

**RESOLUTION NO. 2018-109**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ELK GROVE DISPENSING WITH THE COMPETITIVE BIDDING PROCESS PURSUANT TO ELK GROVE MUNICIPAL CODE SECTION 3.42.140(B)(3), AUTHORIZING THE DIRECTOR OF FINANCE AND ADMINISTRATIVE SERVICES TO ENTER INTO A LETTER OF ENGAGEMENT WITH PIPER JAFFRAY FOR UNDERWRITING SERVICES IN CONNECTION WITH A NEW DEBT ISSUANCE RELATED TO SERIES 2018 SPECIAL TAX REVENUE BONDS AND AUTHORIZING NECESSARY BUDGET AMENDMENTS TO RECORD THE ISSUANCE OF THE CITY OF ELK GROVE COMMUNITY FACILITIES DISTRICT NO. 2005-1 (LAGUNA RIDGE) SPECIAL TAX BONDS SERIES 2018**

**WHEREAS**, the City Council of the City of Elk Grove (the "City") has conducted proceedings under and pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, Chapter 2.5 of Part 1 of Division 2 of Title 5 (commencing with Section 53311) of the California Government Code (the "Mello-Roos Act"), to form Community Facilities District No. 2005-1 (Laguna Ridge) (the "CFD"), to authorize the levy of special taxes upon the land within the CFD, and to issue bonds secured by said special taxes, for the purpose of financing certain public improvements and related expenses, all as described in its Resolution No. 2006-62 adopted March 8, 2006 and those proceedings; and

**WHEREAS**, the City has determined that it is in the best financial interests of the City and the CFD to at this time for the City Council, as legislative body of the CFD, to authorize special tax bonds for the CFD designated "City of Elk Grove Community Facilities District No. 2005-1 (Laguna Ridge) Special Tax Bonds Series 2018" (the "2018 Bonds"); and

**WHEREAS**, Fieldman Rolapp, the City's Financial Advisors, have advised that it is critical to have the finance team, including underwriting services, in place to fully execute the 2018 Bonds; and

**WHEREAS**, Piper Jaffray has provided the City with underwriting services for several of its previous debt issuances, including Series 2016 refundings of prior CFD bonds in Laguna Ridge CFD 2005-1; Series 2007 new debt issuance from Laguna Ridge CFD 2005-1; Series 2005 and Series 2015 refundings of prior CFD bonds in East Franklin CFD 2002-1 and Poppy Ridge CFD 2003-1; Series 2006 new debt issuance from Poppy Ridge CFD 2003-1; Series 2007 Lease Revenue Bonds; and Series 2010 Lease Revenue Bonds

**WHEREAS**, for the reasons presented, the City Council finds that pursuing competitive proposals for the proposed underwriting services is not in the best interest of the City, and it is appropriate to enter into a Letter of Engagement for Underwriting Services directly with Piper Jaffray; and

**WHEREAS**, the City Council wishes to authorize amendments to the budget to record the Series 2018 bonds and record the issuance of the Series 2018 Bonds; and

**WHEREAS**, the debt conforms to the City's Debt Management Policy; and

**WHEREAS**, the City Council desires to approve all of said transactions in furtherance of the public purposes of the City, and wishes at this time to authorize all proceedings relating to the recording and financing of the Series 2018 Bonds.

**NOW, THEREFORE, IT IS HEREBY RESOLVED** by the City Council of the City of Elk Grove as follows:

**Section 1. Dispensing with Formal Procurement Process.** The City Council hereby determines that compliance with the bidding and solicitation procedures for Underwriting Services is not in the best interest of the City, and hereby dispenses with the formal bidding and solicitation procedures pursuant to Elk Grove Municipal Code Section 3.42.140.(B)(3).

**Section 2. Approval of Letter of Engagement for Underwriting Services.** The City Council hereby authorizes the Director of Finance and Administrative Services to enter into a Letter of Engagement for Underwriting Services with Piper in an amount not to exceed 1% of the par amount of the Series 2018 Bonds, which was negotiated by the City's Financial Advisor, Fieldman Rolapp, on behalf of the City and is to include all expenses of the underwriter, including the fees of the underwriter's counsel. That is the maximum not to exceed amount, meaning it is possible the City may incur costs that are less than this percentage amount.

