DATE: July 6, 2020

TO: Mayor and Members of the City Council

VIA: Dante Hall, Interim City Manager

FROM: Edmund Suen, Finance Director
Norm Dorais, Public Works Director/City Engineer
Jean Savaree, City Attorney

SUBJECT: APPROVAL OF RESOLUTIONS IN CONNECTION WITH GENERAL OBLIGATION BOND SALE

RECOMMENDATION

It is recommended that the City Council adopt the following attached resolutions:

1. Providing for the issuance of its General Obligation Bonds, Series 2020 (Levee Protection Planning and Improvements Project) (Green Bonds) in the principal amount not to exceed $90,000,000; and
2. Establishing the property tax rate and fixed charge assessments for bonded indebtedness for Fiscal Year 2020-2021.

EXECUTIVE SUMMARY

The proposed Levee Protection Planning and Improvements Project (Levee Project) will improve the City's existing levee system to provide flood protection in accordance with updated Federal Emergency Management Agency (FEMA) guidelines, allow the City to retain FEMA accreditation for the levee, and protect against future sea level rise.

In June 2018, Foster City voters approved the sale of general obligation bonds to fund the Levee Project.

At a special meeting of the City Council of Foster City held on June 22, 2020, the Council was presented with a report by staff detailing the estimated cost of the Levee

Project and alternatives for how the repayment of the bonds might be structured. Staff recommended, and the City Council approved, the lesser cost alternative, which is a 30-year repayment of the bonds with the first tax levy starting in Fiscal Year 2020-2021.

Six construction bids were received on June 30, 2020. The bids range from $60.218 million to $69.398 million. Soft costs (design, engineering, construction management and consultants), costs advanced to date by the City that are subject to reimbursement, plus a construction contingency will be added to the accepted bid to arrive at the total project cost. The bids are currently being reviewed. Once this review is completed, staff will recommend an award of the construction contract to the lowest responsible and responsive bidder. If the low bid is accepted, no General Fund contribution will be necessary and some of the bond authorization will remain unsold. Because the low bid has not yet been fully evaluated, staff recommends that the full bond authorization be approved for sale. The successful bidder will be identified before the bond sale, and the amount of bonds sold will be adjusted to reflect the final Levee Project budget.

The resolutions before the City Council tonight authorize the sale of the bonds and the placement of a tax levy on the secured tax roll for the Fiscal Year 2020-2021, the distribution of a Preliminary Official Statement (disclosing facts and certain risks associated with investing in the bonds), and execution of a Supplement to the Resolution approving the sale of the bonds, a continuing disclosure certificate, a bond purchase agreement and certificates necessary to close the bond transaction. The Supplement to the Resolution approving the sale of bonds specifies the terms of the bonds, the rights of bond owners and the obligations of the City in connection with the bonds.

BACKGROUND

In 2003, FEMA undertook a plan to modernize its flood maps and determined that some previously accredited levees did not meet its accreditation standard which requires that the levee be able to protect against a “one percent annual chance” flood. A one percent annual chance flood describes a water elevation level that has a 1-in-100 chance of being exceeded in any year. A property located in a one percent annual chance floodplain has a 26 percent chance of being flooded at least once during the lifetime of a 30-year mortgage payoff period.

Levees that do not provide a one percent annual chance flood protection are not accredited. A non-accredited levee is considered by FEMA in its analyses to be the same as no levee at all; this means that communities protected by levees that do not meet the one percent annual chance standard are considered “without levees” and are mapped into a Special Flood Hazard Area.

Properties in a Special Flood Hazard Area with mortgages that are issued by federally chartered banks, banks whose deposits are insured by the FDIC, or properties that are in any way otherwise eligible for a direct or indirect federal loan or payment, are required to obtain flood insurance. No property in a Special Flood Hazard Area without flood insurance is eligible for any type of federal disaster relief assistance due to flood damage.

