



CITY OF SALINAS COUNCIL STAFF REPORT

DATE: MAY 15, 2018

DEPARTMENT: FINANCE DEPARTMENT

FROM: MATT N. PRESSEY, CPA, FINANCE DIRECTOR

**TITLE: POLICE SERVICES HEADQUARTERS AND EL GABILAN BRANCH
LIBRARY PROJECTS – RESOLUTIONS TO ESTABLISH LEASEBACK
PARAMETERS AND COMPLETE BOND SALE PROCESS**

RECOMMENDED MOTION:

A motion to approve the attached Resolutions approving the legal documentation for the public leasebacks from Salinas Public Facilities Inc., a California nonprofit public benefit corporation (“SPF”), establishing parameters for such leasebacks and approving the bond sale process to finance costs of: (1) developing and constructing the new Salinas Police Services Headquarters (“SPSH”) , and (2) developing and constructing the new El Gabilan Branch Library.

RECOMMENDATION:

Staff recommends City Council approve two Resolutions:

1. Approving the legal documentation whereby SPF leases land from the City for the new SPSH pursuant to a ground lease and leases the premises constituting the Headquarters back to the City pursuant to a project lease, establishing parameters for the police station facility ground lease and project lease, approving a continuing disclosure certificate, designating bond counsel and a municipal advisor to execute a sale of bonds for the Headquarters and approving the official statement to be used in conjunction with the sale of bonds;
2. Approving the legal documentation whereby SPF leases land from the City for the new El Gabilan Branch Library pursuant to a ground lease and leases the premises constituting the Branch Library facility back to the City pursuant to a project lease, establishing parameters for the new El Gabilan Branch Library facility ground lease and project lease, approving a continuing disclosure certificate, designating bond counsel and a municipal advisor to execute a sale of bonds for the El Gabilan Branch Library facility and approving the official statement to be used in conjunction with the sale of bonds.

EXECUTIVE SUMMARY:

In accordance with the Tax Equity and Responsibility Act (“TEFRA”), On March 6, 2018, the City Council held a duly noticed TEFRA Public Hearing and adopted Ordinances approving lease/leaseback transactions for the SPSH project and the El Gabilan Branch Library facility. The Ordinances also authorized the City to continue working with SPF on financing the SPSH and El Gabilan Branch Library projects. At the March 6th meeting, City staff noted that substantially final leases, bond disclosure documents and other financing documents would be presented to the City Council for approval in May 2018.

The two Resolutions before the Council mark the next step to proceed with the police station project and El Gabilan Branch Library project utilizing the development, construction and financing program prepared in conjunction with SPF. Under this arrangement, 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.

BACKGROUND

During the past two-years, the City has been fully committed to bringing forth its two largest public facility projects in decades. Much of this time has been dedicated to identifying and updating the City’s functional needs, and conducting a robust public outreach effort that sought the community’s feedback to develop a new El Gabilan Branch Library and a new Police Services Head Quarters. The current El Gabilan Branch Library was built in the 1960’s, and is 3,350 square feet. In 2007, the State of California completed an independent study that determined the this Branch Library needed to be at least 20,000 square feet, in order to serve as many as 35,000 citizens. The current Police Headquarters was built in 1958, and was intended to originally house 95 sworn police and fire employees. Fire has long moved out, and the Police Department now employs approximately 174 sworn officers. A detailed needs study for the Police Department completed in 2014 and 2015, concludes that a new headquarters is required that is 75,000- 90,000 square feet, to hold between 250 and 300 sworn officers in the next 25-years.

On April 18, 2017, the City Council approved the predevelopment agreement with developer Griffin/Swinerton and architect LPA to begin the design of the new SPSH. The El Gabilan Branch Library needs study was underway at that time and would come forward to the City Council with its conclusions June 2017. By the fall of 2017, both projects schedules aligned, and on November 7, 2017, Council approved a predevelopment agreement with Griffin/Swinerton and Anderson Brule and Associates to design, build and deliver both the new EG Branch Library.

Using the IRS “63-20” Finance structure described in detail below, both projects are to arrive at a Guaranteed Maximum Price (“GMP”) in April 2018. The GMP was been presented by the developer and reviewed and approved by the City’s finance team before seeking bond financing.

DISCUSSION:

Pursuant to guidance provided by the Internal Revenue Service, bonds issued by a nonprofit corporation organized under the laws of the state of California in order to finance facilities in the state of California may qualify as tax-exempt obligations upon compliance with the requirements set forth in the Internal Revenue Code and associated regulations and revenue procedures. SPF has been formed as a nonprofit public benefit corporation for the purpose of designing, permitting, constructing and equipping a new police and library facilities and associated improvements for use by the City of Salinas. 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 SPSH, 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 the project 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 SPSH. Upon the completion of the police station facility and the commencement of the lease payments, the City anticipate a \$8.3 million pay-down of the bonds from accumulated Measure G funds and other moneys, reducing the amount of outstanding bonds and shortening the financing term to 2030, coinciding with the term of Measure G. Lease payments are expected to be made from the City’s Measure G Fund and are currently estimated at \$4.8 million annually through 2030. The sale of the bonds to finance the SPSH is anticipated to occur in June 2018.

