



Legislation Text

File #: 21-0199, **Version:** 1

TO:

Honorable Mayor and Members of the City Council

THROUGH:

Bruce Moe, City Manager

FROM:

Steve S. Charelian, Finance Director
Julie Bondarchuk, Financial Controller
Libby Bretthauer, Financial Services Manager

SUBJECT:

Consideration of a Resolution Approving the Issuance of Certificates of Participation Not-to-Exceed \$9.7 Million to Reconstruct Fire Station No. 2 and Related Documents (Finance Director Charelian).

ADOPT RESOLUTION NO. 21-0063

RECOMMENDATION:

Staff recommends that the City Council adopt Resolution No. 21-0063 approving the issuance of Certificates of Participation to Reconstruct Fire Station No. 2 and approving the execution and delivery of related documents. Resolution No. 21-0063 approves a Second Amendment to a Site and Facilities Lease, a Second Amendment to the Lease Agreement, a Second Supplement to the Trust Agreement, a Certificate Purchase Contract, an Official Statement, a Continuing Disclosure Certificate; and authorizes the taking of certain actions in connection with the issuance of Certificates of Participation in an amount not to exceed \$9.7 million.

FISCAL IMPLICATIONS:

The design development phase of this project was budgeted in the CIP Fund for \$777,441 and supported by a General Fund transfer of \$540,000 to expedite the project. While some capital projects may be funded with existing resources, larger and costlier projects with extended useful lives often require the issuance of debt to spread the costs over multiple years for affordability and to achieve intergenerational equity. Construction costs for the project can be funded by the City through the sale of tax-exempt Certificates of Participation (COPs).

The fiscal year (FY) 2021-2022 Adopted Budget included debt service estimated at \$450,000 per year over a 30-year term at current historically low interest rates based on the original construction estimate of \$9.5 million. The Adopted Budget also included bond proceeds of \$770,000 anticipated as CIP Fund revenues to recover design costs within the bond issuance.

The revised estimate of \$9.7 million for construction, the design reimbursement, costs of issuance, and underwriter's discount can all be accommodated due to the high premium anticipated during the sale of the bonds.

Sources

Par Amount	\$ 9,500,000
Premium	<u>1,205,805</u>
TOTAL SOURCES	\$10,705,805

Uses

Project Fund	\$ 9,700,000
Design Reimbursement	770,000
Cost of Issuance	164,044
Underwriter's Discount	71,250
Rounding	<u>511</u>
TOTAL USES	\$10,705,805

BACKGROUND:

On March 2, 2021, the City Council approved the final design for the replacement of Fire Station No. 2, and adopted Resolution No. 21-0024 approving the intention to issue Certificates of Participation up to \$9.5 million (par amount) to fund the construction project.

Based on updated cost estimates for construction, construction management and inspection services, as well as other ancillary costs necessary to complete the project, the estimated cost for the construction phase was revised to \$9.7 million. Bids received for construction of the project were slightly lower than anticipated. However, proposals for services to support the administration of the construction contract, and the proposals/estimates for completing the ancillary work to make the new Fire Station No. 2 fully operational, are much higher than originally estimated. In addition, there are still unknown costs associated with permitting and coordination with the utility companies (particular SCE); with providing enhanced public outreach in advance of and during construction activities; and with project administration (mailing, printing, etc.) performed by the City. These factors account for the \$200,000 increase in estimated construction phase costs. The authorization to proceed with the award of construction contracts is included in a separate City Council agenda item scheduled for the August 3rd City Council meeting.

DISCUSSION:

The existing Fire Station No. 2 is 66 years old, has reached the end of its useful life and is inadequate for operating a modern fire department. Reconstruction of the fire station was identified by the City Council as a high priority project. Financing the project cost over time was previously approved by the City Council on March 2, 2021.

Several documents require City Council and/or Capital Improvements Corporation approval in order to move ahead with this financing. In the interest of source reduction, all of the documents, regardless of whether approved by one or both entities, are presented once within this staff report. A brief description of each document is listed as well.

Resolution No. 21-0063

If adopted, the City resolution approves the documents (Second Supplement to Trust Agreement, Second Amendment to the Site and Facilities Lease, Second Amendment to the Lease Agreement, Certificate Purchase Contract, Official Statement, and Continuing Disclosure Certificate) and authorizes the execution and delivery of COPs for the construction of Fire Station No. 2.

Capital Improvements Corporation Resolution No. CIC-10

If adopted, the Capital Improvements Corporation resolution approves the documents (Supplement to the Trust Agreement, Amended Site and Facilities Lease, Amendment to the Lease Agreement, Certificate Purchase Contract, Amendment to Assignment Agreement) and authorizes the execution and delivery of COPs for the construction of Fire Station No. 2.

