



# City of San Leandro

Meeting Date: December 3, 2018

## Staff Report

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**File Number:** 18-607

**Agenda Section:** PUBLIC HEARINGS

**Agenda Number:** 5.A.

**TO:** City Council

**FROM:** Jeff Kay  
City Manager

**BY:** David Baum  
Finance Director

**FINANCE REVIEW:** David Baum  
Finance Director

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

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### 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.

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

<b>Name of Firm</b>	<b>Capacity</b>
<b>Stifel, Nicolaus &amp; Company, Inc.</b>	Underwriter
<b>Jones Hall, APLC</b>	Bond counsel and disclosure counsel
<b>Kitahata &amp; Company</b>	Municipal advisor
<b>U.S. Bank, National Association</b>	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



# City of San Leandro

Meeting Date: December 3, 2018

## Resolution - Council

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**File Number:** 18-608

**Agenda Section:** PUBLIC HEARINGS

**Agenda Number:**

**TO:** City Council

**FROM:** Jeff Kay  
City Manager

**BY:** David Baum  
Finance Director

**FINANCE REVIEW:** David Baum  
Finance Director

**TITLE:** RESOLUTION of the City Council of the City of San Leandro to Confirm 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

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**WHEREAS**, on November 5, 2018, pursuant to Resolution No. 2018-135 (the "Original Resolution"), the City Council of the City of San Leandro (the "City") approved the issuance by the San Leandro Public Financing Authority (the "Authority") of lease revenue bonds in the aggregate principal amount of 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, commencing with Section 6584 of said Code (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 of documents related thereto; and

**WHEREAS**, as a condition precedent to the issuance of the 2018 Bonds to provide financing for the Capital Facilities, Section 6586.5 of the Bond Law requires that the City approve the proposed lease financing by the Authority and that the City make certain findings with respect to such financing, as hereinafter set forth, and as required by Section 6586.5 of the Bond Law, the City has caused publication of a notice of a public hearing on the financing of the Capital Facilities once at least five (5) days prior to the hearing in a newspaper of general circulation in the county; and

**WHEREAS**, the City Council held a public hearing at which all interested persons were provided the opportunity to speak on the subject of financing the Capital Facilities; and

**WHEREAS**, the City Council wishes at this time to confirm its actions in the Original Resolution and to approve all documents and proceedings of the City relating to the issuance and sale by the Authority of the 2018 Bonds.

**NOW, THEREFORE, BE IT RESOLVED** by the City Council of the City of San Leandro as follows:

**SECTION 1. Findings.** Pursuant to the Bond Law, and based on the information provided to the City Council by City staff and consultants, all as set forth in the proceedings and documents providing for the issuance and delivery of the 2018 Bonds, the City Council hereby finds that issuance of the 2018 Bonds for the purpose of financing the Capital Facilities will result in significant public benefits of the type described in Section 6586 of the Bond Law, including, but not limited to, 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.

**SECTION 2. Confirmation and Re-Approval.** The City hereby confirms its actions in the Original Resolution authorizing and approving the issuance and sale of the 2018 Bonds and by this reference hereby incorporates the Original Resolution herein in its entirety. Without in any way limiting the foregoing, the City Council hereby: (i) approves the issuance of the 2018 Bonds by the Authority under the Bond Law in the maximum principal amount of not to exceed \$22,000,000, for the purpose of providing funds to finance the Capital Facilities, and the negotiated sale of the 2018 Bonds by the Authority to Stifel, Nicolaus & Company, Incorporated, as underwriter; and (ii) and approves the forms of each document described in sections 2, 3, and 4 of the Original Resolution and the execution and delivery of each of such document by the Mayor, City Manager, Deputy City Manager, and Finance Director (the "Authorized Officers"), each acting alone, as described and authorized in the Original Resolution, together with any changes thereto as described in the Original Resolution.

