AGENDA ITEM
CITY COUNCIL MEETING DATE – APRIL 2, 2019
BUSINESS ITEMS

THE CITY OF BENICIA CALIFORNIA

TO : City Manager

FROM : Assistant City Manager

SUBJECT : **COUNCIL REQUESTED STREET REPAIR FUNDING SCENARIO**

EXECUTIVE SUMMARY:

At the October 16, 2018 meeting of the City Council, staff presented the streets and roadways report prepared by the Metropolitan Transportation Commission (MTC). Per the report, the current overall rating of street conditions for Benicia streets has a PCI rating of 56 on a scale of 0 – 100 with a score of 85 considered desirable. The PCI report included six budget scenarios and results to improve the pavement condition in Benicia. After reviewing the budget scenarios and results, Council directed staff to research and report back on funding options for a new budget scenario, Scenario Seven, that would include $20M bond proceeds to be spent on street and roadway improvements. Staff has retained the services of a municipal finance advisor, Wulff, Hansen & Co., to present to Council information and options to issue $20M in debt for street and road repair.

RECOMMENDATION:

Receive a presentation on issuing $20M in debt for street and road repair and provide direction to staff on whether to proceed with the bonding process.

BUDGET INFORMATION:

Receiving a report on issuing debt has no impact to the budget. However, if Council directs staff to pursue the debt issuance, financing over 30 years is the preferred option to provide $20 million in net project funds at a cost of approximately $1.15 million per year toward debt service. These funds would come from Measure C and be obligated for the 30-year term. Fees for the municipal advisor and bond/disclosure counsel are fully contingent on successful sale and funding of the financing and are to be paid out of proceeds of the financing.

BACKGROUND:

Benicia's street network is comprised of approximately 195 lane miles and is valued at $112 million. In 2017, the City resurfaced approximately 18,700 square yards for a cost of $2.1 million and completed approximately 749,200 square feet of microsurfacing for a cost of $197,533. In 2018, the microsurfacing project consisted of approximately 1,564,652 square feet for a cost of $707,892.

The network is evaluated every two to three years using pavement maintenance management software used by public agencies throughout the Bay Area. The software, called StreetSaver, maximizes the City's funding investment by helping to assure the selection of the most cost-effective repairs for the street network.

In the 2018 report, the City's current overall Pavement Condition Index (PCI) rating is 56, down from 58 in 2014. Approximately 46% of City streets fall in the poor or failed pavement condition category. At the current proposed budget funding level of $1.2 million per year, the PCI rating will continue to decrease to 53 over the next five years. An average annual allocation of $2.3 million would be needed to maintain the current PCI rating of 56 and a minimum annual budget of $2.5 million will be needed to incrementally improve the street pavement conditions to 59 over the next 10 years.

In recent years, the Council has expressed increased interest in fixing streets more quickly. This interest has resulted in the allocation of more funding to street and roadway projects. Even so, the amount available is not enough to make a significant difference and the Council has asked for information about other options. One option to quickly obtain funding to improve the City's pavement condition would be to issue a street pavement bond and obligate a portion of existing revenue from Measure C to pay the debt service.

Council's Request: "Scenario Seven"

At the October 16, 2018 meeting of the City Council, the Council reviewed the PCI report that included six budget scenarios and results to improve the pavement condition in Benicia. (To view this staff report, please copy and paste the following URL into your web browser: https://tinyurl.com/y6nbcdvh). After reviewing the budget scenarios and results, Council directed staff to research and report back on funding options for a new budget scenario, "Scenario Seven", designed to answer the question, "what could the City get by designating $1M/year from Measure C toward a street bond?" The specific factors of Scenario Seven include a $20M bond spent in conjunction with the City's current street maintenance budget of $1.2M per year

The $20M of debt, along with the current street maintenance budget of $1.2M per year, would provide approximately 45 centerline miles (centerline miles are the total length of roadway miles measured from the centerline of all traffic lanes in both directions) of completed roadway repair, bringing the PCI from 52 to 70 in the first five years. Roadway repair would consist of resurfacing the streets with a low PCI. After the first three years, the focus will shift to maintaining the PCI through maintenance, such as microsurfacing, cape seal, or similar roadway treatments.

Lease Financing

Based upon the Council direction to research options to issue $20M in debt for street and road repair, staff retained the services of a municipal finance advisor, Wulff, Hansen & Co. After reviewing several financing options, including shorter and longer terms of repayment, staff focused on a financing term of 30 years as the best option to provide $20 million in net project funds at a cost of approximately $1.15 million per year. Attachment 1 of this report compares financing options of 25 years and 30 years, respectively.

