Written materials relating to an item on this agenda that are distributed to the legislative bodies within 72 hours before the item is to be considered at its regularly scheduled meeting will be made available for public inspection at the City Clerk's Office, 300 West Third Street 4th Floor during customary business hours. Agenda reports are also on the City of Oxnard web site at www.oxnard.org.

CITY OF OXNARD CALIFORNIA

AGENDA
OXNARD CITY COUNCIL
FINANCE AND GOVERNANCE COMMITTEE
Council Chambers, 305 West Third Street
July 23, 2019
Regular Meeting - 9:30 to 10:45 AM

A. ROLL CALL, POSTING OF AGENDA, FLAG SALUTE

B. PUBLIC COMMENTS ON ITEMS NOT ON THE AGENDA

At this time, the legislative body will consider public comments for a maximum of fifteen minutes. A person may address the legislative body only on matters not appearing on the agenda and within the subject matter jurisdiction of the legislative body. Speaker cards will not be accepted after the beginning of the general public comment period. Based on the number of speaker cards submitted, the presiding officer may impose time limits per speaker. Typically, speakers are limited to two minutes, but shorter time may be established as deemed necessary. A person not able to address the legislative body at this time because the fifteen minutes expires may do so just prior to adjournment of the meeting. The legislative body cannot enter into a detailed discussion or take action on any items presented during public comments at this time. Such items may only be referred to the City Manager for administrative action or scheduled on a subsequent agenda for discussion.

C. CONSENT AGENDA

1. City Clerk Department

SUBJECT: Approval of Minutes.

RECOMMENDATION: That the Finance and Governance Committee approve the minutes of the July 9, 2019 regular meeting as presented.

Contact: Michelle Ascencion, (805) 385-7805

D. REPORTS

1. Finance Department

SUBJECT: Refinancing Opportunity for 2011 Lease Revenue Bonds. (20/10/5)

RECOMMENDATION: That the Finance and Governance Committee:
1. Provide direction to staff regarding whether to pursue refinancing opportunity for the 2011 Lease Revenue Bonds (the "2011 Bonds");

In compliance with the Americans with Disabilities Act, if you require special assistance to participate in a meeting, please contact the City Clerk's Office at 385-7803. Notice at least 72 hours prior to the meeting will enable the City to reasonably arrange for your accessibility to the meeting.

Agenda Item time estimates: (Staff Presentation / Committee Discussion / Public Comment)

2. If "yes" on #1 above, provide direction as to whether staff should proceed to the City Council for approval of a contract with Raymond James or issue a request for proposals for an underwriter for such bonds;
3. If "yes" on #1 above, direct staff to engage the proposed financing team and return to the full City Council for approval of the 2019 Lease Revenue Refunding Bonds (the "2019 Bonds") once legal documents and the preliminary official statement are completed.

Contact: Kevin Riper, (805) 385-7475

E. ITEMS FOR FUTURE AGENDAS

F. ADJOURNMENT

DRAFT

MINUTES
OXNARD CITY COUNCIL
FINANCE AND GOVERNANCE COMMITTEE
Regular Meeting
July 9, 2019

A. ROLL CALL / POSTING OF AGENDA

At 9:33 a.m., Chair Flynn called to order the regular meeting of the Oxnard City Council Finance and Governance Committee in the City Hall Council Chambers at 305 W. Third Street, Oxnard, California. The City Clerk called the roll and announced the posting of the agenda. Members Gabriela Basua, Bert Perello, and Chair Tim Flynn were present.

Staff members present were Alexander Nguyen, City Manager; Stephen Fischer, City Attorney; Kevin Riper, Chief Financial Officer; and Michelle Ascencion, City Clerk.

B. PUBLIC COMMENTS ON ITEMS NOT ON THE AGENDA (None received.)

C. CONSENT AGENDA

City Clerk Department

1. SUBJECT: Approval of Minutes.
   RECOMMENDATION: That the Finance and Governance Committee approve the minutes of the June 25, 2019 regular meeting as presented.

It was moved by Member Perello, seconded by Member Basua, to approve the minutes as presented, with a minor amendment to change "priority-based funding" to "priority-based budgeting." VOTE: Basua, Flynn, and Perello voted in favor; the motion carried 3-0.

