



CITY OF SALINAS COUNCIL STAFF REPORT

DATE: MARCH 6, 2018

DEPARTMENT: FINANCE DEPARTMENT

FROM: MATT N. PRESSEY, CPA, FINANCE DIRECTOR

**TITLE: POLICE STATION AND EL GABILAN LIBRARY PROJECTS – PUBLIC
HEARING ON FINANCING**

RECOMMENDED MOTION:

A motion to adopt the attached Ordinances authorizing the public leaseback from Salinas Public Facilities Inc., a California nonprofit public benefit corporation, formerly known as “Salinas Public Safety Facilities Inc.” (“SPF”) to finance costs of (1) developing and constructing a new police station facility, and (2) developing and constructing the new El Gabilan Library.

RECOMMENDATION:

Staff recommends City Council adopt two Ordinances:

- Authorizing a transaction whereby the City requests that SPF lease the land from the City for a new police station facility pursuant to a ground lease and lease the premises constituting the police station facility back to the City pursuant to a project lease,
- Authorizing a transaction whereby the City requests that SPF lease the land from the City for the new El Gabilan Library pursuant to a ground lease and lease the premises constituting the El Gabilan Library back to the City pursuant to a project lease,
- Approving the issuance of lease revenue bonds by SPF to finance costs of the two projects.

DISCUSSION:

In order to expedite the development and construction of the new police station facility and the new El Gabilan Library, staff is proposing to enter into a financing program with SPF whereby the City will enter into lease/leaseback transactions with SPF for the two projects. Pursuant to a ground lease and project lease for each of the transactions, SPF will design, construct and equip the facilities in a manner acceptable to the City. To finance the facilities, SPF will issue tax-exempt bonds as described below:

Police Station Facility:

SPF proposes the issuance of not to exceed \$60,000,000 of lease revenue bonds to pay a portion of the costs of a plan of finance consisting of designing, permitting, constructing and equipping a new public safety building, including ancillary parking and related facilities, to be located at 312 East Alisal Street in Salinas, and paying costs of issuing the bonds. SPF will be the initial owner of the bond-financed facilities, and the City will be the user of the facilities. The City's payments of rent under a lease for the police station facility will be used to pay debt service on the bonds, but the bonds will not in any way constitute an obligation or debt of the City. The City will only be obligated to make lease payments for so long as it has beneficial use and occupancy of the police station facility. Lease payments are expected to be made from the City's Measure G Fund. The sale of the bonds to finance the police station facility is anticipated to occur in June 2018. Financing documents relating to this bond issuance, including substantially final forms of the ground lease and project lease, are expected to be presented to the City Council in May 2018.

El Gabilan Library:

SPF proposes the issuance of not to exceed \$22,000,000 of lease revenue bonds to be issued by Salinas Public Safety Facilities Inc. to pay a portion of the costs of a plan of finance consisting of designing, permitting, constructing and equipping the El Gabilan Library expansion, including ancillary parking, to be located at 1400 N. Main Street in Salinas, and paying costs of issuing the bonds. SPF will be the initial owner of the bond-financed facilities, and the City will be the user of the facilities. The City's payments of rent under a lease for the library will be used to pay debt service on the bonds, but the bonds will not in any way constitute an obligation or debt of the City. The City will only be obligated to make lease payments for so long as it has beneficial use and occupancy of the library facility. Lease payments will be made from the City's Measure E Fund and are currently estimated at \$850,000 per year. The total cost of the project is estimated at \$20 million. The SPF and the City are working with the developer to finalize details to determine a guaranteed maximum price the developer will commit to. Over \$6 million has been set aside and is available for the project. The \$6 million includes \$1.4 million from the credit union, \$0.3 million from Library impact fees, and \$4.3 in Measure E funds. As future library impact fees are collected, they will also be used to make lease payments. The sale of the bonds to finance the library facility is anticipated to occur in June 2018. Financing documents relating to this bond issuance, including substantially final forms of the ground lease and project lease, are expected to be presented to the City Council in May 2018.

Analysis:

The City's capital program includes the development of the police station facility and the El Gabilan Library expansion. Staff has concluded that a Public-Private Partnership through SPF constitutes the most cost-effective means of completing these projects. Under the arrangement with SPF, the City will rely on SPF's expertise to execute the development program. To date, a contractor, Griffin Industries, was selected through a request for proposals on April 18, 2017. A team including SPF, the contractor and City staff have been engaged in the development of design specifications and project budgets for the two projects.

Effects of the Ordinances:

Approval of the Police Station Ordinance will accomplish the following:

- Approves preliminary drafts of the following documents:
 - Ground Lease (Attached)
 - Project Lease (Attached)
- Authorizes the City to continue working with SPF on financing the police station project. Substantially final leases, a bond disclosure document, and other financing documents will be presented to the City Council for approval, around May 2018.

Approval of the El Gabilan Library Ordinance will accomplish the following:

- Approves preliminary drafts of the following documents:
 - Ground Lease (Attached)
 - Project Lease (Attached)
- Authorizes the City to continue working with SPF on financing the library project. Substantially final leases, a bond disclosure document, and other financing documents will be presented to the City Council for approval, probably in May 2018.

CEQA CONSIDERATION:

Police Station Facility: Mitigated Negative Declaration adopted by the City Council on January 23, 2018.

El Gabilan Library: Conditional use permit and notice of CEQA exemption approved by the City's Planning Commission on February 7, 2018.

STRATEGIC PLAN INITIATIVE:

The proposed financing promote the Council Goals of Excellent Infrastructure and Effective Sustainable Government.

FISCAL AND SUSTAINABILITY IMPACT:

To facilitate the Police Station and El Gabilan Library projects, SPF will issue two series of bonds later in the year, subject to City Council approval with regards to the rent payments that will secure these bonds. Staff anticipates that rental payments for the Police Station financing will be paid through an appropriation of approximately \$4.8 million of Measure G funding per year. Staff anticipates that rent payments for the El Gabilan Library expansion will be paid through an appropriation of approximately \$850,000 of Measure E funding per year.

ATTACHMENTS:

1. Police Station Ordinance
2. Police Station Ground Lease (preliminary draft)
3. Police Station Project Lease (preliminary draft)

4. El Gabilan Library Ordinance
5. El Gabilan Library Ground Lease (preliminary draft)
6. El Gabilan Library Project Lease (preliminary draft)