DATE:	June 20, 2023
TO:	Mayor and Members of the City Council
VIA:	Stefan Chatwin, City Manager
FROM:	Edmund Suen, Finance Director Waqas Hassan, Assistant Finance Director Francine Magno, Senior Civil Engineer Benjamin Stock, City Attorney
DEPARTMENT:	Finance, Public Works, City Attorney
SUBJECT:	APPROVAL OF RESOLUTIONS IN CONNECTION WITH GENERAL OBLIGATION BOND SALE

RECOMMENDATION

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

1. Providing for the issuance of its General Obligation Bonds, Series 2023 (Levee Protection Planning and Improvements Project) (Green Bonds) in the principal amount not to exceed $5,000,000; and
2. Establishing the property tax rate and fixed charge assessments for bonded indebtedness for Fiscal Year 2023-2024.

The City awarded a construction bid for the Levee Protection Planning and Improvements Project (the “Project”) to Shimmick Construction Company, Inc. in the amount of $ 60.218 million. Project contingencies, design, engineering and other soft costs raised the initial total project cost to $85 million. In August 2020 the City sold $85 million of its $90 million general obligation (GO) bond authorization to finance the Project (2020 Bonds). Subsequent change orders and contract amendments have increased the total cost of the Project to $ 95 million. The City will expend $ 5 million of its accumulated reserves and sell the balance of the unissued GO bond authorization to fund the increase in the cost of the Project.

The resolutions before the City Council tonight authorize the sale of the bonds (2023 Bonds) and the placement of a tax levy on the secured tax roll for the Fiscal Year 2023-2024, the distribution of a Preliminary Official Statement (disclosing facts and certain risks associated with investing in the 2023 Bonds), and execution of a Supplement to the Resolution reflecting the sale of the 2023 Bonds, a continuing disclosure certificate, an Official Notice of Sale and opinions and certificates necessary to close the bond transaction. The Supplement to the Resolution documenting the sale of 2023 Bonds specifies the terms of the 2023 Bonds, the rights of the owners of the 2023 Bonds and the obligations of the City in connection with the 2023 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. In 2014, approximately 85% of the 6 miles of levees protecting Foster City were determined by FEMA to not meet this standard.

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 (such as in the event of flooding), 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% of City voters approved the sale of up to $90 million of GO bonds to fund the Project.

ANALYSIS

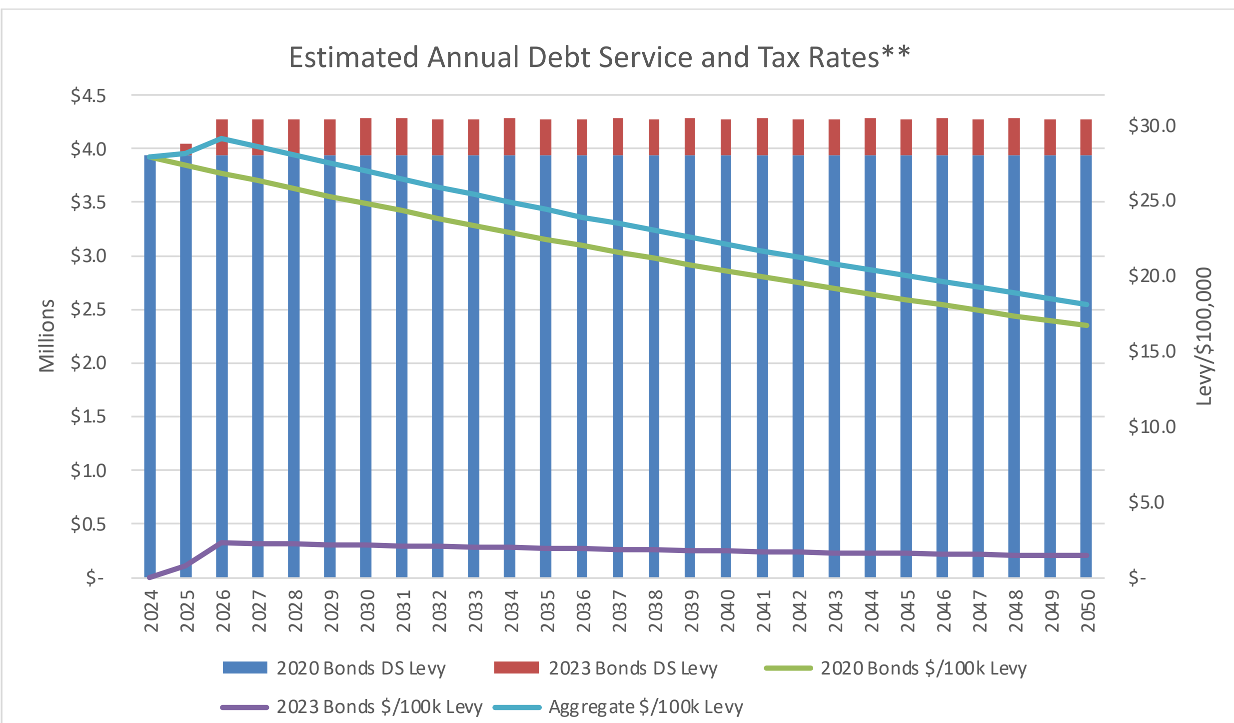
General obligation bonds are used by communities to finance facilities of widespread general benefit to the community for which accumulated reserves and current revenues are insufficient. The bonds must be approved by 2/3^{rds} of those voting on the bond measure and are repaid with a tax imposed on 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 2023 Bonds. Jones Hall serves as disclosure counsel and bond counsel and William Euphrat Municipal Finance, Inc. serves as municipal advisor. U.S. Bank will serve as Paying Agent, Registrar and Costs of Issuance Agent. The 2023 Bonds will be sold in a sealed bid public auction to the lowest bidder.

