



# City of Chula Vista

## Staff Report

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**File#:** 16-0123, **Item#:** 7.

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### CONSIDERATION OF APPROVAL TO REFINANCE 2006 AND 2010 CERTIFICATES OF PARTICIPATION

- A. RESOLUTION NO. 2016-058 OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA AUTHORIZING THE EXECUTION AND DELIVERY BY THE CITY OF A SITE LEASE, LEASE AGREEMENT, INDENTURE, ESCROW AGREEMENTS, CONTINUING DISCLOSURE AGREEMENT AND BOND PURCHASE AGREEMENT IN CONNECTION WITH THE ISSUANCE OF THE CHULA VISTA MUNICIPAL FINANCING AUTHORITY 2016 LEASE REVENUE REFUNDING BONDS, APPROVING THE ISSUANCE OF SUCH BONDS IN AN AGGREGATE PRINCIPAL AMOUNT OF NOT TO EXCEED \$40,000,000, 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
- B. RESOLUTION NO. 2016-002 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 2016 LEASE REVENUE REFUNDING BONDS, AUTHORIZING THE ISSUANCE OF SUCH BONDS IN AN AGGREGATE PRINCIPAL AMOUNT OF NOT TO EXCEED \$40,000,000, 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
- C. RESOLUTION NO. 2016-002 OF THE CHULA VISTA PUBLIC FINANCING AUTHORITY AUTHORIZING THE EXECUTION AND DELIVERY OF ESCROW AGREEMENTS IN CONNECTION WITH THE ISSUANCE OF CHULA VISTA MUNICIPAL FINANCING AUTHORITY 2016 LEASE REVENUE REFUNDING BONDS AND AUTHORIZING THE EXECUTION OF NECESSARY DOCUMENTS AND RELATED ACTIONS

### RECOMMENDED ACTION

Council conduct public hearing and adopt Resolution A, Municipal Financing Authority adopt Resolution B and Public Financing Authority adopt Resolution C.

### SUMMARY

The City has an opportunity to refinance its outstanding City of Chula Vista 2006 Certificates of Participation and City of Chula Vista 2010 Certificates of Participation and reduce annual payments, based on current financial market conditions. The refinancing would be accomplished by the issuance of Chula Vista Municipal Financing Authority Lease Revenue Refunding Bonds.

## **ENVIRONMENTAL REVIEW**

### **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**

The Director of Development Services has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that the activity is not a “Project” as defined under Section 15378 of the State CEQA Guidelines because it will not result in a physical change in the environment; therefore, pursuant to Section 15060(c)(3) of the State CEQA Guidelines, the activity is not subject to CEQA. Thus, no environmental review is required.

### **BOARD/COMMISSION RECOMMENDATION**

Not Applicable

## **DISCUSSION**

### Background

In 2006, the City delivered \$20,235,000 2006 Certificates of Participation (2006 COPs) to finance the cost of the 2<sup>nd</sup> phase of the Civic Center construction and the Nature Center. The General Fund’s share of the annual debt service on the 2006 COPs is approximately 22%, with the balance paid from the Public Facilities Development Impact Fee (PFDIF) Fund. Market conditions in summer 2015 allowed the City to refinance a portion of the 2006 COPs and realize a debt service savings in years 2016-2026. The current balance outstanding is \$8,755,000.

In 2010, the City delivered \$29,355,000 2010 Certificates of Participation (2010 COPs) to reimburse the General Fund and PFDIF Fund for the construction cost of the 3<sup>rd</sup> phase of the Civic Center construction, and to refinance the original construction of the Corporation Yard improvements. The General Fund’s share of the annual debt service on the 2010 COPs is approximately 28%, with the balance paid from PFDIF. The current balance outstanding is \$26.2 million.

### Refinancing Opportunity

The City has the opportunity to refinance each series of COPs at today’s favorable interest rates, and reduce the annual payments payable from the General Fund and the PFDIF fund. Currently, staff expects that the remaining 2006 COPs maturing between 2027 and 2036 can be refinanced to produce a total net savings of \$800,000, or a 6.4% reduction in total payments over those years. The present value of the savings from refinancing is 7.5%, which is higher than the City’s debt policy 5% savings minimum requirement.