D. REPORTS

City Attorney Department

1. SUBJECT: Council Procedures Manual Update.
   RECOMMENDATION: That the Finance and Governance Committee continue discussion of the draft update to the Council Procedures Manual, review the updated redline showing previously discussed revisions, and provide any additional comments and direction.

The City Attorney gave a report. Public comments were received from Ray Blattel. Discussion ensued among the Committee and staff. No action was required.

E. ITEMS FOR FUTURE AGENDAS (No requests were made.)

The committee members commented on the upcoming "Budgeting 101" educational meetings for the public. Member Perello commented on illegal fireworks.

F. ADJOURNMENT

There being no further business on the agenda, and without objection, Chair Flynn adjourned the meeting at 10:19 a.m.

MICHELLE ASCENCION, CMC City Clerk	TIM FLYNN Chair

FINANCE AND GOVERNANCE COMMITTEE
AGENDA REPORT

REPORTS
AGENDA ITEM NO. D-1

DATE: July 23, 2019

TO: City of Oxnard – Finance and Governance Committee

FROM: Kevin Riper, Chief Financial Officer
kevin.riper@oxnard.org, (805) 385-7475

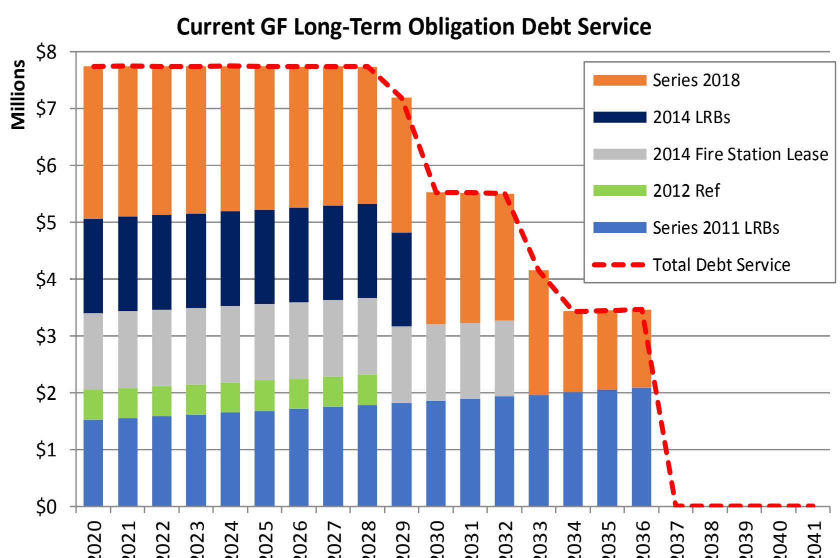
SUBJECT: Refinancing Opportunity for 2011 Lease Revenue Bonds (20/10/5)

RECOMMENDATION

That the Finance and Governance Committee:

1. Provide direction to staff regarding whether to pursue refinancing opportunity for the 2011 Lease Revenue Bonds (the "2011 Bonds");
2. If "yes" on #1 above, provide direction as to whether staff should proceed to the City Council for approval of a contract with Raymond James or issue a request for proposals for an underwriter for such bonds;
3. If "yes" on #1 above, direct staff to engage the proposed financing team and return to the full City Council for approval of the 2019 Lease Revenue Refunding Bonds (the "2019 Bonds") once legal documents and the preliminary official statement are completed.

BACKGROUND



The City currently has $74.8 million of outstanding lease revenue bonds -- legally backed by the General Fund (Fund 101), and paid mostly by that fund and partly by the Measure O Fund (Fund 104) -- that were issued between 2011 and 2018. As shown in the chart to the right, overall annual debt service payments are fairly level at about $7.75 million over the course of the next decade. Annual debt service then begins to decrease in 2029 and 2030 as various bond issues mature, with no General-Fund backed debt payments scheduled past FY 2036.

City staff, in conjunction with its Municipal Advisor, are constantly monitoring the City's debt portfolio and the interest rate market to assess opportunities for the City to save money through a refinancing. Last year, the City issued three bonds to generate approximately $500,000 of annual savings (combined) for the City's water, sewer and general funds. Other refinancing opportunities (Gas Tax Bonds and Successor Agency TABs) were also identified and City staff is currently working through several due diligence items prior to making any recommendation to the City Council or Finance and Governance Committee.

