



Midpeninsula Regional
Open Space District

R-14-145
Meeting 14-33
November 25, 2014

AGENDA ITEM 5

AGENDA ITEM

Resolution Approving Documents Relating to Issuance of 2014 Refunding Promissory Notes

GENERAL MANAGER AND CONTROLLER'S RECOMMENDATION

Adopt a Resolution of the Board of Directors of the Midpeninsula Regional Open Space District authorizing the issuance of a series of Refunding Promissory Notes, approving an Official Statement, and providing other matters properly related thereto.

SUMMARY

The resolution authorizes the District to issue up to \$32 million of 2014 Refunding Promissory Notes (2014 Notes) and approves the Official Statement, other required note documents, and agreements with bond counsel and underwriters. The objective is to refinance the Financing Authority's 2004 Revenue Bonds in order to obtain significant future cash savings.

DISCUSSION

The Financing Authority issued \$31.9 million of revenue bonds in January 2004, with repayment beginning in 2005 and scheduled to complete in 2034. The current outstanding balance of the 2004 Revenue Bonds is \$29.8 million. These bonds were issued at a true interest cost of 4.95%. The bond documents allow redemption, without penalty, on any March 1 or September 1, on or after September 1, 2014. Interest rates for municipal bonds have fallen to near historic lows, providing an opportunity to achieve significant savings on future debt service. Based on current market conditions, it is estimated that the 2004 Revenue Bonds can be refinanced at a true interest cost in the 3.4% to 3.6% range, and redeemed on March 1, 2015. The estimated future savings are \$6.6 to \$7.6 million, with present value savings of between \$3.8 and \$4.6 million.

The 2014 Notes are proposed to be structured as current interest notes, maintaining the same final maturity as the 2004 Bonds of September 2034. Consistent with the District's latest, post-Measure AA financial model, the amortization is slightly accelerated to back-load the debt service savings, when they are anticipated to be most valuable. The 2014 Notes will have the same terms and security as the District's outstanding 2012 Notes, with the exception that the Additional Bonds Test has been slightly strengthened (at the suggestion of the rating agencies). There will be no reserve fund. The existing 2004 Bond Reserve Fund, with a current balance of \$1.6 million, will be closed and the funds utilized to reduce the par amount of the 2014 Notes.

The District is seeking bond ratings from Standard & Poor's and Fitch and the interest cost estimates are based on an AA rating, as achieved in 2012. The agencies indicate that they will be able to report the rating on November 25.

The estimated Sources and Uses of the proposed refunding notes are shown below.

SOURCES:

Note Proceeds: Par Amount	\$26,085,000
Note Proceeds: Premium	3,194,160
Prior Reserve Fund	<u>1,633,229</u>
Total Sources	\$30,912,389

USES:

Project Fund: New Money	\$ 0
Refunding Escrow Deposit: 2004 Bonds	30,651,964
Underwriters Discount	130,425
Other Cost of Issuance	<u>130,000</u>
Total Uses	\$30,912,389

If approved by the board, the schedule is to distribute the Preliminary Official Statement the week of December 1, price the notes during the week of December 8, close the transaction during the week of December 15, and call the 2004 Bonds on March 1, 2015. The proposed issue improves the District's long-term financial plan and is easily accommodated within our statutory debt limit. After the proposed sale, District's bonded indebtedness would be about 61% of the District's statutory debt limit.

The proposed bond counsel is Jones Hall of San Francisco. In August 2006, staff selected Chris Lynch of Jones Hall as our new bond counsel and we have been very pleased with his work on the 2007 and 2011 Bonds and 2012 Notes. Mr. Lynch is again working with the District on the 2014 Notes. Jones Hall is also proposed as Disclosure Counsel. District General Counsel has negotiated a fee of \$72,500 for Jones Hall to provide both bond counsel and disclosure counsel services.

The proposed underwriter is Stifel, which acquired the District's long time banker, Stone & Youngberg (S&Y), in 2011. The Stifel/S&Y team has successfully managed many District financings, including the 2012 Notes, which the proposed issue closely resembles. Staff believes that Stifel can execute this transaction in an efficient and effective manner. The proposed underwriting fee of 0.5% of par value is competitive and consistent with fees on prior bond issues.

