$1.7 million per month (UAL= \$292M x 7% = \$20.44M annually or \$1.7M per month).

7. ATTACHMENTS

- None