

OFFERING AND SALE OF SUCH BONDS AND AUTHORIZING THE EXECUTION OF NECESSARY DOCUMENTS AND CERTIFICATES AND RELATED ACTIONS

B. RESOLUTION NO. 2017-001 OF BOARD OF DIRECTORS OF THE CHULA VISTA MUNICIPAL FINANCING AUTHORITY AUTHORIZING THE EXECUTION AND DELIVERY BY THE AUTHORITY OF A SITE LEASE, LEASE AGREEMENT, INDENTURE, ASSIGNMENT AGREEMENT AND BOND PURCHASE AGREEMENT IN CONNECTION WITH THE ISSUANCE OF CHULA VISTA MUNICIPAL FINANCING AUTHORITY 2017 LEASE REVENUE BONDS, AUTHORIZING THE ISSUANCE OF SUCH BONDS IN AN AGGREGATE PRINCIPAL AMOUNT OF NOT TO EXCEED \$72,000,000, 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

RECOMMENDED ACTION

Council conduct the public hearing, adopt resolution A, and Authority adopt resolution B.

SUMMARY

Voters in the City approved Measure P in November 2016 and the City Council has adopted a proposed expenditure plan for the infrastructure, facilities and equipment that are proposed to be funded with Measure P sales tax. The expenditure plan accelerates large-scale projects by financing those items and allocating a portion of the sales tax generated by Measure P to fund the related debt service. This action will approve the issuance of Bonds by the Chula Vista Municipal Financing Authority (“Authority”) to fund approximately \$71,000,000 in Measure P projects.

ENVIRONMENTAL REVIEW

The Development Services Director has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that the proposed action is not a “Project” as defined under Section 15378 of the State CEQA Guidelines because it will not result in a physical change to the environment; therefore, pursuant to Section 15060(c)(3) of the State CEQA Guidelines the actions proposed are not subject to CEQA.

Environmental Notice

The activity is not a “Project” as defined under Section 15378 of the California Environmental Quality Act State Guidelines; therefore, pursuant to State Guidelines Section 15060(c)(3) no environmental review is required.

Environmental Determination

BOARD/COMMISSION RECOMMENDATION

Not applicable.

DISCUSSION

On November 8, 2016 Chula Vista voters approved Measure P, authorizing a one-half cent sales tax

increase on retail sales within the City for a period of 10 years (“Measure P Sales Tax”). The City Council adopted a Infrastructure, Facilities and Equipment Expenditure Plan (the “Plan”) on December 6, 2016 relating to the expenditure of the Measure P Sales Tax. In addition to funding pay-as-you-go capital items from annual revenue, the Plan accelerates large-scale projects by financing those items and allocating the Measure P Sales Tax to fund the related debt service. The Plan proposed for funding infrastructure and equipment that represent one-time expenditures and not ongoing commitments. Therefore, the Plan focuses on the areas where one-time funds could be used to address critical deferred maintenance or replacement of city infrastructure improving safety and reducing risk to the City as well as strengthening the City’s overall financial condition by avoiding costly emergency repairs or further deterioration of existing failing infrastructure.

The following are the highest priority items for funding under the Plan:

- Pave, maintain and repair neighborhood streets and fix potholes
- Upgrade or replace aging police, fire and 9-1-1 emergency response facilities, vehicles and equipment
- Replace storm drains to prevent sinkholes
- Upgrade irrigation systems to conserve water and save energy
- Make essential repairs to older libraries, senior center and recreation centers
- Improve Traffic Signal Systems
- Repair Sports Fields and Courts and Park Infrastructure

The total expected funding from Measure P Sales Tax is \$178 million over the 10 year authorization. Using a combination of bond proceeds and annual revenue, the City anticipates funding \$165 million of infrastructure, facilities and equipment.

The Bonds are being issued to fund approximately \$71 million of the identified infrastructure, facilities and equipment needs shown below:

<u>Infrastructure</u>	
Pavement Rehabilitation	\$15,000,000
Park Infrastructure Rehabilitation	2,000,000
Sports Fields and Courts Rehabilitation	7,500,000
New Storm Drains and Sidewalks	3,500,000
New Traffic Signals	3,000,000
<u>Facilities</u>	
2 New Fire Stations	15,000,000
Animal Care Center Renovation	3,000,000
Civic Center Library Renovation	1,500,000

Recreation Center/Ser	3,000,000
Center Renovation	
Police Headquarters	1,000,000
Repairs	
<u>Equipment</u>	
New Fire Apparatus and	10,100,000
Vehicles	
New Police Vehicles	3,000,000
New Emergency Radios	1,200,000
New Public Works	<u>2,000,000</u>
Vehicles	
Total	\$70,800,000

The Bonds will mature in 10 years, to coincide with the 10 year authorization of Measure P. The effective interest rate on the Bonds is anticipated to be 2.0% under today's market conditions. The debt service on the Bonds will total approximately \$79,000,000 over the 10 year authorization of Measure P. The annual debt payments will be between \$7.6 million and \$8.2 million, with an average annual payment of \$7.9 million.

