



Council Workshop

Excise Tax Refunding & Cash Defeasance

September 12, 2023



Capital
Markets





Senior Lien Excise Tax Obligations Series 2023

- The City is refunding the outstanding Excise Tax Series 2012B and Series 2012C Obligations (Bonds)
 - Currently estimated to save \$11.8 million through this refinancing
- In conjunction with RBC Capital Markets, staff identified an additional opportunity to lower its debt service payments on its outstanding Excise Tax debt portfolio via defeasance of existing higher interest rate bonds that are replaced with a new money issuance at lower rates



Cash Optimization Refunding Opportunity

- The proposed financing plan entails:
 - Optimizing use of a portion of the City's unrestricted cash on hand budgeted for pay-as-you-go capital projects, by applying the cash to defease, or pay off, certain higher interest rate Excise Tax Bonds of the City
 - Immediately replace the cash used by issuing new debt for the capital projects at a lower interest rate
 - By replacing higher interest debt with lower interest debt, the proposed financing plan generates debt service savings for the City
 - Combining the proposed financing with the approved refunding of the City's Excise Tax Bonds further enhances the savings due to economies of scale



Cash Optimization Refunding Opportunity Overview

- To accomplish the proposed financing plan requires adoption of an Ordinance by the Council that:
 - Authorizes using cash to pay off and defease existing Excise Tax Bonds
 - Authorizes the issuance of new money Excise Tax Bonds in an amount sufficient to replace the cash used for defeasance and pay costs of issuance



Cash Optimization Refunding Opportunity Overview- Continued

- The following Excise Tax Bonds are viable for this plan:
 - \$51.7 million of principal and interest payments on the outstanding Series 2015A bonds that mature from July 1, 2026 through July 1, 2031 – callable on July 1, 2025; and
 - \$26.3 million of principal and interest payments on the outstanding Series 2016 bonds that mature from July 1, 2027 through July 1, 2033 – callable on July 1, 2026
 - An estimated \$61.3 million is required to pay off \$78.0 million of future principal and interest payments on both series of bonds
- The proposed Ordinance will permit the cash defeasance and issuance of new bonds for capital projects to occur in one or more transactions to allow the City to maximize debt service savings based on market conditions



Estimated Savings to be Achieved

- Series 2015A and Series 2016 bonds carry average interest rates of 5.00% and 3.84%, respectively
 - Replaced by bonds at a true interest cost of 3.45%, based on current market condition
- At these estimated levels, the City would be saving approximately:
 - \$2.7 million through July 1, 2031 (which equates to approximately \$2.4 million on a present, or current, value basis) relating to the Series 2015A Obligations; and
 - \$1.2 million through July 1, 2033 (which equates to approximately \$0.9 million on a present, or current, value basis) relating to the Series 2016 Obligations
- The actual savings achieved will be a function of the interest rates achieved on the new Series 2023 bonds
- Given current market conditions, the expectation is to move forward with the Series 2016 Obligations while waiting on the Series 2015 Obligations for possibly higher savings



Planned Series 2023 Issuance

- The Series 2023 Obligations will be issued as Senior Lien Excise Tax Obligations to replace the Senior Lien Excise Tax Series 2015A and Series 2016 Obligations being paid off
 - The Series 2023 Obligations issued will have the same maturity length as the Obligations being paid off
 - The expectation is that the Series 2023 Obligations will carry ratings of “AA+” by Standard & Poor’s and “AA” by Fitch Ratings, consistent with existing rating levels
 - These are very high ratings (at the 2nd and 3rd highest rating levels possible) reflecting the strong credit profile of the City of Glendale
- The Obligations are expected to be sold to investors in the public tax-exempt market by RBC Capital Markets in mid- to late-October, depending on market conditions, with closing occurring approximately two weeks after pricing



Next Steps

- If there is consensus to proceed with the transaction we will return to council on September 26th for adoption of an Ordinance authorizing the use of cash to defease existing excise tax bonds and authorize the issuance of new money excise tax bonds.