As were the 2020 Bonds, the 2023 Bonds will be structured with level debt service. The 2023 Bonds are expected to be priced by the lowest bidder with interest rates on all maturities at 5% and be reoffered to the public with lower yields. This will generate a premium that will be paid by the low bidder to the City, which State law requires be applied to pay debt service. The premium will be applied to debt service on the 2023 Bonds. Depending on the amount of the premium, this will result in no tax levy in FYE 2024 and levy for only part of the debt service in FYE 2025. Thereafter the levy will cover all debt service.

The FY 2023-24 tax levy per $100 of assessed value necessary to pay debt service on the 2020 Bond payments coming due on February 1, 2024 and August 1, 2024 is $.02791. This is equivalent to $27.91 per $100,000 of assessed value.

Staff estimates that the annual tax rate per $100,000 of assessed value to pay debt service the 2023 Bonds would be approximately $0.76 in FYE 2025, increasing to $2.32 in FYE 2026 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 both the $85 million 2020 Bonds and the proposed $5 million 2023 Bonds.



**Assumes AV growth of two percent annually through 2050.

The current estimate of the true interest cost of the 2023 Bonds is 4.00%. True interest cost is a measure of total interest paid, plus the underwriter's discount, that takes into account the value of money over time. Total net debt service (principal and interest) paid over the life of the 2023 Bonds would be approximately $9.252 million. The highest annual levy of $2.32/$100,000 is estimated to occur in the fiscal year ending 2026.

One of the two GO bond resolutions presented for approval tonight will approve the tax levy for the fiscal year ended June 30, 2024. The other resolution will approve the sale of the 2023 Bonds and certain key documents necessary for their issuance. The average tax rate would be approximately $1.81/$100,000. These amounts are estimates only. The interest rates and reoffering yields will be set when the bonds are priced in July. 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 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 2023 Bonds will be payable only from 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 2020 Bonds or the 2023 Bonds.

California Environmental Quality Act

Not Applicable

FISCAL IMPACT

With the exception of rating fees, all issuance costs associated with the 2023 Bonds are contingent on the sale of the 2023 Bonds. Rating fees are expected to total $25,000 for a rating from Moody's Investors Service (Moody's). Moody's has rated the 2020 Bonds in its highest rating category, Aaa, and the 2023 Bonds are expected to also be rated Aaa.

The interest portion of annual debt service on the 2023 Bonds will be paid from the original issue premium collected at closing until such premium is exhausted and from tax levies collected by the County of San Mateo. After the original issue premium is fully expended, all of the annual debt service on the 2023 Bonds will be paid from tax levies collected by the County of San Mateo.

The following table shows the sources and uses of funds for the Project based on the sale of the remaining authorization. The Original issue premium generated at bond pricing will not pay either underwriter’s discount or other costs of issuance (such as legal, advisory, and rating fees).

Sources		
Bonds	$	5,000,000
Orginal Issue Premium		601,846
Total		5,601,846
Uses		
Project Fund		4,850,400
Costs of Issuance		124,600
Underwriter's Discount		25,000
Capitalized Debt Service		601,846
Total	$	5,601,846

REQUIRED DOCUMENT APPROVALS

The resolution approving the issuance of the 2023 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 Certificate and an Official Notice of Sale, 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 2023 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 2023 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 2023 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 2023 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 – Purpose of Issue": This section of the Preliminary Official Statement describes the improvements to be financed by the 2023 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 2023 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 and additionally in Appendix A.

<u>NEXT STEPS</u>

Once the attached resolutions are approved, no further action by the City Council is necessary to authorize issuance of the 2023 Bonds. The 2023 Bonds are expected to sell on July 12 and close on July 27.

<u>ALTERNATIVES</u>

The City is obligated to make the additional payments it authorized pursuant to change orders. If the Council declines to approve the sale of 2023 Bonds, the City would be obligated to use accumulated reserves to pay for the entire amount so additionally approved.

CITY COUNCIL VISION, MISSION, AND VALUE/PRIORITY AREA

Facilities and Infrastructure

ATTACHMENTS:

- Attachment 1 - Resolution (Providing for Issuance of General Obligation Bonds, Series 2023), including Supplement to the Resolution
- Attachment 2 - Resolution (Establishing Property Tax Rate and Fixed Charge Assessments for Bonded Indebtedness for Fiscal Year 2023-2024)
- Attachment 3 - Summary of Principal Legal Documents
- Attachment 4 - Preliminary Official Statement, including Appendix D – Form of Continuing Disclosure Certificate
- Attachment 5 – Official Notice of Sale