Financing Structure

The Bonds will be secured by lease payments payable by the City to the Authority with respect to a lease of various City-owned properties. The leased property includes the South Chula Vista Library, the Senior Center, the Otay Recreation Center, the Animal Shelter, and a number of parks. The number of properties subject to the lease for this financing is required to provide sufficient value to support the amount of the annual lease payments.

Because the Bonds are being sold through the Authority, the City, as the jurisdiction where the facilities being refinanced are located, is required to hold a public hearing before the Authority may approve a resolution authorizing the sale of the Bonds. After the public hearing, the City Council must find that there will be significant public benefit to the City from the issuance and sale of Bonds by the Authority for the purpose of financing the improvements. "Significant public benefit" includes a demonstrable savings in effective interest rate, bond preparation, bond underwriting, or bond issuance costs.

Authorization and Sale

In order to authorize the issuance of the Bonds and provide for the lease payments to secure them, the City Council and the Authority Board have been presented with resolutions for their consideration. The resolutions approve the form of the following documents in connection with the financing:

1. Indenture between Authority and U.S. Bank (as Trustee);
2. Lease agreement between the City and the Authority;
3. Site lease between the City and the Authority;
4. Continuing disclosure agreement;
5. Assignment agreement between the Authority and the Trustee;
6. Bond purchase agreement between the City, the Authority and J.P. Morgan Securities LLC;
and
7. Preliminary Official Statement

The City and Authority resolutions also approve the distribution of the preliminary official statement relating to the Bonds and authorize the execution of the Bond Purchase Agreement by the City Manager or Deputy City Manager and Authority Executive Director or Chief Financial Officer, as well as provide certain sale parameters. These parameters are: (1) the par amount of the Bonds cannot exceed \$72,000,000, (2) true interest cost cannot exceed 3% and (3) the underwriters' discount cannot exceed 0.6% of the par amount of the Bonds.

The preliminary official statement was prepared by staff and the municipal advisor, with input from the City's bond counsel and disclosure counsel. The City Council's review of the description of the City and the City's Financial Information contained in the preliminary official statement is requested prior to printing in advance of the sale of the Bonds on or about June 15, 2017. Any changes requested by the City Council will be incorporated into the preliminary official statement as appropriate prior to its distribution to prospective investors.

The financing team assembled for this financing was approved by the City Council in December 2016 and include the following firms:

- Stradling, Yocca, Carlson & Rauth will act as the City's Bond and Disclosure Counsel.
- Harrell & Company Advisors will serve as the City's Municipal Advisor
- J. P. Morgan Securities LLC will serve as the City's Investment Banker providing Underwriting Services

DECISION-MAKER CONFLICT

Staff has reviewed the decision contemplated by this action and has determined that it is not site-specific and consequently, the 500-foot rule found in California Code of Regulations Title 2, section 18702.2(a)(11), is not applicable to this decision for purposes of determining a disqualifying real property-related financial conflict of interest under the Political Reform Act (Cal. Gov't Code § 87100, et seq.).

Staff has reviewed the property holdings of the City Council members and has found no property holdings within 500 feet of the boundaries of the property located at 391 Oxford Street (Fire Station No. 5) which is one of the subjects of this action. Consequently, this item does not present a disqualifying real property-related financial conflict of interest under California Code of Regulations Title 2, section 18702.2(a)(11), for purposes of the Political Reform Act (Cal. Gov't Code § 87100, et seq.).

Staff is not independently aware, and has not been informed by any City Council/Successor Agency/Housing Authority member, of any other fact that may constitute a basis for a decision maker conflict of interest in this matter.

LINK TO STRATEGIC GOALS

The City's Strategic Plan has five major goals: Operational Excellence, Economic Vitality, Healthy Community, Strong and Secure Neighborhoods and a Connected Community. This action supports the Healthy Community goal by advancing Measure P funds to address much needed public infrastructure and equipment needs throughout the City. This action supports City Initiative 3.3.1. and 3.3.2. - "Plan, construct, maintain and operate community and neighborhood facilities," and "Preserve and restore parks and open space systems through the Asset Management Program."

CURRENT YEAR FISCAL IMPACT

The estimated costs of issuance associated with this financing, including costs for the underwriting, bond counsel and financial advisor firms are contingent upon actually selling the bonds and are payable from the bond proceeds. Costs of issuance are estimated to be \$630,000.

ONGOING FISCAL IMPACT

The total annual lease payments are expected to range from \$7.6 million to \$8.2 million for 10 years. The lease payments will be funded from the new Measure P sales tax.

ATTACHMENTS

1. Indenture
2. Lease agreement
3. Site lease
4. Continuing disclosure agreement
5. Assignment agreement
6. Bond purchase agreement
7. Preliminary Official Statement

Staff Contact: David Bilby, Director of Finance, Finance Department