



## Legislation Text

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Report regarding a resolution approving the services of three underwriting firms: Stifel as Senior Manager, and Citi and Raymond James as Co-Managers for the Measure W Community Civic Campus project financing, and authorizing the City Attorney to retain bond and disclosure counsel. (*Justin Lovell, Financial Services Manager*).

### **RECOMMENDATION**

**It is recommended that the City Council adopt a resolution approving the services of three underwriting firms: Stifel as Senior Manager, and Citi and Raymond James as Co-Managers for the Measure W Community Civic Campus project financing, and authorizing the City Attorney to retain bond and disclosure counsel.**

### **BACKGROUND**

Measure W was approved by voters as a half-cent sales tax in November of 2015. The tax became effective April 1, 2016 and has a 30-year term. The Measure W sales tax revenue is used to maintain and enhance locally controlled City services, including the Paving Program and funding the Community Civic Campus.

The Community Civic Campus includes design and construction of a new Library, Parks & Recreation and Community Theater/City Council Chambers facility, a park, and a new Police station. It also includes design of a new Fire station, which will be built at a future time to be determined.

Construction of the first phase is scheduled to begin in January 2020 with the Police station. Construction of the second phase is scheduled to begin fall 2020.

A majority of the construction costs will be funded by Measure W revenues. Current estimates include \$115 million of the construction cost will be funded through the issuance of lease revenue bonds or certificates of participation. These bonds will be secured by a pledge of lease payments in respect to an essential asset that is owned by the City. In this case, the leased asset is expected to be the Community Civic Campus itself. Measure W sales tax revenue will be used as the budgetary source of lease payments.

### **Preliminary Funding Plan**

All estimates are preliminary numbers.

Staff continues to evaluate Measure W projections and the funding plan will require ongoing updates leading up to bond issuance. The total project cost is \$210 million. The preliminary funding plan for the project is as follows:

- *Measure W Cash:* \$71.4 million
- *2019 Bond Proceeds:* \$115.0 million
- *Other Local Sources:* \$23.6 million

*Measure W Cash* is the revenue from inception of tax through anticipated project completion.

*2019 Bond Proceeds* is estimated bond funds available for project costs, net of capitalized interest and transaction costs.

*Other Local Sources* includes estimated funding sources such as public safety impact fee, donations, infrastructure reserves and other funds. This amount includes a funding gap to be filled by donations.

The bond issuance total is estimated at \$149.7 million at this time. \$115.0 million is expected to be used for project costs. The remaining \$34.7 million is for the following:

- *Capitalized Interest*: \$28.3 million is set aside to pay interest on the bonds while the project is in construction.
- *Insurance & Surety Premium*: \$5.0 million is the third party cost to insure the timely payment of debt service and purchase a surety policy in-lieu of the City maintaining a cash debt service reserve fund.
- *Underwriter's Discount*: \$1.1 million is the cost paid to the underwriters for selling the bonds to investors on behalf of the City.
- *Costs of Issuance* \$0.3 million is the cost paid to financial advisors, bond counsel, disclosure counsel, rating agencies, and other ancillary costs associated with the sale of the bonds.

After construction is complete, the City will begin making debt service payments. The estimated total principal amount is \$149.7 million and the total interest amount is \$132 million. These amounts and the actual costs of issuance will be known once the bond sale is finalized.

## DISCUSSION

Staff has been working with the City's current financial advisor, PFM Financial Advisors LLC (PFM), to provide analysis and bonding capacity based on revenue from the Measure W sales tax. With the Community Civic Campus project nearing construction, the City has begun the bond issuance process.

The bond issuance process typically takes four to five months to complete once the financing team is assembled. The financing team includes City staff, a financial advisor (PFM), underwriter(s) and bond/disclosure counsel. The financing team will work with the City to secure a credit rating from one or two rating agencies prior to the bond sale.

### **Underwriter Selection**

The role of the underwriter is to structure the bond issuance, assist with securing a credit rating, and ultimately sell the bonds to the investors on behalf of the City.

