



Midpeninsula Regional
Open Space District

R-16-73
Meeting 16-13
June 8, 2016

AGENDA ITEM 3

AGENDA ITEM

Selection of outside consultants to comprise the District Bond Team and Approval of Proposed Financing Schedule

GENERAL MANAGER'S RECOMMENDATIONS

1. Authorize the General Manger to enter into the following Agreements related to the District's Bond Team, formed to initially assist the District with the anticipated August 2016 financing, and then extending advisement services for a term of up to six years (three years, with one three-year renewal at the option of the District):

Role	Selected Firm	Dollar Value of Contract
Bond Counsel	Orrick	\$230,000
Disclosure Counsel	Schiff, Hardin, LLP	\$70,000
Financial Advisor	Backstrom McCarley, Berry & Co., LLC	\$130,000
Underwriter Services	Morgan Stanley	This contract may come forward in the form of a Bond Purchase Agreement at time of a negotiated Bond Refunding, but anticipated to be approximately \$145,000 paid as Cost of Issuance from Bond Proceeds.

2. Authorize the General Manger to direct staff to take the actions described in the Proposed Schedule for the 2016 Refunding of the Financing Authority's Series 2007A Revenue Refunding Bonds, so as to obtain significant future cash savings.

SUMMARY

Approval of the first recommendations will allow the District to form a Bond Team that will initially conduct the 2016 Refunding of the 2007 Bonds, and will continue to advise the District for the next three years with one three-year renewal at the sole discretion of the District. The goal of this longer term Agreement is to assist the District in setting up a robust debt program, incorporating industry best practices, and to provide the District with business continuity and strategic planning with respect to the capital program. The dollar values for these contracts have been arrived at by contemplating the fees associated with the 2016 Refunding of the 2007 Bonds

and one General Obligation (GO) ‘new money’ bond in three years and adding 10% to allow funding for special projects related to the District’s overall financial strategy. Note that the form of the Agreement with the Underwriter will be a Bond Purchase Agreement, which will be finalized through the 2016 Refunding transaction, with the term through the closing of the deal and rates and payment completed as part of the Cost of Issuance from Bond Proceeds, and anticipated with respect to current market conditions to be approximately \$145,000.

Approval of the second recommendations will allow the District to begin the approximately three-month process of coming to market with the 2016 Refunding Bonds, including working with the Financial Advisor, in concert with the Underwriter, to develop a Plan of Finance that will be advantageous to the District, in the context of the current market.

MEASURE AA

These contracts support Measure AA by engaging firms that will provide professional advisement services to the District regarding debt issuance strategy and implementation within the authority established by Measure AA, create the documents required to comply with SEC regulations, and yield a bond sale with terms that will be advantageous to the District and District taxpayers. The term of the Agreement is anticipated to span at least one refunding or one GO ‘new money’ bond issuance, and ongoing advisement related to MAA and other financing strategies would continue throughout the term.

The 2016 Refunding transaction will not be related to Measure AA, as this will refund revenue bonds issued prior to the passage of MAA, and is under the authorization of the District’s Financing Authority.

DISCUSSION

The Procurement Process for the Bond Team

The District embarked upon a procurement process to secure proposals for professional services to fill various external roles of the Bond Team including Bond Counsel, Disclosure Counsel, Financial Advisor, and Underwriter. Approval of these recommendations will allow the General Manager to enter into agreements with the selected firms, which will position the District with a strong Bond Team.

Requests for Proposals (RFPs) for each category were posted to the District Website from March 23, 2016 until closing on April 11, 2016. The District received a strong response for the procurement with a total of 26 proposals received among the four RFPs. Proposals were evaluated by a team of internal Subject Matter Experts (SMEs) who narrowed the field of candidate firms. The three most qualified candidates for each RFP were interviewed and the selection made upon consensus of the SME team.

Proposed Schedule for the 2016 Refunding

The following information provides the context and rationale for conducting a Refunding of the 2007 Bonds. The Financing Authority issued \$59.2 million of revenue bonds in January 2007, with repayment beginning in 2008 and scheduled to complete in 2027. The current outstanding balance of the 2007 Revenue Bonds is \$47.3 million. These bonds were issued at a true interest cost of 4.38%. The bond documents allow redemption, without penalty, on any March 1 or September 1, on or after September 1,

2016. Interest rates for municipal bonds have fallen to near historic lows, providing an opportunity to achieve significant savings on future debt service.

To bring this bond issue to market at the most advantageous time with respect to the covenants of the 2007 Revenue Refunding Bonds, an aggressive schedule is being proposed:

Proposed Schedule for completion of the issuance of the 2016 Refunding

Board approves contracts with the financing team	June 8
Circulation of all first draft documents, including POS	June 22
All-Hands Meeting on first draft documents	June 24
Second draft documents circulated	June 29
Transmit documents to rating agencies	July 1
Rating agency presentations	July 6-11
Ratings received	July 22
Board/Financing Authority approval of documents	July 27++
Pricing	August 24
Closing	By or before August 31, 2016

FISCAL IMPACT

Recommendation #1: The professional services fees incurred by the Bond Counsel, Disclosure Counsel, Financial Advisor, and Underwriter, which are associated with the issuance of bonds are considered to be within the Cost of Issuance on the transaction, which is paid by bond proceeds at the close of the transaction. Therefore, these costs would not be charged to the District's financial accounts. Work done by these professional advisors outside of the transaction, such as special projects related to District financial strategy, may be charged to the appropriate District fund, as applicable, and are not anticipated to exceed 10% of the total contract values.

- 3. Recommendation #2:** Based on current market conditions, it is estimated that the 2007 Revenue Bonds may be refinanced at a True Interest Cost in the less than 2% range, and redeemed on September 1, 2016. The estimated future savings should exceed \$8.5 million, or \$770,000 per year for the next eleven years. The present value savings are estimated to exceed \$7.5 million.

PUBLIC NOTICE

Public notice was provided as required by the Brown Act.

CEQA COMPLIANCE

This item is not a project subject to the California Environmental Quality Act.

NEXT STEPS

If authorized by the Board, Agreements for Professional Services will be executed, completing the external Bond Team roles of Bond Counsel, Disclosure Council, Financial Advisor for up to five years. The Underwriter, however, will be engaged specifically for the issuance of the 2016

Bond, which may culminate in a Bond Purchase Agreement with Morgan Stanley (assuming negotiated bond sale), and which will come before the Financing Authority and the Board in August 2016. Together with internal Bond Team roles of General Manager, CFO, General Counsel, and Controller, this group of professionals will complete the District's Bond Team.

On or about August 24, 2016, the Chief Financial Officer will convene a meeting of the Financing Authority to seek authorization to refund the 2007 bonds, approve the issuance of the 2016 Refunding Bonds and approve the related documents. An accompanying Board Report will also be presented during a regular meeting of the Board of Directors to finalize documentation and authorize the selling of the bonds, including a Resolution Authorizing the Issuance of the Bonds, approving the Official Statement, in addition to other matters related to the financing.

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