

MINUTES
SPECIAL CITY COUNCIL MEETING
CITY COUNCIL OF THE CITY OF YUMA, ARIZONA
CITY COUNCIL CHAMBERS, YUMA CITY HALL
ONE CITY PLAZA, YUMA, ARIZONA
DECEMBER 7, 2020
5:30 p.m.

CALL TO ORDER

Mayor Nicholls called the Special City Council meeting to order at 5:33 p.m.

ROLL CALL

Councilmembers Present: Shelton, Morris, Watts, Knight, McClendon, Shoop, and Mayor Nicholls
Councilmembers Absent: None
Staffmembers Present: City Administrator, Philip A. Rodriguez
Various Department Heads or their representative
Deputy City Attorney, Rodney Short
City Clerk, Lynda L. Bushong

Mayor Nicholls called for a motion to recess to Executive Session for the purpose of getting advice from legal counsel.

Motion (Knight/Watts): To recess to Executive Session. Voice Vote: **approved** 7-0. Council recessed at 5:34 p.m.

City Council reconvened at 6:41 p.m. with all members listed above still present.

I. INTRODUCTION OF ORDINANCES

Ordinance O2020-027 – Issuance of Pledged Revenue and Revenue Refunding Obligations (to fund all or a portion of the City's liabilities to the Arizona Public Safety Personnel Retirement System (PSPRS) and pay off the higher interest rate (Series 2010) bonds)

Mayor Nicholls introduced **Mark Reader**, Managing Director, Stifel Nicolaus & Co Inc to talk about the proposed ordinance introduction.

Reader stated that his colleagues, **Omar Daghestani** and **Claude Lockhart, Jr.**, via telephone, would be joining him in the presentation to City Council. **Reader** began with an overview of the two transactions they are working on:

1. Refinance \$145 million PSPRS Tier 1 & Tier 2 Unfunded Pension Liability Accruing at 7.3% with a Taxable Interest Rate of approximately 2.90%:

- a. Eliminate annual increase in payments to PSPRS - \$8.8 million (2021/22) growing to \$28.4 million in 2037/38 [chopping down the mountain]
- b. Replace with level annual payments peaking around \$12 million creating budget stability
- c. Achieve estimated cash flow and net present value savings of approximately \$64 million
- d. Adopt contingency reserve fund policy for on-going liability management

2. Refinance \$12.5 million of Outstanding Series 2010B Tax-Exempt Bonds at 4.46% with a Tax-Exempt Interest Rate of approximately 1%:

- a. Achieve net present value savings of approximately \$1,000,000 or 8.7% savings threshold – very efficient (subject to change)

