



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL AND PUBLIC FINANCING AUTHORITY DATE: SEPTEMBER 17, 2024

FROM: FINANCE DEPARTMENT WARDS: ALL

SUBJECT: PUBLIC HEARING FOR RIVERSIDE PUBLIC FINANCING AUTHORITY LEASE REVENUE BONDS IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$73 MILLION TO FINANCE CONSTRUCTION OF THE MUSEUM PROJECT AND APPROVAL OF FINANCING DOCUMENTS - RESOLUTIONS, AND REFINANCING OF 2012A LEASE REVENUE BONDS

ISSUES:

Conduct a Public Hearing and adopt resolutions that authorize the issuance of the Riverside Public Financing Authority (the "Authority") Tax Exempt Lease Revenue Bonds (the "Bonds") in an aggregate principal amount not to exceed \$73 million to finance the construction of the Riverside Museum rehabilitation and renovation project (the "Museum Project"), refinance the 2012A Lease Revenue Bonds (the "2012 Bonds") and authorize the execution and delivery of associated financing documents. Such authorization provides that the City may finance each component together as a single series of bonds or as separate issues, depending on market interest rates and the construction timeline of the Museum Project.

RECOMMENDATIONS:

That the City Council and Public Financing Authority:

1. Conduct a public hearing and adopt the attached Resolution of the City Council of the City of Riverside Authorizing the Execution and Delivery by the City of a Second Supplement to Ground Lease, Second Supplement to Lease Agreement, Second Supplemental Indenture, Continuing Disclosure Certificate and a Bond Purchase Agreement in Connection with the Issuance of Riverside Public Financing Authority Lease Revenue Bonds, Approving the Issuance of Such Bonds in an Aggregate Principal Amount of Not To Exceed \$73,000,000, Authorizing the Distribution of an Official Statement In Connection with the Offering and Sale of Such Bonds and Authorizing the Execution of Necessary Documents and Certificates and Related Actions Bonds;
2. Adopt the attached Resolution of the Board of Directors of the Riverside Public Financing Authority Authorizing the Execution and Delivery by the Authority of a Second Supplement to Ground Lease, Second Supplement to Lease Agreement, a Second Supplemental Indenture, Second Supplement to Assignment Agreement and Bond Purchase Agreement in Connection with the Issuance of Riverside Public Financing Authority Lease Revenue

Bonds, Authorizing the Issuance of Such Bonds in an Aggregate Principal Amount of Not To Exceed \$73,000,000, Authorizing the Distribution of an Official Statement in Connection with the Offering and Sale of Such Bonds and Authorizing the Execution of Necessary Documents and Certificates and Related Actions;

3. By at least five affirmative votes, authorize the City Manager, Chief Financial Officer, or designee to reappropriate \$10,000,000 from the Capital Outlay Fund, Museum Expansion and Renovation project account back to the General Fund infrastructure reserves account, reflecting full debt financing of the Museum Project; and
4. Upon closing of the Bonds, authorize the Chief Financial Officer, or designee, to make the necessary budget adjustments and/or appropriations to properly record the refunding and financing expenses in accordance with governmental accounting standards.

BACKGROUND:

In 2012, the Authority issued \$41.24 million in Lease Revenue Bonds (the “2012 Bonds”) to refinance the outstanding 2003 Certificates of Participation, aiming to lower debt service costs and reduce the number of City assets used as collateral for the borrowing.

In 2019, the Authority issued \$33.51 million of Lease Revenue Bonds (the “2019 Bonds”) to fund the Main Library. The 2019 Bonds were secured pursuant to a Supplement to the same Lease as the 2012 Bonds; however, the City added additional assets to be used as collateral for the Main Library borrowing until the Main Library was completed. The Bonds will be issued under an additional supplement to the 2012 Lease and the 2019 Supplement.

This report outlines the proposed issuance of new lease revenue bonds, along with refinancing the remaining 2012 Bonds, to further decrease the City’s debt service expenses. These proposed financings are tied to the Museum expansion and rehabilitation project brought before City Council in December 2023.

In December 2023, the City approved a design bid strategy for the renovating and expanding the Museum of Riverside’s downtown site at 3580 Mission Inn Avenue. The Museum Project will rehabilitate and restore a Historic Resource within an urbanized area, adhering to the Secretary of the Interior’s Standards for the Treatment of Historic Properties.

In April 2023, the Architectural design firm Pfeiffer Partners Architects, Inc., of Los Angeles provided an updated project cost estimate, totaling \$45,000,000.

The City assets which provide security for the lease payments include the City Hall complex (which includes the City Hall building, council chambers, and parking structure); the Police Patrol Facility; the General Services Administrative Building, Bobby Bonds Park and related improvements thereto; and the City Main Library (under 2019 lease supplement). Under the supplement to the 2012 Lease, the Riverside Museum is added to the leased asset pool. The City will have the ability to release one or more of the assets currently securing the Lease upon a determination that the remaining assets have sufficient fair rental value to support the Lease Payments securing all the outstanding Bonds following such release.