SUMMARY OF THE PROPOSED TRANSACTION:

1. Amount: Par value of \$26.1M; total amount of approximately \$30.9M
2. Term: Twenty years
3. Average Life: 12.4 years
4. Purpose: Refinance the 2004 Bonds to reduce future debt service payments; projected net reduction of debt service of \$6.6 to \$7.6 million
5. Interest Rates: Estimated true interest cost of 3.4% to 3.6%
6. Reserve Fund: None
7. Underwriting Fee: 0.5% of par amount of amount issued, about \$130,425
8. Other Costs of Issuance: Estimated at \$130,000
9. Closing Schedule: Price by December 14, Close by December 21

PARTIES TO THE TRANSACTION:

- | | |
|------------------------|---------------------------------------------|
| 1. Issuer: | Midpeninsula Region Open Space District |
| 2. Trustee: | Bank of New York Mellon Trust Company (BNY) |
| 3. Underwriter: | Stifel |
| 4. Bond Counsel: | Jones Hall |
| 5. Disclosure Counsel: | Jones Hall |

DUTIES OF THE PARTIES:

- | | |
|------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Issuer: | Issue notes, make principal and interest payments |
| 2. Trustee: | Administers notes for the benefit of the holders, collects principal and interest from the District, makes payments to to holders; pays-off the 2004 bond |
| 3. Underwriter: | Purchases notes from the District and sells them to buyers |
| 4. Bond Counsel: | Prepares and certifies note documents; assures buyers of the tax-exempt status of the notes |
| 5. Disclosure Counsel: | Drafts District official statement and advises on compliance with federal securities laws |

THE DISTRICT'S DISCLOSURE OBLIGATIONS

The attached Preliminary Official Statement has been reviewed and approved for transmittal to the Board of Directors by staff and the District's financing team. The distribution of the Preliminary Official Statement by the District is subject to federal securities laws, including the Securities Act of 1933 and the Securities Exchange Act of 1934. These laws require the Preliminary Official Statement to include all facts that would be material to an investor in the 2014 Notes. Material information is information that there is a substantial likelihood that it would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the 2012 Refunding Notes.

The Securities and Exchange Commission (the "SEC"), the agency with regulatory authority over the District's compliance with the federal securities laws, has issued guidance as to the duties of the Board of Directors with respect to its approval of the Preliminary Official Statement. In its "Report of Investigation in the Matter of County of Orange, California as it Relates to the Conduct of the Members of the Board of Supervisors" (Release No. 36761 / January 24, 1996) (the "Release"), the SEC stated that, if a member of the Board of Directors has knowledge of any facts or circumstances that an investor would want to know about prior to investing in the 2014 Notes, whether relating to their repayment, tax-exempt status, undisclosed conflicts of interest with interested parties, or otherwise, he or she should endeavor to discover whether such facts are adequately disclosed in the Preliminary Official Statement. In the Release, the SEC stated that the steps that a member of the Board of Directors could take include becoming familiar with the Preliminary Official Statement and questioning staff and consultants about the disclosure of such facts.

MAIN AGREEMENTS:

Note that these documents are substantially complete and correct but are not meant to be in final form at this time.

1. Preliminary Official Statement: Describes note issue to potential buyers
2. Indenture (between District and BNY): Appoints BNY as Trustee for the notes, lists its duties and responsibilities, and details how the notes will be administered.
3. Escrow Deposit and Trust Agreement: Appoints BNY as Escrow Agent for District and Authority and specifies how the 2004 Bonds are to be paid-off.
4. Purchase Contract (between District and Stifel): Defines terms under which Stifel will purchase the notes from the District.
5. Professional Services Agreement (between District and Jones Hall): Appoints Jones Hall as Bond Counsel and Disclosure Counsel.

FISCAL IMPACT

Sale of the proposed 2014 Notes will reduce overall District debt service payments by \$6.6 to \$7.6 million over the next twenty years. The proposed sale is consistent with, and, in fact, improves, the District's long-term financial model.

BOARD COMMITTEE REVIEW

The sale of the proposed 2014 Notes was not reviewed by committee, but will be considered by the full Board following the meeting of the Midpeninsula Regional Open Space Financing Authority on November 25, 2014.

PUBLIC NOTICE

Notice was provided pursuant to the Brown Act. No additional notice is necessary.

CEQA COMPLIANCE

No compliance is required as this action is not a project under CEQA.

NEXT STEPS

If approved by the Board, staff will proceed with finalization of the documentation and sell the notes.

Attachment:

1. Resolution Authorizing the Issuance of a Series of Refunding Promissory Notes, Approving an Official Statement, and Providing Other Matters Properly Relating Thereto

Prepared by:

Michael Foster, Controller

RESOLUTION NO. 14-__

RESOLUTION OF THE MIDPENINSULA REGIONAL OPEN SPACE DISTRICT AUTHORIZING THE ISSUANCE OF A SERIES OF REFUNDING PROMISSORY NOTES, APPROVING AN OFFICIAL STATEMENT, AND PROVIDING OTHER MATTERS PROPERLY RELATING THERETO