Over the last 6 months, interest rates have continued to drop as investor demand has increased and municipal bond supply has decreased. Trade tensions between the United States and China have weighed on equity markets, pushing more investors into fixed income investments and driving down interest rates. Given current interest rate conditions, and the fact that the City is one year closer to the call (prepayment) date for the 2011 Bonds, a refinancing could provide significant cash flow savings to the City's General Fund from FY 2021 to FY 2036. Currently, the present value savings of a refinancing is approximately $1.85 million (10% of refunded par). Annual savings to the General Fund is estimated at $150,000, totaling about $2.4 million, cumulatively.

The Tax Cuts and Jobs Act of 2017 changed federal tax law to prohibit a public agency from refinancing any obligation that has a redemption date out further than 90 days from the date of the refinancing issuance date. This "advance refunding" rule prevents issuers from adding additional tax-exempt bonds into the market (while the old obligation is waiting to be called). In order to address this restriction, public agencies can structure new bonds with a long close (also known as a forward delivery) which locks interest rates at today's levels but does not require the underwriter/bondholder to put up the funds until the delivery date out in the future. In the case of the 2011 Bonds, the forward delivery date would be March 1, 2021, which is within 90 days of the June 1, 2021 redemption date.

In addition to monitoring its debt portfolio for refinancing opportunities, the City has also been strategizing on financing options for a multi-year, multi-million-dollar enterprise resource planning (ERP) system project, which is the new software the City needs to replace its finance & accounting, human resources, citizen relationship management, community development, asset management, and utility billing systems. The refunding of the 2011 Bonds could provide an opportunity for the City to generate approximately $2 million (or $7 million with a small extension of debt service) to finance the first phase of the ERP project. Some of the unique benefits of this idea include:

Benefits to Proposed Combined 2011 Refunding & ERP 1st Phase Funding

- ✓ NO increase to the annual debt requirement for the City's General Fund
    - The $7 million of new proceeds is raised by taking advantage of the annual cash flow savings created by the refunding of the 2011 Bonds and by extending the debt by 5 years, to match the 20-year expected useful life of the ERP system

- ✓ Locking in long-term (20 year) low interest rates for the "known" first phase of the ERP project
  - o Lower annual debt service requirements than if the City were to do a short-term line of credit
- ✓ Economies of Scale: Building the ERP funding component into the transaction saves on costs of issuance, staff time, and increases the efficiency of all other aspects (i.e. legal documents, credit rating, etc.) vs. managing these transactions separately.

City staff anticipates returning to the Finance and Governance Committee in the fall to present details of the ERP proposal and request the Committee's approval to bring the ERP contract to Council.

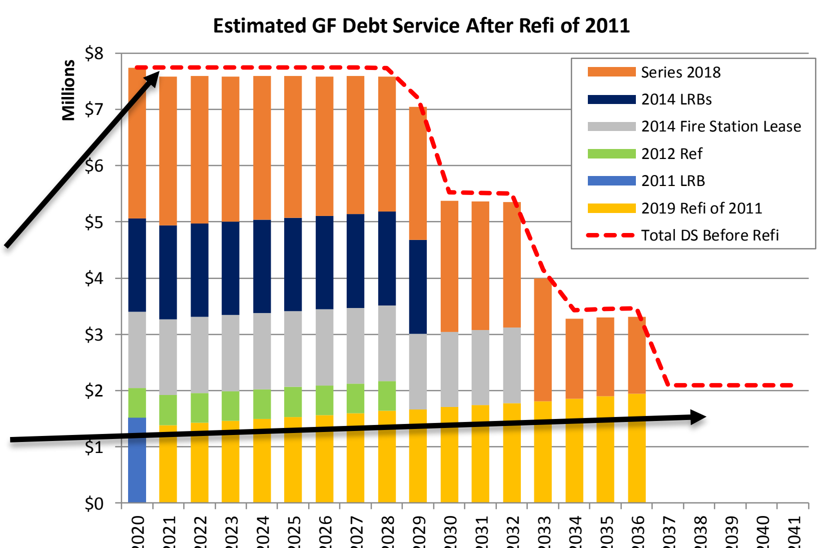
REFUNDING OF THE 2011 BONDS

The City's 2011 Bonds are currently outstanding in the amount of $18.98 million and have an average interest rate of 5.58%. The 2011 Bonds have their first call date on June 1, 2021.

