



Administrative Report

N.1., File # 21-2411

Meeting Date: 5/4/2021

To: MAYOR AND CITY COUNCIL
From: MARNI RUHLAND, FINANCE DIRECTOR

TITLE

DISCUSSION AND POSSIBLE ACTION REGARDING APPROVAL OF STIFEL, NICOLAUS & COMPANY, INCORPORATED (STIFEL) AND RAMIREZ & CO., INC. (RAMIREZ) TO PERFORM UNDERWRITING SERVICES AS JOINT SENIOR MANAGERS FOR THE PROPOSED CALPERS UNFUNDED ACCRUED LIABILITY (UAL) REFINANCING

EXECUTIVE SUMMARY

A Request for Qualifications (RFQ) was sent to sixteen underwriting firms, and nine responded with their Statement of Qualifications (SOQ). Of those nine, six were interviewed by a panel of City and Kosmont Transactions Services (KTS) staff and Budget and Finance Commissioner Jerry Woodham. For the proposed CalPERS UAL refinancing's underwriting services, the panel recommended to the Budget and Finance Commission the selection of Stifel and Ramirez as joint senior managers, and the Commission unanimously agreed.

Although it remains a goal of City staff to issue bonds prior to the FY 2021-22 CalPERS UAL payment, it may be possible with a lease revenue bond to take advantage of the prepayment discount in July 2021 and obtain reimbursement for that payment from the bond proceeds if an earlier issuance is not possible.

BACKGROUND

The City is assembling its bond financing team as it looks to refinance its CalPERS UAL. Following City Council's approval of the bond counsel and disclosure counsel, all the parties are currently in place with the exception of the underwriter.

As described in the attached RFQ, the underwriter will be responsible for the following.

- Assisting in structuring, marketing and selling the bonds
- Identifying, evaluating and explaining alternative financing structures
- Evaluating and making recommendations for the bond sizing and structuring
- Assisting with financial modeling
- Seeking the highest possible credit ratings
- Providing feedback for proposed financing structures
- Assisting with presentations
- Reviewing all financing documents

- Recommending bond sale timing
- Providing information on orders and allotments
- Participating in meetings and presentations
- Preparing post-sale analyses

The RFQ was sent to sixteen firms, and nine responded with their firm qualifications, approaches to the proposed bond issue and its sale, and answers regarding any compliance issues the firm might have. These SOQs were evaluated (see attached Summary of Underwriter Statements of Qualifications), and the following six were invited to participate in interviews.

- B of A Securities
- Hilltop Securities
- Piper Sandler & Co.
- Ramirez & Co.
- Raymond James
- Stifel

Through the SOQ evaluation and interviews, it was determined that the City would be better served by more than one underwriter to gain improved financing results from additional data analysis and market coverage. Stifel and Ramirez provided the best overall SOQ responses and interview dynamics, and both firms have significant experience analyzing CalPERS UALs. Stifel brings the advantage of two California-based underwriting desks, and Ramirez provides the advantage of advanced UAL-base analytics for determining the optimal portion of the City's UAL to refinance. Therefore, it was recommended to the Budget and Finance Commission that Stifel and Ramirez be appointed as joint senior managers with Stifel as the "book running" joint senior manager. The Commission unanimously agreed with this recommendation.

Although the negotiated underwriting fees won't be known until the bond issue's final structure and timing are determined, they are anticipated to be between \$2.50 and \$4.00 per \$1,000 issued.

Following the City Council's approval of the underwriting firm(s), the next step will be to present UAL refinancing options to the Budget and Finance Commission and then the City Council. These options include whether to issue lease revenue bonds or pension obligation bonds, the percentage of the UAL to refinance, and the preferred repayment structure and allocation of budget savings. On the most aggressive schedule, those presentations could possibly be made on May 13 and May 18, respectively.

And following the presentations, bond authorization resolutions to approve the bond issuance and the supporting legal documents will be prepared and brought to the City Council and the Community Financing Authority. In this most aggressive timetable, those approvals could occur as soon as June 1 which would allow the bonds to be issued before June 30. However, the possible reimbursement of all, or a portion of, the FY 2021-22 CalPERS UAL payment in a lease revenue bond scenario provides some flexibility with the bond issuance timing.

COORDINATION

This evening's presentation was coordinated with KTS, the City Manager's Office, and the Financial Services Department. The Budget and Finance Commission received a similar presentation on April 22 and concurred with the recommendation to appoint Stifel and Ramirez as joint senior managers in providing underwriting services for the proposed UAL refinancing.

FISCAL IMPACT

Because potential cost savings from a refinancing of the City's CalPERS UAL with bonds is dependent on the interest rate, sizing, and amortization schedule of the bond issue, selection of the underwriter is an important step in the bond issuance process.

APPROVED BY:

Joe Hoefgen, City Manager

ATTACHMENTS

Request for Qualifications - Underwriting Services
Summary of Underwriter Statements of Qualifications
Presentation