**SECTION 3. Official Actions and Ratification.** The Authorized Officers, the City Attorney, the City Clerk and all other officers of the City are each authorized and directed on behalf of the City to make and deliver any and all leases, assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance or termination, warrants and other documents, which they or any of them deem necessary or appropriate in order to consummate any of the transactions contemplated by the agreements and documents approved under this Resolution and the Original Resolution. Any and all actions previously taken by an Authorized Officer and all other officers of the City in connection with the issuance of the 2018 Bonds, including with respect to any and all financing documents related thereto, including the distribution of the preliminary Official Statement and any supplements, amendments and restatements of the preliminary Official Statement, are hereby ratified and confirmed. Whenever in this Resolution any officer of the City is authorized to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf in the case such officer is absent or unavailable.

**SECTION 4. Effective Date.** This Resolution shall take effect immediately upon its passage and adoption.





# City of San Leandro

Meeting Date: December 3, 2018

## Resolution - PFA

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**File Number:** 18-609

**Agenda Section:** PUBLIC HEARINGS

**Agenda Number:**

**TO:** City Council

**FROM:** Jeff Kay  
City Manager

**BY:** David Baum  
Finance Director

**FINANCE REVIEW:** David Baum  
Finance Director

**TITLE:** 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

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**WHEREAS**, on November 5, 2018, pursuant to Resolution No. 2018-002 PFA (the "Original Resolution"), the Board of Directors of the San Leandro Public Financing Authority (the "Authority") authorized the issuance, sale and delivery of lease revenue bonds in the aggregate principal amount of not to exceed \$22,000,000 under Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584 of said Code (the "Bond Law"), for the purposes of financing certain capital improvement projects of the City of San Leandro (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 Authority of documents related thereto; and

**WHEREAS**, as required by Section 6586.5 of the Bond Law, the City has caused publication of a notice of a public hearing on the financing of the Capital Facilities once at least five (5) days prior to the hearing in a newspaper of general circulation in the county; and

**WHEREAS**, the City Council and the Public Financing Authority of the City held a public hearing at which all interested persons were provided the opportunity to speak on the subject of financing the Capital Facilities, and, following the hearing, found that issuance of the 2018 Bonds for the purpose of financing the Capital Facilities will result in significant public benefits of the type described in Section 6586 of the Bond Law, including, but not limited to, 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; and

**WHEREAS**, the Board of Directors wishes at this time to confirm its actions in the Original Resolution and to authorize the issuance and sale of the 2018 Bonds and approve all documents of the proceedings of the Authority relating to the issuance, sale and delivery of the 2018 Bonds.

**NOW, THEREFORE, BE IT RESOLVED** by the Board of Directors of the San Leandro Public Financing Authority as follows:

**SECTION 1. Confirmation and Authorization.** The Authority hereby confirms its actions in the Original Resolution authorizing and approving the issuance and sale of the 2018 Bonds and by this reference hereby incorporates the Original Resolution herein in its entirety. Without in any way limiting the foregoing, the Board of Directors hereby: (i) authorizes and approves the issuance of the 2018 Bonds under the Bond Law in the maximum principal amount of not to exceed \$22,000,000, for the purpose of providing funds to finance the Capital Facilities, and the negotiated sale of the 2018 Bonds by the Authority to Stifel, Nicolaus & Company, Incorporated, as underwriter, and (ii) and reapproves the forms of each document described in sections 2, 3, and 4 of the Original Resolution and the execution and delivery of each of such document by the Chairman, Executive Director, Deputy Executive Director, and the Treasurer (the "Authorized Officers"), each acting alone, as described and authorized in the Original Resolution, together with any changes thereto as described in the Original Resolution.

**SECTION 2. Official Actions and Ratification.** The Authorized Officers and the General Counsel, the Secretary, and all other officers of the Authority are each authorized and directed on behalf of the Authority to make and deliver any and all leases, assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance or termination, warrants and other documents, which they or any of them deem necessary or appropriate in order to consummate any of the transactions contemplated by the agreements and documents approved under this Resolution and the Original Resolution. Any and all actions previously taken by an Authorized Officer and all other officers of the Authority in connection with the issuance of the 2018 Bonds, including with respect to any and all documents related thereto, including the distribution of the preliminary Official Statement and any supplements, amendments and restatements of the preliminary Official Statement, are hereby ratified and confirmed. Whenever in this Resolution any officer of the Authority is authorized to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer is absent or unavailable.

**SECTION 3. Effective Date.** This resolution shall take effect immediately upon approval.