The mechanism to raise the funds is lease financing. This is a form of financing that permits cities, counties, school districts, special districts, and other public entities to borrow to fund new projects as lessee of a financed property and to repay its financing in the form of periodic lease payments. Such a lease financing enables a public entity to finance capital assets over a multi-year period without voter approval and provides an important alternative to other forms of debt financing that do require voter approval. Essential use property of cities, counties and school districts used in a lease transaction is not mortgaged or pledged as security and cannot be foreclosed upon. In such a lease financing, the public entity first leases a property to a third party and then, as lessee, leases back the property from the third party, which can be a joint powers agency, a non-profit leasing company, or other similar entity.

Certificates of Participation (COPs)
The mechanism for lease financing is called Certificates of Participation (COPs). COPs are sold to investors in the same manner as other bonds and the proceeds of the sale are used for the capital project the issuer wishes to fund. COPs are issued with a final maturity of up to 30 years. The actual annual lease payments are unknown until the certificates are sold and interest rates are locked. Estimated lease payments may vary up or down depending on where market interest rates are at the time the certificates are sold.

City assets with a valuation totaling the full amount of the bond proceeds are required as security for the debt. In Benicia's case, the lease payments will be made by the City under a lease agreement between a non-profit leasing agent and the City for the lease of several City facilities. Attachment 2 to this report is a summary of city-owned buildings with the potential to serve as leased assets. The lease payments will be assigned to a bond trustee which will make bond payments to bond investors. This form of financing is common in California and has been successfully used by the City before on its 2016 Energy Conservation Refinancing Project as well as many other public agencies in California. Attachment 3 to this report is a listing of recently issued COPs by other agencies.

Below is a transaction summary of COPs:

- Structured as a lease / lease-back transaction (no election required)
- Financing utilizes general fund revenues within the budget
- Objectives:
  - o $20 million net proceeds for infrastructure improvements
  - o Approx. $1.15 million annual debt service payments
  - o Obtain highest rating possible for Benicia
  - o Want funds available quickly:
    - ➢ capture current historically low interest rates
    - ➢ funds available for construction
  - o Bonds to be sold at competitive sale to assure lowest possible cost

If Council directs staff to proceed with issuing $20M in COPs for street and road repair, staff will return at the next Council meeting with a Resolution Authorizing Commencement of the Financing, as well as an agreement for services with the financing team; the timeline culminates with the close and funding availability in mid-July. Attachment 4 to this report is a calendar outlining the process to issue the debt.

NEXT STEPS:
Depending upon the direction of the City Council, staff could return to Council with a Resolution Authorizing Commencement of the Financing, as well as an agreement to retain the financing team.

ALTERNATIVE ACTION:
Council could provide direction to staff to seek other budget scenarios and results and additional financing alternatives.

General Plan	Goal 2.28: Improve and maintain public facilities and services

Strategic Plan	Strategic Issue 4: Preserving and Enhancing Infrastructure

CEQA Analysis	The proposed action is not a Project per Section 15378 of the California Environmental Quality Act (CEQA), because it does not result in either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment.

ATTACHMENTS:

1. Summary of Financing Options
2. Summary of City-Owned Buildings and Lease Value
3. Recently Issued COPs in California
4. Calendar to Issue COPs

For more information contact: Alan Shear, Assistant City Manager
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CITY OF BENICIA
Certificates of Participation
(2019 Public Infrastructure Financing Project)

SUMMARY OF FINANCING OPTIONS**
3/20/19

	Alternative 1*	Alternative 2*
Type Offering	Public Offering	Public Offering
Term	**25 years**	**30 years**
PAR Amount	20,440,000	20,440,000
Project Fund	20,000,000	20,000,000
Highest Debt Service Payment	1,243,667	1,148,757
Lowest Debt Service Payment	1,238,600	1,143,350
Average Debt Service Payment	1,241,376	1,146,167
Total Interest	10,353,034	13,722,142
True Interest Cost	3.554%	3.800%

* Fixed rate, level payments

**All figures are approximate and subject to change with market interest rates until bonds are priced

Prepared by Wulff, Hansen & Co.

Summary of Potential Leased Assets

Asset	Value	Insured Value
Library	$ 7.7 million	$ 7,786,422
Fire Station #11	3.7 million	3,713,957
Corporate Yard*	1.0 million	1,046,265
Gym	4.3 million	4,316,912
Police Station	1.5 million	1,525,705
Fire Station #12*	0.9 million	944,520
P-2 Pump Station*	1.9 million	1,908,583
Total	$21 million	

**Includes Solar Panels*

Need a minimum of $20,500,000 aggregate value to secure the lease, with priority toward “Essential Purpose” facilities.

