

COUNCIL REPORT

For Meeting of July 11, 2016

MAYOR AND MEMBERS OF THE CITY COUNCIL

NO. 2016- 2034

SUBJECT:
HES Bond
Resolution

Subject

A resolution authorizing the issuance and negotiated sale of full faith and credit obligations to restructure HES's existing 2005 bond and finance \$4.5M construction work plan improvements.

Summary and Background

In May, Hermiston Energy Services presented information and asked for direction regarding refinancing options for HES's current 2005 bond, and options for paying for system upgrades included in the construction work plan.

With this in mind, HES has started the process of restructuring our existing bond that would provide approximately \$2.66M additional cost savings to HES in the 2005 restructured bond. Also, it's HES request to incorporate \$4.5M of construction work plan costs to the restructured bond that would be finalized in August of 2016.

HES has acquired the services of John Peterson (Piper Jaffray & Co.) as our Financial Advisor; Jim Shannon as our Special Counsel and Matt Donahue with D.A. Davidson & Co who will act underwriter for the issuance of the Series 2016 Obligations.

HES is recommending changing to a Full Faith and Credit model for the restructure that will be different from the existing Insurance based model that will also provide and additional savings of approximately \$1.136M in principal borrowing costs.

Recommendation

Staff recommends approval authorizing the issuance and negotiated sale of full faith and credit obligations to restructure HES's existing 2005 bond and finance \$4.5M construction work plan improvements to not exceed \$15,000,000.

Requested Action/Motion

Motion to approve Resolution 2016-2034 as drafted.



City Manager Approval



Hermiston Energy Services Superintendent Approval

City of Hermiston

RESOLUTION NO. 2034

A RESOLUTION AUTHORIZING THE ISSUANCE AND NEGOTIATED SALE OF FULL FAITH AND CREDIT OBLIGATIONS TO FINANCE IMPROVEMENTS TO THE CITY'S ELECTRIC SYSTEM AND TO REFUND THE CITY'S OUTSTANDING ELECTRIC SYSTEM REVENUE OBLIGATIONS, SERIES 2005; DESIGNATING AN AUTHORIZED REPRESENTATIVE, FINANCIAL ADVISOR, SPECIAL COUNSEL, AND UNDERWRITER; AUTHORIZING APPOINTMENT OF AN ESCROW AGENT AND THE EXECUTION AND DELIVERY OF A FINANCING AGREEMENT, ESCROW AGREEMENT AND ESCROW DEPOSIT AGREEMENT; AND RELATED MATTERS.

WHEREAS, the City of Hermiston, Umatilla County, Oregon (the "City") is authorized pursuant to the Constitution and laws of the State of Oregon, namely, Oregon Revised Statutes Sections 271.390, 287A.315 and 287A.360, to (1) enter into financing agreements to finance and refinance improvements to the facilities of the City, (2) pledge its full faith and credit and taxing power in connection with such financing agreements, and (3) pay the costs of issuance of such financing agreements; and

WHEREAS, it is in the best interest of the City to authorize the issuance and sale of not to exceed \$5,000,000 in aggregate principal amount of revenue obligations (the "New Money Obligations") to finance the acquisition, design, construction, installation and equipping of certain capital improvements to the Electric System and pay costs of issuance of the New Money Obligations; and

WHEREAS, on October 13, 2005 the City issued its Electric System Revenue Obligations, Series 2005 (the "Series 2005 Obligations") pursuant to Resolution No. 1769, adopted on September 12, 2005, in the aggregate principal amount of \$13,210,000 and the proceeds were used to currently refund the City's outstanding Variable Rate Demand Electric System Revenue Obligations, Series 2002A and to pay the costs of issuance of the Series 2005 Obligations; and

WHEREAS, the outstanding Series 2005 Obligations maturing on or after October 1, 2016 are subject to redemption at the option of the City on and after October 1, 2015; and

WHEREAS, the City finds that present value savings may be achieved by issuing refunding obligations (the "Refunding Obligations") for the purpose of refunding all or a portion of the City's outstanding Electric System Revenue Obligations, Series 2005 (the "Refunded Obligations"); and

WHEREAS, the proceeds of the Full Faith and Credit Obligations, Series 2016 (the "Series 2016 Obligations") will be for the purpose of providing funds sufficient to (1) finance improvements to the City's Electric System, (2) refund all or a portion of the Series 2005 Obligations, and (3) pay the costs of issuance of the Series 2016 Obligations (collectively, the "Project"). The Series 2016 Obligations will be issued as full faith and credit obligations of the City, payable from the designated funds available to make the Financing Payments and the general, non-restricted revenues of the City,

including taxes levied within the restrictions of Sections 11 and 11b, Article XI of the Constitution of the State of Oregon; and

WHEREAS, it is advantageous for the City to authorize and enter into a financing agreement to finance the Project. In addition, the City will enter into an escrow agreement which will authorize the escrow agent to issue full faith and credit obligations evidencing undivided proportionate interests in the amounts payable by the City under the financing agreement.

