



Legislation Details (With Text)

File #: 18-607 **Version:** 1 **Name:** Staff Report for City of San Leandro City Council RESOLUTIONS that Approve the Issuance of San Leandro Public Financing Authority 2018 Lease Revenue Bonds

Type: Staff Report **Status:** Filed

On agenda: 12/3/2018 **In control:** City Council

Enactment date: **Final action:** 12/3/2018

Enactment #:

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Code sections:

Attachments:

Date	Ver.	Action By	Action	Result
12/3/2018	1	City Council	Received and Filed	

Staff Report for City of San Leandro City Council Resolution that Approves the Issuance of San Leandro Public Financing Authority 2018 Lease Revenue Bonds

SUMMARY AND RECOMMENDATIONS

On November 5, 2018, the City Council of the City and the Board of Directors of the San Leandro Public Financing Authority (the “Authority”) approved the issuance by the Authority of lease revenue bonds in the aggregate principal amount not to exceed \$22,000,000 (the “2018 Bonds”) pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the “Bond Law”) for the purposes of financing certain capital improvement projects of the City, anticipated to consist of improvements to the Police Headquarters and South Office Building, the Mulford-Marina Branch Library, Manor Park Competition Pool, Farrelly Pool, and Casa Peralta (the “Capital Facilities”), and the execution and delivery by the City and the Authority of documents related thereto.

Pursuant to Section 6586.5 of the Bond Law, authorization by the Authority of bonds for the purpose of financing projects like the Capital Facilities must be preceded by public notice of the holding of a public hearing by the City, with the City finding after holding a public hearing that issuance of the bonds will result in significant public benefits to the City of the type described in Section 6586 of the Bond Law, such as a more efficient delivery of City services to residential and commercial development and demonstrable savings in effective interest rate, bond preparation, bond underwriting, and bond issuance costs.

In accordance with the Bond Law, the City will hold a public hearing relating to the financing of the Capital Facilities. Following the public hearing, the City Council and the Board of Directors may confirm the actions of the prior resolutions, which would authorize issuance of the 2018 Bonds by the Authority.

Staff recommends that the City Council and the Authority approve the resolutions and documents required to issue the 2018 Bonds. The proposed 2018 Bonds will be issued to provide \$20,000,000 of net bond proceeds to fund the Capital Facilities, as described below. The par value of the 2018 Bonds will not exceed \$22 million, the true interest cost (“TIC”) will not exceed 5%, and the final maturity date will not exceed November 1, 2048.

DISCUSSION

The \$20 million in net proceeds of the 2018 Bonds will be combined with other appropriations to fund the five capital improvement projects described in the table below.

Projects	Est. Cost	Bond Funding	Est. Bid Opening
Police Bldg. & South Office	\$9,417,000	7,093,000*	October 2018
Mulford-Marina Library	3,800,000	2,500,000	September 2019
Manor Park Competition Pool	5,800,000	5,600,000	March 2019
Farrelly Pool	3,500,000	1,200,000	June 2019
Casa Peralta Improvements	<u>4,410,000*</u>	<u>3,607,000</u>	August 2019
	\$27,650,000	20,000,000	

*Amounts listed reflect changes requested as part of the Police Building / South Office project awarded on November 5, 2018.

Net proceeds of the 2018 Bonds are expected to be used for the projects described above, but the City has the discretion to substitute other projects at any time. With the exception of the Mulford-Marina Branch Library project, all of the listed projects are funded with existing appropriations.

The estimated cost of the Mulford-Marina Branch Library is \$1.0 million more than the existing appropriations. Nevertheless, the City intends to build the library as envisioned. To fully fund the project, staff will look first at revenues from the Shoreline development to cover the shortfall. Should that project not generate sufficient revenue, staff would explore re-allocating from other projects or using CIP funding from the upcoming two-year budget. Funding options for this project will be brought forward for City Council consideration when more information becomes available regarding the fiscal impacts of the Shoreline development project.

Financing Structure

In December 2016 the Authority issued \$14,125,000 principal amount of 2016 Refunding Lease Revenue Bonds (2016 Bonds) to refinance 2007 certificates of participation, which the City had caused to be executed and delivered to finance improvements to the Main Library and the acquisition and construction of two fire stations. The 2016 Bonds are secured by lease payments made by the City to the Authority pursuant to a lease agreement for use of the Main Library; the Main Library is leased by the City to the Authority pursuant to a Site Lease. The 2016 lease agreements used the Main Library as the leased asset; using an existing essential-function asset makes for a stronger financing. The Main Library has sufficient value to serve as the leased asset for both the outstanding 2016 Bonds and the proposed 2018 Bonds. The City will make debt service payments for the 2018 Bonds (just like the 2016 Bonds) in the form of lease payments from the General Fund.

