



STAFF REPORT

TO: Mayor and City Council

MEETING DATE: August 27, 2025

PRESENTER: Josefina Alvarez, Finance Director

SUBJECT: Consideration of a Resolution of City Council of the City of Kerman Authorizing the Issuance and Sale of 2025 Lease Revenue Bonds (JA)

RECOMMENDATION: City Council by motion adopt resolution Approving, Authorizing and Directing Execution of Certain Lease Financing Documents and Directing Execution of Certain Related Actions in Connection with Financial Capital Improvements for the issuance and sale of 2025 Lease Revenue Bonds

EXECUTIVE SUMMARY:

Approval of the attached resolution **Attachment 'A'** enables the City and the Kerman Public Financing Authority to issue the 2025 Lease Revenue Bonds (the "Bonds") to finance public capital improvements, anticipated to consist of a new multi-generational community resiliency center and improvements to the City's new police station (the "Projects").

The City has identified several priority capital projects that would be possible with funding from the Measure M program including an Animal Shelter, Hart Ranch Park, Multi-Generational / Senior Center, a new Police Station, and a Downtown Revitalization Program.

To date, the animal shelter has been completed. Hart Ranch Park is under construction with an estimated completion date of Summer 2026, and a significant phase of Downtown Revitalization and Beautification was completed in early 2025.

To advance the Multi-Generational / Senior Center, the City was successfully awarded a \$7.25M grant from the CA Dept. of Agriculture toward what is estimated to be a \$15 million project. Subsequent pursuit of additional grants to finance this project have been unsuccessful. The bond issuance will provide the remaining funds needed to undertake this project.

In 2023, the City purchased an existing building for the new Police Station. This acquisition was funded with a grant/earmark from the State of California, made possible by Assembly Member Esmeralda Soria. Funding from the proposed bond issuance of approximately \$12M will be used to fund the design and remodel of the building and grounds.

DISCUSSION:**Financing Structure and Security-**

Under a lease/leaseback structure detailed below, the Bonds are payable from semi-annual lease payments the City makes to the Authority. These payments, assigned to the Trustee under a sublease for the City properties listed below (the “Leased Properties”), are a General Fund obligation of the City and must be appropriated annually by the City Council. They are not secured by a lien or pledge on any specific City revenues or by a lien on the leased properties.

Initial Leased Properties:

Asset	Location
Police Station	850 S Madera Ave
Office Building	15061 W C Street (New Police Station)
Whse/Shop Building	15061 W C Street (New Police Station)
PW Office Building	15201 W California Ave
PW Shop Building	15201 W California Ave
PW Shop	15201 W California Ave
Office Building	942 S Madera Ave
Animal Shelter	15375 W California Ave ("A" Street)
Community Teen Center	15101 W Kearney Plaza
Lion's Park	744 S Park Ave
Kerckhoff Park	15061 W G Street
Hart Ranch Park	13833 W California Avenue

Legal Structure:

The Authority will be the issuer of the proposed Bonds. In connection with the issuance of the Bonds, the City will enter into a Site Lease with the Authority, pursuant to which the City will lease certain City-owned property (Leased Property), to the Authority. Under a simultaneous Lease Agreement, the Authority will lease the Leased Property back to the City. Under the Lease Agreement, the City will agree to make rental payments to the Authority for the beneficial use and occupancy of the Leased Property. Such rental amounts will be calculated to be sufficient in time and amount to pay the debt service payments on the Bonds. Pursuant to an Assignment Agreement, the Authority will assign certain rights under the Lease Agreement to U.S. Bank Trust Company, N.A., as trustee (the “Trustee”) for the Bonds, including the right to receive the rental payments under the Lease Agreement. Due to the fact a portion of the Bonds will be secured by lease payments on the yet to be completed Projects, the City will be required to fund capitalized interest on a portion of the Bonds through April 1, 2028, which represents the expected time period of construction (24 months) plus an additional 12 months.

The Bonds will be issued pursuant to an Indenture of Trust to be entered into among the City, the Authority and the Trustee, which will govern certain key terms of the Bonds including repayment dates, redemption terms, interest rate and rights and remedies of Bond owners.

Staff has been notified that the City has received an underlying credit rating of "A" for the Bonds from Standard & Poor's ("S&P"). Staff, working with its consultants, is also in the process of obtaining municipal bond insurance (rated "AA" by S&P) and a debt service reserve fund surety for the Bonds. It is anticipated that a municipal bond insurance policy and/or a debt service reserve fund surety will be obtained as an additional benefit to the City. Information on the City's General Fund and related risks is provided to investors in the offering document for the Bonds (the Preliminary Official Statement). Additional details on the legal and disclosure documents are outlined below.