NOW, THEREFORE, BE IT RESOLVED BY THE COMMON COUNCIL OF THE CITY OF HERMISTON, UMATILLA COUNTY, OREGON AS FOLLOWS:

Section 1. Authorization. The Council hereby authorizes:

a. Issuance and Sale of Series 2016 Obligations.

(1) The City hereby authorizes the issuance in one or more series and negotiated sale of \$5,000,000 aggregate principal amount of New Money Obligations to finance improvements to the City's Electric System and pay costs of issuance of the New Money Obligations, as determined by the Authorized Representative.

(2) The City hereby authorizes the issuance in one or more series of Refunding Obligations in an amount sufficient to refund all or a portion of the Series 2005 Obligations and to pay the costs of issuance of the Refunding Obligations, as determined by the Authorized Representative.

(3) The Series 2016 Obligations shall be issued by the escrow agent, for and on behalf of the City, in an amount not greater than the amount necessary to (1) finance improvements to the City's Electric System in an amount not to exceed \$5,000,000, (2) refund all or a portion of the outstanding Series 2005 Obligations, and (3) pay costs of issuance of the Series 2016 Obligations. The Series 2016 Obligations shall be issued in denominations of \$5,000 each, or integral multiples, as negotiable full faith and credit obligations City and shall bear interest at a true effective rate that provides present value savings required by Oregon Administrative Rule 170-062-0000(3) for the Refunding Obligations. The Series 2016 Obligations may be issued as taxable or tax-exempt obligations and shall mature on a date set by the Authorized Representative, as defined below.

b. Financing Agreement. The City authorizes the execution and delivery of a financing agreement (the "Financing Agreement") to finance the Project, in a form satisfactory to the Authorized Representative, as defined below.

c. Escrow Agreement. The City authorizes the execution and delivery of an escrow agreement between the City and the escrow agent (the "Escrow Agreement"), in a form satisfactory to the Authorized Representative, pursuant to which the escrow agent shall execute the Series 2016 Obligations representing the principal amount payable under the

Financing Agreement, and evidencing the right of the escrow agent to receive the City's Financing Payments under the Financing Agreement.

Section 2. Financing Payments. The Financing Payments for the Series 2016 Obligations shall be payable from the designated funds which are available to make the Financing Payments and the general, non-restricted revenues of the City, including taxes levied within the restrictions of Sections 11 and 11b, Article XI of the Constitution of the State of Oregon. The obligation of the City to make Financing Payments shall be a full faith and credit obligation of the City, and is not subject to appropriation. The Registered Owners of the Series 2016 Obligations shall not have a lien or security interest on the property financed with the proceeds of the Series 2016 Obligations.

Section 3. Designation of Authorized Representative. The City hereby authorizes the City Manager, Finance Director or Mayor or any designee of the Council (the "Authorized Representative") to act as the authorized representative on behalf of the City and determine the remaining terms of the Series 2016 Obligations as delegated in Section 4 below.

Section 4. Delegation of Final Terms and Sale of Series 2016 Obligations and Additional Documents. The Authorized Representative is authorized, on behalf of the City, to:

- a. determine whether it is desirable to refinance all, a portion of, or none of the Series 2005 Obligations;
- b. approve of and authorize the distribution of the preliminary and final Official Statements to prospective purchasers of the Series 2016 Obligations;
- c. negotiate the terms under which the Series 2016 Obligations shall be sold, to enter into a Purchase Agreement for sale of the Series 2016 Obligations, and to execute and deliver the Purchase Agreement;
- d. establish the maturity and interest payment dates, dated date, principal amount, capitalized interest (if any), optional and/or mandatory redemption provisions, interest rates, denominations, serial and term maturities, and other terms under which the Series 2016 Obligations shall be issued, sold, executed, and delivered;
- e. negotiate the terms and approve of the Financing Agreement and the Escrow Agreement as the Authorized Representative determines to be in the best interest of the City, and to execute and deliver the Financing Agreement and the Escrow Agreement and appoint an escrow agent;
- f. determine which fund or funds are available to pay the Financing Payments;
- g. determine whether the Series 2016 Obligations shall be Book-Entry certificates and to take such actions as are necessary to qualify the Series 2016 Obligations for the Book-Entry System of DTC, including the execution of a Blanket Issuer Letter of Representations;

h. seek to obtain a rating on the Series 2016 Obligations, if determined by the Authorized Representative to be in the best interest of the City;

i. apply for municipal bond insurance for the Series 2016 Obligations, and expend proceeds to pay the insurance premium, if determined by the Authorized Representative to be in the best interest of the City;

j. approve, execute and deliver a Tax Certificate; and execute and deliver a Certificate specifying the action taken pursuant to this Resolution, and any other documents, agreements or certificates that the Authorized Representative determines are necessary and desirable to issue, sell and deliver the Series 2016 Obligations in accordance with this Resolution; and

k. approve, execute and deliver a continuing disclosure certificate pursuant to SEC Rule 15c2-12, as amended (17 CFR Part 240, § 240.15c2-12) for the Series 2016 Obligations.