Any new refinancing bonds would require a long closing (forward delivery to March 1, 2021) which creates interest rate risk. It is estimated that current market conditions will require an interest rate premium of approximately 0.075% for each month between the pricing date and the forward delivery date. Thus, if the refinancing bonds were issued in December 2019, the calculation would include a 15-month "premium" to March 1, 2021, which could be an additional interest rate increase of 1.13% (on top of current rates). This example and refinancing savings statistics are shown in the table to the right.

Refinancing Summary
- Amount Outstanding: $18,980,000
- Current 2011 Bond Average Interest Rate: 5.58%
- Estimated 2019 Bond Interest Rate (including Forward Premium): 4.00%
- PV Savings: $1.85 million; 10% of refunded par
- Annual Savings: $150,000
- Total Cumulative Savings: $2.4 million

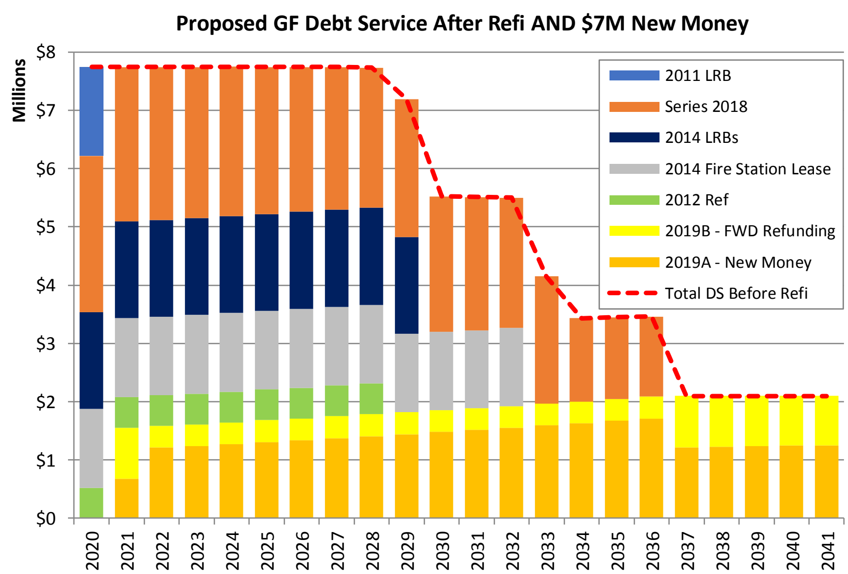
The chart to the right details the total estimated debt service after a proposed refunding of the 2011 Bonds (shown in the yellow bars). For comparison, the prior total combined debt service is shown in the red dotted line. The space between the red line and the top of the bars represents the $150,000 of annual savings from the refunding. Note that the red line is continued at the same level of the 2011 bond payment ($2.1 million) from 2037 to 2041 for presentation purposes and to depict the capacity for new ERP debt payments that are being proposed.



Refinance Now or Wait - The longer the City waits to refinance the 2011 Bonds, the closer the financing gets to the call date (effectively lowering the Forward Premium). The risk is that during that time, market interest rates increase greater than the reduction in the Forward Premium. The margin of risk for waiting to do a tax-exempt current refunding in March 2021 (90 days prior to the call) is about 1.13% (assuming current market conditions). If interest rates increase by more than 1.13% during that time, the debt service savings will be lower than current projections.

LEVERAGE SAVINGS/DEBT CAPACITY TO FUND 1ST PHASE OF ERP

As noted above, there are several benefits to combining the funding of the 1st phase of the ERP system project with the refunding of the 2011 Bonds. Conceptually, the ERP new money component of the financing would utilize the $150,000 of annual savings, and the $2.1 million of debt capacity from FY 2037 through FY 2041 (called the "Series A"). The interest rate would be current market rates and not subject to the forward premium. The Series A would be tax-exempt and have a 20-year term and an estimated all-in cost of funds of approximately 3.00%-3.25%. The chart depicts the estimated total General Fund debt service assuming the Series A (new money portion) and Series B (forward delivery portion) and a $7 million funding of the 1st phase of the ERP system project. The new payments from the Series A are shown in light orange at the bottom with the Series B payments shown directly above in bright yellow. These payments do not exceed what the City is currently obligated to pay (except for years 2037-2041). If the City does not extend the term of the financing, the capacity generated for the ERP system project is decreased to $1.8 million (based on $150,000/year through 2036). Extending the maturity to match the useful life of the ERP project is recommended due to the equitability of spreading costs over the useful life of the system.



