



STAFF REPORT

SAUSALITO CITY COUNCIL

AGENDA TITLE

Action by the City Council of the City of Sausalito and the Sausalito Financing Authority to Reauthorize the execution, sale and delivery of Certificates of Participation(COPs) to finance capital improvements to the City's MLK campus and Robin Sweeny, 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 reauthorize 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,
2. Move that the Board of Directors of the Sausalito Financing Authority reauthorize the resolution authorizing the issuance and sale of COPs to finance capital improvements to the Project and approving related documents and official actions.

BACKGROUND

On June 24, 2015 the City Council and the Sausalito Financing Authority approved resolutions authorizing the issuance of up to \$8,500,000 in Certificates of Participation (COPs) which included approximately \$7.2 Million in project funds to cover the cost of MLK Campus and Park Capital Projects:

<u>Project</u>	<u>Amount</u>
MLK Campus Project	\$3,038,045
Robin Sweeny Park	1,150,000
Southview Park	1,150,000
Dunphy Park	<u>1,855,333</u>
Total	\$7,193,378

At least \$1,000,000 will be spent at each park. In June 2015, the projected annual COPs debt service was estimated at approximately \$700,000 per year which was anticipated to be covered by MLK lease revenues. The COP lease payments run coterminous with the tenant leases. The COPs anticipated funding a debt service

reserve fund (\$680,000) and all transaction costs in addition to the project amounts shown above.

After the Council's action in June, the City received a notice of lawsuit to halt the financing of these Park and MLK Campus projects. The City Council elected to place the matter on the November 2015 ballot for an advisory vote of Sausalito residents. The advisory vote was held and 64% of the voters cast their ballots in favor of proceeding with the COPs for Park and MLK Campus project funding.

Action at tonight's meeting will enable the Council to reauthorize the issuance of the COPs and move forward with the Park and MLK Campus Projects.

UPDATES ON THE FINANCING

Since the City Council's action in June, Staff has been working with the Financing Team on the details of the COPs and looking for ways to reduce financing costs. Here are some key updates on the COP process and structure that have been completed since the initial Council action in June:

- **Bond Rating & Debt Reserve Fund:** The City received a "AA" Rating from Standard & Poor's for the COPs based on the City's financial management, recurring revenue sources and project essentiality. The high rating has allowed the City to remove the credit requirement to fund a Debt Service Reserve Fund, reducing the amount financed by over \$600,000.
- **First Year Debt Payment:** While developing the COP structure, Staff and NHA explored adding an initial payment in May 2016. Depending on market conditions, this payment is estimated to be \$190,000. It will include a payment estimated at \$25,000 at closing in January and the balance of the amount in May. The benefit of this approach is that it will reduce the annual cost of the COPs for the following 14 years.
- **Bank Qualified:** The City can benefit from being a small issuer (borrowing under \$10 Million in a calendar year) by designating the COPs as "Bank Qualified". This allows a larger investor group to purchase the COPs and therefore reduce the interest rate. A review was done on whether the City was better off with a Bank Qualified Issue vs. a traditional tax-exempt issuance excluding banks as possible investors in the COPs and the financial benefit of designating the COPs as "Bank Qualified" potentially could be \$20,000 in interest savings through the 2029-30 fiscal year. The proposed COPs are proposed to be Bank Qualified.
- **Selection of Underwriter:** Staff worked with NHA Advisors, the Municipal Advisor on the COP issuance to select an underwriting firm. Four firms submitted Statements of Qualifications for the COPs. Raymond James was selected for providing an aggressive marketing approach which historically

provides the lowest interest rates and an underwriting fee that is significantly lower than any of the other firms.

The result of this work is reflected in the COPs financing documents attached to this report. It results in a significant reduction in cost to the City over the life of the financing as shown below:

Original vs. Updated COP (Est.)	June 2015	Dec 2015	Variance
Average Annual Debt Service	\$700,000	\$630,000	(\$70,000)
Target Value	\$8,100,000	\$7,400,000	(\$700,000)
Cost of Issuance	\$205,000	\$205,000	\$0

NEXT STEPS & TIMING

If the City Council and the Financing Authority adopt the Staff Recommendation to move forward with the Parks and MLK Campus Financing at tonight's joint Meeting, we have developed a time line that will bring the COPs to market during the week of December 14 with a closing on January 7, 2016. Once the COPs issue has closed, funds will become available to the City and work will begin on the projects starting with Robin Sweeny Park.

FINANCE COMMITTEE REVIEW

The Finance Committee reviewed the process and timing of the reauthorization of the COPs at their November 18, 2015 meeting. Committee members recommended moving ahead with the reauthorization and issuance of the COPs with these recommendations:

1. Prepare a mid-year budget adjustment in the MLK Operating Budget to cover the actual cost of the COP debt service payment in May 1, 2016. The actual amount will be determined when the COP transaction closes in January 2016.
2. A portion of the MLK project expenses will be covered by tenants (estimated to exceed \$300,000). Under the terms of the COPs, these funds will be used for Capital Projects which could include mandated ADA Capital Projects and Parks Projects. The committee recommends consideration of the use of these funds during the 2016-18 Operating Budget development process.

Staff concurs with the recommendations from the Finance Committee. If the City Council agrees, these matters will be brought back to the Council during the mid-year budget adjustments in February (item 1) and during the 2016-18 Budget development process (items 2 and 3).

FISCAL IMPACT

The anticipated target value for the COPs is approximately \$7,400,000. This includes \$7,193,378 in project funds that will be used to fund the MLK Campus and multiple Park projects. COPs financing costs are estimated to total \$205,000 (\$170,000 for costs of issuance and \$35,000 for underwriter fees).

Annual debt service on the COPs is estimated to be approximately \$630,000 per year over a 14 year period beginning in 2016-17 through the 2029-30 fiscal year. Funds to cover this debt service will be available from the MLK tenant lease payments to the City.

There will also be an initial debt service payment in the current fiscal year that is estimated to be approximately \$190,000 (described earlier in the report). This payment will be paid from the MLK Fund Balance. The actual amount of the payment will be added to the MLK Operating Budget during the mid-year budget adjustments in February 2016.

Portions of the \$3 Million in MLK Improvement Expenses are improvements which are the responsibility of the tenants under the lease agreements with the City. The actual amount of tenant improvements (currently estimated to exceed \$300,000) will not be expended on those tenant improvements but will remain in the COPs Project Proceeds, available for other Capital Project Expenses (such as required ADA work and Parks Projects) per the terms of the COPs. The use of these funds will be determined by the City Council at a future date.

STAFF RECOMMENDATIONS

Move that the City Council of the City of Sausalito reauthorize 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,

3. Move that the City Council of the City of Sausalito reauthorize the resolution approving proceedings to finance capital improvements to the Project, approving the issuance of Certificates of Participation for such purposes and approving related documents and official actions; and,
4. Move that the Board of Directors of the Sausalito Financing Authority reauthorize 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. Council & Authority Report – Approval of COPs (June 24, 2015)
2. Resolution –City Council Reauthorization of COPs
3. Resolution – Sausalito Finance Authority Reauthorization
4. Certificate Purchase Agreement
5. Site and Facility Lease
6. Lease Agreement
7. Assignment Agreement
8. Trust Agreement
9. Continuing Disclosure Certificates
10. Preliminary Official Statement

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