DISCUSSION:

The City collaborates with a team of financial advisors to continually monitor the market for potential saving opportunities. CSG Advisors Incorporated, is the firm contracted by the City to handle General Fund financings. The proposed financing plan aims to achieve savings in debt service by refinancing the 2012 Bonds.

As of June 30, 2024, the outstanding principal of the 2012 Bonds was \$23,700,000. If market conditions are favorable, the Finance Department plans to refinance these outstanding bonds on November 1, 2024, to deliver debt service savings to the City of at least 3% net present value savings.

In December 2023 Museum staff presented a design approach project plan to renovate and expand the Museum of Riverside. The financing plan for the project is described in further detail below.

The financing plan includes the issuance by the Authority of the Bonds. The 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 2019 Bonds. The City will make base rental payments to the Authority for the right to use real property pursuant to the Second Supplement to the Ground Lease (Attachment 4), and Second Supplement to Lease Agreement (Attachment 5). The Authority's debt service payments on the Bonds will be secured by base rental payments made from the City of Riverside to the Authority. As part of the agreements, the City promises to make all scheduled Base Rental Payments, include all payments as separate line items in the annual budget, and make 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 and Patrol Building
- Bobby Bonds Park
- Corporation Yard Administration Building and Annex
- Main Library Facility
- Riverside Museum

The portion of the Bonds related to refunding the 2012 Bonds will mature in 2036. Pending any refinement to the final cost estimates, the City intends to borrow approximately \$45 million to fund the Museum Project. The portion of the Bonds related to the Museum Project will mature in 2054. Debt Service on this portion of the Bonds will be funded by the Measure Z Transaction and Use Tax until its expiration in 2036. Thereafter, debt service payments related to the Museum Project will be covered either by the General Fund or by the Measure Z Transaction and Use Tax, if the tax is re-approved by voters.

The total bonds to issued, including the refinancing of the 2012A bonds, is an amount not to exceed \$73 million, which includes sufficient contingency to cover any potential market volatility and other factors.

Depending on the timing of the award of the construction contract for the Museum Project and the market conditions for the refunding the 2012 Bonds on November 1, 2024, approval of the attached resolutions authorizes City Staff to bifurcate the Museum financing from the refunding of the 2012 Bonds into one or more series of Bonds and pursue the 2012 Bond refunding and the Museum financings at different times. Moving forward with the 2012 Bond refunding requires that

such refunding generates at least 3% net present value savings to the City. The attached resolutions also authorize City Staff to pursue and acquire municipal bond insurance if it is in the City’s financial interests (i.e. reduces borrowing costs) to do so.

Financing Team

The Financing Team for this transaction includes the following:

- City Staff from the Finance Department, City Attorney’s Office, General Services, and the Museum
- CSG Advisors, Incorporated serving as the Municipal Advisor
- Stradling Yocca Carlson & Rauth LLP serving as Bond and Disclosure Counsel
- Stifel, Nicolaus & Company, Incorporated serving as Underwriter
- US Bank National Association serving as Escrow Agent and Trustee

The external fees and expenses are estimated below, assuming both refunding of the 2012A Lease Revenue Bonds and funding of the Museum Project:

Role	Party	Estimated Fees¹
Bond Counsel	Stradling, Yocca, Carlson & Rauth LLP	\$90,000
Municipal Advisor	CSG Advisors, Incorporated	\$62,500
Escrow Agent and Trustee	US Bank National Association	\$10,000
Title Insurance	First American Title Company	\$47,250
Printer	TBD	\$3,500
Verification Agent	Causey Demgen & Moore	\$2,500
Rating Agency	Standard & Poor’s	\$50,000
Contingency ¹		\$71,250
Underwriter’s Discount ²	Stifel, Nicolaus & Company, Incorporated	\$256,000
	Total Fees and Expenses³:	\$593,000

¹ Preliminary estimates, subject to change, paid from bond Proceeds. Should the two transactions be bifurcated, some costs of issuance items listed are expected to decrease, however aggregate costs will increase by as much as \$200,000 due to the additional work required to document and execute two separate transactions.

² Retained by Underwriter upon purchase of the bonds, pursuant to competitive bid RFP April 2022.

³ Excludes any applicable bond insurance premium. Bond insurance is economical if the insurance premium is less than the present value of debt service savings provided by such insurance (thus, not a net cost to the City). Bond Insurance is subject to bid prior to bond pricing.

Good Faith Estimates

California Senate Bill 450 (SB 450) requires, prior to new issuance of bonds, a public agency disclose in a public meeting good faith financing estimates provided by an Underwriter, Municipal Advisor, or private lender. The following estimates constitute good faith estimates only. The true interest cost of the Bonds, the finance charges allocable, the amount of net proceeds received, and total payment amount may differ from such good faith estimates due to **(a)** the actual date of the sale of each component of the Bonds being different than the date assumed for purposes of such estimates, **(b)** the actual net proceeds amount of Bonds sold being different from the estimated amount used for purposes of such estimates, **(c)** the actual amortization of the Bonds

being different than the amortization assumed for purposes of such estimates, **(d)** the actual market interest rates at the time of sale for each component of the Bonds being different than those estimated for purposes of such estimates, **(e)** other market conditions, or **(f)** alterations in the City’s financing plan, or a combination of such factors. The actual date of sale of the Bonds and the actual principal amount of Bonds sold will be determined by the City based on the timing of the need for proceeds of the Bonds and other factors. Market interest rates are affected by economic and other factors beyond the control of the City.