The Financing Team

Staff has been working with the firms listed below to bring this financing transaction to the City and the Authority for approval. The City resolution directs staff to enter into agreements for services with Stifel, Jones Hall, and Kitahata & Company. Staff already has the authority to enter into an agreement with the trustee.

Name of Firm	Capacity
Stifel, Nicolaus & Company, Inc.	Underwriter
Jones Hall, APLC	Bond counsel and disclosure counsel
Kitahata & Company	Municipal advisor
U.S. Bank, National Association	Trustee

Stifel and Kitahata & Company were both chosen via separate requests for proposals (RFP) for underwriters and municipal advisors. The primary reasons for the selection of both firms included relevant experience, pricing, and structuring creativity.

Jones Hall has been the City's bond counsel for more than three decades. Jones Hall ranks as one of the top bond counsels in the number of state and local bond issues in California during each of the past ten years, and similarly has ranked as one of the top disclosure counsels in California during this same period. Proposals for disclosure counsel for the 2018 Bonds were solicited through a RFP.

U.S. Bank is bond trustee for the City's lease revenue bonds and certificates of participation. U.S. Bank is one of the top five municipal bond trustees in the country. U.S. Bank also serves the City with two local branch offices.

All fees associated with issuing the 2018 Bonds will be paid from bond proceeds.

Sources and Uses of Funds

Staff projects the following sources and uses of funds for the 2018 Bonds, from the underwriter's preliminary bond sizing numbers assuming interest rates as of 11/14/18 with no cushion and an S&P underlying rating of AA-.

\$19,255,000	Par amount of 2018 Bonds
<u>976,262</u>	<u>Premium</u>
\$20,231,262	Total sources of funds
\$20,000,000	Deposit to Project Fund
160,997	Costs of issuance & misc.
<u>70,265</u>	<u>Underwriter's discount</u>
\$20,238,262	Total uses of funds

Sources of funds include original issue premium on the 2018 Bonds because it is assumed that coupons will be higher than yields - if this is not the case when the 2018 Bonds are finally priced and coupons go lower to be closer to yields, the premium will go down and the par amount of 2018 Bonds will go up, but overall debt service will be about the same because of the lower coupons. A debt service reserve fund will not be funded in this issue, because the City's credit strength should allow for a strong rating without needing a funded reserve. The City's credit strength also means that bond insurance is not expected to be necessary for this transaction. The underwriter's discount is a fee paid to the underwriter for structuring and marketing the 2018 Bonds. The costs of issuance pay for

legal, municipal advisor, trustee, printing, and other issuance costs.

Update on Sale Process

On November 14, 2018, based on the authority provided by the resolutions adopted by the City Council of the City and the Board of Directors of the Authority on November 5, 2018, Stifel priced the 2018 Bonds, and entered into a Bond Purchase Agreement with the City and the Authority. A public hearing of the City Council and the Board of Directors of the Authority to adopt resolutions confirming authorization to issue the 2018 Bonds is necessary so an updated Bond Purchase Agreement is presented and the 2018 Bonds will be re-priced for the week of December 3, 2018, or the following week (although this may change given market conditions). The closing date for the 2018 Bonds, and receipt of funds by the City, is expected to occur in December.

California Government Code Disclosures

Sec. 5852.1 of the California Government Code provides that prior to authorization of the issuance of bonds with a term greater than 13 months, the governing body of the issuer shall disclose the information listed below at a public meeting. All disclosure is based on the preliminary bond sizing used for the Sources and Uses of Funds, as of the 11/14/18 market with no cushion.

- (A) The all-in TIC of the 2018 Bonds, meaning the overall cost of debt, is currently expected to be 4.23%.
- (B) The finance charge of the 2018 Bonds, meaning the total costs of issuance and underwriter's discount combined, is currently expected to be \$231,262.
- (C) The net proceeds of the 2018 Bonds, meaning net of all finance charges and any reserves or capitalized interest, is expected to be \$20,000,000.
- (D) The total debt service on the 2018 Bonds is currently expected to be \$38,474,511.

Authorizing Resolutions

The City and Authority must approve the following resolutions to issue the 2018 Bonds.

A Resolution of the City Council of the City of San Leandro Confirming Resolution No. 2018-135 and Approving Documents and Actions Relating to the Issuance and Sale of 2018 Lease Revenue Bonds - This resolution confirms the City Council's actions in Resolution No. 2018-135 and provides the Authority approval to issue the 2018 Bonds in an amount not to exceed \$22,000,000 and for an underwriter's discount not to exceed 5.0%. It also approves and authorizes City staff to execute the documents required to complete the financing transaction. The City also makes the required findings of significant public benefit under the Bond Law and ratifies any and all actions taken by an Authorized Officer (as defined in the resolution) and all other officers of the City in connection with the issuance of the 2018 Bonds.