El Gabilan Library:

SPF proposes the issuance of not to exceed \$22,000,000 of lease revenue bonds to be issued by SPF to pay a portion of the costs of a plan of finance consisting of designing, permitting, constructing and equipping the El Gabilan Branch 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. Upon the completion of the Library facility and the commencement of the lease payments, the City anticipates a \$3 million pay-down of the bonds from accumulated Measure E funds and other moneys, reducing the amount of outstanding bonds. Lease payments will be made from the City's Measure E Fund and are currently estimated at \$850,000 per year over a 30-year term ending in 2048. The sale of the bonds to finance the library facility is anticipated to occur in June 2018.

Analysis:

The City's capital program includes the development of the SPSH 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. Both the GMP for the SPSH and El Gabilan Branch Library are based upon 100% completed Design and Development Drawings.

As required by Government Code section 5852.1, Exhibit A includes information providing a good faith estimate of : (1) the true interest cost of the bonds, (2) the finance charge of the bonds (the sum of all fees and charges paid to third parties), (3) the estimated amount of proceeds and any reserves or capitalized interest and (4) the estimated total debt service on the bonds.

Effects of the Resolutions:

Approval of the Police Station Resolution will accomplish the following:

- Approves the form of the following documents, allowing designated Authorized Offices to execute such documents (except the Preliminary Official Statement), provided terms are consistent with certain parameters established in the Police Station Resolution:
 - Ground Lease (Attached)
 - Project Lease (Attached)
 - Preliminary Official Statement (Attached)
 - Continuing Disclosure Certificate (Attached)
- Approves the appointment of bond counsel and municipal advisor to help with the bond sale process.

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

- Approves the form of the following documents, allowing designated Authorized Offices to execute such documents (except the Preliminary Official Statement), provided terms

are consistent with certain parameters established in the El Gabilan Library Resolution:

- Ground Lease (Attached)
- Project Lease (Attached)
- Preliminary Official Statement (Attached)
- Continuing Disclosure Certificate (Attached)
- Approves the appointment of bond counsel and municipal advisor to help with the bond sale process and authorizes the City to provide information regarding the City for the official statement relating to the El Gabilan Library facility bonds.

CEQA CONSIDERATION:

Salinas Police Services Headquarters: Mitigated Negative Declaration adopted by the City Council on January 23, 2018.

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

STRATEGIC PLAN INITIATIVE:

Both the development of the new EG Branch Library and SPSH are significant investments in, align best with, and respond directly to the City Council's Strategic Plan Goal V: Quality of Life. They also advance the Council's goal to have a "Safe Livable Community," "Effective, Sustainable Government" and "Well Planned City and Excellent Infrastructure."

FISCAL AND SUSTAINABILITY IMPACT:

To facilitate the SPSH and El Gabilan Branch Library projects, SPF will issue two series of bonds in June, 2018, provided the lease payments are within the parameters established in the attached Resolutions. The lease payments associated with the bonds for the SPSH financing will be paid through an appropriation of approximately \$4.8 million of Measure G funding per year through 2030. The lease payments associated with the bonds for the El Gabilan Branch Library expansion will be paid through an appropriation of approximately \$850,000 of Measure E funding per year through 2048. The Measure G and E funds are in a position sustain these lease payments.

ATTACHMENTS:

1. Exhibit A – Good Faith Estimates pursuant to Government Code 5852.1 (included with this Staff Report document below)

ATTACHMENTS (Continued):

Salinas Police Services Headquarters

2. Police Station Resolution
3. Police Station Ground Lease (substantially final draft)
4. Police Station Project Lease (substantially final draft)
5. Police Station Preliminary Official Statement (substantially final draft)
6. Police Station Continuing Disclosure Certificate (substantially final draft)

El Gabilan Branch Library

7. El Gabilan Library Resolution
8. El Gabilan Library Ground Lease (substantially final draft)
9. El Gabilan Library Project Lease (substantially final draft)
10. El Gabilan Library Preliminary Official Statement (substantially final draft)
11. El Gabilan Library Continuing Disclosure Certificate (substantially final draft)

EXHIBIT A

Good Faith Estimates pursuant to Government Code 5852.1

	Police Services Headquarters	El Gabilan Branch Library
True Interest Cost	3.90%	4.90%
Finance Charges ¹	\$1,500,000	\$500,000
Proceeds ²		
Est. Project Fund	\$55,600,000	\$21,100,000
Est. Capitalized Interest	\$5,300,000	\$1,850,000
Total Debt Service ³	\$54,800,000	\$23,300,000

¹ Represents the sum of all fees and charges paid to third parties (bond and disclosure counsel, municipal advisory fees, rating agency fees, title, underwriting discounts and PFG fees)

² Represents the estimated proceeds from the financing including capitalized interest

³ Represents the total payments due net of capitalized interest and bonds due to be redeemed after the completion of the projects from accumulated City resources