Section 5. Maintenance of Tax-Exempt Status. The City hereby covenants for the benefit of the Owners of the Series 2016 Obligations to use the Series 2016 Obligation proceeds and the projects refinanced with Series 2016 Obligation proceeds in the manner required, and to otherwise comply with all provisions of the Internal Revenue Code of 1986, as amended (the “Code”), which are required so that interest paid on the Series 2016 Obligations will not be includable in gross income of the Owners of such Series 2016 Obligations for federal income tax purposes. The City makes the following specific covenants with respect to the Code:

a. The City will not take any action or omit any action if it would cause the Financing Agreement or Series 2016 Obligations to become arbitrage bonds under Section 148 of the Code.

b. The City shall operate the projects refinanced with the Series 2016 Obligations so that the Series 2016 Obligations do not become “private activity bonds” within the meaning of Section 141 of the Code.

c. The City shall comply with appropriate Code reporting requirements.

d. The City shall pay, when due, all rebates and penalties with respect to the Series 2016 Obligations which are required by Section 148(f) of the Code.

The covenants contained in this Section 5 and any covenants in the closing documents for the Series 2016 Obligations shall constitute contracts with the owners of the Series 2016 Obligations, and shall be enforceable by them. The Authorized Representative may enter into covenants on behalf of the City to protect the tax-exempt status of the Financing Agreement and the Series 2016 Obligations.

Section 6. Appointment of Escrow Agent. The Authorized Representative is authorized to appoint an Escrow Agent for the issuance of the Series 2016 Obligations and to administer the Escrow Deposit Fund.

Section 7. Escrow Deposit Agreement and Escrow Agent. The City shall enter into an Escrow Deposit Agreement for the establishment of an Escrow Deposit Fund to which shall be deposited sufficient proceeds from the Series 2016 Obligations to acquire Government Obligations to provide funds sufficient to pay the principal of and interest on the Refunded Obligations to the date of redemption. The Authorized Representative is authorized to execute the Escrow Deposit Agreement for and on behalf of the City.

Section 8. Call and Redemption of Refunded Obligations.

The Refunded Obligations maturing on and after October 1, 2016, are first subject to optional call and redemption on October 1, 2015, at par value, plus accrued interest, if any, to the date of redemption. The City does call for redemption at par value the principal of the Refunded Obligations. The call and redemption of the Refunded Obligations is subject to the sale and delivery of the Series 2016 Obligations.

Section 9. Effect of Refunding on Refunded Obligations. The City determines that, upon deposit into the Escrow Deposit Fund of Government Obligations in an amount calculated to be sufficient to pay the principal of and interest on the Refunded Obligations, such deposit shall fully defease the Refunded Obligations.

Section 10. Appointment of Special Counsel. The City appoints Mersereau Shannon LLP as special counsel to the City for the issuance of the Series 2016 Obligations.

Section 11. Appointment of Financial Advisor. The City appoints Piper Jaffray & Co. to serve as financial advisor to the City in connection with the issuance of the Series 2016 Obligations.

Section 12. Appointment of Underwriter. The City appoints D.A. Davidson & Co. as the underwriter for the issuance of the Series 2016 Obligations.

Section 13. Continuing Disclosure. The City covenants and agrees to comply with and carry out all of the provisions of the Continuing Disclosure Agreement to be negotiated with the underwriter. Notwithstanding any other provision of this Resolution, failure by the City to comply with the Continuing Disclosure Agreement will not constitute an event of default; however, any Registered Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Section and the Continuing Disclosure Certificate.

Section 14. Preliminary and Final Official Statement. The City shall prepare or cause to be prepared a preliminary official statement for the Series 2016 Obligations which shall be available for distribution to prospective purchasers. In addition, an official statement shall be prepared and ready for delivery to the purchasers of the Series 2016 Obligations no later than the seventh (7th)

business day after the sale of the Series 2016 Obligations. When the City determines that the final official statement does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements contained in the official statement not misleading in the light of the circumstances under which they are made, the Authorized Representative is authorized to certify the accuracy of the official statement on behalf of the City.