Good faith estimates are provided below with respect to both the refunding component and the museum component of the Bonds in accordance with California Government Code Section 5852.1. Finance charges estimated below could vary depending on whether each financing component listed is issued on a combined or stand-alone basis. Such good faith estimates have been provided to the City by CSG Advisors Incorporated, the City’s Municipal Advisor in consultation with Stifel, Nicolaus & Company, Incorporated, the Underwriter of the Bonds, based on market conditions as of August 14, 2024, and assumes a par issuance amount (consisting of both the 2012 Bond Refunding and the Museum Project financing components) of \$60.72 million, together with bond premium of approximately \$6.64 million, for total gross proceeds of approximately \$67.36 million:

(a) True Interest Cost of the Bonds:

Series 2012A Refunding	Museum Project	Total
2.86%	4.15%	3.95%

(b) Finance Charges on the Bonds (Sum of all fees/charges paid to third parties, but excluding potential bond insurance or debt service reserve fund insurance premiums, if applicable):

Series 2012A Refunding	Museum Project	Total
\$194,000	\$399,000	\$593,000

(c) Net Proceeds of the Bonds to be Received (net of finance charges, reserves and capitalized interest, if any):

Series 2012A Refunding	Museum Project	Total
\$21,760,000	\$45,000,000	\$66,760,000

(d) Total Payment on the Bonds Through Maturity:

Series 2012A Refunding	Museum Project	Total
\$25,154,000	\$81,061,000	\$105,215,000

STRATEGIC PLAN ALIGNMENT:

This item supports **Strategic Priority 5- High Performing Government** and **Goal 5.4 – Achieve and maintain financial health by addressing gaps between revenues and expenditures and aligning resources with strategic priorities to yield the greatest impact.**

This item aligns the Cross-Cutting Threads as follows:

1. **Community Trust** – All information in the lease assignment and agreement documents is made public, ensuring transparency for investors and the general public. Additionally, a public hearing will be scheduled to allow community members to comment on the proposed financings before issuance.
2. **Equity** – Using bonded indebtedness to fund long-term capital projects ensures generational equity. The bond repayments are spread over several years, aligning with the generational benefits of the project.
3. **Fiscal Responsibility** – The refinancing approved by the resolutions and detailed in the lease assignment and agreement will enable the City to achieve debt service savings and ensuring the lowest possible borrowing costs, supporting long-term fiscal responsibility.
4. **Innovation** – The refinancing approved by the resolution and detailed in the lease assignment and agreement documents is an innovative strategy that allows the City to capitalize on market conditions and reduce borrowing costs.
5. **Sustainability & Resiliency** – Thorough analysis and consideration of all funding options are the key to Riverside’s financial resilience.

FISCAL IMPACT:

The fiscal impact related to the issuance of the Museum Project financing component of the Bonds is approximately \$2,669,000 per year in annual lease payments through Fiscal Year 2054, paid from the Measure Z Transaction and Use Tax through its expiration date in 2036 and from the General Fund thereafter, should the Measure Z Transaction and Use Tax not be re-approved by voters.

The not-to-exceed issuance amount of \$73 million accounts for potential contingencies driven by market conditions and yield-curve on the date of pricing. Based on market conditions as of August 14, 2024, the estimated present value savings from refunding the 2012 Bonds was estimated to be approximately \$1.29 million or 5.44% of the refunded par amount of the prior bonds, resulting in an annual cash flow savings of approximately \$169,000 per year through Fiscal Year 2034. This results in approximately \$2,795,000 average annual lease payments attributable to the original 2012 obligation through Fiscal Year 2034, paid from the General Fund.

All professional fees will be paid from the proceeds of the Lease Revenue Bonds.

With Council approval, the Museum Project will be fully funded by debt proceeds. The \$10 million in General Fund infrastructure reserves, which was approved by the City Council on December 12, 2023, as partial cash financing for the Museum Project, will be returned to the infrastructure reserves and made available for other critical infrastructure needs.

Prepared by: Meline Carranza, Debt & Treasury Manager
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Approved by: Edward Enriquez, Assistant City Manager/Chief Financial
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Approved as to form: Phaedra A. Norton, City Attorney

Attachments:

1. Notice of Public Hearing
2. City Resolution
3. Authority Resolution
4. Second Supplement to Ground Lease
5. Second Supplement to Lease Agreement
6. Second Supplement to Indenture
7. Second Supplement to Assignment Agreement
8. Bond Purchase Agreement
9. 2012A Lease Revenue Bonds Escrow Agreement
10. Preliminary Official Statement
11. Presentation