



City Council Memorandum

City of Arts & Innovation

**TO: HONORABLE MAYOR, CITY COUNCIL,
AND PUBLIC FINANCING AUTHORITY** **DATE: MAY 21, 2019**

FROM: FINANCE DEPARTMENT **WARDS: ALL**

**SUBJECT: PUBLIC HEARING FOR RIVERSIDE PUBLIC FINANCING AUTHORITY LEASE
REVENUE BONDS IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED
\$43,000,000 TO FINANCE CONSTRUCTION OF NEW MAIN LIBRARY PROJECT
AND APPROVAL OF FINANCING DOCUMENTS - RESOLUTIONS**

ISSUES:

Conduct a Public Hearing and adopt resolutions that authorize the issuance of the Riverside Public Financing Authority (the “Authority”) Series 2019B Tax Exempt Lease Revenue Bonds (the “2019B Bonds”) in an aggregate principal amount not to exceed \$43,000,000 to finance construction of the new Main Library Project, and the execution and delivery of associated financing documents.

RECOMMENDATIONS:

1. That the City Council conduct a public hearing and adopt the attached Resolution authorizing the issuance of the Riverside Public Financing Authority (the “Authority”) Series 2019B Tax Exempt Lease Revenue Bonds (the “2019B Bonds”) in an aggregate principal amount not to exceed \$43,000,000 to finance construction of the new Main Library Project, and authorize the Mayor, City Manager, and the Chief Financial Officer or designees to execute the documents and make certain changes as required to close the transaction; and;
2. That the Riverside Public Financing Authority adopt the attached Resolution authorizing the issuance of the Riverside Public Financing Authority (the “Authority”) Series 2019B Tax Exempt Lease Revenue Bonds (the “2019B Bonds”) in an aggregate principal amount not to exceed \$43,000,000 to finance construction of the new Main Library Project, and authorize the Officers and Agents of the Authority to execute the documents and make certain changes as required to close the transaction.

BACKGROUND:

On May 16, 2017, the City Council approved the new Main Library as a Measure Z funding priority. On October 3, 2017, the City Council approved the design of the New Main Library Project and amended the Measure Z five-year plan by allocating funds from the Police Headquarters project to the Downtown Main Library Project for a total estimated project cost of \$39M for the New Main Library.

On February 20, 2018, in conjunction with approving a financing team for the Galleria Revenue Refunding Bonds issuance, the City Council approved a financing team to explore options to secure financing for the Main Library project. The approved financing team consists of CSG Advisors, Inc. as Financial Advisor, Stifel, Nicolaus & Co., as Underwriter, Stradling Yocca Carlson & Rauth as Bond Counsel, and Jones Hall as Disclosure Counsel. Total cost of issuance will be paid from financing proceeds.

On February 5, 2019, the City Council awarded a contract to Icon West Inc. of Los Angeles, California for the construction of a new City of Riverside Main Library at 3911 University Avenue. The City Council adopted a Reimbursement Resolution to allow for reimbursement of construction expenditures incurred prior to the completion of bond financing in an amount not to exceed \$44,000,000.

DISCUSSION:

On February 5, 2019, the City Council considered multiple options to finance construction costs related to the Main Library. Staff presented the costs and benefits related to several options that included traditional municipal bond financing, an interfund loan, or a pay as you go (PayGo) option. Based on this discussion, the City Council directed staff to pursue traditional bond financing for the Main Library project to be paid with Measure Z revenues.

The 2019B Library Lease Revenue Bonds (the “2019B Bonds”) will be structured as tax-exempt Lease Revenue bonds issued by the Authority, and are being issued on a parity basis with the City’s outstanding Series 2012A Lease Revenue Bonds (the “2012A Bonds”). The City will make base rental payments to the Authority for the right to use real property pursuant to the First Supplement to the Ground Lease (Attachment 3), and First Supplement to Lease Agreement (Attachment 4). The Authority’s debt service payments on the 2019B Bonds will be secured by base rental payments made from the City of Riverside to the Authority. As part of the agreement, the City promises to make all scheduled Base Rental Payments, to include all payments as separate line items in the annual budget, and to make all the necessary annual appropriations for the Base Rental Payments. The real property assets securing the base rental payments include:

- City Hall
- Lincoln Avenue Police Station
- Bobby Bonds Park
- Corporation Yard Administration Building and Annex
- Main Library Facility (once construction is complete)

Upon completion of construction of the Main Library, the legal documents provide for the release of some or all of the current assets for possible future financings.

