



MEMORANDUM

TO: CITY COUNCIL

FROM: DEBBIE MALICOAT, DIRECTOR OF ADMINISTRATIVE SERVICES

SUBJECT: CONSIDERATION OF A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ARROYO GRANDE, CALIFORNIA, PROVIDING FOR THE OPTIONAL REDEMPTION OF ITS GENERAL OBLIGATION BONDS, SERIES A OF 2003 (FIRE STATION PROJECT)

DATE: AUGUST 23, 2016

RECOMMENDATION:

It is recommended the City Council:

- 1) Adopt a Resolution of the City Council of the City of Arroyo Grande, California, Providing for the Optional Redemption of its General Obligation Bonds, Series A of 2003 (Fire Station Project)
- 2) Authorize the Mayor, the Acting City Manager and the Director of Administrative Services To Take All Actions Necessary To Pay Off The 2003 A General Obligation Bonds (2003A GO Bonds)

IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:

The cost to redeem the outstanding 2003A GO Bonds on September 23, 2016 is estimated to be approximately \$882,323, including transaction costs. The City will be eliminating future interest payments of approximately \$151,102 through August 1, 2023.

BACKGROUND:

Pursuant to the California Government Code and Ordinance No. 532 adopted by the City on July 9, 2002, a special election was held on November 5, 2002 at which election a proposition was submitted to the qualified voters in the City providing for the issuance of general obligation bonds in a not-to-exceed principal amount of \$1.9 million to upgrade and expand the Fire Station located on Traffic Way (the "Project"). More than two-thirds of the votes cast at the election were in favor of the proposition and the City adopted Resolution No. 3648 on January 28, 2003 providing for the issuance of bonds to finance the Project.

On February 25, 2003, the City issued the City of Arroyo Grande General Obligation Bonds, Series A of 2003 (Fire Station Project) in the original aggregate principal amount of \$1,900,000, of which currently \$855,000 remains outstanding.

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ANALYSIS OF ISSUES:

The 2003A GO Bonds are currently subject to redemption at par or 100% on any date at a redemption price equal to the outstanding principal amount, together with accrued interest to the date fixed for redemption. Such redemption may next be made on September 23, 2016.

There is currently approximately \$786,275 in property tax assessments deposited in the Debt Service Fund with respect to the 2003A GO Bonds and approximately \$180,700 of Fire Protection Impact Fees available to the City to cause the redemption of the 2003A GO Bonds. Property tax assessments are based on the best estimates of assessed valuation from the County and it is common for small residual balances to build up in these types of accounts due to slight variances in final valuations and supplemental property tax transactions. In this case, assessments were levied in prior years that slightly exceeded the debt service cost of the bonds, thus accumulating the current balance. The balance is legally restricted and can only be used to pay these specific bond payments. Fire Protection Impact Fees are also restricted in their use and are intended to provide for fire facilities, and can't be utilized to pay for operations. Utilizing the funding available from impact fees to redeem the bonds is consistent with the establishment of the fees.

Interest rates on the outstanding 2003A GO Bonds range from 4.10% to 4.45%, which are significantly higher than what the City is receiving from the market on its current investment portfolio. For that reason and given the available funds on hand, it makes economic sense for the City to pay off the 2003A GO Bonds from existing funds on hand and redeem them in full, resulting in the City saving the interest cost it would have otherwise incurred, had it left the 2003A GO Bonds outstanding until their maturity on August 1, 2023. These savings will be passed on to the property owners in the City and the City will no longer levy property taxes in connection with these bonds once they are paid off.

To ensure that the City can complete the redemption activities of the 2003A GO Bonds in September, it is vital that the City receive the required direction and approval from Council. Upon Council direction and approval of the Resolution, staff will proceed with the necessary activities to pay off the 2003A GO Bonds.

ALTERNATIVES:

The following alternatives are provided for City Council consideration:

1. Adopt the Resolution and redeem the outstanding bonds at the earliest opportunity;
2. Do not adopt the Resolution and redeem the outstanding bonds. This is not recommended. The City would forgo the opportunity to save future interest costs

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and relieve property owners in the City from the annual property tax collections to pay the debt service on the 2003A GO Bonds. Potential interest earnings on the cash needed to pay off the debt is approximately 0.5% compared to the 2003A GO Bonds interest rate of more than 4%; or

3. Provide direction to staff.

ADVANTAGES:

The City would save future interest costs of approximately \$151,100 and relieve property owners in the City from the annual property tax collections to pay the debt service on the 2003A GO Bonds.

DISADVANTAGES:

No disadvantages are evident.