**Section 3. Budget Adjustments.** The City Council of the City of Elk Grove hereby authorizes any budget adjustments necessary to complete the financing transaction and record the Bond closing.

**Section 4. Effectiveness.** This resolution shall take effect from and after its adoption.

**PASSED AND ADOPTED** by the City Council of the City of Elk Grove this 23<sup>rd</sup> day of May 2018.



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STEVE LY, MAYOR of the  
CITY OF ELK GROVE

ATTEST:



\_\_\_\_\_  
JASON LINDGREN, CITY CLERK

APPROVED AS TO FORM:



\_\_\_\_\_  
JONATHAN P. HOBBS  
CITY ATTORNEY

April 26, 2018

Brad Koehn  
Director of Finance and Administrative Services  
City of Elk Grove  
8401 Laguna Palms Way  
Elk Grove, CA 95758

Re: Engagement Letter  
City of Elk Grove Community Facilities District No. 2005-1 (Laguna Ridge)  
Special Tax Bonds Series 2018

Dear Mr. Koehn:

On behalf of Piper Jaffray & Co. ("us" or "Piper"), we are writing concerning a potential municipal securities transaction as identified above. This letter confirms that you engage Piper Jaffray as an underwriter respecting the Bonds, subject to the conditions and limitations described below.

This engagement is preliminary in nature, non-binding and may be terminated at any time by you or us. Although you intend or reasonably expect to use Piper Jaffray as an underwriter respecting the Bonds, this engagement is subject to any applicable procurement laws and the formal approval of Piper Jaffray as underwriter by your board or governing body, and is also subject to mutual agreement as to the final structure for the Bonds and the terms of a bond purchase agreement. This engagement does not restrict you from using other underwriters respecting the Bonds or any other municipal securities transaction or prevent you from delaying or cancelling the Bond issue or selecting an underwriting syndicate that does not include Piper Jaffray.

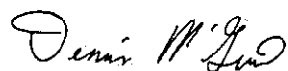
As an underwriter, Piper may provide advice concerning the structure, timing, terms, and other similar matters concerning the Bonds. Attached to this letter are regulatory disclosures required by the Securities and Exchange Commission and the Municipal Securities Rulemaking Board to be made by us at this time because of this engagement. We may be required to send you additional disclosures regarding the material financial characteristics and risks of such transaction or describing those conflicts. At that time, we also will seek your acknowledgement of receipt of any such additional disclosures. It is our understanding that you have the authority to bind the issuer by contract with us, and that you are not a party to any conflict of interest relating to the Bonds. If our understanding is incorrect, please notify the undersigned immediately.

We wish to receive your written acknowledgement that you have received the Appendix A disclosures and that this engagement is approved. Accordingly, please send me an email to that effect, or sign and return the enclosed copy of this letter to me at the address set forth below.

If you have any questions or concerns about anything in this letter, please make those questions or concerns known immediately to us at the contact information below.

Thank you.

Sincerely,



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Dennis McGuire  
Managing Director  
Piper Jaffray & Co.

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Acknowledgement of Approval of Engagement  
and Receipt of Appendix A Disclosures

Brad Koehn  
City of Elk Grove  
Director of Finance and Administrative Services

Date: \_\_\_\_\_

## Appendix A – G-17 Disclosure

We are providing you with certain disclosures relating to the captioned bond issue (the Bonds), as required by the Municipal Securities Rulemaking Board (MSRB) Rule G-17 in accordance with MSRB Notice 2012-25 (May 7, 2012). Under new federal regulations, all underwriters are now required to send the following disclosures to you (as the Issuer of the Bonds) in order to clarify with you the role of an underwriter and other matters relating to an underwriting of the Bonds.

Piper Jaffray intends to serve as an underwriter respecting the Bonds and not as a financial advisor or municipal advisor to you. As part of our services as an underwriter, Piper Jaffray may provide advice concerning the structure, timing, terms, and other similar matters concerning an issue of municipal securities that Piper Jaffray is underwriting.

