



STAFF REPORT

SAUSALITO CITY COUNCIL

AGENDA TITLE:

Joint Public Hearing of the City of Sausalito and the Sausalito Financing Authority to Approve the execution, sale and delivery of Certificates of Participation (COPs) to finance capital improvements to the City's MLK campus and Robin Sweeney, Southview and Dunphy Parks, including, but not limited to, site improvements, roofing, exterior enclosure, plumbing, electrical systems and equipment upgrades (collectively, the "Project").

RECOMMENDED MOTIONS:

1. Move that the City Council of the City of Sausalito approve the resolution providing for a Tax Equity and Reform Act public hearing on the issuance of COPs and the nature of the improvements for the Project; and,
2. Move that the City Council of the City of Sausalito approve the resolution approving proceedings to finance capital improvements to the Project, approving the issuance of COPs for such purposes and approving related documents and official actions; and,
3. Move that the Board of Directors of the Sausalito Financing Authority approve the resolution authorizing the issuance and sale of COPs to finance capital improvements to the Project and approving related documents and official actions.

BACKGROUND

MLK Campus

The MLK Campus is a City owned facility that consists of Six (6) buildings, currently leased to various tenants including artists, small cottage industries and two (2) Schools. There are five (5) additional buildings that include a Gymnasium, two (2) Transformer Buildings, a Field House and an abandoned Boiler Room Building. The remainder of the property is dedicated to recreational purposes. The property is host to basketball and tennis courts, soccer and baseball fields, a running track and gymnasium.

A Comprehensive Facility Condition Assessment (CFCA) for the MLK Campus was completed on April 28, 2015 which analyzed the current condition of the facilities, identified physical or operational deficiencies and provided cost estimates and prioritized schedules of repair work. The CFCA was presented to the City Council on May 12, 2015 at its regularly scheduled City Council meeting. The CFCA found there is a total of \$3,038,045 required over the ten year study period to maintain the facilities in "good" condition as rated by Facility condition Needs Index (FCNI). There is an immediate capital need of \$1,244,605 with \$1,793,440 being required during year's two to ten of the study period.

Distribution of Capital Needs by Building System:

| System Category | 2015 | 2016- 2018 | Total |
|-----------------------------|-----------------------|-----------------------|-----------------------|
| A10 - Foundations | \$9,000.00 | \$2,000.00 | \$11,000.00 |
| A20 - Basement Construction | \$4,500.00 | - | \$4,500.00 |
| B10 – Super Structure | \$28,526.50 | \$26,267.50 | \$54,794.00 |
| B20 - Exterior Enclosure | \$35,097.25 | \$313,160.00 | \$348,257.25 |
| B30 - Roofing | \$371,502.90 | \$330,819.83 | \$702,322.73 |
| C10 - Interior Construction | \$25,400.00 | \$7,810.50 | \$33,210.50 |
| C20 - Stairs | \$600.00 | - | \$600.00 |
| C30 - Interior Finishes | \$84,744.21 | \$365,929.27 | \$450,673.48 |
| D20 - Plumbing | \$18,248.35 | \$41,834.76 | \$60,083.11 |
| D30 - HVAC | \$54,120.00 | \$259,253.13 | \$313,373.13 |
| D50 - Electrical Systems | \$222,139.32 | \$68,504.50 | \$290,643.82 |
| G20 - Site Improvements | \$390,726.03 | \$377,860.81 | \$768,586.84 |
| Total | \$1,244,604.56 | \$1,793,440.30 | \$3,038,044.86 |

City Parks

Robin Sweeny Park Improvements and Repair

Robin Sweeny Park is a City owned facility that consists of a children’s play area, lawn, basketball court, and pathways. It is located directly in front of City Hall and is used by residents and visitors for park activities and special events. In 2010 the City contracted with landscape architects Carducci and Associates to come up with plans to bring the park up to today’s codes and standards. The plan established that there is a total of \$1,150,000 to make the necessary changes. The Plan has been approved by the City Council and is set to go to the Planning Commission in July 2015.

Distribution of Capital Needs by Building Park Area:

| Description | Amount |
|--|--------------------|
| ADA Code Improvements | \$250,000 |
| Play Area Code Updates | \$500,000 |
| Turf and Planting Renovations | \$150,000 |
| Additional Hardscape Improvements | \$250,000 |
| Total | \$1,150,000 |

Dunphy Park Improvements and Repair

Dunphy Park is a City owned facility that consists of a large lawn area, 2 bocce ball courts, sand volleyball court, gazebo, beach, wetlands, and parking. It is located on Richardson’s Bay off Bridgeway and is used by residents and visitors for park activities and special events.