In March 2019, staff released an RFP to provide underwriting services for the Community Civic Campus financing. On April 22, 2019, the City received proposals from 11 underwriting firms. Finance Department staff and PFM reviewed all 11 proposals and created a shortlist of five firms to invite for interviews. The shortlisted firms were chosen based on the written proposal including their understanding of the City's financing needs and recent lease revenue bond sales experience for cities in California.

The five shortlisted firms invited for interviews were:

- Bank of America Merrill Lynch

- Citi
- Piper Jaffray
- Raymond James
- Stifel

On May 16, 2019, staff conducted interviews with the five shortlisted firms. The rating panel included PFM, a Financial Services Manager, and the Assistant City Manager. Based on the interview and rating criteria as shown in Attachment 1, staff recommends City Council approve the appointment of the Stifel as the Senior Manager and Citi and Raymond James as Co-Managers for the Community Civic Campus financing. All firms were qualified but Stifel had the best qualifications and understanding of the City's needs, and a thoughtful approach to looking out for the City's interest. The two Co-Managers also had great qualifications that would provide important peer review services as well as strong relationships with the bond market that would well as support the Senior Manager portfolio. Having multiple underwriters are typical for project of this size.

Staff will work with PFM to determine the allocation of responsibilities and compensation among the firms. A brief overview of the three selected firms is provided in Attachments 2-4.

Contracting with the underwriters follows a different process than the City's typical consultant selection process. At this step, the City selects the underwriting firms and enters into a letter of engagement. The cost for the underwriting services is paid from the proceeds of the bond issuance. The Bond Purchase Agreement to be approved by City Council in the fall of 2019, along with the other bond documents, will serve as the agreement with the underwriters and establish their costs.

As part of the responses to the RFP, the underwriters provided their proposed fee structures and all are within an industry acceptable range.

### **Bond Counsel**

In addition to the underwriters, a bond/disclosure counsel will also be needed for bonding. The bond/disclosure counsel will support the City Attorney and draft the bond documents including the authorizing resolution, the lease agreements, and the bond indenture, as well as the Preliminary Official Statement (POS) and the Official Statement (OS), which are the disclosure documents related to the sale of the bonds that provide information about the City and the project that are available to investors. The bond/disclosure counsel also provides legal opinions about the authority to issue the bonds and their tax status.

In March 2019, staff also released an RFP to provide bond and disclosure counsel services for the Community Civic Campus financing. On April 22, 2019, the City received proposals from 9 law firms. The City Attorney's Office reviewed 9 proposals and created a shortlist of four firms to invite for phone interviews. The shortlisted firms were chosen based on the written proposal including their understanding of the City's financing needs as well as bond and disclosure counsel experience for cities in California.

The four shortlisted firms invited for interviews were:

- Jones Hall
- Orrick
- Squire Patton Boggs
- Stradling Yocca Carlson and Rauth

Based on the phone interviews the City Attorney's Office recommends City Council authorize the City Attorney to retain Stradling, Yocca Carlson, and Rauth ("Stradling") for both bond and disclosure counsel services. All firms were qualified but Stradling stood out in its approach to providing the City with bond and disclosure counsel services and working effectively with City staff. The cost for the bond and disclosure counsel services will be paid from the proceeds of the bond issuance upon closing. The City Council will approve the bond documents and the terms of the bond issuance before the sale is finalized.

#### FISCAL IMPACT

This action does not have an immediate fiscal impact. A future bond sale, once approved by City Council, will obligate the City to make annual debt service payments for the life of the bonds.

#### RELATIONSHIP TO STRATEGIC PLAN

Priority Area 2 - Quality of Life: The selection of underwriters will enable the City to secure financing for the construction of the Community Civic Campus project serving the needs of our community.

#### CONCLUSION

Adopting a resolution approving firms to provide underwriting services will allow the City to issue bonds and construct the Community Civic Campus project.

#### Attachments:

1. Underwriter interview scores
2. Stifel profile
3. Citi profile
4. Raymond James profile