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## Orinda Authorizes Multimillion-Dollar Measure J Bond Sale

By Laurie Snyder



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usually "a notch higher" than the seller's lease rating by Standard & Poor's (which rates the city of Orinda at AA+), he said he expected that Orinda's Measure J bonds would be rated AAA. (Mayor Steve Glazer later confirmed the AAA rating via Twitter March 7.)

The finance term will be 20 years. Calling it "analogous to a home loan," Cervantes said the difference is that "every single year there's a principal amount that comes due, which is its own bond. ... You could look at this as a home loan, but with every single year having a different interest rate." Bonds will be sold annually because some individual investors or their money managers will want shorter maturities while others want longer terms.

The hitch is that the interest rates may be too low for some. "You go out almost four to five years before we hit 1 percent in expected yield. ... We go out maybe nine to 10 years before we hit 2 percent. ... The further out you go in time, the higher the rates - but even acknowledging that, the highest rates we see are probably in the low- to mid-threes." Conversely, the financing will cost around 3 percent.

Orinda's bond team has already completed and sent to the council and Standard & Poor's a "substantially final form" of the sale's official statement. The underwriter will project rates for the finance team one March afternoon after market closure; the next day, Orinda will obtain an interest rate lock, brokers will huddle with investors, and the bonds will be underwritten. "We may not have all of them sold, but if we think we have the right set of interest rates, we'll make that commitment," Cervantes said. Roughly two weeks later, the bond issue will close, and the city will bank the proceeds.

During council's deliberation, Council Member Eve Phillips clarified the annual financing rate and also asked if it might benefit the city to sell the remaining \$10 million in Measure J bonds now rather than later. Consultants said that while the finance cost changes would be minimal, selling the full \$20 million would be a disadvantage. "Federal tax law requires that you reasonably expect to spend at least 85 percent of the proceeds within three years," explained Orrick's John Knox. "That means you have to have projects that are ready; you have to have a reasonable basis to show that you could spend the money that quickly. You also would lose money. ... Your reinvestment is going to be in the sub-1 percent range, but you're going to be paying 3 percent for the money."

In response to Glazer's question about original bond parameters, Cervantes said the plan is

Orinda's infrastructure overhaul is officially underway. Since voters authorized the city to finance repairs to aging roads and drains by issuing \$20 million in Measure J General Obligation (GO) Bonds, Orinda's city council has inked contracts with counsel Orrick, Herrington, and Sutcliffe and underwriter Stifel, Nicolaus & Company (Sept. 2, 2014), approved the Citizens' Infrastructure Oversight Commission 2015 road repair list (Nov. 5, 2014), awarded CSG Consultants Inc. the engineering design contract (Nov. 18, 2014), and cleared the city to reimburse itself for pre-bond issuance expenses (Jan. 13, 2015).

On Feb. 17, council heard from staff, counsel and underwriter regarding how Orinda should conduct its bond sale. Stifel's managing director, Jim Cervantes, stated that the market has moved in Orinda's favor. Because GO bond ratings are

consistent with the tax levy amount of \$13 per \$100 initially quoted to voters, and then gave the good news that the end tax rate will likely be lower since Orinda's assessed value is now higher.

After all questions were answered, Council Member Dean Orr moved to adopt Resolution 10-15, authorizing the city to release the GO bonds by negotiated sale in an amount not to exceed \$10 million, approve sale related documents, and authorize the city to take the necessary related actions. Phillips seconded; council approved 3-0 (Smith and Worth excused).

The remaining \$10 million in Measure J bonds will likely be released for sale in March 2017.

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