CITY OF CARSON

701 East Carson Street

Legislation Details (With Text)

File #:	2018-646	**Version:** 1	**Name:**		
Type:	Discussion		**Status:**	Agenda Ready	
File created:	8/21/2018		**In control:**	City Council	
On agenda:	9/4/2018		**Final action:**		
Title:	CONSIDER POTENTIAL DEBT FINANCING OPTIONS (CITY COUNCIL AND SUCCESSOR AGENCY)				
Sponsors:					
Indexes:					
Code sections:					
Attachments:	1. Project List for Bond Discussion				

Date	Ver.	Action By	Action	Result
9/4/2018	1	City Council		

Report to Mayor and City Council
Tuesday, September 04, 2018
Discussion

SUBJECT:

CONSIDER POTENTIAL DEBT FINANCING OPTIONS (CITY COUNCIL AND SUCCESSOR AGENCY)

I. SUMMARY

There are two opportunities for the City to issue debt to finance street projects with no impact to the General Fund. Projects totaling up to $30 million could be financed through a combination of two different bond issues.

In addition there is an opportunity to refund the Successor Agency 2007 Bonds, which may result in approximately $7,600 of additional revenue to the City each year (net present value of roughly $114,000).

Staff requests direction from the City Council and the Successor Agency Board regarding the options to issue debt.

II. RECOMMENDATION

PROVIDE direction to staff for potential debt financing.

III. ALTERNATIVES

TAKE another action deemed appropriate by City Council.

IV. BACKGROUND

Measure R and Measure M Revenue Bonds

The City receives local allocations of transportation sales tax collected by Los Angeles County. Annual allocations include approximately $1.1 million from Measure R and $1.3 million from Measure M. Measure R and Measure M revenue is restricted to transportation improvements and maintenance, such as street repaving and upgrades to traffic signals. Measure R and Measure M revenue comprise 58% of the City's annual restricted funding for street improvements as shown below.

Available for Street Improvements		
Proposition C sales tax	$ 200,000	5%
Measure R sales tax	1,140,628	27%
Measure M sales tax	1,292,684	31%
RMRA from SB 1	1,567,354	37%
Annual Restricted Revenue	**$4,200,666**	

As a reminder, the Road Maintenance and Rehabilitation Account (RMRA) allocation secured by 2017 SB 1 is at risk. On November 6, 2018, California's voters will be asked to consider Proposition 6. If the measure passes, the City will lose its annual $1.6 million RMRA allocation; which is 37% of the City's annual restricted funding for street improvements.

Los Angeles County Metropolitan Authority (METRO) allows cities to issue debt secured by Measure R and Measure M revenue. City staff developed a potential list of projects to finance, and obtained verification from METRO that the projects are Measure R and Measure M eligible. The list of potential projects is attached to this report (see Exhibit A), and includes the high-priority construction a new public street through the 157-acre development. Potential projects total $54.6 million, which is more than can be financed. The City Council has previously discussed the downside of the bond issuance, which would limit the ability of the City to rely on Measure R and Measure M local return revenues to respond to changes in traffic and circulation that are not included in the project list.

In current market conditions, the City could finance approximately $25 million by pledging two-thirds of Measure R and Measure M revenue for the next 25 years, or approximately $27.6 million with a 30-year pledge. Pledging two-thirds of the annual revenue (roughly $1.6 million) would provide 150% coverage for annual debt service, and likely secure an "A" credit rating from Standard & Poors. The interest rate may approximate 3.5%-4.0%, and the City may pay more than $20 million of interest over the life of the bonds.

One-third of the annual Measure R and Measure M revenue would remain available for ongoing improvements (roughly $0.8 million). If the City were to issue this debt, and California's voters approve Proposition 6, the City's remaining restricted money available for street repair would decrease to approximately $1 million per year. The Pavement Management System recommends annual spending of $8 million to maintain the current overall pavement condition.

Proposition C sales tax	$ 200,000	20%
Remaining 1/3 of Measure R sales tax	380,209	38%
Remaining 1/3 of Measure M sales tax	430,895	43%
Potential Annual Restricted Revenue	**$1,011,104**	

To issue bonds, the City would need to assemble a financing team comprised of a financial advisor, bond counsel, underwriter(s), underwriter's counsel, and a trustee. The City would also need to pay for a credit rating. The fees paid to the financing team comprise the costs of issuance, including the underwriter's discount. Costs of issuance approximate 1.5%-2.0% of the amount financed. There are several options to consider.

The City could utilize the California Statewide Communities Development Authority (CSCDA) to issue debt. CSCDA was created in 1988, under California's Joint Exercise of Powers Act, to provide California's local governments with an effective tool for the timely financing of community-based public benefit projects. CSCDA already has a financing team that includes:

- Urban Futures, Inc. as financial advisor;
- Orrick, Herrington & Sutcliffe LLP as bond counsel;
- Stifel as underwriter;
- Stradling Yocca Carlson & Rauth as underwriter's counsel; and
- Wilmington Trust, N.A. as trustee.

