



# AGENDA REPORT

Finance Department

<b>DATE:</b>	April 5, 2022
<b>TO:</b>	Mayor Butt and Members of the City Council
<b>FROM:</b>	Anil Comelo, Interim Deputy City Manager
<b>Subject:</b>	Approve Contract with NHA for Municipal Advisor Services
<b>FINANCIAL IMPACT:</b>	The cost of these services will likely be borne from the refinancing of the Pension Obligation Bonds (POBs)(Finance 01917090-400201 Cost- Non-General Fund).
<b>PREVIOUS COUNCIL ACTION:</b>	April 6, 2021; October 5, 2021; December 7, 2021
<b>STATEMENT OF THE ISSUE:</b>	On October 5, 2021, the City Council considered the recommendations provided by the City's Municipal Advisor, Public Resources Advisory Group (PRAG), with respect to the refinance of the Bonds and Swaps and directed staff to identify a suitable firm to conduct a review of the recommendations. The selected consultant has completed the work and as part of the implementation of the resulting strategy a Municipal Advisor needs to be onboard to evaluate the refinancing options and/or guide the potential sale of municipal bonds.

<b>RECOMMENDED ACTION:</b>	APPROVE a sole-source contract for Municipal Advisor services with NHA Advisors, in an amount not to exceed \$90,000, for a term ending June 30, 2024 - Finance Department – (Anil Comelo/Delmy Culler 510-620-6600).
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**DISCUSSION:**

The City currently has outstanding \$145.9 million of variable rate Pension Obligation Bonds (POB), Series 2005 (the “2005 Bonds”). The City is also party to two interest rate swaps (the “Swaps”) associated with the 2005 Bonds. The 2005 Bonds and Swaps are scheduled to mature in 2034. However, one of the Swaps (the “B-2 Swap”) is subject to mandatory early termination on August 1, 2023, before which time the City will need to either: (a) arrange financing to pay the market value of the B-2 Swap upon such early termination (currently ~\$36 million); or (b) amend the B-2 Swap to remove or delay the mandatory early termination.

On October 5, 2021, the City Council considered the recommendation from its Municipal Advisor, PRAG to negotiate with City National Bank (CNB) and Royal Bank of Canada (RBC) with respect to the refinance of the Bonds and Swaps and directed City staff to identify a suitable firm to conduct a peer review of the recommendations. City staff interviewed three firms and, subsequently, City Council approved a contract with Charles River Associates (CRA) to conduct a peer review of the recommendation and advise the City on the options that may be available to the City. The findings by CRA indicate that there is value in going to the market to refinance the POBs with a more conventional vehicle such as a municipal bond.

The City has recently received an offer from RBC/CNB to refinance the B-2 Swaps into a fixed rate bond without a swap. City staff and consultants have determined that this offer is attractive and needs to be explored further. Staff will work with RBC/CNB to bring to the City Council for a discussion and potential action a more formal offer from RBC/CNB. As part of its due diligence process, staff will also provide City Council with private placement offers for comparison. Additionally, the City Council will likely also be provided with the option to direct City staff to seek conventional financing as a municipal bond.

To prepare for the various options associated with the refinancing of the POBs, the City needs a Municipal Advisor onboard who has not been associated with past POB recommendations/placements. In 2021, the City conducted a Request for Proposal (RFP) and selected NHA Advisors to work on a Community Financing District (CFD) project. In February of this year, the firm was also given a \$10,000 contract to provide advisory services related to the POBs and supplement the work conducted by CRA. Essentially, NHA Advisors have been on a list of respondents for two RFPs and have been working on one aspect of the POB project. It, therefore, would be efficient to use

NHA Advisors to help City staff navigate the complex issues associated with a municipal bond. Among other tasks, NHA staff will help conduct RFPs to create a City bond-team. This will involve helping staff issue RFPs and subsequently help select the bond team comprising of an Underwriter, a Bond Counsel, and a Disclosure Counsel. Once this team is in place, the City can prepare to go to the financial markets (if that is the direction of the City Council) to refinance its POBs estimated to be \$178 million through a public offering. In summary, City staff recommends a sole source contract with NHA Advisors for the following reasons:

- NHA Advisors already responded to two separate RFPs in the last year and are on the City's list of Municipal Advisors
- NHA Advisors have been supporting the City on two important projects – Community Finance District (CFD) and Pension Obligation Bonds (POBs)
- NHA Advisors, having worked on a more limited scope of the POB project, is prepared to provide additional services seamlessly
- NHA Advisors is a fully qualified firm with the requisite knowledge and expertise desired by the City
- A new RFP for Municipal Advisor services will cause an estimated eight (8)-week delay.

We are in a dynamic rate environment where interest rates are highly likely to increase significantly. In fact, the Fed has already indicated that the interest rate could be increased by as much as 100 basis points in the next eight weeks. Therefore, the sooner we can form a City bond team, the sooner we will be able to refinance the \$178 million debt.

**DOCUMENTS ATTACHED:**

Attachment 1 – Contract with NHA Advisors

Attachment 2 – Sole Source Form