



## Legislation Text

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**File #:** 17-315, **Version:** 1

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### **AUTHORIZATION TO ENTER INTO A LINKING AGREEMENT WITH RBC CAPITAL MARKETS, LLC FOR FINANCIAL ADVISORY SERVICES**

Staff Contact: Vicki Rios, Director, Budget and Finance

#### **Purpose and Recommended Action**

This is a request for the City Council to authorize the City Manager to enter into a linking agreement with RBC Capital Markets, LLC (RBC) for financial advisory services, retroactively to September 11, 2015 and through September 10, 2017. This is also a request for the City Council to authorize the City Manager, at their discretion, to extend the agreement for up to two (2) additional years, in one-year increments, through September 10, 2019. This cooperative purchase is available through an agreement between the State of Arizona and RBC (Contract No. ADSP014-080039).

#### **Background**

The City of Glendale has approximately \$872 million in outstanding debt. The City has historically relied on issuing debt as an effective means to finance capital projects with long useful lives. Bond/debt refunding is also critical to ensure the City can take advantage of the bond market interest rates to minimize debt services costs. Currently, the City has different types of bonds outstanding as summarized below:

- General Obligation (GO) Bonds
- Water/Sewer Revenue Obligations
- Highway User Revenue Fund (HURF) Revenue Obligations
- Transportation Excise Tax Revenue Obligations
- Municipal Property Corporation Excise Tax Revenue Bonds
- Excise Tax Revenue Obligations

State and local governments engage municipal financial advisors (FA's) to assist in the structuring and issuance of bonds and other debt obligations. An FA represents the issuer (the City) in the sale of bonds, and unlike other professionals involved in a bond sale, has an explicit fiduciary duty to the City.

The Government Finance Officers Association (GFOA) recommends that issuers hire financial advisors prior to the undertaking of a debt financing unless the issuer has sufficient in-house expertise and access to current bond market information. In doing so, issuers should assure themselves that the selected financial advisor has the necessary expertise to assist the issuer in determining the best type of financing for the government, selecting other finance professionals, planning the bond sale, and successfully selling and closing the bonds. Therefore, it is important that the City obtain FA services from a firm with significant experience and expertise as a financial advisor, and particularly one with strong Arizona municipal finance experience. While financial advisors play a key role on the financing team, it is important to note that the City remains in control of the

decision-making processes necessary for the issuance and sale of the bonds or implementing the financing. It is also important to note that the financial advisor's fees are one of the factors considered when calculating the cost of potential new debt or the savings realized on a potential refunding transaction.

### **Analysis**

On September 11, 2014, the State of Arizona Department of Administration, State Procurement Office awarded financial advisor services to nine qualified respondents to a Request for Proposal (RFP). Contained in this RFP was the ability for the contract to be used by State Purchasing Cooperative members. The City is a member of the State Purchasing Cooperative.

Cooperative purchasing allows counties, municipalities, schools, colleges and universities in Arizona to use a contract that was competitively procured by another governmental entity or purchasing cooperative. Such purchasing helps reduce the cost of procurement, allows access to a multitude of competitively bid contracts, and provides the opportunity to take advantage of volume pricing. The Glendale City Code authorizes cooperative purchases when the solicitation process utilized complies with the intent of Glendale's procurement processes. This cooperative purchase is compliant with Chapter 2, Article V, Division 2, Section 2 -149 of the Glendale City Code, per review by Materials Management.

After conducting procurement interviews among the more qualified of the nine firms in the State purchasing pool, the City previously recommended a linking agreement with RBC Capital Markets, LLC. The evaluation panel recommended RBC due to their demonstrated expertise as a leading financial advisory firm both nationally and in Arizona. In Arizona, RBC's municipal finance experience includes working with cities such as Phoenix, Tucson, Chandler, Tempe, Mesa, and Scottsdale. Other government experience includes the Arizona Department of Administration, Arizona Department of Transportation, Arizona State University, University of Arizona, and Maricopa County. Based on this selection, the City entered into a linking agreement with RBC to provide financial advisory services in September of 2014 and has continued to work with RBC since that time.

Under the State purchasing cooperative, the ability to work with RBC can continue until September 2019. In recently reviewing the cooperative agreement, it has become apparent that the linking agreement should reference each additional one-year period that the City is contracting with RBC. For this reason, the linking agreement with RBC is retroactive to September 11, 2015 which was the end of the initial one-year period. The retroactive date is necessary because the initial linking agreement technically expired on September 10, 2015, even though RBC provided financial advisory services to the city at its request for several debt refinancing transactions during the ensuing period. The city refunded a total of \$361.2 million in bonds in February and March of 2015. This resulted in \$48.1 million in net present value savings over the life of the bonds. The city also refunded \$35 million in bonds in April of 2016 which resulted in \$4.3 million in net present value savings over the life of the bonds.

Based on an analysis by RBC, the city is in the process of refinancing a portion of City of Glendale, Arizona Transportation Excise Tax Revenue Obligations with the sale and issuance of City of Glendale, Arizona Transportation Excise Tax Revenue Refunding Obligations. The net present value of the debt service savings on this transaction are expected to be over \$1.7 million. The city is also in the process of refinancing a portion of City of Glendale, Arizona Municipal Property Excise Tax Revenue Bonds with the sale and issuance of City of Glendale, Arizona Subordinate Excise Tax Revenue Refunding Obligations. The net present value of the debt

service savings on this transaction are expected to be between \$9.0 million to \$9.4 million.

**Previous Related Council Action**

On October 14, 2014, Council approved a linking agreement with RBC Capital Markets, LLC.

**Community Benefit/Public Involvement**

Bond issuance and refinancing transactions directly impact the cost of borrowing (debt service) of the City. Financial advisors have a fiduciary responsibility to the City and are critical in structuring transactions that minimize costs, create financial flexibility, and address financial challenges a City may face.

**Budget and Financial Impacts**

Payments to RBC Capital Markets, LLC typically become part of the issuance costs paid from the proceeds of the bond issue. The amount of payment depends upon the total debt being issued or restructured and follows the per bond pricing structure in the agreement. Hourly pricing has also been provided for services not related to debt issuance; however, these types of payments are atypical for this type of agreement. For any financial advisory services payment, there must be adequate budget capacity to absorb these fees.

<b>Cost</b>	<b>Fund-Department-Account</b>
<b>Varies based on the amount of debt issued or refunded</b>	<b>Varies and depends on the type of debt issued or refunded</b>

Capital Expense? No

Budgeted? Yes

Requesting Budget or Appropriation Transfer? No

If yes, where will the transfer be taken from?