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CITY COUNCIL INFORMATIONAL MEMORANDUM

Date: January 17, 2025

To: Cupertino City Council

From: Kristina Alfaro, Director of Administrative Services

Re: Overview of the 2020 Refinancing of Certificates of Participation

Background

In 2020, the City of Cupertino refinanced its 2012 Certificates of Participation (COP) by issuing the 2020A Certificates of Participation. This refinancing was undertaken to reduce the City's borrowing costs and annual debt payments while keeping the repayment schedule unchanged.

This memo provides an overview of the refinancing, explains the differences between True Interest Cost (TIC) and coupon rates, and highlights the cost savings achieved, including how bond premiums played a role in these savings as requested by Councilmembers (Corporation members) Chao and Moore during the Cupertino Public Facilities Corporation (CPFC) Meeting in November 2024.

True Interest Cost (TIC) vs. Coupon Rate

When evaluating bonds, it is important to understand two key terms:

Coupon Rate: This is the interest rate the City pays to bondholders based on the bond's face value. It determines the regular payments bondholders receive.

True Interest Cost (TIC): This is a comprehensive measure of borrowing costs. It includes not just the coupon payments but also any premiums or discounts and the timing of those payments. The TIC provides a more accurate picture of the overall cost of the debt.

Role of the Premium

One key factor contributing to the savings is the bond premium. A premium occurs when bondholders pay more upfront than the face value of the bonds in exchange for a higher coupon rate, which ensures they receive their desired returns.

Savings from 2020 Refinancing

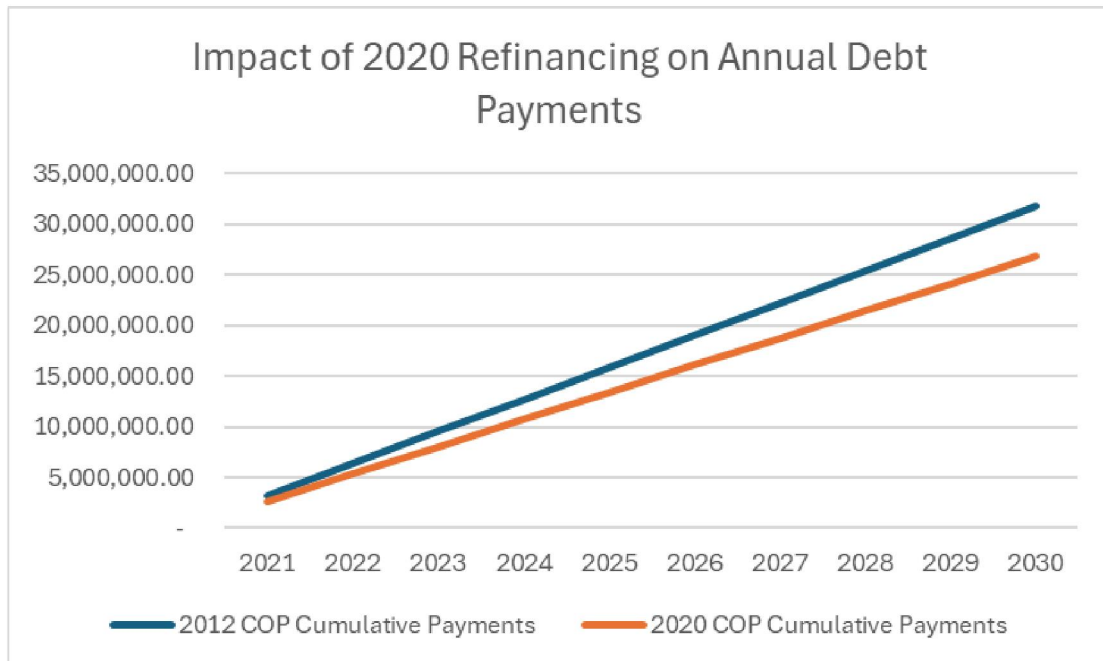
In the 2020 refinancing, bondholders paid more for the 2020 COP, enabling the City to reduce its borrowing costs while still offering attractive terms to investors. The premium provided immediate financial resources that were applied to reduce the overall debt burden, leading to the lower annual payments reflected in the 2020 schedule.

Although the coupon rate increased from 3.000% to 3.125% in 2012 to an averaged 4.000% in 2020, comparing these rates directly can be misleading. The higher coupon rate in 2020 was offset by a significant premium paid by bondholders. This premium reduced the City's net borrowing costs, as reflected in the lower TIC of 0.72% for the 2020 refinancing compared to 2.80% for the 2012 COP.

The refinancing reduced annual debt service payments from approximately \$3.17 million to \$2.67 million, resulting in an estimated savings of \$5 million over the 10-year repayment period.

Visualizing the Savings

The chart below compares the overall payments for the 2012 COP and the 2020 COP over the 10-year period. It highlights the consistent reduction in annual payments due to the refinancing and the role of the premium in achieving these savings:



This chart illustrates the annual debt service payments for the 2012 COP and the 2020 COP. The difference between the two schedules is largely due to the premium paid by bondholders for the 2020 refinancing, which helped reduce the City's overall costs.

Benefits of the Refinancing

The 2020 refinancing demonstrates the City's commitment to prudent financial management. By leveraging favorable market conditions and effectively utilizing bond premiums, the City achieved significant savings while maintaining the original repayment schedule.

Summary of Refinancing

Metric	2012 COP	2020 COP
True Interest Cost (TIC)	2.80%	0.72%
Annual Debt Service Payment	\$3.17M	\$2.67M
Total Savings Over 10 Years	-	\$5M
Principal Amount	\$27.01M	\$22.04M
Final Maturity Date	2030	2030

This memo explains the rationale and outcomes of the 2020 refinancing, including the role of bond premiums in achieving cost savings. If you have any questions or require additional details, please contact the Finance Department.

Sustainability Impact

No sustainability impact.

Fiscal Impact

No fiscal impact.

Prepared by: Jonathan Orozco, Finance Manager

Reviewed by: Kristina Alfaro, Director of Administrative Services

Tina Kapoor, Interim Assistant City Manager

Approved for Submission by: Pamela Wu, City Manager

Attachments: