



REPORT TO THE MADERA CITY COUNCIL AND THE MADERA PUBLIC FINANCING AUTHORITY

Approved by:

A handwritten signature in blue ink, appearing to read "Susan O'Hara".

Department Director

A handwritten signature in blue ink, appearing to read "Harold Rodriguez".

City Manager

Council Meeting of: October 16, 2019

Agenda Number: B-6

SUBJECT:

Consideration of a Joint Resolution of the City of Madera and the Madera Public Financing Authority Authorizing the City Manager or Director of Financial Services to Engage Hilltop Securities as Placement Agent/Underwriter and Kronick, Moskovitz, Tiedemann & Girard as Bond Counsel/Disclosure Council for Professional Services Required to Complete the Financing of the Water Revenue Bonds Series 2019.

RECOMMENDATION:

Adopt a joint resolution authorizing the City Manager or Director of Financial services to engage the selected parties for professional services to complete the financing.

SUMMARY:

City staff and Del Rio Advisors, LLC (Municipal Advisor) have continued to monitor possible refunding opportunities. Under current market conditions there are significant savings to be realized by refunding Water Revenue Bonds issued in 2010 (2010 Bonds). The Municipal Advisor secured a fee proposal from Hilltop Securities to act in the role of either Placement Agent, if the preferred sale type is a direct placement, or Underwriter, if the preferred sale type is a public offering. The Municipal Advisor also secured fee proposals from various public finance law firms to act in the role of Bond Counsel, if the preferred sale type is a direct placement, and both Bond and Disclosure Counsel, if the preferred sale type is a public offering. The attached resolution approves the appointment of the financing team based on the results of the fee proposals.

DISCUSSION:

Earlier this year, the Municipal Advisor received a proposal to refund the 2010 Bonds from Hilltop Securities and briefed the City Manager. However, because of rule changes passed as part of the Tax Cuts and Jobs Act of 2017, the 2010 Bonds cannot be called until within 90 days of March 1, 2020 meaning any bonds issued to refund the 2010 Bonds cannot close before December 1, 2019.

In late August, the Municipal Advisor received revised numbers from Hilltop Securities updating the savings analysis. Based on market conditions as of August 28, 2019, the estimated savings are as follows:

Table 1: Estimated Refunding Results ⁽¹⁾	
Amount Outstanding	\$9,530,000
Estimated Refunding Amount	\$8,160,000
Total Savings	\$3,075,417
Average Annual Savings ⁽²⁾	\$170,943
Net Present Value Savings	\$2,705,460
Net Present Value Savings Percentage ⁽³⁾	28.39%
<i>(1) Assumes market interest rates as of August 28, 2019, a public offering with bond insurance and a reserve surety policy for reserve fund</i>	
<i>(2) FY 2020 to FY 2037</i>	
<i>(3) As a percentage of the amount of bonds outstanding</i>	

The 2010 Bonds mature on March 1, 2038 and the proposed refunding is planned to mature on March 1, 2037 or one year shorter than the 2010 Bonds. The reason to shorten the final maturity of the new bonds by one year is because the 2010 Bonds have a reserve fund that would normally be used to pay the final year of debt service thereby shortening the effective term of the 2010 Bonds from 2038 to 2037.

The Municipal Advisor sent fee proposals to several public finance law firms to act in the role of both Bond Counsel and Disclosure Counsel, if the preferred sale type is a public offering, and Bond Counsel only, if the preferred sale type is a direct placement. The proposed fees and expenses are contingent upon successful closing of the transaction.

Table 2: Proposed team					
Firm	Public Offering			Direct Placement	Notes
	Bond Counsel	Disclosure Counsel	Both	Bond Counsel	
Kronick	\$21,100	\$20,000	\$40,600	\$20,600	Includes \$600 Expenses
Jones Hall	\$30,000	\$30,000	\$50,000	\$25,000	Includes Expenses
Quint & Thimmig	\$35,000	\$25,000	\$50,000	\$35,000	Includes Expenses
Orrick	\$86,500	\$65,000	\$136,500	\$66,500	Includes Expenses

Based on the fee proposals in the table above, Kronick is the recommended firm. They served as both Bond and Disclosure Counsel on the recent sale of lease revenue bonds to finance the fire station project.

The Municipal Advisor also reached out to Hilltop Securities to secure a fee proposal to act as Underwriter, if the preferred sale type is a public offering, and Placement Agent, if the preferred sale type is a direct placement. The fees and expenses are contingent upon successful closing of the transaction.