FINANCING TEAM

The financing team for the proposed 2019 Bonds includes NHA Advisors, the City's Municipal Advisor, as well as Nixon Peabody and Best Best & Krieger ("BBK"). Nixon Peabody and BBK were engaged last year to work on the refinancings of the water and wastewater obligations and will perform the required Bond and Disclosure Counsel services. The City's CFO and Assistant CFO have met with several underwriters over the past few months to learn more about their firm's services/credentials and assess financing ideas. Raymond James met with City staff and presented the idea of doing the forward delivery refunding of the 2011 Bonds. Raymond James is a top 10 nationally ranked underwriting firm and has significant California experience, notably with forward delivery refunding bonds.

NHA Advisors finds Raymond James is well qualified to assist the City with the proposed financing (including the forward delivery refinancing portion) and can serve as the underwriter for this transaction. This recommendation is based on (1) the firm's credit for providing this concept, financing structure and having the qualifications to execute on this type of financing, and (2) most importantly, having the capital to underwrite the transaction and take the interest rate risk. As was previously stated, the proposed refinancing of the 2011 Bonds was not feasible as recently as three months ago. If the decision is to make the underwriter selection part of the procurement process and a request for proposals, the three-month delay could adversely impact the ability to capture the interest rate savings, because interest rates could rise in the meantime.

Staff also finds Raymond James is well qualified to assist the City as the underwriter and otherwise agrees with the points made by the Municipal Advisor; however, staff defers to the Committee on whether to recommend that Council directly appoint an underwriting firm rather than utilize an RFP process similar to what was used last year to select underwriters for the bond refundings that closed late in 2018. If the Committee feels that a direct appointment of Raymond James is warranted, then staff will return to full City Council at the first meeting in September with a recommendation to authorize – pursuant to City Code Section 4-3 -- a negotiated agreement without obtaining bids to appoint Raymond James as underwriter for this bond sale.

FINANCIAL IMPACT

There will be no impact to the General Fund projected debt service payments from FY 2019-20 through FY 2035-36. From FY 2036-37 to FY 2040-41, annual debt payments would increase from zero to $2.1 million. The ability for the City to raise $7 million for the ERP system project under this structure is dependent on interest rates and will fluctuate between now and the pricing of the 2019 Bonds.

CONCLUSION

Staff and NHA Advisors recommend that the City take advantage of a historically low interest rate market to execute a refunding of the 2011 Bonds and raise new money (currently estimated to be about $7 million) to fund the first phase of the ERP system project. Present value savings from the refunding are 10% of refunded par, much higher than the industry standard minimum of 3%, which is also the recommended minimum target for this refunding. The financing team will not move forward if savings are below this threshold unless there are other compelling reasons and further guidance from the Committee is obtained. Pairing the ERP system project component with the refunding accomplishes several objectives for the City that likely would not be available if executed separately, including: (1) locking in long-term interest rates while likely reducing the amount of collateral required, (2) not increasing the annual budgeted debt service amount for 17 years by strategically leveraging the debt capacity/savings of the 2011 Bonds and (3) taking advantage of economies of scale for cost savings and enhancing efficiency by tackling two critical financings at once. With the support of the Committee, and guidance on choosing an underwriter, staff would begin working with the financing team and come back to full City Council once legal documents and the preliminary official statement were developed.