The Friends of Dunphy Park are working on a Schematic Master Plan which conceptualizes a fully accessible pathway system, restrooms, improvements to the wetlands, natural areas and

beach, paved parking, and retention of the sand volleyball court and bocce courts. A full budget has not been developed yet but it is estimated that the project will cost \$1,855,333.

Southview Park Improvements and Repair

Southview Park is a City owned facility that consists of a small lawn area, children’s playground, basketball court, and tennis court. It is located between 3rd and 4th streets at North Street and is used by residents and visitors for park activities. The retaining walls will need to be reinforced, the tennis and basketball courts will need to be redone, and the play equipment will need to be replaced. A full budget has not been developed yet but it is estimated that the project will cost \$1,150,000.

DISCUSSION

There are traditionally three ways to fund capital projects: debt issuance, federal or state grants, and pay-as-you-go (pay-go) financing. After determining that there are no federal or state grants available for all the projects listed above, staff analyzed pay-go vs debt financing options.

Pay-go financing is the method of using discretionary revenues to pay for capital projects in place of or in addition to traditional debt financing. Governments that use the pay-go method will typically pool current revenues after operating expenditures from discretionary revenues into an account reserved for funding capital projects, essentially "saving up" to finance large projects.

The only discretionary revenues available for either pay-go or debt financing for the above described projects are the surplus revenues from the leases on the MLK facility. The following table is a projection of net operating income from the MLK facility for the next 15 years.

| | FY 2015-16 Proposed Budget | FY 2015-16- 2020-21 Projected | FY 2021-22- 2025-26 Projected | FY 2026-27- 2030-31 Projected |
|-------------------------------|----------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| <u>Revenues:</u> | | | | |
| Rentals - Buildings | 1,286,000 | 7,032,375 | 8,152,450 | 9,450,924 |
| Electric Pass Thru to Lessees | 45,000 | 246,078 | 285,272 | 330,709 |
| Gas Pass Thru to Lessees | 5,000 | 27,342 | 31,697 | 36,745 |
| Total Revenues | 1,336,000 | 7,305,796 | 8,469,419 | 9,818,378 |
| <u>Expenses:</u> | | | | |
| Compensation | 176,809 | 966,864 | 1,120,860 | 1,299,384 |
| Utilities | 168,500 | 921,427 | 1,068,187 | 1,238,321 |
| Operations | 54,375 | 297,345 | 344,704 | 399,607 |
| Total Expenses | 399,684 | 2,185,636 | 2,533,751 | 2,937,312 |
| Net Operating Income | 936,316 | 5,120,160 | 5,935,668 | 6,881,066 |

As mentioned previously, when using pay-go financing, the City must save up or already have the money needed to construct capital projects. This presents an obvious drawback to pay-go financing and a benefit to debt financing because the City does not have the cash on hand to invest in the above described infrastructure projects, and saving money, especially for the Park Improvements, will take too long for the current citizens to receive benefits from improved recreational infrastructure. Also, because these capital improvement projects described above need investment within a short time span, using pay-go financing for all necessary capital improvement projects would be impossible. By using debt financing, the lead time before breaking ground on a project will be substantially reduced, and the infrastructure improvements will be available to current residents sooner rather than later.

Therefore, staff is recommending that the Project be debt-financed with Certificates of Participation. The revenue source for the debt service would nominally be the City's general fund but actually would be the net operating income from the MLK Facility leases. The primary leases contributing to the net operating income are with the three anchor tenants (Lycee Francais, New Village School and Sophia Collier). These leases are 5 year leases, with three five year options to renew by the tenants. The tenants requested long-term leases because the tenants were investing (and have invested) substantial tenant improvements. Therefore the City proposed four five-year terms with the tenants (not the City) having unilateral options to renew. There are more than 15 years on each of the renewals (see table below). All leases have annual rent inflators. Staff is recommending that the Certificates of Participation have a term of fifteen (15) years to be coterminous with the remaining option years of the existing leases with the anchor tenants.