Table 3: Placement Agent

Firm	Placement Agent ^(*)	Underwriter's Discount	Notes
Hilltop Securities	\$22,500	\$5.54	Underwriter's Discount Includes Underwriter's Counsel

() The Placement Agent fee will be \$20,000 if the issue size is less than \$10 million and \$22,500 if the issue size is greater than \$10 million.*

The preferred sale type has not yet been determined. The Municipal Advisor did request Hilltop Securities get an indicative direct placement interest rate to compare to the public offering scenario. Based on that estimate, the public offering appears to be more efficient. However, staff and the Municipal Advisor would like to prepare a formal term sheet to fully canvass the direct placement market and make a more thorough comparison to the public offering scenario. The benefits of a direct placement include less costs of issuance (no rating fee or disclosure counsel), direct placement lenders will often lock the interest rate which eliminates interest rate risk and a direct placement takes much less staff time to prepare since there is no official statement.

FINANCIAL IMPACT:

Based on market interest rates of August 28, 2019, the estimated annual savings to the water fund are approximately \$170,000 per year. In addition, the net present value savings percentage is estimated at over 28 percent far exceeding the normal guideline for savings needing to exceed 3-5 percent to make a refinancing worthwhile. In addition, the fees and expenses of the team members are fully contingent upon successful closing of the transaction.

ALTERNATIVES:

Potential Council alternatives include:

- Direct staff to conduct additional research.
- Select a different Placement Agency/Underwriter or Bond/Disclosure Counsel than recommended
- Direct staff to forego the refinancing of the 2010 Bonds.

ATTACHMENT:

1. Resolution

RESOLUTION NO. _____

MPFA RESOLUTION NO. _____

A JOINT RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MADERA AND THE MADERA PUBLIC FINANCING AUTHORITY AUTHORIZING THE CITY MANAGER OR DIRECTOR OF FINANCIAL SERVICES TO ENGAGE HILLTOP SECURITIES AS PLACEMENT AGENT/UNDERWRITER AND KRONICK, MOSKOVITZ, TIEDEMANN & GIRARD AS BOND COUNSEL/DISCLOSURE COUNCIL FOR PROFESSIONAL SERVICES REQUIRED TO COMPLETE THE FINANCING OF THE WATER REVENUE BONDS SERIES 2019

WHEREAS, the City of Madera (the “City”) has identified an outstanding bond issue that could potentially be refunded for significant savings; and

WHEREAS, the City Council of the City of Madera (“City”) and the Madera Public Financing Authority (“Authority”) appointed Del Rio Advisors, LLC as Municipal Advisor (the Municipal Advisor”); and

WHEREAS, the Municipal Advisor, on behalf of the City and the Authority, solicited fee proposals from firms to act in the role of Placement Agent/Underwriter and Bond Counsel/Disclosure Counsel; and

WHEREAS, the Municipal Advisor solicited a fee proposal from Hilltop Securities to act as Placement Agent for a not-to-exceed fee of \$22,500, if the preferred sale type is a direct placement, and a not-to-exceed \$5.54 per bond (0.554% of the par amount of bonds) to act as Underwriter, if the preferred sale type is a public offering. The fees are contingent upon successful closing of the transaction; and

WHEREAS, the Municipal Advisor recently solicited fee proposals from four firms to act as Bond Counsel, if the preferred sale type is a direct placement and both Bond and Disclosure Counsel, if the preferred sale type is a public offering. Based on the fee proposal responses, the Municipal Advisor is recommending Kronick Moskovitz, Tiedemann and Girard (“Kronick”); and

WHEREAS, Kronick has agreed to provide Bond Counsel services for a capped fee of \$20,600, if the preferred sale type is a direct placement, and has agreed to provide both Bond and Disclosure Counsel services for a capped fee of \$40,600, if the preferred sale type is a public offering. The fees are contingent upon successful closing of the transaction.

NOW THEREFORE, THE COUNCIL OF THE CITY OF MADERA AND THE BOARD OF DIRECTORS OF THE MADERA PUBLIC FINANCING AUTHORITY do hereby resolve, find and order as follows:

1. The above recitals are true and correct.
2. The City Manager or Director of Financial Services is hereby authorized to execute the agreement with Hilltop Securities in an amount not to exceed \$22,500 to act as Placement Agent, if the preferred sale type is a direct placement and a not-to-exceed \$5.54 per bond

(0.554% of the par amount of bonds) to act as Underwriter, if the preferred sale type is a public offering.

3. The City Manager or Director of Financial Services is hereby authorized to execute the agreement with Kronick in an amount not-to-exceed \$20,600, if the preferred sale type is a direct placement and a not-to-exceed \$40,600, if the preferred sale type is a public offering.
4. The resolution is effective immediately upon adoption.
