



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: David Sykes
Nora Frimann

SUBJECT: SEE BELOW

DATE: December 18, 2020

SUBJECT: MUNICIPAL ADVISOR CONSULTANT AGREEMENT WITH PFM FINANCIAL ADVISORS LLC. AND PUBLIC RESOURCES ADVISORY GROUP INC.; BOND COUNSEL AGREEMENT WITH ORRICK HERRINGTON & SUTCLIFFE, FOR THE REFUNDING OF CERTAIN AIRPORT REVENUE BONDS

RECOMMENDATION

Adoption of a resolution:

- (a) Authorizing the City Manager or Director of Finance to negotiate and execute an agreement in an amount not to exceed \$350,000 with PFM Financial Advisors LLC and Public Resources Advisory Group, Inc., for municipal advisor services in connection with the refunding of certain Airport Revenue Bonds with fees to be paid from the cost of issuance of the refunding bonds contingent upon the successful completion of the sale of the bonds; and
- (b) Authorizing the City Attorney to negotiate and execute an agreement with Orrick, Herrington & Sutcliff, LLP for Bond Counsel and Disclosure Counsel services in connection with the refunding of certain Airport Revenue Bonds, in an amount not to exceed \$380,000, to be paid from the cost of issuance of the refunding bonds contingent upon the successful sale of the bonds

OUTCOME

Adoption of a resolution authorizing the execution of the agreements for municipal advisor services and for bond and disclosure counsel services will enable the City to obtain the necessary professional consultant services with respect to the proposed issuance, sale, and delivery of the Airport Refunding Bonds.

BACKGROUND

The City desires to pursue economic refunding and potential restructurings of certain Airport Revenue Bonds, specifically the Series 2011A-1 (AMT) and Series 2011A-2 (non-AMT) (collectively, the “2011A Bonds”), and the outstanding Airport Revenue Bonds, Series 2011B (Taxable) (the “2011B Bonds” and together with the 2011A Bonds, the “2011 Bonds”) with the issuance of 2021 bonds (the “2021 Bonds”). The City is also contemplating other refunding bond candidates that also provide economic savings and/or restructuring. This refunding is expected to produce debt service savings and near-term savings relief to assist the Airport in mitigating the cost impacts of the COVID-19 pandemic and associated impacts to aviation at the Airport and nationwide. The sale of the 2021 Bonds is estimated to close prior to May 1, 2021; however, the sale date is a preliminary estimate, subject to change.

ANALYSIS

The City is contemplating refunding the outstanding Airport Revenue Bonds, Series 2011A-1 (AMT) and Series 2011A-2 (non-AMT) (collectively, the “2011A Bonds”), and the outstanding Airport Revenue Bonds, Series 2011B (Taxable) (the “2011B Bonds” and together with the 2011A Bonds, the “2011 Bonds”), which are callable on March 1, 2021, with the issuance of 2021 Bonds (the “2021 Bonds”) pursuant to the Master Trust Agreement between the City and Bank of New York Mellon Trust Company, N.A. as trustee, dated as of July 1, 2001, as amended and supplemented (the “Master Trust”). Along with the 2011 Bonds, the Airport and Finance Departments are also considering other refunding candidates among bonds issued in 2014 and 2017 to achieve near term relief for the Airport due to the impact of COVID-19 on airline travel and Airport revenues.

Municipal Advisory Services

In March 2017, the Finance Department conducted a RFP process for municipal advisory services for multiple engagements that included City General Municipal Advisor, Airport Municipal Advisor, and Wastewater Facilities Municipal Advisor. Municipal advisory pools were formed to serve the following areas: general city, land-secured; multifamily housing and Successor Agency to the Redevelopment Agency (“SARA”). Municipal Advisors selected through that competitive process will remain in the respective pools through June 30, 2022. For the Airport Municipal Advisor engagement, both PFM Financial Advisors LLC (“PFM”) and Public Resources Advisory Group, Inc. (“PRAG”) were selected as co-municipal advisors. Both PFM and PRAG have extensive experience working on Airport financial matters and have acted as municipal advisors on previous San Jose Airport bond transactions. Retention of these firms provides a level of continuity that is needed for this transaction given the complexity of the Airport’s debt portfolio. Council approval is needed because the municipal advisor agreement exceeds the City Manager’s contract approval authority of \$320,000.