CSCDA offers pooled financing, which allows multiple agencies to share the costs of issuance. At this time, there are no other agencies in the application pipeline, and CSCDA would likely issue stand-alone debt for the City. Using this option, the City could issue debt within about 3 months of submitting an application to CSCDA. An initial estimate from CSCDA for the costs of issuance is $383,000 for 30-year bonds with proceeds of $27.6 million and total interest paid of $23,745,465 (a 4.06% interest cost).

The City could also issue bonds directly, without assistance from CSCDA. Based upon the City's purchasing ordinance, staff would need to solicit competitive proposals for the financial advisor and underwriter. Staff presumes the City would choose to utilize the City Attorney's Office as bond counsel. Including the time to assemble a financing team and award contracts to the consultants, debt could be issued within about 5 months. The Finance Director's work plan would need to be re-prioritized, which could result in delaying other projects.

If the City issues bonds directly, staff recommends following the purchasing ordinance and soliciting competitive proposals for the financing team. Staff has been contacted by four financial advisors and one underwriter regarding a potential bond financing.

Assessment District 2001-1 Dominguez Technology Center West Refunding Bonds

Assessment District 2001-1 Dominguez Technology Center West was formed in 2001 to acquire certain public improvements associated with the development of the project, including streets and storm drains. Conduit debt was issued by the Carson Public Financing Authority, and the original bonds were refinanced in 2006. Debt payments are funded with property owner assessments, and the bonds mature in September 2031.

The City Council, through the Public Financing Authority, could choose to refinance the district debt again. In the current market, there is an estimated net present value savings of $2 to $3 million. Refunding bonds could be structured to provide a cash infusion to a capital fund without increasing annual debt service. The capital fund would be used to pay for a project that benefits the district, such as freeway access improvements. The district consists of approximately 271 acres bounded by Victoria Street, Wilmington Avenue, University Drive, and Central Ave. As an example, the City may consider repaving Del Amo from Central to Wilmington for $1.6 million and repaving Wilmington from Del Amo to Carson for $1.9 million, to improve freeway access to and from the district. Staff would propose using the City's restricted revenue for street improvements to pay the difference between actual project cost and capital funding from the refunding bonds.

The outstanding principal balance at June 30, 2018 is $22,965,000. FY18-19 debt service is $2,264,281. The City is under no obligation to refinance these bonds; which could either generate annual debt service savings for the property owners, or provide cash for a project that benefits the district.

The law governing this potential refunding bond issue is complex, and staff would recommend a financing team that has experience with assessment districts. Refunding bonds would need to be carefully structured in order to provide cash for a capital fund. Again, the City's Purchasing Ordinance requires staff to solicit competitive proposals for the financial advisor and underwriter. Similar to the scenario above, debt could be issued within about 5 months after re-prioritizing the Finance Director's work plan.

Successor Agency 2007 Bond Refunding

The former Carson Redevelopment Agency issued $16,845,000 of Tax Allocation Refunding Bonds in 2007. The bonds are currently callable, and a financial advisor has estimated potential debt service savings if the bonds are refunded. Debt service savings over the next 18 years might total $2.03 million, with a net present value of $1.7 million. These figures are net of the costs of issuance, which would be paid from bond proceeds. If Successor Agency debt service is reduced, there is more property tax to distribute to the taxing entities. The City's share of the additional property tax is approximately $7,600 per year (total net present value of roughly $114,000). Again, debt could be issued within about 5 months, including a competitive proposal process, after re-prioritizing the Finance Director's work plan.

Questions for the City Council

1. Does the City Council wish to move forward with issuing debt pledged with the City's

Measure R and Measure M revenue?

2. If the direction is to move forward with Measure R and Measure M bonds:

   a. Would the City Council prefer to utilize CSCDA to issue debt? Or issue debt directly?

   b. If debt is issued directly, does the City Council agree that staff should solicit competitive proposals for the financing team?

   c. Would the City Council prefer to pledge 25 years or 30 years of annual revenue?

3. Does the City Council wish to move forward with refunding Assessment District 2001-1 debt, potentially structured to generate $2 to $3 million for a street project that benefits the district?

4. Does the Successor Agency Board wish to move forward with refunding Successor Agency 2007 bonds to generate an additional $7,600 of annual revenue for the City over the next 18 years?

Next Steps

The City Council could choose not to pursue debt-financing at this time. If the City Council chooses to move forward with one or more of the options outlined above, the next steps would include either an application with CSCDA or solicitation for competitive proposals.

V. FISCAL IMPACT

There is no direct fiscal impact associated with City Council direction provided this evening. There is a fiscal impact if debt is issued, which is described above.

VI. EXHIBITS

A - List of potential street improvement projects to be financed (pages 6-8)

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