Bond Sizing (Not-to-Exceed Amounts):

In order to authorize the sale of the Bonds, staff must provide not-to-exceed amounts in the City Resolution and the Authority Resolution. In order to provide staff with maximum flexibility in determining the optimal size of the Bonds, staff requests: a not to exceed principal amount of \$25 million; a not to exceed true interest cost of 5.75%; and a not to exceed underwriter's discount of 0.75%. These limits have been included in the City Resolution and Authority Resolution as "not to exceed" to create a reasonable amount of flexibility for the City and the Authority, even though the final principal amount, true interest cost and underwriter's discount are anticipated to be less.

Good Faith Estimates:

The required good faith estimates discussed below, with respect to the Bonds, are provided in accordance with California Government Code Section 5852.1. Such good faith estimates have been provided by Fieldman, Rolapp & Associates, Inc., the City's Municipal Advisor, in consultation with the Underwriter, and are based on assumptions of the estimated principal amount of the Bonds and on market interest rates prevailing at the time the estimate is prepared. The estimates reflect the combined totals for the Bonds, as follows:

Principal Amount: The Municipal Advisor informed the City that based on the City's financing plan and current market conditions, the good faith estimate of the aggregate principal amount of the Bonds to be sold (the Estimated Principal Amount) is \$19,955,000.

True Interest Cost of the Bonds: The Municipal Advisor informed the City that its good faith estimate of the true interest cost of the Bonds, which is the rate necessary to discount the amounts payable on the respective principal and interest payment to the purchase price received for the Bonds, is 5.02%.

Finance Charge of the Bonds: The Municipal Advisor informed the City that its good faith estimates of the finance charge for the Bonds, which is the sum of all fees and charges paid to third parties, or costs associated with the Bonds, is \$596,821. Such fees and charges include fees for bond and disclosure counsel, municipal advisor, appraiser, escrow verification, trustee, rating agency, title insurance, municipal bond insurance, debt service reserve policy, printing and underwriting.

Detailed estimates of these fees for each party are below:

- Underwriting: \$149,663 (0.75 % of par)
- Municipal Bond Insurance: \$139,156
- Reserve Fund Surety: \$32,783
- City Staff Time: \$25,000
- City Attorney: \$5,000
- Bond Counsel: \$77,000
- Disclosure Counsel: \$50,000

- Municipal Advisor: \$38,500
- Trustee & Trustee's Counsel: \$4,200
- Title Insurance: \$20,130
- Rating Agency (S&P): \$28,000
- Printing: \$2,000
- Joint Powers Authority: \$10,000
- Contingency: \$15,389

These fees are all paid for with bond proceeds.

Amount of Proceeds to be Received: The Municipal Advisor informed the City that its good faith estimate of the amount of proceeds expected to be received by the City for sale of the Bonds less the finance charge of the Bonds, as estimated above, and any reserves funded with proceeds of the Bonds is \$19,646,861.

Total Payment Amount: The Municipal Advisor informed the City that its good faith estimate of the total payment amount of all payments the City will make to pay debt service on the Bonds calculated to the final maturity of the Bonds is \$39,812,853.

The foregoing estimates constitute good faith estimates only. The actual principal amount of the Bonds issued and sold, the true interest costs, the finance charges, the amount of proceeds received, and the total payment amount may differ from such good faith estimates due to:

1. The actual date of the sale of the Bonds being different than the date assumed for purposes of such estimates;
2. The actual principal amount of the Bonds sold being different from the Estimated Principal Amount;
3. The actual amortization of the Bonds being different than the 30-year amortization assumed for purposes of such estimates;
4. The actual market interest rates at the time of sale of the Bonds being different than those estimated for purposes of such estimates;
5. Other market conditions; or
6. Alterations in the City's financing plan, delays in the financing, additional legal work (including federal tax law due diligence), 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 and the Authority based on the timing of the need for proceeds of the Bonds and other factors. The actual interest rates and amortization of the Bonds will depend on market interest rates at the time of sale, with an expected amortization period of 30 years. Market interest rates are affected by economic and other factors beyond the control of the City and the Authority. If market rates change so that the transaction is no longer financially beneficial, the City and the Authority can terminate the transaction at any time before the Bonds are sold to the Underwriter.

