

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL MEMBERS

FROM: DEBORAH LAUCHNER, CHIEF FINANCIAL OFFICER
FINANCE DEPARTMENT

SUBJECT: 2016 CERTIFICATES OF PARTICIPATION (COURTHOUSE
SQUARE PROJECT AND 2007 LEASE REFINANCING)

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by the Finance Department that the Council, by resolution, approve the forms of the Preliminary Official Statement which includes as an exhibit the Continuing Disclosure Certificate, Site and Facilities Lease, Lease Agreement, Trust Agreement, Escrow Deposit and Trust Agreement and Certificate Purchase Agreement in connection with the execution and delivery of 2016 Certificates of Participation (Courthouse Square Project and 2007 Lease Refinancing) (the "2016 COPs") in order to (1) finance a portion of the costs of the Courthouse Square Reunification Project costs, (2) refinance the City's outstanding Certificates of Participation (Building Acquisition Project) (the "2007 COPs") for debt service savings, (3) approve the appointment of bond counsel/disclosure counsel and financial advisor for this financing, (4) rescind appropriation of \$4,533,752 from the General Fund unassigned fund balance as authorized in Resolution No. 27882, (5) appropriate \$4,200,000 from debt proceeds into the Courthouse Square Reunification Project, and (6) direct repayment of any funds already expended as authorized under Resolution No. 28790.

EXECUTIVE SUMMARY

The proposed resolution would provide for the approval of the documents listed above and attached to this staff report in substantially the form presented, subject to the completion of each document once certain facts are known (e.g., the identity of leased asset; interest rates and principal amounts determined at the time of the bond sale). The resolution authorizes the City Manager, Deputy City Manager or the Chief Financial Officer to execute and deliver the documents with such changes, insertions and omissions as deemed necessary. The proposed resolution would also rescind appropriations of \$4,533,752 from the General Fund fund balance authorized pursuant to Resolution No. 27882 and replace that funding with debt proceeds.

BACKGROUND

2007 COPs. For the purpose of financing the acquisition and improvement of two buildings, the City previously caused execution and delivery of the 2007 COPs. The 2007 COPs represent interests in lease payments (the “2007 Lease Payments”) made by the City for the use and occupancy of the Circadian Fire Station and the Rincon Valley Library.

In order to take advantage of prevailing market conditions and realize savings for the benefit of the City, the City wishes to refinance its lease payment obligation under the 2007 Lease Agreement and to cause the prepayment of the 2007 COPs.

The estimated debt service savings (based on current market conditions, which may change between now and the time that the 2016 COPs are issued) is estimated to total approximately \$1,020,000 through the final maturity date of the 2016 COPs (October 1, 2037), or approximately 12% of the outstanding principal amount of the 2007 COPs. Based on current market conditions, the City would save approximately \$65,000 on an annual basis.

Courthouse Square Reunification Project. Construction of the reunification of Courthouse Square commenced on May 23, 2016. This important community project will create a central gathering place where residents and visitors can enjoy a wide variety of community events such as farmers’ markets, concerts and outdoor art exhibits. As described below, the City Council previously directed staff to pursue a public financing for the project. The financing plan includes 50%, or \$5 million, of the project paid with existing resources with the balance being financed. The preferred method of financing, as directed by Council, is COPs. The Finance Department conferred with a local banking consortia and did not receive any proposals that offered better terms than the City can obtain with a COP issuance.

Corporation. The Public Property Financing Corporation of California, a California non-profit public benefit corporation, was formed for the purpose of providing financial assistance to California cities in financing the acquisition and improvement of public buildings, equipment and facilities. The Corporation assisted the City with its 2013 fire station financing. The Corporation will adopt a resolution approving its participation in this transaction.

PRIOR CITY COUNCIL REVIEW

On September 22, 2015, the Council held a Study Session regarding financing options for the City and which options could be appropriate for the Courthouse Square Reunification Project (the “Project”).

2016 CERTIFICATES OF PARTICIPATION (COURTHOUSE SQUARE PROJECT AND
2007 LEASE REFINANCING)
PAGE 3 OF 6

On September 22, 2015, the Council, in open session, provided direction to pursue the reunification of Courthouse Square with a maximum project cost of \$10 million and to pursue Certificates of Participation as the preferred financing option.

On November 3, 2015, the Council appropriated \$500,000 from the General Fund unassigned fund balance in order to begin the design work for the Project.

On March 15, 2016, the Council appropriated General Fund unassigned fund balance to the Project in the amount of \$2,410,000. The information provided at that meeting included the proposed financing plan which outlined that 50% of the Project would come from existing resources and 50% would be financed. This appropriation, along with the \$500,000 appropriated for design approved November 3, 2015, brought the funding for the Project to that 50% of existing resources amount or \$5 million. In addition, at that time the Parking Fund obligation had not been determined. Once the Parking fund obligation was determined at \$465,854, and funded by a transfer from the Parking Fund, that amount was released back to the General Fund unassigned fund balance.

On April 19, 2016, the Council awarded the construction contract for the Project. The information provided included a total budget for the project of \$9,199,000. The Council made a temporary appropriation of \$4,533,752 in order to approve the construction contract with the intent that this appropriation would be returned to the unassigned fund balance of the General Fund upon closing of the 2016 COP transaction.

On June 14, 2016, the Council approved a Resolution of Intention to reimburse the City General Fund for project costs incurred prior to the 2016 COP financing transaction closing which will allow the use of the 2016 COP financing to refund any project costs incurred prior to the closing of the financing transaction for up to a six month period after approval.