Background Information on Lease Financing in California

Lease financing is a form of financing that permits cities, counties, school districts, special districts, and other public entities to borrow in order to fund new projects as lessee of a financed property and to repay its financing in the form of periodic lease payments. Such a lease financing enables a public entity to finance capital assets over a multi-year period without voter approval or meeting other statutory limitations and provides an important alternative to other forms of debt financing that do require voter approval. Essential use property of cities, counties and school districts used in a lease transaction is not mortgaged or pledged as collateral and cannot be foreclosed upon.

In such a lease financing, the public entity first leases a property to a third party and then, as lessee, leases back the property from the third party, which can be a joint powers agency, a non-profit leasing company, or other similar entity. The lease payments made by the borrower are used for debt service on a security. The security, typically referred to as a Certificate of Participation (COP), represents the right to receive payments from a specific pledged revenue stream (the lease payments made by the borrower) that are typically subject to annual appropriation. The certificate generally entitles each holder to receive a pro rata share, or participation, in the payments made by the borrower. The payments are passed through the lessor to the certificate holders, typically by assigning the lease and the payments to a trustee, which then distributes the payments to the beneficial owners of the certificate.

Certificates of Participation are sold to investors in the same manner as other bonds and the proceeds of their sale are used for the capital project the issuer wishes to fund. COPs can be issued with a final maturity of up to 30 years or more. They have been in use for more than 40 years and are readily accepted by investors. They are frequently rated and insured and are commonly sold to both institutional and individual investors.

The California Debt and Investment Advisory Commission (CDIAC) reports that between January of 2017 and March of 2019 approximately 350 COPs were issued or proposed to be issued in the State of California, totaling over $6.6 billion dollars in par value. Some examples of these recent transactions include:

Issuer	Par Amount
City of Larkspur	$ 25,160,000
County of Marin	$ 80,140,000
Sausalito Marin City School District	$ 3,675,000
City of Mill Valley	$ 4,115,000
City of San Rafael	$ 45,485,000
Novato Sanitary District	$ 21,750,000
City of Costa Mesa	$ 29,735,000
City of Los Angeles	$ 21,110,000
Santa Ana Unified School District	$ 23,000,000
El Monte Union High School District	$ 10,865,000
City of Anaheim	$ 45,705,000
Pismo Beach (Solar CREBs)	$ 4,061,917
City of Upland	$132,105,000
Kern High School District	$105,000,000
Bellflower	$ 10,000,000
Torrance Unified School District	$ 9,640,000
City of Palo Alto	$ 9,800,000
City of Santa Monica	$ 68,565,000
County of San Francisco	$100,000,000
Palmdale	$ 11,397,102
Castaic Lake Water Agency	$ 50,745,000

A more extensive list of examples is available upon request.

City of Benicia
Certificates of Participation
(2019 Public Infrastructure Financing Project)

SCHEDULE
As of March 19, 2019

3/15	Staff working group meeting to review Council presentation
4/2	City Council presentation on Financing Council gives staff direction on how to proceed
4/16	City Council adopts Resolution Authorizing Commencement of the Financing and retaining financing team Preparation of Legal documents commences
4/23	First Draft of Legals and Preliminary Official Statement (POS) circulated
4/26	Staff working group meeting to review the transaction and documents
4/30	Second Draft of Legals and POS circulated
5/2	Documents to City for 5-21 meeting
5/21	Council meeting approves Legal docs and POS
5/22	Documents to rating agency and bond insurance companies
Week of 5/27	Meeting/call with rating agency
5/31	Receive Rating
6/6	Due diligence meeting to review transaction
6/12	Submit documents to IPREO for national distribution to bidders
6/27	Receive bids, Official award of bonds
7/10	Pre – Close
7/11	Close/Funding

Council Meets 1st and 3rd Tuesdays of the month

MARCH

Su	Mo	Tu	We	Th	Fr	Sa
24	25	26	27	28	1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31	1	2	3	4	5	6

APRIL

Su	Mo	Tu	We	Th	Fr	Sa
31	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	1	2	3	4
5	6	7	8	9	10	11

MAY

Su	Mo	Tu	We	Th	Fr	Sa
28	29	30	1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	1
2	3	4	5	6	7	8

JUNE

Su	Mo	Tu	We	Th	Fr	Sa
26	27	28	29	30	31	1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	1	2	3	4	5	6

JULY

Su	Mo	Tu	We	Th	Fr	Sa
30	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31	1	2	3
4	5	6	7	8	9	10