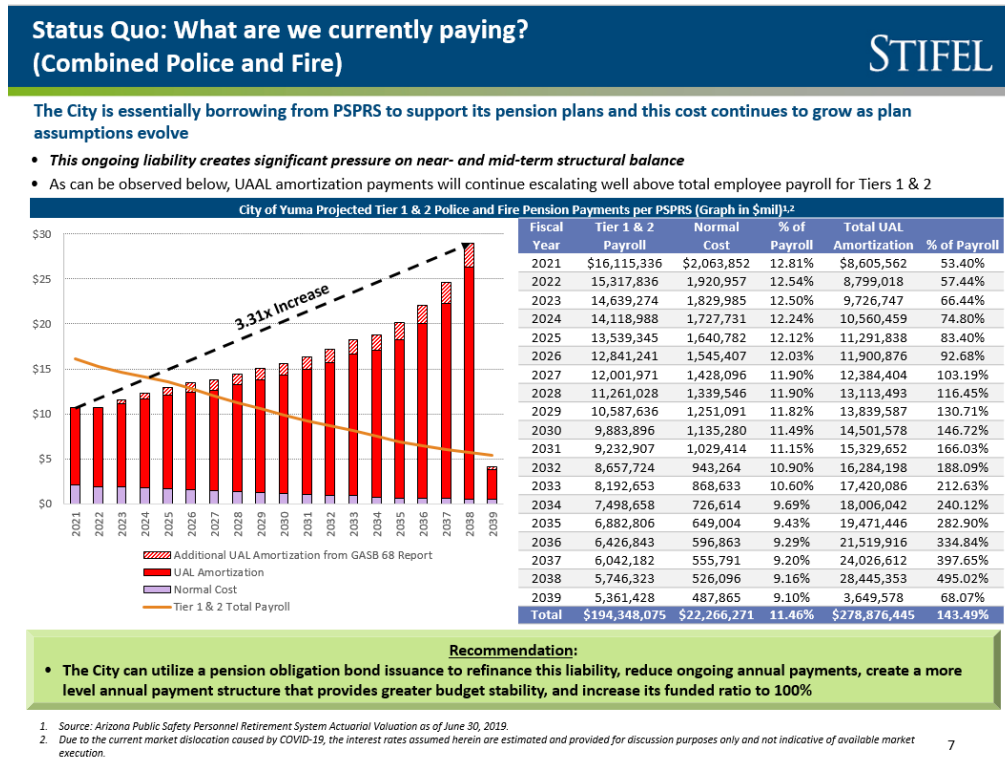
The Contingency Reserve Fund Policy will be coming forward for approval at the December 16th Regular Council meeting.

Regarding the budget and legal debt structure considerations, **Reader** reported that the budget capacity for fiscal year 2021 is approximately \$35 million which will be paid to PSPRS upon funding. The remaining \$110 million will be deposited with and held by the City until paid to PSPRS on or around July 1, 2021 at which time the City will be 100% funded. Due to budget law, a real property lease component will need to be added into the financing to allow for this scenario.

Budget and Legal Debt Structure Considerations

- a. Payment to PSPRS is considered an expenditure of funds
- b. City's budget capacity for fiscal year 2021 approximates \$35 million – such amount would be paid to PSPRS immediately upon funding
- c. Remaining amount of \$110 million would be held by the City until paid to PSPRS on or around July 1, 2021 (fiscal year 2022 when City has sufficient budget capacity)
- d. Because certain monies will be held until expended in the next fiscal year, the only legal option in this instance is to use lease-leaseback structure (leased property is not collateral for financing), similar to previous transactions the City has completed

Reader stated that the market is still very strong and is hopeful the market timing in January is good.



Daghestani reviewed the three financing options shown below:

Pension Option Menu

STIFEL

We see three primary options for the City to enter the municipal market expediently, though a later transaction date introduces market risk in the midst of a Presidential transition, roll out of COVID vaccines, stimulus talks, and more

➤ Based on recently-released information from PSPRS as of June 30, 2020, the estimated unfunded pension liability has grown by about \$5 million to \$145 million from \$140 million shown in prior materials

	Option 1: One Bond Issuance in January 2021 ¹	Option 2: Two Bond Issuances in January/June 2021 ¹	Option 3: One Bond Issuance in June 2021 ¹
Description	<ul style="list-style-type: none"> Issue \$145 million of bonds in January 2021 and immediately deposit \$35 million with PSPRS Deposit remaining \$110 million with PSPRS on July 1, 2021 (to conform with budget/expenditure laws) 	<ul style="list-style-type: none"> Issue \$35 million of bonds in January 2021 and immediately deposit with PSPRS In a second financing, issue \$110 million of bonds in June 2021 and deposit with PSPRS on July 1, 2021² 	<ul style="list-style-type: none"> Issue \$145 million of bonds in June 2021 and deposit \$145 million with PSPRS on July 1, 2021²
Expected NPV Benefit if:			
Rates Rise 0.50%	\$64,224,255	\$62,031,708	\$59,107,021
Rates Rise 0.75%		\$60,087,105	\$55,561,993
Rates Rise 1.00%		\$58,082,976	\$51,909,104
Pros	<ul style="list-style-type: none"> + Produces greatest expected benefit to the City + Avoids risk of borrowing rates rising in the first half of 2021 	<ul style="list-style-type: none"> + Avoids negative carry cost + Diversifies market risk with respect to asset investment at PSPRS 	<ul style="list-style-type: none"> + Avoids negative carry cost
Considerations	<ul style="list-style-type: none"> Negative carry of \$991,000³ Requires lease/lease-back construct 	<ul style="list-style-type: none"> Presents interest rate risk Two transactions would result in \$300,000 or more of added, duplicative issuance costs 	<ul style="list-style-type: none"> Presents interest rate risk Liability will grow to be higher by July 1, 2021 compared to Options 1 and 2