Prepared by NHA Advisors and City Finance Department Staff

ATTACHMENTS

1. Refinancing Opportunity for 2011 Lease Revenue Bonds PowerPoint

City of Oxnard

Refinancing Opportunity for 2011 Lease Revenue Bonds

PRESENTATION TO FINANCE AND GOVERNANCE COMMITTEE

JULY 23, 2019

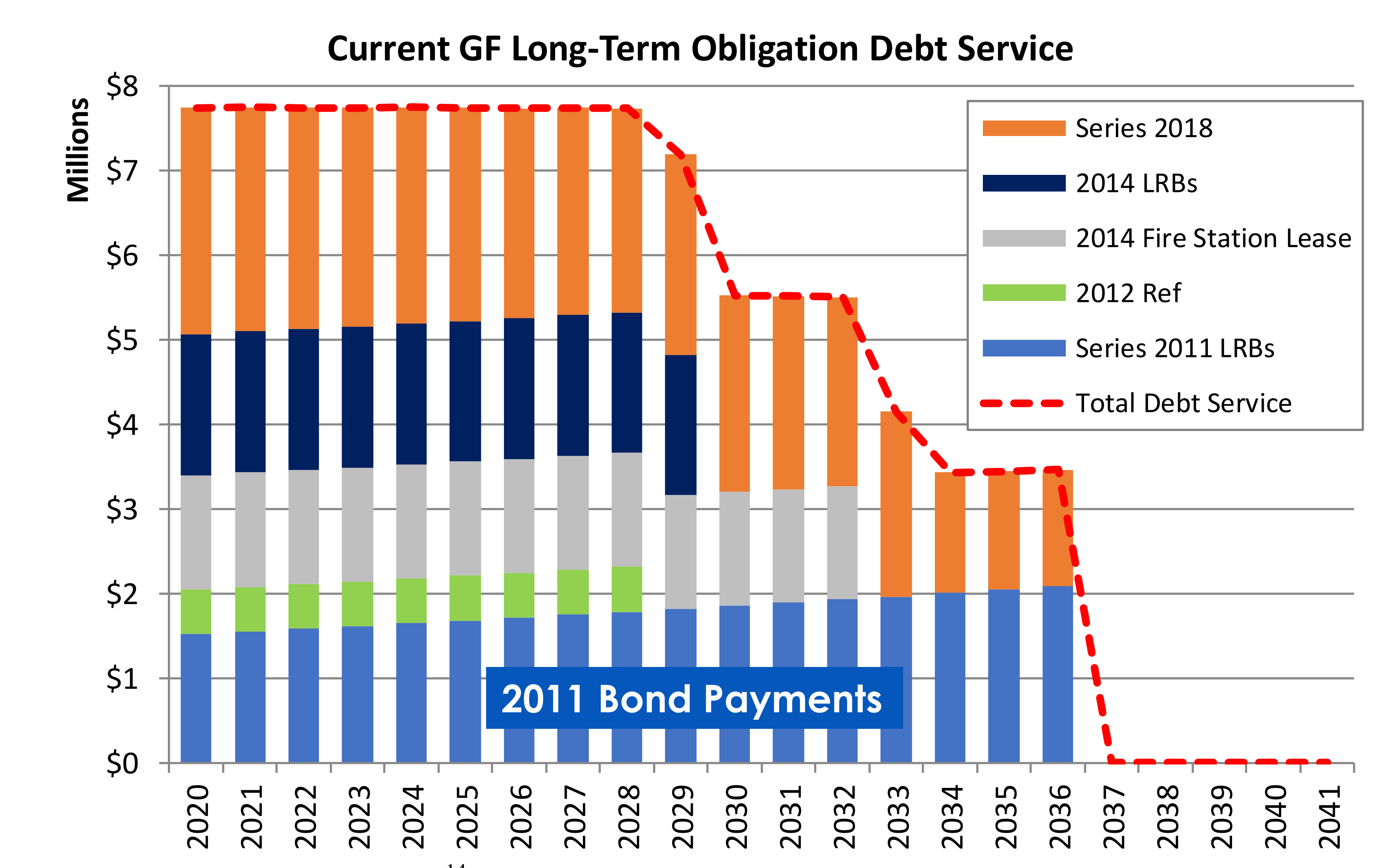
NHA | ADVISORS
Financial & Policy Strategies. Delivered.

Background

- City has approximately $75M of Lease Financings outstanding
  - Primarily paid by General Fund and Measure O
- 2011 Lease Revenue Bonds have an average interest rate of 5.58% (above current market rates)
- Potential refinancing could generate approximately $150,000 per year through FY 2036
- City is currently also exploring funding options for 1st phase of the enterprise resource planning (ERP) system project, which is the new software the City needs to replace its finance & accounting, human resources, citizen relationship management, community development, asset management, and utility billing systems

