



# COUNCIL REPORT

**DATE:** November 15, 2022

**CATEGORY:** New Business

**DEPT.:** Finance and Administrative Services

**TITLE:** **Authorization of the Shoreline Regional Park Community Refunding Revenue Bonds, 2022 Series A**

## **RECOMMENDATION**

Acting as the Shoreline Regional Park Community Board of Directors, adopt a Resolution of the Mountain View Shoreline Regional Park Community: (1) Authorizing the Issuance and Sale of Mountain View Shoreline Regional Park Community Refunding Revenue Bonds; (2) Appointing Bond Counsel, a Municipal Advisor, and a Placement Agent for the Shoreline Community in Connection with the Refunding Revenue Bonds; (3) Authorizing and Directing Execution of Related Documents, Including a Seventh Supplemental Indenture of Trust; and (4) Authorizing Official Actions, to be read in title only, further reading waived (Attachment 1 to the Council report).

## **BACKGROUND**

The Mountain View Shoreline Regional Park Community (Shoreline Community) was formed in 1969 by special legislation (the Mountain View Shoreline Regional Park Community Act (Act)) to provide a form of local government to enable public authority and private interests to cooperate in the development of the Shoreline Community and create and operate a regional park, and provide a means of financing the responsibilities of the Shoreline Community, including the issuance of debt to fund infrastructure improvements. The Shoreline Community receives tax increment revenues, which are used to pay the principal and interest on bonds, loans, advances, or other indebtedness incurred by the Shoreline Community to finance the purposes of the Shoreline Community.

The Shoreline Community has issued bonds under an Indenture of Trust dated as of April 1, 1992 (the Master Indenture), as amended from time to time (the Indenture), for projects related to major streets and roadway improvements, landfill closure, purchase of open space, and, most recently, in 2018, for: (1) construction of a bicycle/pedestrian overcrossing of U.S. 101 at Shoreline Boulevard; (2) a freeway off-ramp realignment at Shoreline Boulevard; (3) a Shoreline Boulevard reversible bus lane; (4) improvements related to realignment of the Plymouth Street and Shoreline Boulevard bus lane extension; (5) improvements to Shoreline Lake; and (6) facilities for training of Police/Fire staff.

There are three outstanding series of Shoreline Community Bonds:

- Revenue Bonds, 2011 Series A (the “2011 Bonds”), with a current outstanding principal amount of \$21.1 million;
- Revenue Bonds, 2018 Series A (tax-exempt), with a current outstanding principal amount of \$53.485 million; and
- Revenue Bonds, 2018 Series B (Federally taxable, together with the 2018 Series A Bonds, the “2018 Bonds”), with a current outstanding principal amount of \$9.395 million.

### **ANALYSIS**

Current market conditions make it advantageous to refund the 2011 Bonds to achieve debt service savings. The 2011 Bonds are currently callable on any date with no premium and are eligible to be refunded with new bonds. The current maturity date of the 2011 Bonds (August 1, 2040) would not be extended.

The Government Finance Officers Association recommends that the issuance of refunding bonds should generate net present value savings (i.e., savings after paying transaction costs) of at least 3% of the principal amount of the refunded bonds.

Therefore, staff is proposing that the Shoreline Community issue the 2022 Refunding Bonds as long as the NPV savings exceed 3% of the outstanding principal amount of the 2011 Bonds. In addition, staff has identified certain funds related to the 2011 Bonds that are currently held by the Trustee (including moneys in a debt service reserve account) and will be available to contribute toward the refunding of the 2011 Bonds. By reducing debt service paid by the Shoreline Community, the refunding of the 2011 Bonds will increase the amount of tax increment revenues available for other authorized purposes for the benefit of the Shoreline Community.

As described in greater detail below, the Shoreline Community pursued a competitive private placement process, rather than a public bond sale, to effect the refunding. Staff proposes that the Board of Directors delegate to the Shoreline Community Manager and Treasurer the selection of the purchaser(s) of the 2022 Refunding Bonds and preparation of final documentation.

### **Financing Structure**

The 2022 Refunding Bonds would be secured by and payable from tax increment revenues from the Shoreline Community on a parity basis with the 2018 Bonds. There is no other source of revenue pledged and no financial obligation from the City’s General Fund or any other funds.

The Shoreline Community opted for a private placement transaction rather than a public bond sale because the private placement offered greater speed and the ability to lock in an interest rate sooner (thereby reducing interest rate risk in a rising interest rate environment), lower costs of issuance, and reduced staff time.

The Shoreline Community received five proposals to purchase the 2022 Refunding Bonds as a result of a competitive bidding process. Three of the bids were responsive to the requested terms, and a fourth required a change in the bond structure that was not feasible. The fifth proposal offered the lowest indicative interest rate, but the actual interest rate would fluctuate until after a term sheet was executed, and a \$50,000 acceptance fee was paid by the Shoreline Community. To avoid the prospect of a higher interest rate in a rising interest rate environment, the Shoreline Community selected the proposal with the lowest firm interest rate from Banner Bank.