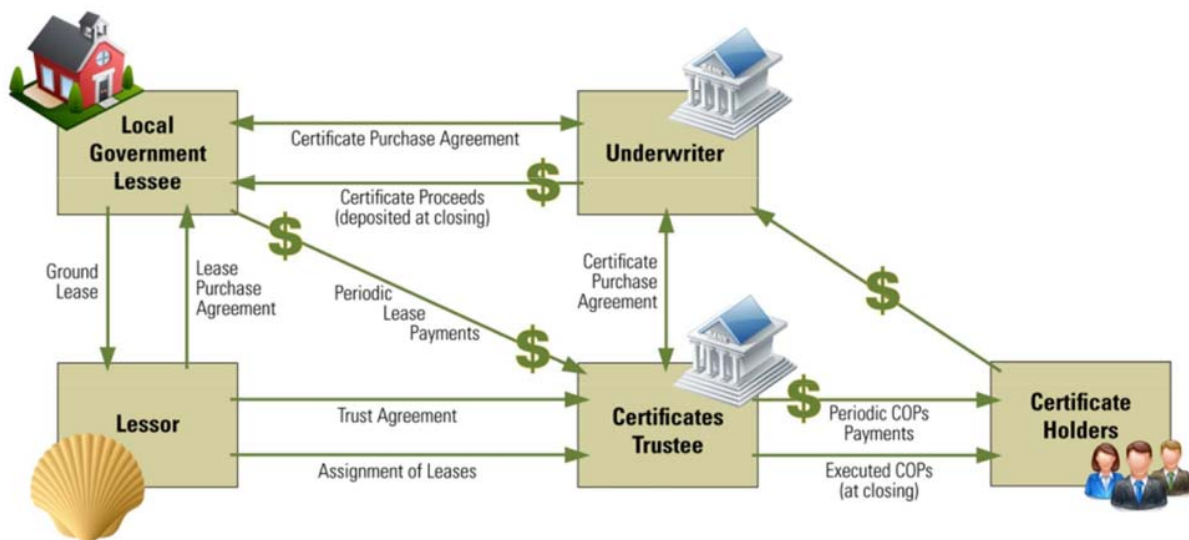
MLK TENANT LEASE OVERVIEW

| MLK TENANT | USE | BLDG. # | LEASE EFF. DATE | LEASE EXP. DATE | OPTIONS TO RENEW | EXTENDED EXPIRATION DATE | FY16 ANNUAL RENT |
|----------------------|---------------------|---------|-----------------|-----------------|---------------------|--------------------------|------------------|
| New Village School | K-8 School | 1 | 2/1/09 | 6/30/17 | 3 Each for 5 Yrs. | 6/30/32 | \$ 179,720 |
| Radio Sausalito | Radio/Storage | 1 | 2/1/09 | mo. to mo. | None | | \$ 2,503 |
| Sausalito Yacht Club | Storage | 1 | 12/1/08 | mo. to mo. | None | | \$ 5,166 |
| George Dapsevicuius | Jewelry/Gem Design | 2 | 11/1/99 | 9/30/18 | None | | \$ 11,608 |
| Pippa Murray | Mosaic Artist | 1,2 | 9/1/04 | 11/30/18 | 1 Option for 5 Yrs. | 11/30/23 | \$ 22,810 |
| Steve Sara | Artist | 2 | 12/1/08 | 9/30/18 | None | | \$ 11,312 |
| David Maisel | Photographer/Artist | 3 | 1/1/05 | mo. to mo. | None | | \$ 18,729 |
| Lycee Francais | Pre-K thru 5 School | 3,4,5 | 9/1/13 | 8/31/18 | 3 Each for 5 Yrs. | 8/31/33 | \$ 804,475 |
| Benicia Gantner | Artist | 7 | 3/1/15 | 2/28/17 | None | | \$ 12,515 |
| Birgit Wick | Design | 7 | 3/30/12 | mo. to mo. | None | | \$ 8,424 |
| Carlos Baddell | Boat Repair | 7 | 5/1/04 | 11/30/18 | None | | \$ 15,725 |
| Daniel Danilof | Design/Photography | 7 | 2/1/06 | 11/30/18 | None | | \$ 13,625 |

| | | | | | | | |
|------------------------|---------------------|---|----------|------------|-------------------|---------|--------------|
| Douglas Sandberg | Photographer | 7 | 4/22/09 | mo. to mo. | None | | \$ 9,381 |
| Gary Ferber | Photographer | 7 | 5/1/06 | mo. to mo. | None | | \$ 9,861 |
| James Cavanaugh | Video/Documentary | 7 | 5/1/88 | 9/30/18 | None | | \$ 16,118 |
| John Donovan Cabinetry | Carpenter | 7 | 5/1/04 | 3/1/18 | None | | \$ 4,705 |
| John Lund | Stock Photography | 7 | 12/14/05 | 12/14/18 | None | | \$ 21,351 |
| Lorna Newlin | Ceramic/Pottery | 7 | 12/14/05 | 11/30/09 | None | | \$ 8,219 |
| Michael Seaman | Boat Repair | 7 | 4/1/04 | 9/30/18 | None | | \$ 4,351 |
| Richard Morton | Antique Restoration | 7 | 8/1/06 | mo. to mo. | None | | \$ 23,301 |
| Sophia Collier | Sculpture Artist | 7 | 3/9/11 | 7/31/17 | 3 Each for 5 Yrs. | 6/30/32 | \$ 78,235 |
| TOTAL RENT | | | | | | | \$ 1,282,133 |