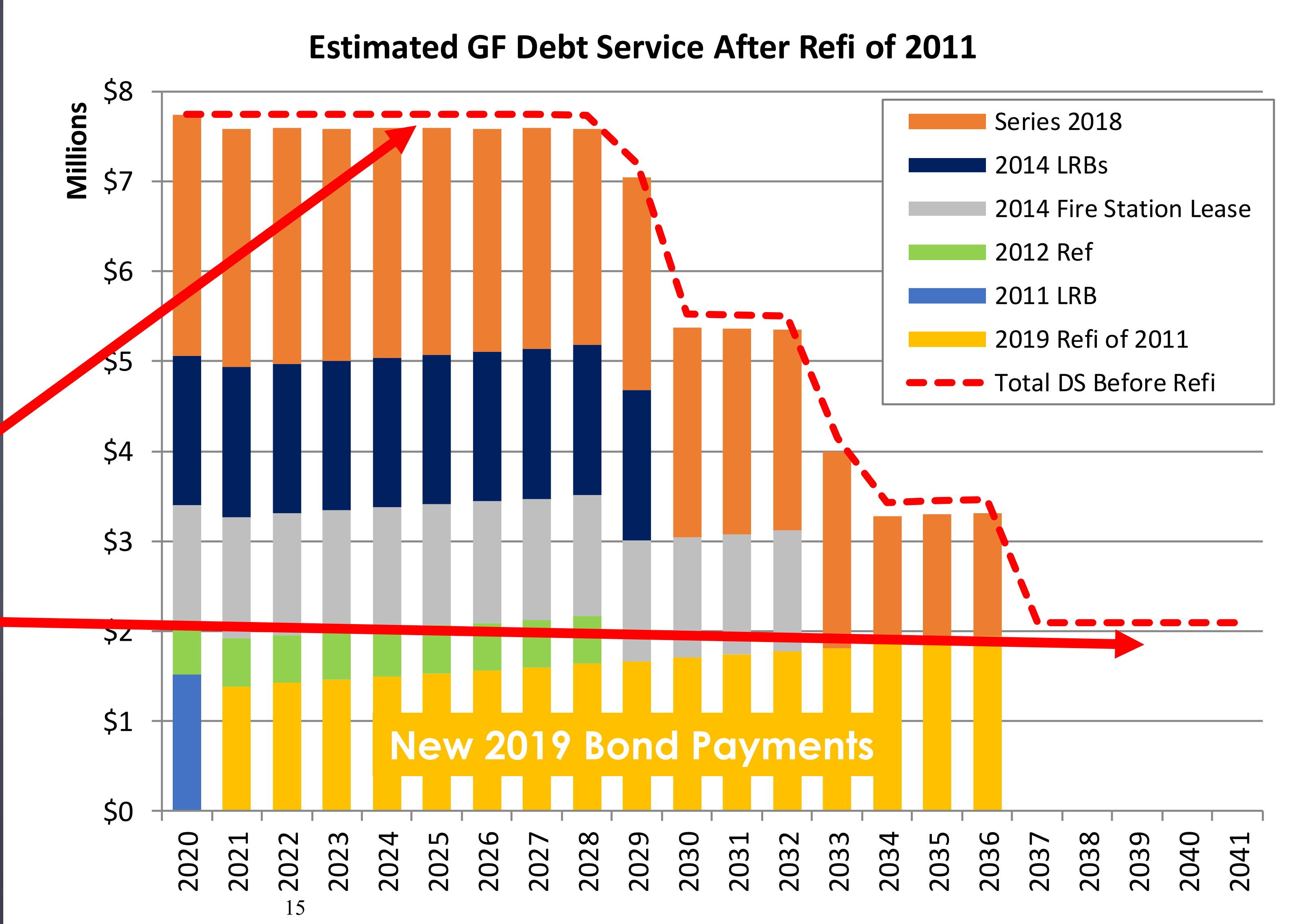
Current General Fund Debt Service

- Annual debt service is currently $7.75M and dropping through FY 2036
- 2011 Bonds (blue)
  - $19 Million outstanding
  - 5.58% average interest rate
  - Early Redemption date – June 1, 2021