The forms of the base legal documents to be approved by the City Council and the Kerman Public Financing Authority are:

- **Indenture of Trust** – The Indenture is a contract between the Authority and U.S. Bank National Association, acting as Trustee. The Indenture specifies the Trustee, dated date, maturity date or dates, interest rate or rates, interest payment dates, denominations, forms, registration privileges, manner of execution, place or places of payment, terms of redemption and other terms of the Bonds.

- **Site Lease** – The Site Lease is a contract between the Authority and the City, under which the City leases the selected leased property to the Authority in exchange for a lump sum amount equal to the principal amount of the Bonds consideration of the Authority's agreement to provide financing for the Projects.
- **Lease Agreement** – The Lease Agreement is a contract between the Authority and the City, under which Authority leases back the selected leased property to the City in consideration of the payment by the City of semiannual installment payments which are sufficient to provide revenues with which to pay principal of, and interest on, the Bonds when due.
- **Bond Purchase Agreement** – The Bond Purchase Agreement is a contract between the Authority, the City and Oppenheimer & Co. Inc., as underwriter (the "Underwriter"), whereby the Authority agrees to sell the Bonds to the Underwriter and the Underwriter agrees to buy the Bonds from the Authority for resale to the public.
- **Preliminary Official Statement** – The Preliminary Official Statement is the offering statement used by the Underwriter to inform the marketplace of the terms of the Bonds and contains all relevant information for the investor to decide whether to purchase the Bonds.

Disclosure Documents: Staff and the City's financing team have prepared the Preliminary Official Statement in connection with the offering of the Bonds. The Preliminary Official Statement presents material information relating to the Bonds and the City's finances and operations and will be used in the offering of the Bonds to potential investors.

The United States Securities Exchange Commission has stated that elected officials have certain responsibilities under federal securities law. If City Council members during their review of the Preliminary Official Statements determine that it contains any material false statements or omissions of material information, they should bring this to the attention of staff.

To comply with federal securities law, the City will enter into a Continuing Disclosure Agreement in connection with the issuance of the Bonds. Under the Continuing Disclosure Agreement, the City will agree to annually provide certain financial information relating to the City and notices of certain enumerated events to the market. Such information will be provided through the Municipal Securities Rulemaking Board's Electronic Municipal Market Access website.

FISCAL IMPACT:

Like the outstanding 2020 Bonds, debt service payment on the Bonds is a liability of the General Fund. Debt service payments will be made over 30 years in semi-annual payments and will be due semi-annually on April 1st and October 1st of each year with the first payment due on April 1, 2026. The estimated annual debt service of the Bonds is provided below.

All financing-related costs will be paid from Bond proceeds. The estimated annual payment is \$459,260 in the initial partial year (FY 2025/26). The average net annual payment is approximately \$1,298,306 from FY 2026/27 through FY 2055/56.

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Bonds - Estimated Annual Payment Schedule				
Fiscal Year	Principal	Interest	Capitalized Interest	Total
2026		\$531,489	\$72,229	\$459,260
2027	\$290,000	1,015,938	139,050	1,166,888
2028	305,000	1,001,063	139,050	1,167,013
2029	325,000	985,313		1,310,313
2030	340,000	968,688		1,308,688
2031	355,000	951,313		1,306,313
2032	375,000	933,063		1,308,063
2033	395,000	913,813		1,308,813
2034	415,000	893,563		1,308,563
2035	435,000	872,313		1,307,313
2036	460,000	849,938		1,309,938
2037	485,000	826,313		1,311,313
2038	505,000	801,563		1,306,563
2039	535,000	775,563		1,310,563
2040	560,000	748,188		1,308,188
2041	585,000	719,563		1,304,563
2042	615,000	689,563		1,304,563
2043	650,000	657,938		1,307,938
2044	680,000	624,688		1,304,688
2045	715,000	589,813		1,304,813
2046	755,000	553,063		1,308,063
2047	795,000	513,319		1,308,319
2048	835,000	470,531		1,305,531
2049	885,000	425,381		1,310,381
2050	930,000	377,738		1,307,738
2051	980,000	327,600		1,307,600
2052	1,035,000	274,706		1,309,706
2053	1,085,000	219,056		1,304,056
2054	1,145,000	160,519		1,305,519
2055	1,210,000	98,700		1,308,700
2056	1,275,000	33,469		1,308,469
Total	\$19,955,000	\$19,803,758	\$350,329	\$39,408,429

ATTACHMENTS:

- A. City Resolution
- B. ~~Indenture removed~~
- C. Site Lease
- D. Lease Agreement
- E. ~~Assignment Agreement removed~~
- F. Bond Purchase Agreement
- G. Preliminary Official Statement (including Continuing Disclosure Agreement)