### **Financing Documents**

Bond counsel and staff have reviewed the proposed issuance of the 2022 Refunding Bonds and concur that it is appropriate and consistent with the intent and language of the Act. To effectuate and facilitate the issuance of the 2022 Refunding Bonds, staff is recommending that the Shoreline Community Board authorize and direct execution of the following documents:

- A Seventh Supplemental Indenture of Trust (Seventh Supplemental Indenture) with U.S. Bank Trust Company, National Association, the Trustee for the 2022 Refunding Bonds;
- Irrevocable Refunding Instructions from the Shoreline Community to U.S. Bank Trust Company, National Association, the Trustee for the 2011 Bonds;
- An agreement for municipal advising services with Urban Futures, Inc. (UFI);
- An agreement for legal services with Jones Hall for bond counsel services; and
- A Private Placement Agreement with Stifel, Nicolaus & Company, Inc. (Stifel), as placement agent for the 2022 Refunding Bonds.

The resolution is attached, and the other draft documents are available in the Secretary's Office for review. The final documents will be in substantially the same form as the draft documents.

### **Seventh Supplemental Indenture**

In 1992, the Master Indenture was executed by the Shoreline Community as the governing document for all future bonds issued by the Shoreline Community. Each time the Shoreline Community has issued bonds since 1992, it has executed a supplemental Indenture of Trust. The Seventh Supplemental Indenture provides for the issuance of the 2022 Refunding Bonds.

### **Irrevocable Refunding Instructions**

Under the Irrevocable Refunding Instructions, the Shoreline Community will direct the Trustee for the 2011 Bonds to use proceeds of the 2022 Refunding Bonds and certain other moneys related to the 2011 Bonds (including moneys in a debt service reserve account) to redeem the 2011 Bonds on the proposed redemption date.

### **Agreements for Professional Services**

Several professional services are required with a private debt placement as follows:

*Municipal Advisor*—The municipal advisor assists the agency in the financial analysis of the issuance of debt, including debt structure, bond pricing, and credit analysis.

*Bond Counsel*—Jones Hall has served as bond counsel for every Shoreline Community debt issue since inception and also serves as the City’s bond counsel for its debt issues, including outstanding debt issued for City Hall, parking structures, water financing, etc.

*Placement Agent*—The placement agent assists the Shoreline Community in finding a purchaser for the 2022 Refunding Bonds through the private placement process. Stifel was the underwriter of the 2018 Bonds and its predecessor firm, Stone & Youngberg, was the underwriter of the 2011 Bonds. Stifel prepared a Request for Proposals (RFP) that was distributed to potential purchasers of the 2022 Refunding Bonds, which is on file with the Secretary.

All fees will be paid through the proceeds of the debt issue.

### **Disclosure Responsibilities**

Because the sale of the 2022 Refunding Bonds has been structured as a private placement rather than an underwritten public offering, the Shoreline Community is not required to prepare and distribute a disclosure document.

However, the Shoreline Community has provided information to the purchaser of the 2022 Refunding Bonds, as described in the RFP, and the Shoreline Community will be asked to

certify at closing that the information provided to the purchaser is complete, true, and accurate in all material respects and does not contain any untrue statement of a material fact, or omit to state a material fact necessary in order to make the statements provided to the purchaser not misleading in light of the circumstances under which the statements were made.

The Shoreline Community's distribution of information to the purchaser of the 2022 Refunding Bonds is governed by Federal antifraud laws. Those laws state that the information provided to the purchaser of the 2022 Refunding Bonds should not include any untrue statement of a material fact or omit to state a material fact to the extent necessary to avoid misleading the purchaser. A fact is material if there is a substantial likelihood that a reasonable investor would consider it important in deciding whether to purchase or sell the 2022 Refunding Bonds. Members of the Board of Directors have received training about their responsibility under Federal securities laws in connection with the issuance of the 2022 Refunding Bonds.

### **FISCAL IMPACT**

Based on information provided by the Placement Agent and the Municipal Advisor and Banner Bank's proposal, staff estimates that the 2022 Refunding Bonds will be issued in a principal amount of approximately \$21.56 million at a true interest cost of approximately 4.83%.

Staff estimates, based on Banner Bank's proposal, that the refunding of the 2011 Bonds will result in net present value savings of approximately \$1.1 million or 5.26% of the outstanding principal amount of the 2011 Bonds. Total cash flow savings are estimated to be \$2.44 million with a substantial portion of cash flow savings resulting from shortening the final maturity of the 2022 Refunding Bonds to August 1, 2039.

The refunding of the 2011 Bonds will increase the amount of tax increment revenues available for other authorized purposes for the benefit of the Shoreline Community.

Representatives from the Bond refinancing team and staff will be available to answer questions.

### **ALTERNATIVES**

1. Do not authorize the issuance of the 2022 Refunding Bonds and do not proceed with refunding the 2011 Bonds.
2. Provide other direction.

**PUBLIC NOTICING**—Agenda posting.

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Attachment: 1. Resolution