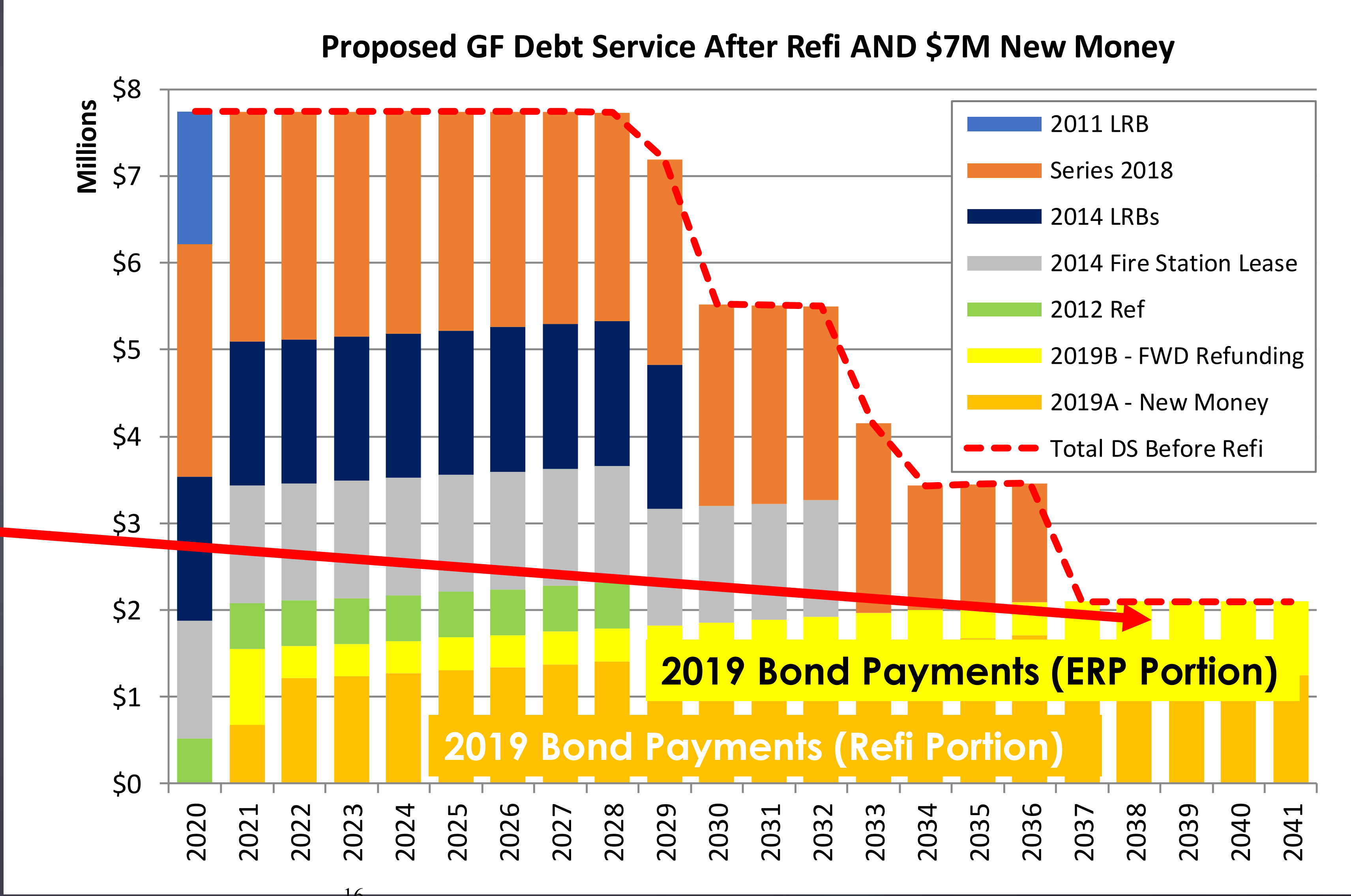
Refinancing of 2011 Bonds

- **Estimated all-in rate: 4.00%**
- **PV Savings: $1.85 million (10% of refunded par)**
- **$150,000 of annual savings**
- *Capacity for new payments at same level through 2041*



Potential Funding Strategy

- Leverage against savings and shared transaction costs
- 5-Year extension could generate **$7M for capital projects (i.e. ERP Project)**
- No change in total payment level; **additional $2.1M annual payment** (same level as 2011 Bond) in **FY 2037 to FY 2041**



Recommendation

1. Provide direction to staff regarding whether to pursue refinancing opportunity for the 2011 Lease Revenue Bonds (the "2011 Bonds");
2. If "yes" on #1 above, provide direction as to whether staff should proceed to the City Council for approval of a contract with Raymond James or issue a request for proposals for an underwriter for such bonds;
3. If "yes" on #1 above, direct staff to engage the proposed financing team and return to the full City Council for approval of the 2019 Lease Revenue Refunding Bonds (the "2019 Bonds") once legal documents and the preliminary official statement are completed