Staff expects that 2010 COPs can be refinanced to save \$230,000 annually for 15 years, reducing debt service payments by 9.5% in those years. Some of these savings result from being able to eliminate a reserve fund for the bonds because of the City’s AA- credit rating. The reserve fund that currently exists would have offset the final payment on the 2010 COPs, but now the savings that would have been realized only in the final year will now reduce debt

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**File#: 16-0123, Item#: 7.**

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service over time instead of at final maturity. Based on today's rates the present value of the savings from this refinancing is 5.6%.

The savings from the refinancing will be shared between the General Fund and the PFDIF Fund in the same ratio as the current funding. The General Fund share of the annual savings is estimated at \$64,000 for 15 years, with an additional \$41,000 of savings each year between 2027 and 2036, for a total \$1.33 million over 20 years. The balance of the savings will accrue to the PFDIF Fund.

No extension of existing maturity of either series of COPs is contemplated.

#### Financing Structure

The 2006 COPs were secured by lease payments payable to the Chula Vista Public Financing Authority (PFA) with respect to a lease of the Civic Center Property. When the 2010 COPs were issued, the payments were secured by a lease with the PFA of several different properties - the Corporate Yard and 3 fire stations. As part of the refinancing, the new Lease Revenue Refunding Bonds (Bonds) to be issued by the Chula Vista Municipal Financing Authority (Authority) will be secured by a lease of the Corporate Yard property, and the fire stations currently securing the 2010 financing. Because the 2006 COPs refinancing can be combined with the 2010 COPs refinancing, this eliminates the need to issue two separate series of bonds.

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 refinancing 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, the Authority Board and the PFA Board have been presented with resolutions for their consideration. The resolutions approve the form of the following documents in connection with the financing:

- Indenture between the Authority and U.S. Bank (as Trustee);
- Lease Agreement between the City and the Authority;
- Site Lease Agreement between the City and the Authority;
- 2006 Escrow Agreement between the City, the PFA and the U.S. Bank (as Escrow Bank);
- 2010 Escrow Agreement between the City, the PFA and the Escrow Bank;
- Assignment Agreement between the Authority and the Trustee;
- Bond Purchase Agreement between the City, the Authority and Stifel Nicolaus & Company, Incorporated;
- Preliminary Official Statement;

- Continuing Disclosure Agreement
- 2006 Termination Agreement between the City and the PFA; and
- 2010 Termination Agreement between the City and the PFA.

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 \$40,000,000, (2) the present value savings must be at least 5% 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 financial 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 April 13, 2016. Any changes requested by the City Council will be incorporated into the preliminary official statement as appropriate prior to its distribution to prospective investors.

#### **DECISION-MAKER CONFLICT**

Staff has reviewed the decision contemplated by this action and has determined that it will not affect real property value 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 is not independently aware, and has not been informed by any City Council/Board 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. Refunding the Certificates of Participation with the proposed refinancing structure will reduce debt service payments, thus enhancing both Operational Excellence and Economic Vitality.

#### **CURRENT YEAR FISCAL IMPACT**

There is no fiscal impact in the current Fiscal Year 2015/16.

#### **ONGOING FISCAL IMPACT**

The on-going fiscal impact to the General Fund and the PFDIF Fund will be to reduce annual debt payments by approximately \$230,000 for 15 years and another \$180,000 for a 9 year period beginning in 2027. Based on the payment ratios, the General Fund savings is estimated at \$64,000 annually for 15 years together with \$41,000 annually for 9 years beginning in 2027. The PFDIF Fund savings is estimated at \$166,000 annually for 15 years together with \$139,000 annually for 9 years beginning in 2027.

#### **ATTACHMENTS**

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1. Indenture
2. Lease Agreement
3. Site Lease Agreement
4. 2006 Escrow Agreement
5. 2010 Escrow Agreement
6. Assignment Agreement
7. Bond Purchase Agreement
8. Preliminary Official Statement
9. Continuing Disclosure Agreement
10. 2010 Termination Agreement

*Staff Contact: Mike Sylvia, Finance & Purchasing Manager, Finance Department*