Certificates of Participation

When financing capital projects, cities generally can lower their borrowing costs by selling lease obligations to the capital markets with an underwriter allocating portions of the financing to multiple investors, rather than relying on a single or small group of investors as in a privately placed lease. To reach this broad investor base, agencies issue Certificates of Participation (COPs) as tax-exempt lease obligations. COPs pay tax-exempt interest and enjoy the liquidity of a marketable security, akin to a municipal bond. Technically, a COP is a security that evidences an undivided fractional interest in an underlying lease or installment sale agreement. In other words, a COP entitles its owner to a proportionate share of lease (or installment sale) payments made by a government agency pursuant to a lease (or an installment sale) agreement. For all intents and purposes, COPs function like municipal bonds.



Sausalito Finance Authority

To satisfy legal requirements, COP transactions involving tax-exempt leases require both a Lessor and a lessee. Under California state law cities (Lessees) may issue tax-exempt Certificates of Participation through a public financing authority (Lessors). The City of Sausalito (Lessee) has previously created the Sausalito Municipal Financing Authority (Lessor) on

November 18, 2014. The Sausalito Finance Authority will act as the lessor for the purpose of financing the Project.

Staff is requesting City Council authorization to complete the issuance of Certificates of Participation in a principal amount of not to exceed \$8,500,000 (although only the amount required to finance the Project will actually be issued), a maximum term of 15 years and a maximum true interest rate of 4.50%.

In January of 2015, the Sausalito Financing Authority issued its Sewer Revenue Bonds in the amount of \$6,750,000. At the time, the financing of the Project was not contemplated and the Sewer Bonds were sold as "bank qualified" bonds which provided bank purchasers of the Bonds certain tax benefits. Bank qualification of the Bonds imposed a total bond issuance limit for the City and all subordinate entities of the City (including the Sausalito Financing Authority) of \$10,000,000 in calendar year 2015. This means that a maximum of \$3,250,000 of certificates can be issued for the Project in 2015 ($\$10,000,000 - \$6,750,000 = \$3,250,000$) and the remaining amount will need to be issued in 2016. Rather than structure two separate financings, it is proposed that the Certificates of Participation be issued in two parts, the first to fund in August of 2015 and the second to fund in 2016 (this is called a forward delivery). If, at the time the Certificates of Participation are placed into the market, there is insufficient interest in the sale of a forward delivery issue, only the first portion (\$3,250,000) will be completed in 2015 and a second issue would be completed in 2016.

MLK Fund / General Fund Interfund Loan

Over the years, the General Fund has provided working capital to the MLK Enterprise Fund. The total invested by the General Fund is \$3,398,889; and unpaid interest expense of \$2,949,620 has been accreted for a total of \$6,348,509. Staff recommends that the City Council eliminate this interfund loan in return for the MLK Enterprise Fund use of proceeds for the Parks capital improvements of the Project.

FINANCING TEAM

COP transactions require the professional assistance of the same municipal finance industry professionals who assist in conventional bond offerings: investment bankers, bond counsel, municipal advisors, rating agency representatives, and others. COP transactions also require a trustee to collect and disburse lease (or installment sale) payments to multiple investors.

Bond Counsel:

Quint & Thimmig LLP-This firm has served as the Bond Counsel for the City, since 2003. The firm, located in Larkspur, specializes in providing bond counsel services to local agencies in California and has participated in more than 1,500 financings since the inception of the firm in 1997. Quint & Thimmig served as bond counsel and disclosure counsel in connection with the 2009 General Obligation Bonds and as bond and disclosure counsel in connection with the 2015 Sausalito Financing Authority Sewer Revenue Bonds.

Municipal Advisor:

NHA Advisors, LLC – Mr. Craig Hill has served as Municipal Advisor to the City since 2013 and throughout the recently conducted and adopted sewer rate study. NHA Advisors provides municipal advisory services to over 50 public agencies throughout California with a focus on local government and special districts including many agencies in Marin County.

Underwriter:

To be determined – staff is proposing a competitive request for proposals to select an underwriter for a negotiated sale based on the lowest true interest cost in the market on the day of the sale.