1. Market conditions as of December 3, 2020. Spreads based on comparable recent transactions. Stifel does not guarantee to underwrite at these levels.
2. Assumes interest rates rise by 0.50% to 1.00% between January and June 2021, impacting the June 2021 portion of the financing. Rates may change by more than, or less than, these examples.
3. Assumes assets earn 0.10% interest while held by the City compared to the estimated 2.85% yield on the bonds. Stifel is not providing investment advice.

Daghestani stated his professional recommendation is consideration of Option 1. **Knight** questioned and **Daghestani** concurred that the negative carry of \$991,000 has already been deducted from the \$64 million that the City will save.

Lockhart, Jr. spoke on the proposed Contingency Reserve Fund Policy (CRF Policy) and thanked Council for their feedback. Working with City staff the initial bond size will be \$12 million (approximately 9% of bond size / 5% of total pension liability) funded by bond proceeds. Also a plan was established to deposit \$500,000 to the CFRs in FY2022, FY2023 and FY2024 coming from the budget. A policy will come before City Council for their adoption at the December 16th Regular Council meeting. **Mayor Nicholls** would also like to see the numbers spread out over the five years getting to the same end result of \$1.5 million so City Council can see how that looks for the budget.

In conclusion, **Reader** presented the following calendar should the City Council elect to move forward this evening:

Date	Event
December 7 th	City Council First Read Approval
December 15 th /16 th	Credit Rating Agency meetings
December 16 th	City Council Second Read Approval / Adopt by resolution the Contingency Reserve Fund Policy / Budget Amendment
January 5 th	Preliminary Official Statement (Offering Document) Distributed to Investors
January 14 th	Bond Sale/Underwriting (Fixed interest rates locked)
February 25 th (on or around)	Closing. Funds wired to PSPRS and City

Mayor Nicholls thanked **Reader** and his colleagues along with City staff for their hard work to find an expeditious resolution to this issue.

With no further discussion **Bushong** displayed the following title:

Ordinance O2020-027

An Ordinance of the City Council of the City of Yuma, Arizona, (1) approving the sale and execution and delivery of pledged revenue and/or revenue refunding obligations, in one or more series, evidencing a proportionate interest of the owners thereof in a Lease-Purchase Agreement; (2) approving the form and authorizing the execution and delivery of necessary agreements, instruments and documents related to the sale and execution and delivery of such obligations; (3) adopting post-issuance tax and continuing disclosure compliance procedures in connection with issuance of obligations of the City; (4) delegating authority to the City Administrator and the Director of Financial Services of the City to Determine certain matters and terms with respect to the foregoing; (5) authorizing the taking of all other actions necessary to the consummation of the transactions contemplated by this ordinance; and (6) declaring an emergency (taking advantage of historically low

interest rates, proceeds of the obligations will be used to fund all or a portion of the City's liabilities to the Arizona Public Safety Personnel Retirement System (PSPRS) and pay off the higher interest rate (Series 2010) bonds used to refinance the long term debt associated with City Hall (approximately \$12,545,000 remaining)). (Finance)

II. EXECUTIVE SESSION

No additional Executive Session was held. The meeting adjourned at 6:51 p.m.

Lynda L. Bushong, City Clerk

APPROVED:

Douglas J. Nicholls, Mayor