ENVIRONMENTAL REVIEW:

No environmental review is required for this item.

PUBLIC NOTIFICATION AND COMMENTS:

The Agenda was posted in accordance with Government Code Section 54954.2.

RESOLUTION NO.

**A RESOLUTION OF THE CITY COUNCIL OF THE
CITY OF ARROYO GRANDE, CALIFORNIA,
PROVIDING FOR THE OPTIONAL REDEMPTION
OF ITS GENERAL OBLIGATION BONDS, SERIES A
OF 2003 (FIRE STATION PROJECT)**

WHEREAS, pursuant to the provisions of Chapter 4 of Division 4 of Title 4 of the California Government Code (Sections 43600 et seq.), as amended, and pursuant to Ordinance No. 532 adopted by the City Council of the City of Arroyo Grande (the "City") on July 9, 2002 (the "Ordinance"), a special election was duly and regularly held on November 5, 2002 within the City (the "Election") at which Election there was submitted to the qualified voters of the City a proposition providing for general obligation bonds not to exceed \$1,900,000 (the "Proposition") to upgrade and expand the Fire Station located on Traffic Way (the "Project"); and

WHEREAS, more than two-thirds of the votes cast at the Election were in favor of the incurring of such indebtedness, and the City adopted Resolution No. 3648 on January 28, 2003 ("Resolution No. 3648") providing for the issuance of bonds to finance the Project;

WHEREAS, pursuant to Resolution No. 3648, as supplemented by Supplement to Resolution No. 3648, dated as of February 1, 2003 ("Supplement to Resolution No. 3648"), the City issued the City of Arroyo Grande General Obligation Bonds, Series A of 2003 (Fire Station Project) in the original aggregate principal amount of \$1,900,000 (the "Bonds") to finance the Project; and

WHEREAS, the Project has been completed; and

WHEREAS, \$855,000 aggregate principal amount of the Bonds is currently outstanding; and

WHEREAS, pursuant to Section 8 of Supplement to Resolution No. 3648, the Bonds are subject to redemption, at the option of the City, in whole or in part on any date commencing August 1, 2012, at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption, without premium, commencing August 1, 2014; and

WHEREAS, approximately \$786,275 in property tax assessments deposited in the Debt Service Fund with respect to the Bonds and approximately \$180,700 of Fire Protection Impact Fees are available to the City to cause the redemption of the Bonds; and

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WHEREAS, Wells Fargo Bank, National Association (the “Fiscal Agent”) acts as the Fiscal Agent with respect to the Bonds pursuant to the Supplement to Resolution No. 3648 and a Fiscal Agent Agreement between the City and the Fiscal Agent, dated as of February 1, 2003 (the “Fiscal Agent Agreement”); and **WHEREAS**, it is found and determined by this City Council that it is prudent in the management of the fiscal affairs of the City to cause the defeasance and/or optional redemption of the Bonds;

NOW, THEREFORE, the City Council of the City of Arroyo Grande, California, **DOES HEREBY RESOLVE, DETERMINE AND ORDER** as follows:

SECTION 1. Each of the above recitals is true and correct.

SECTION 2. The Mayor of the City, the Acting City Manager, the Director of Administrative Services, or their written designee, is hereby authorized and directed to enter into any agreements or take any actions necessary to achieve the defeasance and/or optional redemption of the Bonds and the purposes of this Resolution, including without limitation, engaging Stradling Yocca Carlson and Rauth to advise the City with respect to the defeasance and/or optional redemption of the Bonds, as Bond Counsel, engaging Fieldman, Rolapp & Associates to advise the City with respect to the defeasance and/or optional redemption of the Bonds, as Financial Advisor, engaging Grant Thornton LLP to conduct the final rebate arbitrage report with respect to the Bonds, and notifying the Fiscal Agent of the defeasance and/or optional redemption of the Bonds and instructing the Fiscal Agent to provide the notices of Bond redemption required pursuant to Section 8 of the Supplement to Resolution No. 3648 and to establish the Redemption Fund for the purposes of redeeming the Bonds, in accordance with the Supplement to Resolution No. 3648.

On motion of Council Member _____, seconded by Council Member _____, and on the following roll call vote, to wit:

AYES:

NOES:

ABSENT:

the foregoing Resolution was passed and adopted on this 23rd day of August, 2016.

JIM HILL, MAYOR

ATTEST:

KELLY WETMORE, CITY CLERK

APPROVED AS TO CONTENT:

GEOFF ENGLISH, ACTING CITY MANAGER

APPROVED AS TO FORM:

HEATHER WHITHAM, CITY ATTORNEY