### ***Our Role as Underwriter:***

In serving as underwriter for the Bonds, these are some important disclosures that clarify our role and responsibilities:

- (i) MSRB Rule G-17 requires an underwriter to deal fairly at all times with both municipal issuers and investors;
- (ii) The underwriter's primary role is to purchase securities with a view to distribution in an arm's-length commercial transaction with the Issuer and it has financial and other interests that differ from those of the Issuer;
- (iii) Unlike a municipal advisor, the underwriter does not have a fiduciary duty to the Issuer under the federal securities laws and is, therefore, not required by federal law to act in the best interests of the Issuer without regard to its own financial or other interests;
- (iv) The underwriter has a duty to purchase securities from the Issuer at a fair and reasonable price, but must balance that duty with its duty to sell municipal securities to investors at prices that are fair and reasonable; and
- (v) The underwriter will review the official statement for the Issuer's securities in accordance with, and as part of, its responsibilities to investors under the federal securities laws, as applied to the facts and circumstances of the transaction.<sup>1</sup>

### ***Our Compensation:***

The underwriter will be compensated by a fee and/or an underwriting discount that will be set forth in the bond purchase agreement to be negotiated and entered into in connection with the issuance of the Bonds. Payment or receipt of the underwriting fee or discount will be contingent on the closing of the transaction and the amount of the fee or discount may be based, in whole or in part, on a percentage of the principal amount of the Bonds. While this form of compensation is customary in the municipal securities market, it presents a conflict of interest since the underwriter may have an incentive to recommend to the Issuer a transaction that is unnecessary or to recommend that the size of the transaction be larger than is necessary.

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<sup>1</sup> Under federal securities law, an issuer of securities has the primary responsibility for disclosure for investors. The review of the official statement by the underwriter is solely for purposes of satisfying the underwriter's obligations under the federal securities laws and such review should not be construed by an issuer as a guarantee of the accuracy or completeness of the information in the official statement.

***Conflicts of Interest:***

We have entered into a separate agreement with Charles Schwab & Co., Inc. that enables Charles Schwab & Co., Inc. to distribute certain new issue municipal securities underwritten by or allocated to us which could include the Bonds. Under that agreement, we will share with Charles Schwab & Co., a portion of the fee or commission paid to us.

***Risk Disclosures:***

In accordance with the requirements of MSRB Rule G-17, attached as Appendix B is a description of the material aspects of a typical fixed rate offering, including the Bonds. This letter may be later supplemented if the material terms of the Bonds change from what is described here.

If you have any questions or concerns about these disclosures, please make those questions or concerns known immediately to me. In addition, you should consult with your own financial, legal, accounting, tax and other advisors, as applicable, to the extent you deem appropriate.

## **Appendix B – Risk Disclosures**

The following is a general description of the financial characteristics and security structures of fixed rate municipal bonds and fixed rate municipal certificates of participation ("Fixed Rate Bonds"), as well as a general description of certain financial risks that you should consider before deciding whether to issue Fixed Rate Bonds:

### **Financial Characteristics**

*Maturity and Interest.* Fixed Rate Bonds are interest-bearing debt securities issued by state and local governments, political subdivisions and agencies and authorities. Maturity dates for Fixed Rate Bonds are fixed at the time of issuance and may include serial maturities (specified principal amounts are payable on the same date in each year until final maturity) or one or more term maturities (specified principal amounts are payable on each term maturity date) or a combination of serial and term maturities. The final maturity date typically will range between 10 and 30 years from the date of issuance. Interest on the Fixed Rate Bonds typically is paid semiannually at a stated fixed rate or rates for each maturity date.

*Redemption and Prepayment.* Fixed Rate Bonds may be subject to optional redemption/prepayment, which allows you, at your option, to redeem/prepay some or all of the Fixed Rate Bonds on a date prior to scheduled maturity, such as in connection with the issuance of refunding bonds to take advantage of lower interest rates. Fixed Rate Bonds will be subject to optional redemption/prepayment only after the passage of a specified period of time, often approximately ten years from the date of issuance, and upon payment of the redemption/prepayment price set forth in the Fixed Rate Bonds, which may include a redemption/prepayment premium. You will be required to send out a notice of optional redemption/prepayment to the holders of the Fixed Rate Bonds, usually not less than 30 days prior to the redemption/prepayment date. Fixed Rate Bonds with term maturity dates also may be subject to mandatory sinking fund redemption/prepayment, which requires you to redeem/prepay specified principal amounts of the Fixed Rate Bonds annually in advance of the term maturity date. The mandatory sinking fund redemption/prepayment price is 100% of the principal amount of the Fixed Rate Bonds to be redeemed/prepaid.