ANALYSIS

Refinancing of the 2007 COPs. Current market conditions make it possible to refinance the 2007 COPs and achieve net present value debt service savings (after taking into account the costs of the transaction) of approximately 12% of the outstanding principal amount of the 2007 COPs.

Financing of Courthouse Square Reunification Project. The City Council has directed staff to pursue financing of approximately 50% of the Courthouse Square reunification project costs. Combining the Courthouse Square financing with the refinancing of the 2007 COPs helps reduce the costs of financing the Courthouse Square reunification.

Underwriter's Compensation. Staff recommends selection of Raymond James & Associates, Inc. as underwriter. The underwriter's compensation on the 2016 COPs is capped at 0.75% of the par amount of the 2016 COPs, or \$112,500 at the maximum par amount of \$15,000,000.

Transaction Costs. Staff estimates that transaction costs other than underwriter's compensation will be approximately \$200,000 and will be paid from the proceeds of the 2016 COPs.

Required Documentation. The financing documents are briefly summarized below:

Site and Facilities Lease and Lease Agreement – the City will lease an existing City asset (the “Leased Property”) to the Corporation under a Site and Facilities Lease, and the Corporation will lease the Leased Property back to the City under a Lease Agreement in consideration of the payment by the City to the Corporation of semi-annual lease payments. Staff is working to identify a City asset to serve as the Leased Property that will meet the applicable rating agency criteria.

Trust Agreement and Assignment Agreement – the Corporation will assign its right to receive the semi-annual lease payments under the Lease Agreement to a corporate trustee to be identified by the Chief Financial Officer following a competitive process (“Trustee”), under an Assignment Agreement, and in consideration of such assignment the Trustee will execute and deliver the 2016 COPs, each evidencing a fractional interest in the City's semi-annual lease payments, in accordance with a Trust Agreement. The City is not a party to the Assignment Agreement.

Escrow Agreement – the proceeds of the 2016 COPs related to the refinancing of the 2007 COPs, along with moneys held by the trustee for the 2007 COPs, will be deposited with U.S. Bank National Association under this agreement, and held for the benefit of the 2007 COPs until their first prepayment date of July 1, 2017. The City can prepay the 2007 COPs without a prepayment premium.

Certificate Purchase Agreement – this agreement provides for the sale of the 2016 COPs to the Underwriter, and includes representations and warranties made by the City, and specifies the conditions to the Underwriter's obligation to accept delivery of the 2016 COPs.

Continuing Disclosure Certificate – this certificate is included as an exhibit in the Preliminary Official Statement and is a certificate by which the City agrees to provide annual disclosure reports and notices of certain events to the Municipal Securities Rulemaking Board (MSRB) via its Electronic Municipal Market Access (EMMA) service.

Preliminary Official Statement – the attached Preliminary Official Statement has been reviewed and approved for transmittal to the City Council by City staff and its financing team consisting of Bond and Disclosure Counsel, Financial Advisor, Underwriter, Verification Agent and Trustee. The Preliminary Official Statement must include all facts that would be material to an investor in the 2016 COPs. Material information is information that would likely have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the 2016 COPs. Members

2016 CERTIFICATES OF PARTICIPATION (COURTHOUSE SQUARE PROJECT AND
2007 LEASE REFINANCING)
PAGE 5 OF 6

of the City Council may review the Preliminary Official Statement and/or question staff and consultants to make sure they feel comfortable that it includes all material facts. The key provisions of the Preliminary Official Statement include:

- The terms of the 2016 COPs as summarized on the cover/inside cover and the section entitled “THE CERTIFICATES.”
- The security for the 2016 COPs as described in the section entitled “SECURITY FOR THE CERTIFICATES.” The 2016 COPs are payable from the City’s general fund.
- The financial condition of the City as described in “APPENDIX B – CITY OF SANTA ROSA GENERAL FINANCIAL AND DEMOGRAPHIC INFORMATION.”
- The key risk factors posed to owners of the 2016 COPs as summarized in the section entitled “RISK FACTORS.”

Appointment of bond counsel/disclosure counsel and financial advisor. Staff recommends that the City retain Jones Hall, A Professional Law Corporation, as bond counsel and disclosure counsel, and Public Financial Management (“PFM”), as financial advisor. The City has long-standing relationships with both firms.

FISCAL IMPACT

The refinancing of the 2007 COPs would create debt service savings as described above.

Rescinding the appropriations authorized in Resolution No. 27882 would return \$4,533,752 to the General Fund unassigned fund balance.

Staff expects the portion of the 2016 COPs attributable to the Courthouse Square Reunification Project to result in annual debt service payments of approximately \$250,000 through October 1, 2046.

The debt service payments on the 2007 COPs are approximately \$650,000 per year. Debt service payments for the 2016 COPs are expected to be approximately \$585,000 per year for a net savings to the General Fund of approximately \$65,000 per year.

ENVIRONMENTAL IMPACT

This action is exempt from the California Environmental Quality Act (CEQA) because it is not a project which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, pursuant to CEQA Guideline section 15378.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

Not applicable.

NOTIFICATION

Not applicable.

ATTACHMENTS

- Attachment 1 – Preliminary Official Statement (including Continuing Disclosure Certificate as an exhibit)
- Attachment 2 – Site and Facilities Lease
- Attachment 3 – Lease Agreement
- Attachment 4 – Trust Agreement
- Attachment 5 – Escrow Deposit and Trust Agreement
- Attachment 6 – Certificate Purchase Agreement
- Resolution

CONTACT

Deborah Lauchner, Chief Financial Officer, (707) 543-3089, dlauchner@srcity.org