Resolution of the San Leandro Public Financing Authority Confirming Resolution No. 2018-002 PFA and Authorizing the Issuance and Sale of 2018 Lease Revenue Bonds to Finance City Capital Improvement Projects, and Approving Related Documents - This resolution approves the issuance of the 2018 Bonds in an amount not to exceed \$22,000,000 and for an underwriter's discount not to exceed 5.0%. It approves and authorizes Authority staff to execute the documents required to complete the financing transaction and ratifies any and all actions taken by an Authorized Officer (as defined in the resolution) and all other officers of the Authority in connection with the issuance of the 2018 Bonds.

Bond Documents

The City Council and the San Leandro Public Financing Authority must approve the following documents to complete this bond transaction. These documents will be approved pursuant to the attached resolutions.

First Amendment to Site Lease - The Site Lease is between the City and the San Leandro Public Financing Authority. This is the agreement that establishes the lease of the Main Library to the Authority. The first amendment adds the 2018 Bonds to the 2016 Bonds in the terms of the site lease, in exchange for an upfront site lease payment from the Authority to the City to be used by the City for the projects.

First Amendment to Lease Agreement - The Lease Agreement establishes the leaseback of the Main Library from the Authority by the City. This amended agreement specifies the term of the agreement and the amount of payments for the 2018 Bonds.

First Amendment to Assignment Agreement - This agreement is between the Authority and U.S. Bank National Association (the Trustee). In this agreement the Authority assigns all of its rights under the Lease Agreement to the Trustee. For example, rather than the City making semi-annual lease payments to the Authority and the Authority then paying the bond holders, the City will make its payments directly to the Trustee and the Trustee will then pay the holders of the 2018 Bonds. The amendment adds in the 2018 Bonds, in addition to the 2016 Bonds.

First Supplemental Indenture of Trust - This agreement is among the Authority, the City and the Trustee. The Indenture of Trust sets forth the guidelines for the administration, investment and treatment of the proceeds of the issue. The first supplement adds in the 2018 Bonds, in addition to the 2016 Bonds.

Bond Purchase Agreement - The Bond Purchase Agreement is an agreement between the City and the underwriter under which the underwriter purchases the 2018 Bonds. This agreement specifies the price and interest rates at which the underwriter will purchase the 2018 Bonds and the documents that will be executed at closing.

Preliminary Official Statement - This document is the public offering statement for the issuance of the 2018 Bonds. This document thoroughly describes the plan of finance, the public asset to be leased (i.e., the Main library), the security for repayment of the 2018 Bonds, and the economic, financial, and social characteristics of the City.

Continuing Disclosure Certificate - This agreement obligates the City to continue providing information regarding the City, the Authority, and the 2018 Bonds to the secondary municipal bond market as long as they are outstanding, in accordance with SEC Rule 15c2-12.

Current City Council Policy

The City Council and Public Financing Authority must approve municipal debt issues that impact their financial position.

Fiscal Impact

The par value of the 2018 Bonds will not exceed \$22 million and they will mature in 2048. The 2018 Bonds are projected to have an all-in true interest cost of 4.23% in today's market. Annual debt service will average \$872,000 while the 2016 Bonds are outstanding and then will increase to about \$1,524,000 annually starting in 2030 when the 2016 Bonds are paid off. Total debt service for the 2018 Bonds is currently expected to be \$38.5 million through 11/1/48. The total bond proceeds will

add \$20 million to available sources of funds for the 2017-18 budget and add debt service in each year starting in FY 2019-20 and continuing through FY 2048-49.

Budget Authority

City of San Leandro Charter

Attachments:

- Resolution of the City Council of the City of San Leandro Confirming Resolution No. 2018-135 and Approving Documents and Actions Relating to the Issuance and Sale of 2018 Lease Revenue Bonds by the San Leandro Public Financing Authority to Finance Certain Capital Improvement Projects for the City
- Resolution of the Board of Directors of the San Leandro Public Financing Authority Confirming Resolution No. 2018-002 PFA and Authorizing the Issuance and Sale of 2018 Lease Revenue Bonds to Finance Capital Improvement Projects for the City of San Leandro, and Approving Related Documents and Official Actions

CONCLUSION

Staff recommends that the City Council and the San Leandro Public Financing Authority approve the resolutions and documents required to issue the San Leandro Public Financing Authority 2018 Lease Revenue Bonds.

PREPARED BY: David Baum, Finance Director