Midpeninsula Regional Open Space District

R-16-113
Meeting 16-22
September 14, 2016

AGENDA ITEM 8

AGENDA ITEM

Final report on the sale of the 2016 Green Bonds Refunding

GENERAL MANAGER'S RECOMMENDATION

Receive final report. No action required.

SUMMARY

The Midpeninsula Regional Open Space District (District) issued the 2016 Green Bonds Refunding on September 8, 2016, refunding the 2007A bonds and the callable portion of the 2011 bonds. The sale was successful on the financial front and was also successful in expanding our presence in the local community, including, issuing the District's first Green Bonds and marketing and selling the Green Bonds to our local constituency and the public. The retail reach surpassed expectations: 15% were sold to individual retail with an additional 50% to professional retail, saving the District $15.7 million and reducing the final maturity of the debt by 3 years.

MEASURE AA

These are not Measure AA bonds.

DISCUSSION

The 2007A and the callable portion of the 2011 bonds were refunded into the new 2016 Green Bonds Refunding to capture significant cash flow savings for the District. This effort to refund the 2007 and 2011 bonds started in February/March of this year.

The internal executive bond team, supported by internal staff, consists of:

Steve Abbors	General Manager
Mike Foster	Controller
Sheryl Schaffner	General Counsel
Stefan Jaskulak	CFO
Lisa Tulee	Senior Management Analyst

The first step was to assemble a new bonds team via 4 simultaneous Requests For Proposal (RFP): Underwriter, Financial Advisor, Bond Counsel and Disclosure Counsel. In total, 28 responses were received. After review and interview of the finalists, the following external bond team was assembled:

Morgan Stanley	Underwriter
Backstrom, McCarley Berry & Co	Financial Advisor

Orrick	Bond Counsel
Shiff Hardin	Disclosure Counsel

The 2016 bonds were self-designated as Green Bonds to allow socially responsible investors an investment opportunity that supports the true goal of 'green' bonds. The proceeds from the refunding bonds (2007, 2011 and bonds which been 'rolled' into these bonds) were for land acquisition. In addition to self-designating the 2016 bonds as Green Bonds, a heavy retail marketing effort specific to the District constituency was conducted, at minimum, to

- Publicize that the District would be refunding bonds
- Bring awareness to the fact that these new bonds are Green Bonds and
- To reach out to the public in the District and San Mateo and Santa Clara counties.

The bonds team presented to Standard & Poor's and Fitch rating agencies, both of which assigned a AAA rating to the 2016 Green Bonds Refunding and affirmed the existing AAA rating for the bonds already outstanding (2011 authority bonds remain at AA+).

The 2016 Green Bonds Refunding were sold on Thursday September 8, 2016. The order period ran from 10:30AM to 12:30AM ET. After the initial order period, the sale was 2.6 times over-subscribed, which enabled the team to lower the yield to capture additional savings.

The next table provides a breakdown of the bonds, with the following highlights:

- Reduction in par outstanding by **$5,745,000**
- Reduction in average coupon of **0.8146%**
- Reduction in average life by **0.8380 years**
- Reduction in final maturity by **3 years**
- Savings of **$15,718,237**
- Net Present Value Savings of **$12,694,441**
- Percentage savings of refunded bonds of **20.1%**

	2007A Tax-Exempt	2007A Taxable	2011 Callable	Total
Bond Par Amount	$ 35,055,000	$ 2,920,000	$ 19,435,000	$ 57,410,000
All-in True Interest Cost	1.4128%	1.8637%	2.6877%	2.0822%
Average Coupon	4.7799%	0.7300%	4.2623%	4.4737%
Average Life	6.591	0.942	14.72	9.056
Par amount of refunded bonds	$ 41,360,000	$ 2,705,000	$ 19,090,000	$ 63,155,000
Average Coupon of refunded bonds	4.9893%	4.9877%	5.5253%	5.2883%
Average Life of refunded bonds	6.269	6.269	18.26	9.894
Savings	$ 8,317,988	$ 618,577	$ 6,781,672	$ 15,718,237
Net PV Savings	$ 8,807,554	$ 493,396	$ 3,393,491	$ 12,694,441
Percentage savings of refunded bonds	21.3%	18.2%	17.8%	20.1%

The savings include all expenses for the cost of issuance (counsel, financial advisor, rating agencies, advertising, etc), underwriter fees and also include addressing tax issues with the 2007 and 2011 bonds.

The 2007 bonds were a refunding bonds themselves, with various refunding and new money legacy bonds. Originally, the 2007 bonds had a tax-exempt and taxable component. As a result of the various legacy bonds and the complexity previous refunding efforts, the taxable component should have been higher. This is remedied with the 2016 bonds. The District will also self-report with the Internal Revenue Service under their Voluntary Closing Agreement Program and essentially make the IRS whole. The 2011 bonds were originally capital appreciation bonds and are subject to a transfer or proceeds penalty with the IRS, which is also included in the 2016 bond calculations.

<u>Retail Sales</u>

The bond team (internal and external), working together with Public Affairs, made a strong retail marketing effort. Various materials were developed with the District's house style:

- Newspaper advertisement on Friday 9/2, Saturday 9/3 and Sunday 9/4 in the Mercury News and San Mateo Sentinel
- Postcard mailing to approximately 14,000 District subscribers
- E-Newsletter to approximately 8,000 District subscribers
- Information on the District website, Facebook and Twitter
- Morgan Stanley local branch office designated wealth management experts
- Morgan Stanley Investing with Impact team awareness (socially responsible investing)
- Internet Roadshow with slides and voice over by GM and CFO

The final sales numbers reflect a very strong retail participation of 15% individual retail and an additional 50% professional retail, wrapping up with 35% for the institutional investors:

	Order (#)	**Orders ($000)**	**Allotments**
Individual Retail			
Santa Clara/San Mateo	41	770	13%
Other	12	1085	20%
Subtotal	53	8785	15%
Professional Retail			50%
Insitutional			35%
Total			**100%**

CEQA COMPLIANCE

Not applicable

FISCAL IMPACT

The District is saving $15.7 million over the next 25 years. The distribution of the savings of the 2007 bonds is level between 2017 and 2027. The savings for the 2011 is back-loaded to remover the 2039, 2040 and 2041 maturities, paying the bonds off 3 years early. The annual savings are as follows:

2017	$	767,313.26
2018	$	823,525.00
2019	$	821,575.00
2020	$	818,825.00
2021	$	815,575.00
2022	$	823,575.00
2023	$	822,075.00
2024	$	819,312.50
2025	$	818,862.50
2026	$	819,137.50
2027	$	822,412.50
2028	$	3,162.50
2029	$	3,662.50
2030	$	4,912.50
2031	$	25.00
2032	$	4,050.00
2033	$	2,075.00
2034	$	4,362.50
2035	$	525.00
2036	$	4,925.00
2037	$	2,175.00
2038	$	837,325.00
2039	$	1,921,675.00
2040	$	1,958,775.00
2041	$	1,998,400.00
Total	**$**	**15,718,238.26**

BOARD COMMITTEE REVIEW

This item was not reviewed by a Board Committee.

PUBLIC NOTICE

Public notice was provided pursuant to the Brown Act. No additional notice is required.

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