



## CITY OF BRISBANE AND BRISBANE GUADALUPE VALLEY MUNICIPAL IMPROVEMENT DISTRICT FINANCING AUTHORITY AGENDA REPORT

**Meeting Date:** 6/1/2023

**From:** Carolina Yuen, Finance Director

**Subject:** City Council Resolution Approving the form and authorizing the execution of certain lease financing documents to finance the costs associated with tenant improvements, and related equipment and furnishings for leased property at 25 Park Place in Brisbane and authorizing and directing certain actions thereto

**Subject:** Authority Resolution approving the form and authorizing the execution of certain lease financing documents in connection with the financing by the City of Brisbane of a portion of the costs associated with tenant improvements, and related equipment and furnishings for leased property at 25 Park Place in Brisbane and authorizing and directing certain actions thereto

### **Community Goal/Result**

Fiscally Prudent

Community Building

### **Purpose**

Authorize funding to finance costs associated with tenant improvements, and related equipment and furnishings for leased property at 25 Park Place (City Hall Annex) to be used for municipal purposes.

### **Recommendation**

Approve the Resolutions described above.

### **Background**

In July 2021, the City entered into a 10-year lease for the property located at 25 Park Place in order to better serve the community and in anticipation of the need for additional space for staff due to the potential development of the Baylands. In February 2023, the City amended the lease to extend the term an additional 15 years in order to obtain financing to cover the necessary tenant improvements.

Estimates of construction costs to improve the property currently have been presented at \$4.6 million including a 20% cushion to cover unexpected change orders and the cost of construction management. The architect's contract was for approximately \$400,000. The construction timeframe is expected to span nine months starting this year and to be completed by the Spring of 2024.

Staff met with the City Council Fiscal and Administrative Policies Subcommittee on April 3, 2023, to discuss funding options. The Subcommittee directed staff to proceed to explore bond financing to pay for the tenant improvements, but to also look at partial funding directly from

the City's liquid funds.

### Discussion

City staff and the City's Financial Advisor (Marty Johnson) have explored financing options considering bond rates have been volatile over the past year. The target was to keep the annual payment structure comparable to existing requirements considering we have a Pension Obligation Bond due in 2023 and the City Hall Remodel Refunding due to be paid off in 2029. Proposed payments are structured to commence in FY2024.

Staff reviewed several options including a private placement with a bank and a sale in the public market. The current volatility in the interest rate market, various issues surrounding regional banks and the relatively small size of the financing have resulted in the City pursuing a negotiated sale process in the public market. Based on feedback from the Subcommittee, the City is proposing to issue a 20-year bond, sized to provide \$5.5 million of net proceeds. The estimated interest rate is 4.45%. The payments on the new debt will be structured with payment of ~\$350,000 through FY2025 and then payments of ~\$430,000 through maturity in FY2043, with an approximate total interest cost of \$3.2 million. Based on this structure, the total payments on all issues paid from the General Fund would be approximately \$1.3 million from FY2026 to FY2033.

The repayment schedule may be altered further to wrap this debt around existing debt the General Fund is paying. The idea of wrapping this new debt around existing debt allows the City to minimize the initial impact of the additional debt service. The City currently has two issues outstanding that the General Fund is paying. One is a Pension Obligation Bond which comes due in FY 2023. The second is the City Hall remodel which will be paid off in 2029. The annual payment for the Pension Obligation Bond is about \$393,000 for FY 2023 and the annual payment for the City Hall remodel is about \$155,000 a year through 2029. There will be no payment due in FY 2023 on the new debt. If the payments are structured around the existing payments, the total annual payment from the General Fund would be ~1.2 million. The total interest cost on the proposed 2023 bonds would increase to \$3.7 million.

If the City Council chooses not to borrow the \$5.5 million, the City would need to instead pay cash from the General Fund and reduce the amount of cash available to meet other needs. As discussed at the FY23 Mid-year Budget review, the City is just shy of using reserves to cover costs for FY23. Spending cash instead of borrowing may risk us not having funds accessible if there is an emergency or to cover lost revenues. Reducing the City's cash balance would also reduce the amount of interest the City could earn from existing investments. The LAIF rate is currently approximately at 3% and the 2-year Treasury is at 4.3%. Whether we borrow the full \$5.5 million versus a less amount, several of the bond costs are fixed and won't change with a smaller par amount.

Proceeds Amount	Interest Cost	Average Annual Debt Svc
\$5,500,000	\$ 3.2M	\$422K

\$4,500,000	\$2.6M	\$346K
\$3,500,000	\$2.0M	\$271K

**Fiscal Impact**

The annual payment for the new debt will increase from \$350,000 in FY 2024 to \$430,000 in 2043. The bonds will be paid off after 20 years. The total amount of interest paid over the life of the bonds will be \$3.2 million. The interest paid in the first 5 years will be \$1.2 million. A portion of this interest payment can be offset by the interest on the money the City will keep by using financing and by investing the bond proceeds during the construction period.

City properties including the Mission Blue Community Center, the Community Pool Complex, and the Community Center located on Visitacion Avenue, are being bundled to satisfy the financing requirements:

Security for the 2023 Bonds	
Community Pool Complex	\$ 2,013,000
Community Center / Old Library	\$ 1,734,000
Mission Blue Community Center	\$ 1,976,000
	<u>\$ 5,723,000</u>

**Measure of Success**

The City and staff are able to enjoy the use of the City Hall Annex property to benefit the community.

**Attachments**

- 1) City Council Resolution Approving the form and authorizing the execution of certain lease financing documents to finance the costs associated with improvements at leased property located at 25 Park Place in Brisbane and authorizing and directing certain actions thereto.
- 2) Authority Resolution approving the form and authorizing the execution of certain lease financing documents in connection with the financing by the City of Brisbane of a portion of the costs associated with improvements at leased property located at 25 Park Place in Brisbane and authorizing and directing certain actions thereto.
- 3) Site and Facility Lease – Details the term of the lease through May 1, 2043. The City leases the facility to the Brisbane/Guadalupe Valley Municipal Improvement Financing Authority for the advance payment of \$5,500,000 the City will pay the Financing Authority back over time on the prearranged payment schedule.
- 4) Lease Agreement between Brisbane/Guadalupe Valley Municipal Improvement District Financing Authority and the City – The City leases back the Mission Blue Community Center, the Municipal Pool Complex, and the Old Community Center property as set

forth in the terms of this lease agreement. Lease payments from the City to the Financing Authority will be budgeted annually from any source legally available to the City to make the payments.

- 5) Indenture of Trust – Details the terms and conditions of the agreement between the issuer and the trustee who represents the interests of the bond investors.
- 6) Bond Purchase Agreement – Stipulates the conditions of the sale between the bond issuer and the underwriter of the bonds.
- 7) Continuing Disclosure Certificate – This document is executed and delivered by the Issuer for the benefit of registered and beneficial owners of the bonds, to assist the underwriter (Oppenheimer & Co., Inc.) in complying with SEC Rule 15c2-12(b)(5).
- 8) Preliminary Official Statement (POS) – This document is an informational disclosure document released prior to the sale that describes the proposed new issue of bonds prior to the final determination of the maturity amounts, interest rates and offering pricing/yields.
- 9) Proposed Debt Schedule



---

Carolina Yuen, Finance Director



---

Clay Holstine, City Manager