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Report regarding approval of the City of South San Francisco Public Financing Authority (Police Station Project) Lease Revenue Bonds, Series 2020A. (Janet Salisbury, Director of Finance)

RECOMMENDATION

Staff recommends that the board of directors of the City of South San Francisco Public Facilities Financing Authority consider adopting the following resolution:

Resolution approving execution and delivery of a Ground Lease, Lease Agreement, Indenture, Assignment Agreement and Bond Purchase Agreement in connection with the issuance of the City of South San Francisco Public Facilities Financing Authority Lease Revenue Bonds and authorizing the distribution of an Official Statement in connection therewith.

BACKGROUND/DISCUSSION

General. This item relates to the issuance of lease revenue bonds by the City of South San Francisco Public Facilities Financing Authority (the "Authority") to finance certain costs of the first phase of the City of South San Francisco's (the "City") new main civic center campus project.

The Lease Revenue Bonds, Series 2020A (the "2020A Bonds") are being issued to finance certain costs of the first phase of the civic center campus project, consisting of a new police station facility.

Legal Structure. The Authority is the issuer of the proposed 2020A Bonds. In connection with the issuance of the 2020A Bonds, the City will enter into a Ground Lease with the Authority, pursuant to which the City will lease certain City-owned property (currently consisting of the Miller Parking Garage (excluding the commercial office space on the ground floor) and the Orange Memorial Park) (together, the "Leased Property") to the Authority.

Leased Property. Such rental amounts will be calculated to be sufficient in time and amount to pay the debt service payments on the 2020A Bonds. Pursuant to an Assignment Agreement, the Authority will assign certain rights under the Lease Agreement to The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”) for the 2020A Bonds, including the right to receive the rental payments under the Lease Agreement.

The 2020A Bonds will be issued pursuant to an Indenture of Trust to be entered into among the City, the Authority and the Trustee, which will govern certain key terms of the 2020A Bonds including, repayment dates, redemption terms, interest rate and rights and remedies of 2020A Bond owners.

The foregoing legal documents are drafted to allow for the issuance of additional series of bonds to finance subsequent phases of the civic center campus project and/or other City improvements. The issuance of additional bonds will be subject to City Council and Authority approval. In addition, the foregoing legal documents allow for the substitution of property in place of the Miller Parking Garage and the Orange Memorial Park as the Leased Property, subject to certain conditions.

Preliminary Official Statement. Staff and the City’s financing team have prepared a Preliminary Official Statement in connection with the offering of the 2020A Bonds. The Preliminary Official Statement presents material information relating to the 2020A Bonds and the City’s finances and operations and will be used in the offering of the 2020A Bonds to potential investors.

Documents. The form of the legal documents referenced above related to the 2020A Bonds are attached to this Staff Report for reference. These documents will be executed as necessary as part of the issuance process.

Financing Structure. Based on a preliminary pricing analysis reflecting market conditions as of January 31, 2020 with a 50 basis point cushion, the 2020A Bonds have an estimated par amount of \$45.6 million and will be issued at an estimated premium of approximately \$10.3 million for total proceeds of approximately \$54.9 million. Such proceeds will be used to fund \$54.6 million in project costs and approximately \$300,000 of issuance costs. The final maturity of the 2020A Bonds is June 1, 2046. Certain estimates with respect to the financing are set forth below. Such figures are estimates and the final principal amount and interest cost for the 2020A Bonds will be determined on the actual sale date of the 2020A Bonds, which is currently scheduled for late February.

The 2020A Bonds will be sold on a public offering basis (sale of bonds on the open market), by Stifel, Nicolaus & Company, Incorporated, as representative of Citigroup Global Markets, Inc., and Raymond James & Associates, Inc. (together, the “Underwriters”) pursuant to a Bond Purchase Agreement among the Authority, the City and the Underwriters. The sale of the 2020A Bonds is expected to occur in late February with a closing/settlement in early March. The foregoing dates are subject to change depending on market conditions.

Financing Team. The following firms serve on the financing team for the 2020A Bonds:

Municipal Advisor: Sperry Capital Inc.

Underwriters: Stifel, Nicolaus & Company, Incorporated (as representative), Citigroup Global Markets, Inc., and Raymond James & Associates, Inc.

Bond and Disclosure Counsel: Stradling Yocca Carlson & Rauth, a Professional Corporation

Good Faith Estimates. The good faith estimates set forth below are provided with respect to the 2020A Bonds in accordance with California Government Code Section 5852.1. Such good faith estimates have been provided to the Authority and the City by Sperry Capital Inc. (the City’s “Municipal Advisor”) in consultation with Stifel, Nicolaus & Company, Incorporated.