Second Supplement to Trust Agreement

This document establishes/continues the City's existing relationship with U.S. Bank as trustee to encompass the 2021 COPs for Fire Station No. 2. U.S. Bank will be responsible for receiving proceeds of the 2021 COPs and distributing funds, handling on-going principal and interest payments, as well as other expenses associated with the 2021 Certificates of Participation. (Executed by City and Capital Improvements Corporation)

Second Amendment to Site and Facilities Lease

This agreement amends the existing lease on the Police/Fire Facility land and improvements from the City to the City's Capital Improvements Corporation to encompass the 2021 COPs. (Executed by City and Capital Improvements Corporation)

Second Amendment to Lease Agreement

This agreement amends the existing lease of the property from the City's Capital Improvements Corporation back to the City. This establishes the framework for lease payments to be made by the City to the Capital Improvements Corporation. The Capital Improvements Corporation assigns these lease payments to the Trustee, who then pays the investors (in practice, the actual payments are made directly from the City to the Trustee - see the Assignment Agreement below). (Executed by City and Capital Improvements Corporation)

Certificates Purchase Contract

This agreement is among the Underwriter (BofA Securities, Inc.), the City and the Capital Improvements Corporation whereby BofA Securities, Inc. agrees to purchase the COPs from the City for marketing purposes. (Executed by City and Capital Improvements Corporation)

Official Statement

This document is used to market the COPs and includes demographic, financial and other information about the City and the Fire Station No. 2 project. Under federal securities laws, this document must contain all relevant information relating to the financing and to City finances generally that would be material to investors. For approval purposes, the statement is preliminary, subject to minor modifications. (Executed by City and Capital Improvements Corporation)

Amendment to Assignment Agreement

This document amends the existing assignment by the Capital Improvements Corporation of its rights to receive lease payments from the City pursuant to the lease agreement directly to the Trustee (U.S. Bank) to encompass the 2021 COPs. (Executed by Capital Improvements Corporation only)

Continuing Disclosure Certificate

This document, executed by the City, includes a list of annual City reporting requirements and events that, if they were to occur, would require disclosure during the life of the COPs.

Good Faith Estimates

In compliance with SB 450, the City has obtained from its Municipal Advisor good faith estimates of total costs to be incurred by the City in connection with the COPs. The estimates are an attachment to this report.

Copies of all of the documents have been included with this report. These documents are in substantially final form; however, minor modifications may need to be made during the course of the financing including the final terms of the pricing subject to the thresholds included in the Resolution. By adopting Resolutions 21-0063 (and CIC-10) the City Council (and Board of Directors) authorize the Mayor (President) and City Manager (Chief Administrative Officer) to negotiate those changes, and execute the final versions of the agreements when in final form. All final documents will be approved as to form by the Special Counsel. If the financing is approved, the documents will be finalized with the sale of the certificates of participation expected to take place in early August, subject to market conditions.

Marketing of Certificates of Participation

As has been approved by City Council for recent debt issuances, staff has included BofA Securities, Inc. as the underwriter. BofA Securities, Inc. has retail and institutional marketing channels, which will ensure a successful sale of the COPs. In addition to the usual channels, BofA Securities, Inc. will place an advertisement in The Beach Reporter to notify residents of the opportunity to purchase the COPs. In past City bond sales, this approach has generated a high degree of interest among residents.

Capital Improvements Corporation

The Manhattan Beach Capital Improvements Corporation was formed in 1996 to facilitate the execution and delivery of COPs for improvements to the water and wastewater systems (which were refunded in 2012). The Capital Improvements Corporation was also the conduit for the Marine Sports Field COPs in 2002 (refunded in 2016), the Metlox Public Improvements in 2003 (also refunded in 2012), and the original Police & Fire Facility financing in 2004 (refunded in 2013).

On the agenda this evening is a meeting of the City's Capital Improvements Corporation. That meeting is an integral part of the approval process. Please refer to the associated staff report for that agenda item.

Rating

Staff has requested a rating from Standard and Poor's (S&P) for this issue. S&P performed a rating call with the City on July 14th, 2021. The actual rating is expected to be received by July 19th in advance of marketing the COPs. With the City's maintenance of Triple-A General Obligation (G.O.) Bond rating from S&P, the expected rating of this issue is AA+. It is standard that COPs, which are not backed by the City's general taxing authority, are rated one level below the G.O. rating, which places this at the AA+ level. Staff will advise the City Council upon receipt of the rating from S&P.

PUBLIC OUTREACH:

After analysis, staff determined that public outreach was not required for this issue.

ENVIRONMENTAL REVIEW:

The City has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that the activity is not a "Project" as defined under Section 15378 of the State CEQA Guidelines; therefore, pursuant to Section 15060(c)(3) of the State CEQA Guidelines

the activity is not subject to CEQA. Thus, no environmental review is necessary.

LEGAL REVIEW:

The City Attorney has reviewed this report and determined that no additional legal analysis is necessary. Bond Counsel has prepared the draft resolution and approved it as to form.

ATTACHMENTS:

1. Resolution No. 21-0063
2. CIC Resolution No. CIC-10
3. Second Supplement to Trust Agreement
4. Second Amendment to Site and Facilities Lease
5. Second Amendment to Lease Agreement
6. Certificates Purchase Contract
7. Official Statement
8. Amendment to Assignment Agreement
9. Continuing Disclosure Certificate
10. Good Faith Estimates