The 2019B Bonds will mature in 17 years, which corresponds to the expiration of the Measure Z Transaction and Use Tax. The Main Library total estimated project costs are \$43.3 million, however, \$3.3 million of that amount are allocated in the Measure Z five year spending plan for the City Archive. Construction costs for the City Archive will be paid by a cash contribution of Measure Z funds as they are incurred. The bonds will be financed in an amount not to exceed \$43 million, which includes sufficient contingency to cover any potential market volatility.

Good Faith Estimates

On October 9, 2017, Senate Bill 450 (SB 450) added Section 5852.1 to the California Government Code. SB 450 requires, prior to bond issuance, that a public agency disclose in a public meeting all good faith financing estimates provided by an Underwriter, Municipal Advisor or private lender. These estimates include: a) the True Interest Cost of the bonds; b) the total finance charge of the bonds equal to the sum of all fees and charges paid to third parties; c) the amount of estimated bond proceeds minus the total finance charge of the bonds, and any reserves funded from proceeds of the bonds; and d) the total payment amount. The total payment amount should be calculated to the final maturity of the bonds.

The table below provides the estimated total finance charges associated with the bond issuance, based on estimated fees. All fees listed below will be paid from bond proceeds.

Estimated Cost of Issuance	
	Series 2019B Bonds
Bond Counsel (Stradling)	\$56,500
Disclosure Counsel (Jones Hall)	\$40,000
Financial Advisor (CSG)	\$37,500
Trustee (US Bank)	\$5,000
Underwriter (Stifel) – includes Counsel	\$230,750
Rating Agency (S&P)	\$33,000
Title Insurance (Commonwealth Title)	\$22,000
Printer (Imagemaster)	\$3,500
City Administration	\$15,000
Contingency	\$25,000
Total:	\$453,250

The following good faith estimates discussed below with respect to the 2019B Lease Revenue Bonds (Main Library) are provided by Municipal Advisor, CSG Advisors, Inc., in consultation with Underwriter Stifel, Nicolaus & Company. These estimates are based on assumptions of the Estimated Principal Amount of the 2019B Lease Revenue Bonds and on market interest rates based on estimates made as of March 20, 2019.

Principal Amount: Based on the City's financing plan and current market conditions, the estimated aggregate principal amount of the Bonds is \$35,500,000, which excludes approximately \$5,085,000 of estimated generated net premium based on current market conditions. Net premium is generated when the price paid for the bonds is higher than the face value of the bonds.

True Interest Cost of the Bonds: The true interest cost of the 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 Bonds, is 3.33%.

Amount of Estimated Bond Proceeds: The amount of proceeds expected to be received by the City for sale of the Bonds, less the finance charge of the Bonds, as estimated above, and any reserves or capitalized interest paid or funded with proceeds of the Bonds, is \$40,000,000.

Total Payment Amount: The projected sum total of all payments the City will make to pay debt service on the bonds plus any portion of the finance charge of the bonds that are not paid with the proceeds of the bonds, calculated to the final maturity of the Bonds is \$53,382,000.

The financing team expects to obtain an updated credit rating from S&P Global by May 16, 2019 and to price the bonds the week of June 3, 2019, with the bonds closing and funding the week of June 17, 2019.

FISCAL IMPACT:

Based on an estimated true interest cost of 3.33%, the total cost of the financing is \$53,382,000. The estimated average annual debt service payment is \$3,149,353, to be paid from Measure Z revenues. Annual debt service is included in the Measure Z five-year spending plan.

Prepared by: Heidi Schrader, Debt Manager
Certified as to
availability of funds: Edward Enriquez, Chief Financial Officer/Treasurer
Approved by: Carlie Myers, Deputy City Manager
Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. Notice of Public Hearing
2. City Resolution
3. Authority Resolution
4. First Supplement to Ground Lease
5. First Supplement to Lease Agreement
6. Memorandum of First Supplement to Lease Agreement
7. First Supplemental Indenture
8. First Supplement to Assignment Agreement
9. Lease Revenue Bond Purchase Agreement
10. Preliminary Official Statement
 - a. Continuing Disclosure Certificate (attached as Appendix "E" to Preliminary Official Statement)
11. Appendix A to the Preliminary Official Statement
12. Presentation