



Staff Report

CLOSING REPORT ON SALE OF BELMONT SEWER REVENUE BONDS, SERIES 2006

Honorable Mayor and Council Members:

Summary

This report summarizes the sale of the City of Belmont Sewer Revenue Bonds, Series 2006.

Background

On March 2, 2006, the City of Belmont Joint Powers Financing Authority (BJPFA) successfully sold \$7,500,000 in bonds to the investment firm of Wells Fargo.

Wells Fargo was awarded the bonds after offering the best terms, i.e. lowest rate, to the City. The sale was accomplished through a competitive process.

The results of the sale were as follows:

Description	Particulars
Proceeds Use	Provide capital funding for the sewer capital improvement projects
Total All Sources	\$7,481,987
Discount	\$18,013
True Interest Cost	4.3%
Interest Rate Type	Fixed
Coupons	4%-4.375%
Term	29 Year
Issuance Costs	\$272,866
Insurance	MBIA Insurance Corporation
Underlying Rating	Moody's – A2 Fitch IBCA – A

Discussion

Proceeds from the Series 2006 bonds will be used to finance sewer improvements and repay incurred to date costs. The remainder of the funds was used to pay for the costs of the issuance, a reserve and capitalized interest.

The Series 2006 bonds were sold with fixed interest rates, ranging from 4% to 4.375%, and maturities up to 29 years. The Bonds maturing on or after August 1, 2016 are subject to optional redemption on any date on or after August 1, 2015, in whole or in part.

There were two costs associated with selling the bonds: issuance costs and discounts. Issuance costs of \$200,000 were paid to the insurer, bond counsel, financial advisor and others for professional services rendered. Discounts of \$33,325 were offered as an incentive to Wells Fargo Brokerage Services for re-marketing the bonds to investors.

The most significant issuance cost of \$38,700 was for insurance from MBIA Insurance Corporation. This insurance assures the bondholders that in the unlikely event that the BJPFA defaults in the payment of its obligations the insurer will step in make payment to the bondholders. In return for this extra protection, lower yields are paid on the bonds.

Another side benefit from the bond sale was the BJPFA's favorable bond ratings. Moody's rated the bonds at "A2," which translates to "medium-grade," a very favorable outcome, given the nature of the bonds. Fitch IBCA issued a rating of "A" on the Series 2006 bonds. The underlying ratings placed the BJPFA's debt in the investment grade category. The significance of this rating means institutional investors could acquire the BJPFA's debt. Both rating agencies improved their assessment of the debt from the prior issue in 2001.

As part of issuing the bonds, the BJPFA through the City of Belmont has promised to make ongoing disclosures of financial and operating data to the investment community. Staff believes following the existing accounting practices should satisfy this requirement.

Copies of the Official Statement, describing the transaction to investors, are available for review in the Finance Director's Office.

The BJPFA will be confirming final accounting with trustees and will monitor project funding priorities as follow-up to the bond closing.

General Plan/Vision Statement

No impact.

Fiscal Impact

\$7.5 million in bonds were issued. \$7.48 million was raised for Sewer Revenue improvements. Average annual debt is approximately \$455,776, paid from annual assessment to taxpayers in City of Belmont.

Further financial details are available in the attachments.

Public Contact

Posting of City Council agenda.

Recommendation

Information item only. No action necessary.

Alternatives

1. Take no action.

Attachments

- A. Fieldman, Rolapp & Associates - Closing Memorandum.

Respectfully submitted,

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