Underwriter’s Counsel:

To be determined – Underwriter’s counsel is customarily selected by the underwriter to represent the underwriter and its interests in a negotiated sale. Underwriter’s counsel will customarily review, from the underwriter’s perspective the documents prepared by bond counsel, and will negotiate matters relating to those documents on behalf of the underwriter.

Trustee:

The Bank of New York Mellon Trust Company – Currently serves as Trustee for the 2009 General Obligation Bonds and for the 2015 Sausalito Financing Authority Sewer Revenue Bonds. The Bank maintains an excellent banking reputation, and has performed the required responsibilities reliably for the 2009 General Obligation Bonds and the 2015 Sausalito Financing Authority Sewer Revenue Bonds.

CERTIFICATES OF PARTICIPATION DOCUMENTS

Site and Facility Lease

Under this agreement, the City will lease the MLK campus to the Authority.

Lease Agreement

Under this agreement, the City will lease the MLK campus from the Authority, will agree to make semi-annual lease payments and will agree to comply with certain covenants, including to maintain the MLK property.

Assignment Agreement

Under this agreement, the Authority will assign to the Trustee its right to receive lease payments from the City and the City will then make such payments directly to the Trustee.

Trust Agreement

This agreement is between the City of Sausalito and The Bank of New York Mellon Trust Company as Trustee. The agreement includes provisions that (i) authorizes the issuance of the Certificates of Participation, (ii) describes the terms of such Certificates of Participation, (iii) contains certain covenants, (iv) pledges revenue and (v) appoints The Bank of New York Mellon Trust Company to serve as Trustee for the payment of the Sausalito Certificates of Participation.

Preliminary Official Statement

This is the offering document by which the Underwriters will market the Sausalito Certificates of Participation, It describes the Certificates of Participation, the use of proceeds, security and sources of repayment, the City's leases, various risk factors and other matters that a potential investor may consider relevant in its decision to purchase the Certificates of Participation. The Preliminary Official Statement will be in substantially final form, except for the interest rates and final amounts by maturity, which will be known only after the competitive sale. Because the Certificates of Participation will be sold in two series, one to fund in August 2015 and the other to fund in January 2016, the Preliminary Official Statement describes both series separately as they may have distinct interest rates and redemption provisions

Certificate Purchase Agreement

Pursuant to this document, the Underwriter agrees to purchase the Certificates of Participation in specified amounts and at specified rates. There will be two Certificate Purchase Agreements, one for each series of the Certificates of Participation.

Continuing Disclosure Certificates

This document sets forth the responsibility of the City to provide an annual report to the marketplace. The annual report consists of audited City financial statements and updates of certain information provided in the Official Statement. There will be two Continuing Disclosure Certificates, one for each series of the Certificates of Participation.

FISCAL IMPACT

The anticipated total par amount for the COPs is anticipated to be approximately \$8,100,000, \$7,200,000 of which will be used to fund the MLK campus and park projects. Transaction costs are estimated to total \$240,000 (\$160,000 for costs of issuance and \$80,000 for underwriter fees). In addition, approximately \$680,000 of the proceeds will be used to fund a debt service reserve fund. However, this reserve fund will be used to pay debt service in the final year.

STAFF RECOMMENDATIONS

Staff recommends that:

1. The City Council of the City of Sausalito and the Board of Directors of the Sausalito Finance Authority conduct a Joint Public Hearing to approve the issuance of Certificates of Participation to finance capital improvements to the City's MLK campus and Robin Sweeney, Southview and Dunphy Parks, including, but not limited to, site improvements, roofing, exterior enclosure, plumbing, electrical systems and equipment upgrades (collectively, the "Project")
2. Move that the City Council of the City of Sausalito approve the resolution providing for a Tax Equity and Reform Act public hearing on the issuance of Certificates of Participation and the nature of the improvements for the Project; and,
3. Move that the City Council of the City of Sausalito approve the resolution approving proceedings to finance capital improvements to the Project, approving the issuance of Certificates of Participation by the Sausalito Financing Authority for such purposes and approving related documents and official actions; and,
4. Move that the Board of Directors of the Sausalito Financing Authority approve the resolution authorizing the issuance and sale of Certificates of Participation to finance capital improvements to the Project and approving related documents and official actions.

ATTACHMENTS

1. TEFRA Notice
2. City Council Approving Resolution
3. City Council TEFRA Resolution
4. Authority Resolution
5. Certificate Purchase Agreements
6. Site and Facility Lease
7. Lease Agreement
8. Assignment Agreement
9. Trust Agreement
10. Continuing Disclosure Certificates
11. Preliminary Official Statement

REVIEWED BY:

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PREPARED BY:



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Director of Administrative Services / Treasurer

SUBMITTED BY:

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City Manager