WHEREAS, the Midpeninsula Regional Open Space District (the “District”) previously entered into a Project Lease dated as of January 1, 1994 (the “2004 Project Lease”), with the Midpeninsula Regional Open Space District Financing Authority (the “Authority”) for the purpose of (i) financing the acquisition of open space, (ii) refunding on an advance basis a portion of its 1995 Promissory Notes and (iii) prepaying on a current basis the District’s outstanding Certificates of Participation (1993 Open Space Project); and

WHEREAS, the Authority issued its 2004 Revenue Bonds (the “2004 Bonds”) pursuant to an Indenture dated as of January 1, 2004 (the “2004 Indenture”), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as successor trustee (the “1999 Trustee”); and

WHEREAS, the 2004 Bonds were secured by and payable from the Base Rental Payments payable by the District under the 2004 Project Lease; and

WHEREAS, the District wishes to refinance the 2004 Project Lease and the 2004 Bonds, and, for that purpose, wishes to issue its 2014 Refunding Promissory Notes (2004 Project Lease) (the “Notes”) pursuant to Article 3 of Chapter 3 of Division 5 of the Public Resources Code of the State of California (the “Law”) and an Indenture; and

WHEREAS, in order to accomplish the prepayment of the 1999 Base Rental Payments and redemption and defeasance of the 2004 Bonds, the District and the Authority will enter into an Escrow Deposit and Trust Agreement (the “Escrow Agreement”); and

WHEREAS, District staff has caused to be prepared and has reviewed a preliminary form of the Official Statement for the Notes (the "Official Statement"), which preliminary form is on file with the Secretary, and the District wishes at this time to approve the Official Statement in the public interests of the District; and

WHEREAS, all conditions, things and acts required to exist, to have happened and to have been performed precedent to and in the issuance of the Notes, as contemplated by this resolution and the documents referred to herein exist, have happened and have been performed in due time, form and manner as required by the laws of the State of California.

NOW, THEREFORE, BE IT RESOLVED by the Midpeninsula Regional Open Space District, as follows:

Section 1. Recitals True and Correct. The District hereby finds and declares that the above recitals are true and correct.

Section 2. Issuance and Sale of the Notes. The District hereby authorizes and approves the issuance of the Notes to be designated "Midpeninsula Regional Open Space District Refunding Promissory Notes (2004 Project Lease)." The Notes may be issued in any combination of current interest notes and capital appreciation notes as determined by the Controller. The name of the Notes shall specify the year in which they were issued.

Section 3. Security for the Notes. The Board hereby approves the pledge pursuant to the Indenture (as defined below) as security for the payment of principal of and interest on the Notes of the "Limited Taxes," which term is generally defined in the Indenture as the limited ad valorem property taxes levied upon all taxable property in the District by the Board of Supervisors of Santa Clara County, the Board of Supervisors of San Mateo County and the Board of Supervisors of Santa Cruz County and allocated to the District under applicable law that are legally available to pay the interest on and principal of the Notes. The District shall not be obligated to pay the principal of or interest on the Notes except from the Limited Taxes.

The pledge of the Limited Taxes to the Notes shall be on a parity with the District's pledge of the Limited Taxes to following outstanding promissory notes of the District: (i) the Midpeninsula Regional Open Space District 2007 Refunding Promissory Notes (1996 Project Lease – 2nd Issue); (ii) the Midpeninsula Regional Open Space District 2007 Refunding Promissory Notes (1996 Promissory Notes); (iii) the Midpeninsula Regional Open Space District 2007 Refunding Promissory Notes (1999 Promissory Notes); (iv) the Midpeninsula Regional Open Space District 2007 Refunding Promissory Notes (1999 Project Lease – 2nd Issue); and (v) 2012 Refunding Promissory Notes (1999 Project Lease).

Section 4. Approval of Indenture. The Indenture related to the Notes, by and between the District and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Indenture"), in the form presented to this meeting, is hereby approved. The President, the Secretary, the General Manager and the Controller of the District (the "Designated Officers") are, and each of them acting alone is, hereby authorized and directed, for and in the name and on behalf of the District, to execute and deliver the Indenture, and the Secretary is hereby authorized and directed, for and in the name and on behalf of the District, to attest the Designated Officer's signature to the Indenture, in such form, together with such additions thereto or changes therein as are recommended or approved by the Designated Officer, upon consultation with Jones Hall, A Professional Law Corporation, bond counsel to the District, including such additions or changes as are necessary or advisable in accordance with Section 8 hereof; provided that no additions or changes shall authorize an aggregate principal amount of the Notes in excess of \$32,000,000, or result in a true interest cost in excess of 4.25% per annum.