Section 15. Closing of the Sale and Delivery of the Series 2016 Obligations. The Authorized Representative is authorized to negotiate with the Underwriter as to the terms and conditions of a Purchase Agreement providing for the private negotiated sale of the Series 2016 Obligations. The Authorized Representative is authorized to execute the Purchase Agreement for and on behalf of the City and to execute such additional documents, including a Tax Certificate, and to perform any and all other things or acts necessary for the sale and delivery of the Series 2016 Obligations and redemption of the Refunded Obligations as herein authorized. Such acts of the Authorized Representative are for and on behalf of and are authorized by the Council of the City.

Section 16. Resolution to Constitute Contract. In consideration of the purchase and acceptance of any or all of the Series 2016 Obligations by those who shall own the same from time to time (the "Owners"), the provisions of this Resolution shall be part of the contract of the City with the Owners and shall be deemed to be and shall constitute a contract between the City and the Owners. The covenants, pledges, representations and warranties contained in this Resolution or in the closing documents executed in connection with the Series 2016 Obligations, including without limitation the City's covenants and pledges contained in Section 2 hereof, and the other covenants and agreements herein set forth to be performed by or on behalf of the City shall be contracts for the equal benefit, protection and security of the Owners, all of which shall be of equal rank without preference, priority or distinction of any of such Series 2016 Obligations over any other thereof, except as expressly provided in or pursuant to this Resolution.

Section 17. Effective Date. This resolution takes effect upon adoption by the City Council.

PASSED by the Council of the City of Hermiston this 11th day of July, 2016.

**CITY OF HERMISTON
UMATILLA COUNTY, OREGON**

By _____
Mayor

ATTEST:

By _____
City Recorder

City of Hermiston, Oregon
 Full Faith and Credit Obligations, Series 2016
 Preliminary Financing Statistics
 2005 Electric Revs Refunding and \$4.5MM New Money
 Indicative Rates as of 7/6/2016

Bond Statistics	
Total Par Amount	\$14,245,000
Dated Date	9/6/2016
Arbitrage Yield	2.668%
All-In True Interest Cost	2.880%
Average Annual Debt Service	\$1,028,549
Maximum Annual Debt Service	\$1,032,313
New Call Date	10/1/2026
Present Value of 1 Basis Point	\$11,239
Costs of Issuance*	\$114,725

* All costs of refinancing are assumed paid from proceeds of the new bond sale.

Refunding Statistics	
Net Present Value Savings (\$)	\$1,832,733
Net Present Value Savings (%)	16.444%
Total Cash Flow Savings	\$2,566,781
Average Annual Savings (rounded)	\$151,000
Average Life of Refunded Bonds	10.1 years
Average Life of Refunding Bonds	9.0 years
Negative Arbitrage	n/a - current refunding

Fiscal Year	Principal	Interest	Annual Total
6/30/2017	\$0	\$311,479	\$311,479
6/30/2018	\$485,000	\$539,713	\$1,024,713
6/30/2019	\$505,000	\$524,863	\$1,029,863
6/30/2020	\$520,000	\$509,488	\$1,029,488
6/30/2021	\$535,000	\$493,663	\$1,028,663
6/30/2022	\$555,000	\$477,313	\$1,032,313
6/30/2023	\$570,000	\$460,438	\$1,030,438
6/30/2024	\$590,000	\$440,088	\$1,030,088
6/30/2025	\$610,000	\$416,088	\$1,026,088
6/30/2026	\$635,000	\$391,188	\$1,026,188
6/30/2027	\$665,000	\$365,188	\$1,030,188
6/30/2028	\$695,000	\$334,513	\$1,029,513
6/30/2029	\$730,000	\$298,888	\$1,028,888
6/30/2030	\$765,000	\$261,513	\$1,026,513
6/30/2031	\$805,000	\$222,263	\$1,027,263
6/30/2032	\$850,000	\$180,888	\$1,030,888
6/30/2033	\$885,000	\$144,703	\$1,029,703
6/30/2034	\$910,000	\$114,413	\$1,024,413
6/30/2035	\$945,000	\$83,109	\$1,028,109
6/30/2036	\$980,000	\$50,625	\$1,030,625
6/30/2037	\$1,010,000	\$17,044	\$1,027,044
Total	\$14,245,000	\$6,637,460	\$20,882,460

Unless otherwise agreed to, the primary role of Davidson, as an underwriter/placement agent, is to purchase securities for resale to investors, in an arm's-length commercial transaction between the Issuer and Davidson or to arrange for placement of securities with an investor. As underwriter/placement agent Davidson is not acting as a fiduciary to the Issuer and Davidson has financial and other interests that may differ from those of the Issuer.