



## CITY COUNCIL STAFF REPORT

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**TO:** Honorable Mayor and City Council                      **DATE:** February 3, 2020  
**FROM:** Matthew Bronson, City Manager  
**PREPARED BY:** Deanne Purcell, Administrative Services Director  
**SUBJECT:** Water Infrastructure Financing Preliminary Placement Bank Approval

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### **RECOMMENDATION**

Review information from bidders for the \$4.5 million water infrastructure private placement financing and approve BBVA USA as the winning bidder with the lowest true interest cost.

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### **BACKGROUND**

In May 2019, staff began preliminary discussions with the City's consultants A. M. Peché & Associates LLC, Piper Sandler & Co. ("Piper Sandler" and formerly Piper Jaffray) and Kutak Rock LLP (the "Financing Team") on the potential to finance water system improvements needed by the City's water enterprise system. The individual consultants from these firms have had significant experience with Grover Beach as they had been hired by the City to assist in the issuance of General Obligation Bonds for street repairs and/or potential financing for the Grover Beach Lodge project. The consultants analyzed different maturity structures, including 15 or 20-year amortizations, and sale methods (public sale or private placement) to determine an optimal structure for the financing. Staff had several conference calls over the period of several months and in reviewing various analyses, it was determined that a private placement loan with a 20-year maturity would be more economical than a public sale of water revenue bonds.

On August 19, 2019, the City Council adopted an updated Water Master Plan that included the capital needs of the Water Fund and the potential funding options for addressing these needs. During this meeting, staff identified the possibility of pursuing loan financing to accelerate these recommended improvements given favorable interest rates. Based on the review and analysis prepared by the Financing Team at that time, the City could enter into a private placement loan in the amount of \$4.5 million that would provide proceeds to the City of \$4.3 million, a loan term of 20 years, and an estimated average annual debt service payment of \$317,000.

On November 18, 2019, the City Council heard a presentation from staff and Albert Peché reviewing the Water Fund capital needs, current and prospective utility rates, and financing options for the water improvements (the "2020 Water Revenue Project Financing"). The City Council adopted a resolution authorizing staff to proceed with the financing process and confirming the approved 6% increase in water rates on July 1, 2020 as per the Prop. 218 hearing approving rate increases on March 6, 2017.

In December 2019, staff worked with the Financing Team to review a Term Sheet, prepared by Piper Sandler, and draft legal documents prepared by Kutak Rock LLP, that would go out to

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potential bidders for the financing. Because of the importance of having independent water enterprise projections, the services of Tuckfield & Associates, a Rate Consultant with experience with the City, was engaged to prepare: three years of historical cashflows and five-year projected cashflows showing that proposed debt service would meet the 1.20 times coverage requirement.

### **Bid Process**

On January 6, 2020, Piper Sandler sent out the Term Sheet, three years of the City CAFRs including the FY 2018-19 CAFR, the projections and other relevant information out to 48 potential banks, including several local and regional banks shown in Attachment 1. Piper Sandler received several questions over the following two weeks from 10 banks and staff cooperated with responding to these inquiries. Bids were due on January 22, 2020.

11 banks requested additional information as shown in Attachment 2. Of these 11 banks, seven banks submitted bids. Attachment 3 shows the results of the three lowest bids that complied with a fixed rate financing as requested in the Term Sheet. BBVA USA ("BBVA") provided the lowest true interest cost when factoring in all costs. BBVA has previous experience with the City as it had been considering private placement financing to fund prospective City costs related to the Grover Beach Lodge and had visited the city and met with staff as part of this process.

Below is a summary of BBVA's bid:

- Interest Rate – 2.57% fixed rate: 121 bps over 79% of the prevailing 10-year LIBOR swap rate (LIBOR rate on 1/22/20 was 1.72%). Subject to change daily prior to locking. Final Rate of 2.43%
- Lock – 30 days; 3 bps premium for 60-day lock
- Additional Fees - \$10,000 Bank Counsel plus out of pocket expenses
- Estimated Annual Average Debt Service – \$289,000
- Optional Redemption – 10 years at Par
- Default Rate – 5% plus Final Rate
- Maturity Date - September 1, 2039
- Expected Closing Date – February 26, 2020
- Additional Requirements – Annual CAFR and budget provided within 270 days of the end of the fiscal year. CAFR to include debt service coverage calculation.

BBVA's final rate of 2.43% is very competitive reflecting the current market environment and the strong financial position of the City and is also lower than the rate shown in the bid summary. The City Manager has provided a preliminary acceptance of the BBVA bid pending Council approval in order to lock in this final rate. The costs of issuance are estimated to be approximately \$146,000 which is 3.27% of the estimated par amount of \$4,466,000. These costs are well within the 3% to 5% costs of issuance. Because this is a private placement, there was savings from not having to prepare an official statement, rating fees, trustee and paying agent fees, and ongoing continuing disclosure requirements.