The approval of such additions or changes shall be conclusively evidenced by the execution and delivery by a Designated Officer on behalf of the District of the Indenture. The date, maturity dates, aggregate principal amount (or maturity amount in the case of capital appreciation notes), annual maturity amounts, interest rate or rates, interest payment dates (or compounding dates in the case of capital appreciation notes), denominations, form, registration privileges, manner of execution, place of payment, terms of redemption and other terms of the Notes shall be as provided in the Indenture, as finally executed.

Section 5. Approval of Refinancing and Escrow Agreement. The prepayment of the 2004 Base Rental Payments and the refunding of the 2004 Bonds are hereby approved, subject to achieving debt service savings in an amount acceptable to the Controller; issuance of the 2014

Notes in an amount sufficient to prepay the 2004 Base Rental Payments and the refunding of the 2004 Bonds shall be conclusive evidence of the Controller's approval. The Designated Officers are, and each of them acting alone is, hereby authorized and directed, for and in the name of and on behalf of the District, to execute the Escrow Agreement in the form on file with the Secretary, together with any changes therein or additions thereto approved by the Designated Officers, whose execution thereof shall be conclusive evidence of approval of any such additions and changes, and such other documents as the Designated Officers determine are necessary to effectuate such refunding.

Section 6. Sale of the Notes. The District hereby appoints Stifel, Nicolaus & Company, Incorporated (the "Underwriter"), as the underwriter for the Notes, and approves the sale of the Notes by negotiation with the Underwriter, pursuant to the Purchase Contract by and between the Authority and the Underwriter. The underwriter's discount (excluding original issue discount) proposed by the Underwriter, in an amount not to exceed 0.5% of the aggregate par amount (or maturity amount in the case of capital appreciation notes) of the Notes, is both reasonable and customary under the prevailing market conditions and is hereby approved, with the final discount to be identified in the Purchase Contract. The Designated Officers are, and each of them acting alone is, hereby authorized and directed, for and in the name of and on behalf of the District, to execute the Purchase Contract in the form approved by the Designated Officers, whose execution thereof shall be conclusive evidence of approval of the Purchase Contract.

Section 7. Official Statement. The District hereby approves the preliminary Official Statement describing the Notes, in substantially the form on file with the Secretary. Distribution of the preliminary Official Statement and the final Official Statement by the Underwriter is hereby approved. The Designated Officers are hereby authorized and directed to approve any changes in or additions to the final form of the Official Statement, whose execution thereof shall be conclusive evidence of approval of any such changes and additions, and the Designated Officers are hereby authorized to execute a certificate deeming the preliminary Official Statement to be final for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934.

Section 8. Municipal Bond Insurance. The Designated Officers, each acting alone, are hereby authorized and directed to obtain a municipal bond insurance policy for the Notes if it is determined, upon consultation with the Underwriter that such municipal bond insurance policy will reduce the true interest cost with respect to the Notes.

Section 9. Official Action. All actions heretofore taken by the officers and agents of the District with respect to the preparation of the Official Statement and the Indenture and the sale and issuance of the Notes, are hereby approved, confirmed and ratified, and the proper officers of the District, including the Designated Officers and the District's general counsel, are hereby authorized and directed, for and in the name and on behalf of the District, to do any and all things and take any and all actions and execute and deliver any and all certificates, agreements and other documents which they, or any of them, may deem necessary or advisable in order to consummate the lawful issuance and delivery of the Notes in accordance with this Resolution, including but not limited to those certificates, agreements and other documents described in the Indenture and the other documents herein approved, a termination agreement to terminate the 2004 Project Lease, and any certificates, agreements or documents as may be necessary to further the purpose hereof or provide additional security for the Notes, but which shall not create any obligation or liability of the District other than with respect to the limited tax revenues

pledged as security for the Notes in the Indenture and assets derived from the proceeds of the Notes.

Section 10. Approval of Professional Service Agreement. The District hereby approves the form of the professional services agreement on file with the Secretary with respect to the services of Jones Hall, A Professional Law Corporation as bond counsel and disclosure counsel. The General Manager is hereby authorized and directed to execute the agreement on behalf of the District with such changes, additions or deletions as may be approved by the General Manager.

Section 11. Effective Date. This resolution shall take effect from and after the date of approval and adoption thereof.

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PASSED AND ADOPTED by the Board of Directors of the Midpeninsula Regional Open Space District on _____, 2014, at a special meeting thereof, by the following vote:

AYES:
NOES:
ABSTAIN:
ABSENT:

ATTEST:

APPROVED:

Secretary
Board of Directors

President
Board of Directors

APPROVED AS TO FORM:

General Counsel

I, the District Clerk of the Midpeninsula Regional Open Space District, hereby certify that the above is a true and correct copy of a resolution duly adopted by the Board of Directors of the Midpeninsula Regional Open Space District by the above vote at a meeting thereof duly held and called on the above day.

District Clerk