### **Security**

#### *Community Facilities District Special Tax Bonds*

"Community Facilities District Special Tax Bonds" are debt securities to which special taxes on certain property are levied to pay principal and interest. The District is limited to levying the tax up to a specified maximum amount and only on property within the Community Facilities District.

In the event of delinquencies of the special taxes by a property owner, the District may be required to commence foreclosure proceedings against that property in order to generate sufficient funds to pay debt service on the Bonds.

## **Financial Risk Considerations**

Certain risks may arise in connection with your issuance of Fixed Rate Bonds, including some or all of the following:

### **Redemption Risk**

Your ability to redeem the bonds prior to maturity may be limited, depending on the terms of any optional redemption provisions. In the event that interest rates decline, you may be unable to take advantage of the lower interest rates to reduce debt service.

### **Tax Compliance Risk**

The issuance of tax-exempt bonds is subject to a number of requirements under the United States Internal Revenue Code, as enforced by the Internal Revenue Service (IRS). You must take certain steps and make certain representations prior to the issuance of tax-exempt bonds. You also must covenant to take certain additional actions after issuance of the tax-exempt bonds. A breach of your representations or your failure to comply with certain tax-related covenants may cause the interest on the bonds to become taxable retroactively to the date of issuance of the bonds, which may result in an increase in the interest rate that you pay on the bonds or the mandatory redemption of the bonds. The IRS also may audit you or your bonds, in some cases on a random basis and in other cases targeted to specific types of bond issues or tax concerns. If the bonds are declared taxable, or if you are subject to audit, the market price of your bonds may be adversely affected. Further, your ability to issue other tax-exempt bonds also may be limited.

### **Reinvestment Risk**

You may have proceeds of the Fixed Rate Bonds to invest prior to the time that you are able to spend those proceeds for the authorized purpose. Depending on market conditions, you may not be able to invest those proceeds at or near the rate of interest that you are paying on the Fixed Rate Bonds, which is referred to as "negative arbitrage".

### **Tax Compliance Risk**

The issuance of tax-exempt Fixed Rate Bonds is subject to a number of requirements under the United States Internal Revenue Code, as enforced by the Internal Revenue Service (IRS). You must take certain steps and make certain representations prior to the issuance of tax-exempt Fixed Rate Bonds. You also must covenant to take certain additional actions after issuance of the tax-exempt Fixed Rate Bonds. A breach of your representations or your failure to comply with certain tax-related covenants may cause the interest on the Fixed Rate Bonds to become taxable retroactively to the date of issuance of the Fixed Rate Bonds, which may result in an increase in the interest rate that you pay on the Fixed Rate Bonds or the mandatory redemption/prepayment of the Fixed Rate Bonds. The IRS also may audit you or your Fixed Rate Bonds, in some cases on a random basis and in other cases targeted to specific types of bond issues or tax concerns. If the Fixed Rate Bonds are declared taxable, or if you are subject to audit, the market price of your Fixed Rate Bonds may be adversely affected. Further, your ability to issue other tax-exempt Fixed Rate Bonds also may be limited.



**CERTIFICATION  
ELK GROVE CITY COUNCIL RESOLUTION NO. 2018-109**

STATE OF CALIFORNIA        )  
COUNTY OF SACRAMENTO    )        ss  
CITY OF ELK GROVE         )

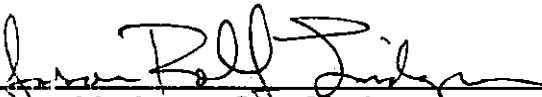
*I, Jason Lindgren, City Clerk of the City of Elk Grove, California, do hereby certify that the foregoing resolution was duly introduced, approved, and adopted by the City Council of the City of Elk Grove at a regular meeting of said Council held on May 23, 2018 by the following vote:*

**AYES:**           **COUNCILMEMBERS:**    *Ly, Suen, Detrick, Hume, Nguyen*

**NOES:**           **COUNCILMEMBERS:**    *None*

**ABSTAIN:**       **COUNCILMEMBERS:**    *None*

**ABSENT:**        **COUNCILMEMBERS:**    *None*

  
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**Jason Lindgren, City Clerk  
City of Elk Grove, California**