### **Next Steps**

Pending Council's approval of BBVA as the winning bidder, below are the following next steps in the financing process:

- February 7-12, 2020 – Final credit approval from Bank, final numbers and draft of legal documents
- February 18, 2020 – City Council approval of Issuance Resolutions/Legal Documents
- February 19-26, 2020 – Documents signed by the City (February 19), pre-closing (February 24 - BBVA needs all signed documents two days prior to closing) and closing (February 26). The financing must close by February 26 to avoid an additional 3 basis points increase in the rate.

### **FISCAL IMPACT**

Estimated debt service of approximately \$289,000 will start in FY 2020-21 and will be repaid by Water Enterprise Fund revenues.

### **ALTERNATIVES**

The Council has the following alternatives to consider:

1. Approve BBVA as the winning bidder; or
2. Reject all bids; or
3. Provide alternate direction to staff.

### **PUBLIC NOTIFICATION**

The agenda was posted in accordance with the Brown Act.

### **ATTACHMENTS**

1. Banks sent Term Sheet and bidding information
2. Summary of the 11 Banks that made inquiries
3. Summary of 3 lowest bids

1st Capital Bank
Academy Bank
American Riviera Bank
Bank of the Sierra
Bank of the West
BB&T
BBVA Compass
BciCapital
Beneficial State Bank
Boston Private Bank
CapitalOne
Citizens Business Bank
City National Bank
CoBank
Community Bank of Santa Maria
Community West Bank
F&M Long Beach
First Bank - 12229
First Foundation Bank
First Internet Bank
First Republic Bank
Fremont Bank
Glacier Bank
Homestreet Bank
JPMC
Key Government Finance
Mechanics Bank
Mission Bank
Montecito Bank and Trust
Monterey County Bank
NBH
Opus Bank
Pacific Premier Bank
Pacific Western Bank
Pinnacle Public Finance
Signature Bank
Sterling National Bank
Sunflower Bank
Tri-Counties Bank
Umpqua Bank
Union Bank
United Security Bank
US Bank
Valley Republic Bank
Wells Fargo
Westamerica Bank
Western Alliance Bank
Zions Bank

BBVA Compass
CapitalOne
City National Bank
Community Bank of Santa Maria
First Foundation Bank
First Republic Bank
JPMC
Key Government Finance
Sterling National Bank
Western Alliance Bank
Zions Bank

CITY OF GROVER BEACH  
2020 Water Revenue Project Installment Purchase Contract  
Summary of 3 Lowest Bids

Attachment 3

	BBVA <sup>(1)</sup> (30-day lock)	BBVA <sup>(1)(2)</sup> (60-day lock)	Sterling National Bank	MFC (City National)
Rate (TE, BQ)	2.57%	2.60%	2.76%	2.86%
Origination Fee	\$0		\$0	\$7,500
Bank Counsel Fee <sup>(3)</sup>	\$10,000		\$0	\$0
Other Fees	Out of pocket expenses, CDIAC fee		CDIAC fee	CDIAC fee
Par Amount	\$4,465,000	\$4,465,000	\$4,455,000	\$4,465,000
TIC	2.59%	2.62%	2.76%	2.88%
Average Annual Debt Service	\$292,732	\$293,591	\$297,171	\$300,634
Total Debt Service	\$5,712,337	\$5,729,107	\$5,798,965	\$5,866,529
Optional Call Features	10 years @ 100% Option to prepay at par after the 5th or 7th year is available on request at a premium.		Anytime through 9/1/23 @ 102% 9/2/23 through 9/1/25 @ 101% Callable 9/2/25 and thereafter @ 100%	Any date beginning 9/1/26 @ 100%
Default Rate	5.00% over locked rate		10% but will be open to negotiation (10% is late fee on only the specific amount that is late)	None
Continuing Disclosure/Reporting Obligations	(1) Annual audited financial statements due within 210 days after end of FY (2) Annual approved operating budget due within 30 days after end of FY. (3) Annual certification from City that City has met the 1.2x rate coverage amount due within 210 days after end of FY. (4) Any other information Lender may request from time to time.		Will require typical annual information (i.e. annual audits, etc.)	Will require typical annual information (i.e. annual audits, etc.)
Subject to:	Final credit approval and signed term sheet. Credit approval will require information regarding the Lopez Dam including certain questions as stated in the Term Sheet response.		Final credit approval process.	Final credit approval and receipt of all documents and opinions in form acceptable to Bank.

<sup>(1)</sup> Rate has not been locked in. Indexed to daily LIBOR swap rate.

<sup>(2)</sup> BBVA would require a 3 bps premium for locking the rate 60 days.

<sup>(3)</sup> Represents a not-to-exceed amount for BBVA.