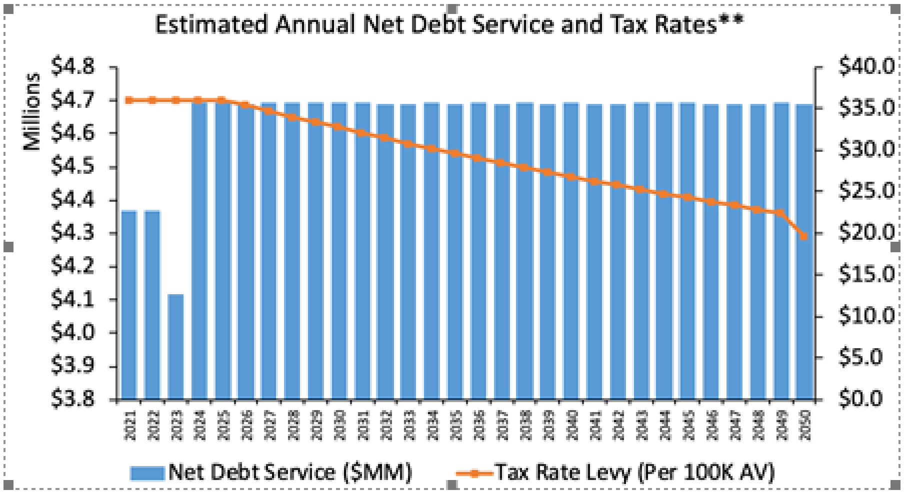
On June 5, 2018, 80.6 percent of City voters approved the sale of general obligation bonds to fund the Levee Project.

GENERAL OBLIGATION BONDS - ANALYSIS

General obligation bonds are used by communities to finance facilities of widespread general benefit to the community for which accumulated reserves and current revenues are insufficient. The bonds must be approved by 2/3rds of those voting on the bond measure and are repaid with a tax imposed on all taxable property within the community that is levied in an amount sufficient to pay annual debt service on the bonds.

The City has assembled a team of finance professionals to help it structure and sell the Series 2020 General Obligation Bonds. Stradling Yocca Carlson and Rauth serves as bond counsel, Jones Hall serves as disclosure counsel, Kitahata & Company and William Euphrat Municipal Finance, Inc. together serve as municipal advisor, and Bank of America has been retained to underwrite the bonds by buying them from the City and selling them to the public. U.S. Bank will serve as Paying Agent, Registrar and Costs of Issuance Agent.

Staff estimates that the average annual tax rate to repay a $90 million bond issue, plus interest, would be approximately $36.00/$100,000 of assessed value through FYE 2025, and would decline thereafter as assessed value increased. The following chart shows the estimated debt service and tax rates per $100,000 of assessed value for a $90 million bond issue.



**Assumes AV growth of four percent next year, no increase in FYE 2022 or FYE 2023, and two percent annually thereafter through FYD 2050.

A conservative estimate of the true interest cost of the bonds is 3.03%. This reflects current bond yields plus a cushion for upwards movement in yields. Total net debt service (principal and interest) paid over the life of the bonds would be approximately $139.5 million. The highest annual levy of $36.00/$100,000 would occur in the first year of the bond issue. One of the two GO bond resolutions presented for approval tonight will approve this tax levy. The other resolution will approve the sale of the bonds. The average tax rate would be approximately $29.42/$100,000. These amounts are estimates only. The principal amount of bonds sold and interest rates will be set when the bonds are priced in a few weeks. Actual assessed valuation levels will most likely differ somewhat from those used in this analysis, and those actual levels will determine the required tax levy each year.

The amount a taxpayer contributes towards bond debt service is based on the assessed value of that taxpayer's property. If the bonds are structured with debt service increasing at approximately two percent annually, but assessed valuation grows at a rate faster than two percent, then the tax levy will decrease over time at a faster rate than shown in the above table.

The Series 2020 General Obligation bonds will be a general obligation of the City secured by the City's unlimited ad valorem taxing power to raise sufficient tax revenues to make annual debt service payments on the bonds. The tax levy associated with general obligation bonds may only be used to pay debt service on such bonds. The General Fund of the City does not secure the repayment of the bonds.

<u>FISCAL IMPACT</u>

With the exception of rating fees, all issuance costs associated with the Series 2020 General Obligation bonds are contingent on the sale of the bonds. Rating fees are expected to total $114,000 for ratings from Moody's and Standard & Poor's (S&P). Because the levee is a defense against climate change, bonds can qualify as "green" bonds. The S&P rating fee includes an optional green evaluation that will allow designation of the bonds as "green."