Principal Amount. Based on the City’s financing plan and current market conditions (and a 50 basis point cushion), the good faith estimate of the aggregate principal amount of the 2020A Bonds to be sold is \$45.6 million

(the “Estimated Principal Amount”), which excludes approximately \$10.3 of net premium estimated to be generated. Net premium is generated when, on a net aggregate basis for a single issuance of bonds, the price paid for the 2020A Bonds is higher than the face value of such bonds.

True Interest Cost of the 2020A Bonds. Assuming that the Estimated Principal Amount of the 2020A Bonds is sold, and based on market interest rates prevailing at the time of preparation of such estimate (and a 50 basis point cushion), its good faith estimate of the true interest cost of the 2020A Bonds, which means the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the 2020A Bonds, is 3.13%.

Finance Charge of the 2020A Bonds. Assuming that the Estimated Principal Amount of the 2020A Bonds is sold, and based on market interest rates prevailing at the time of preparation of such estimate (and a 50 basis point cushion), its good faith estimate of the finance charge for the 2020A Bonds, which means the sum of all fees and charges paid to third parties (or costs associated with the 2020A Bonds), is \$300,000.

Amount of Proceeds to be Received. Assuming that the Estimated Principal Amount of the 2020A Bonds is sold, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the amount of proceeds expected to be received by the City for sale of the 2020A Bonds, less the finance charge of the 2020A Bonds, as estimated above, and any reserves or capitalized interest paid or funded with proceeds of the 2020A Bonds, is \$54.8 million.

Total Payment Amount. Assuming that the Estimated Principal Amount of the 2020A Bonds is sold, and based on market interest rates prevailing at the time of preparation of such estimate (and a 50 basis point cushion), its good faith estimate of the total payment amount, which means the sum total of all payments to be made to pay debt service on the 2020A Bonds, plus the finance charge for the 2020A Bonds, as described above, not paid with the proceeds of the 2020A Bonds, calculated to the final maturity of the 2020A Bonds, is \$81.12 million.

The foregoing estimates constitute good faith estimates only. The actual principal amount of the 2020A Bonds issued and sold, the true interest cost thereof, the finance charges thereof, the amount of proceeds received therefrom and total payment amount with respect thereto may differ from such good faith estimates due to (a) the actual date of the sale of the 2020A Bonds being different than the date assumed for purposes of such estimates, (b) the actual principal amount of Bonds sold being different from the Estimated Principal Amount, (c) the actual amortization of the 2020A Bonds being different than the amortization assumed for purposes of such estimates, (d) the actual market interest rates at the time of sale of the 2020A Bonds being different than those estimated for purposes of such estimates, (e) other market conditions, or (f) alterations in the City’s financing plan, delays in the financing, additional legal work, or a combination of such factors and additional finance charges, if any, attributable thereto. The actual date of sale of the 2020A Bonds and the actual principal amount of 2020A Bonds sold will be determined by the City based on the timing of the need for proceeds of the 2020A Bonds and other factors. The actual interest rates borne by the 2020A Bonds will depend on market interest rates at the time of sale thereof. The actual amortization of the 2020A Bonds will also depend, in part, on market interest rates at the time of sale thereof. Market interest rates are affected by economic and other factors beyond the control of the Authority and the City.

Authority Administrative Matters. The Joint Exercise of Powers Agreement pursuant to which the Authority was formed provides for the Authority to adopt a conflict of interest code, which may be the conflict of interest code of the City. In addition, State law requires that any state or local government adopt a debt management policy prior to the issuance of debt. The resolution to this item provides that the Authority’s conflict of interest code and debt management policy shall be those of the City.

FISCAL IMPACT

The 2020A Bonds are secured by rental payments to be made by the City to the Authority under the Lease

Agreement. The current expectation is that the City will annually budget to pay such rental payments from the sales tax revenues generated by Measure W.

CONCLUSION

The new Police Station facility is a necessary infrastructure project that has already been approved by the City Council of South San Francisco. The issuance of the 2020A Bonds is a critical step in financing the Police Station facility.

Staff recommends that the board of directors of the City of South San Francisco Public Facilities Financing Authority approve the resolution that will allow the issuance of the proposed Series 2020A Bonds.

ATTACHMENTS:

- A. Form of Ground Lease
- B. Form of Lease Agreement
- C. Form of Indenture
- D. Form of Assignment Agreement
- E. Form of Bond Purchase Agreement
- F. Form of Official Statement