The maximum amount of compensation to be paid to Consultants for municipal advisor services under this Agreement, including both payment for professional services and reimbursable expenses (collectively, "Compensation"), shall not exceed Three Hundred Fifty Thousand Dollars (\$350,000.00), inclusive of all expenses, for the 2021 Bonds, to be shared equally between PFM and PRAG. The compensation to PFM and PRAG is contingent on the sale of the 2021 Bonds and paid from bond proceeds.

Bond and Disclosure Counsel Services

A pool of qualified bond counsel and disclosure counsel was established by the City Attorney's Office following a request for qualification process in 2015. From this pool, the City Attorney's Office has selected Orrick, Herrington & Sutcliff, LLP ("Orrick") as bond counsel and disclosure counsel and Jones Hall, a Professional Law Corporation ("Jones Hall") as pension disclosure counsel in connection with the Series 2021 Bonds. With respect to disclosure services, Orrick will prepare the Official Statement, except for information related to the City's retirement plans, which will be prepared by Jones Hall. This arrangement was utilized in 2017 when the City issued the 2017 Airport Revenue Bonds.

Orrick has previously provided bond counsel and disclosure counsel services related to the City's issuance of Airport debt, including the bonds to be refunded. Accordingly, the firm is familiar with the structure of the City's Airport debt portfolio as well as other issues related to the City's issuance of Airport revenue bonds.

Jones Hall has previously served as bond counsel and disclosure counsel for the issuance of the City's general obligation bonds and the City of San José Financing Authority lease revenue bonds and is familiar with disclosure issues concerning the City's retirement plans. The compensation to be paid to Jones Hall is within the City Attorney's contract authority.

The compensation payable to both firms is contingent on the sale of the 2021 Bonds and is to be paid from bond proceeds.

CONCLUSION

Staff believes the selected firms have the necessary expertise and experience to perform the work and staff recommends that the City Council authorize the negotiation and execution of the agreements with these firms as outlined in this memorandum.

EVALUATION AND FOLLOW-UP

This memorandum presents a recommendation for the City Council's approval of various professional service agreements related to the issuance of the 2021 Bonds and requires no follow-up to the City Council. Staff will be bringing forward authorization of the 2021 Bonds

(Airport Revenue Refunding Bonds) at a later date (currently scheduled for March 2021) for Council approval with an anticipated closing in April 2021.

CLIMATE SMART SAN JOSE

The recommendation in this memo has no effect on Climate Smart San José energy, water, or mobility goals.

PUBLIC OUTREACH

This memorandum will be posted on the City's website for the January 12, 2021 Council Meeting Agenda.

COORDINATION

The Finance Department has prepared this memorandum in coordination with the City Attorney's Office, City Manager's Budget Office and the Airport Department.

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

FISCAL/POLICY ALIGNMENT

The proposed financing plan is consistent with the City's Debt Management Policy which establishes objectives in order to obtain cost-effective access to the capital markets, which includes minimizing debt service and issuance costs (including producing estimated net present value savings that are greater than 3% of the refunded debt); achieving a desired debt service profile; maintaining access to cost-effective borrowing; and ensuring compliance with applicable State and federal laws.

COST SUMMARY/IMPLICATIONS

This refunding referenced in this memorandum is expected to produce debt service savings and near-term savings relief to assist the Airport in mitigating the cost impacts of the COVID-19 pandemic and associated impacts to aviation at the Airport and nationwide. The estimated

HONORABLE MAYOR AND CITY COUNCIL

December 18, 2020

Subject: Municipal Advisor Agreement with PFM and PRAG; and Bond Counsel Agreement with Orrick, Herrington & Sutcliff, LLP for certain Airport Refunding Bonds

Page 5

savings level will be provided when staff brings forward the refunding for City Council approval, which is scheduled for March 2021.

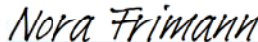
Professional services (bond counsel fees, disclosure counsel fees, financial advisor fees, rating agency fees and other professionals) will be paid from cost of issuance proceeds from the issuance of the Series 2021 Bonds.

CEQA

CEQA: Not a Project, File No. PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment.



DAVID SYKES
City Manager



Nora Frimann (Jan 5, 2021 10:56 PST)

NORA FRIMANN
City Attorney

For questions, please contact Nikolai J. Sklaroff, Deputy Director, Debt & Treasury Management, (408) 535-7832 or Karin Murabito, Senior Deputy City Attorney, (408) 535-1928.