Annual debt service on the bonds will be paid from the original issue premium collected at closing and tax levies collected by the County of San Mateo.

The following table shows the sources and uses of funds for the Levee Project based on the sale of the full authorization. The Original Issue Premium generated at bond pricing can be used to pay underwriter's discount, but not costs of issuance (such as legal, advisory, rating fees).

Sources	
Par Value of Bonds	90,000,000
Original Issue Premium	7,894,295
Total Sources	97,894,295
Uses	
Levee Project Fund	89,735,000
Bond Debt Service Func	7,669,295
Underwriter's Discount	225,000
Costs of Issuance	265,000
Total Uses	97,894,295

REQUIRED DOCUMENT APPROVALS

The resolution approving the issuance of the bonds approves by name certain documents associated with the issuance of the bonds. These documents include the Supplement to the Resolution, the Preliminary Official Statement, a Continuing Disclosure Agreement and the Bond Purchase Agreement, and each is briefly described in Attachment 3 to this staff report.

RESPONSIBILITIES OF ELECTED OFFICIALS UNDER FEDERAL SECURITIES LAWS

The attached Preliminary Official Statement has been reviewed and approved for transmittal to the City Council by the City's Disclosure/Federal Tax Working Group. The distribution of the Preliminary Official Statement by the City 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 Series 2020 Bonds. Material information is information that there is a substantial likelihood would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the Series 2020 Bonds.

The SEC has stated in a release (the “Release”), if a member of the City Council has knowledge of any facts or circumstances that an investor would want to know about prior to investing in the Series 2020 Bonds, 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 City Council could take include becoming familiar with the Preliminary Official Statement and questioning staff and consultants about the disclosure of such facts. If the City Council concludes that the Preliminary Official Statement includes all facts that would be material to an investor in the Series 2020 Bonds, it must adopt a resolution that authorizes staff to execute a certificate to the effect that the Preliminary Official Statement has been “deemed final.”

The key sections of the Preliminary Official Statement are identified below:

“PLAN OF FINANCE”: This section of the Preliminary Official Statement describes the improvements to be financed by the Series 2020 Bonds and some of the risks that will be mitigated by construction of the levee improvements, including short-term flooding from storms and high tides and long-term risks from climate change. This section also describes some of the ongoing risks to the levee system, including earthquakes.

“SECURITY FOR THE BONDS”: This section of the Preliminary Official Statement describes the security for the City’s obligation to repay the Series 2020 Bonds, specifically the obligation to levy ad valorem taxes on taxable property in the City.

“PROPERTY TAXATION”: This section describes California’s property tax system, the primary credit characteristics of taxable property in the City, including Citywide assessed value and major property owners (including the risks of concentrated ownership), and the County’s current approach to the Teeter Plan.

“APPENDIX A - FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION FOR THE CITY OF FOSTER CITY AND SAN MATEO COUNTY”: This section describes the City’s finances, including (i) its historical revenue and expenditures, (ii) its current and historical budgets, (iii) its reserve policy, (iv) its major revenues, (v) the City’s five-year financial plan, and (vi) the City’s long-term payment obligations, including pension and OPEB costs.

COVID-19 and its impacts on the City are discussed in great detail throughout the Preliminary Official Statement, but most extensively in Appendix A.

NEXT STEPS

Once the attached resolutions are approved, no further action by the City Council is necessary to authorize issuance of the bonds. The bonds are expected to sell on July 20 and close on August 5.

ALTERNATIVES

If the Council declines to approve the sale of bonds, there will be insufficient funds to complete construction of the Levee Project. All bids would then be rejected. Staff would develop an alternative plan of finance and report back to the Council at a later date.

Attachments:

- Attachment 1 - Resolution (Providing for Issuance of General Obligation Bonds, Series 2020), including Supplement to the Resolution
- Attachment 2 - Resolution (Establishing Property Tax Rate and Fixed Charge Assessments for Bonded Indebtedness for Fiscal Year 2020-2021)
- Attachment 3 - Summary of Principal Legal Documents
- Attachment 4 - Preliminary Official Statement, including Appendix D – Form of Continuing Disclosure Certificate
- Attachment 5 - Bond Purchase Agreement