



**DATE:** June 12, 2018

**CATEGORY:** New Business

**DEPT.:** Finance and Administrative Services

**TITLE:** **Modifications to Council Policy A-11, Financial and Budgetary Policy, and Potential Shoreline Regional Park Community Debt and Wastewater Debt**

### **RECOMMENDATION**

1. Adopt a Resolution of the City Council Modifying City Council Policy A-11, Financial and Budgetary Policy, to be read in title only, further reading waived (Attachment 1 to the Council report).
2. Provide direction to staff on a proposed issuance of Shoreline Regional Park Community debt for transportation projects.
3. Provide direction to staff regarding the funding strategy for proposed wastewater capital projects.
4. Authorize the engagement of professional services with PFM, Stifel, and Jones Hall for debt issues.

### **BACKGROUND**

On September 12, 2016, the Governor signed Senate Bill (SB) 1029 to amend Section 8855 of the Government Code. SB 1029 mandates tracking of State and local government borrowing and spending of bond proceeds in an effort to increase transparency and improve public knowledge.

SB 1029 amended Section 8855 of the California Government Code to require that local government issuers of public debt adopt a debt management policy, which includes specified provisions concerning the use of debt and provides a framework for debt issuance, capital planning, and postissuance debt administration.

SB 1029 requires State and local government debt issuers to report to the California Debt and Investment Advisory Commission (CDIAC) specified information about proposed and outstanding debt. Specifically, this measure requires that a report of

proposed debt issuance be submitted to CDIAC, no later than 30 days prior to the sale of any debt issue. The report of proposed debt must include a certification by the issuer that it has adopted local debt policies concerning the use of debt; and that the contemplated debt issuance is consistent with those local debt policies.

A local debt policy shall include all of the following:

- The purposes for which the debt proceeds may be used.
- The types of debt that may be issued.
- The relationship of the debt to, and integration with, the issuer's capital improvement program or budget, if applicable.
- Policy goals related to the issuer's planning goals and objectives.
- The internal control procedures that the issuer has implemented, or will implement, to ensure that the proceeds of the proposed debt issuance will be directed to the intended use.

As part of the Shoreline Transportation Study in 2012, it was acknowledged that funding for priority projects would come from a variety of sources, including Development Impact Fees, Developer Contributions, the Shoreline Regional Park Community (Shoreline Community), grants, etc. In the Proposed Fiscal Year 2018-19 CIP, two projects are shown in Fiscal Year 2019-20, as follows:

1. CIP No. 20-34, NB Shoreline Boulevard/101 Off-Ramp Realignment and Construction: \$14.1 million.
2. CIP No. 20-35, Shoreline Boulevard at 101 Ped/Bike Overcrossing, Construction: \$20.0 million.

In addition, the Council approved a midyear CIP, CIP No. 18-70, Acquisition Real Property, Plymouth Street Realignment: \$28.5 million (\$13.4 million funded from North Bayshore Development Impact Fee). There is currently projected to be insufficient funding to fully fund these priority projects in the Shoreline Community.

As part of the Fiscal Year 2018-19 budget, staff has proposed several wastewater projects that require funding of approximately \$15.0 million in Fiscal Year 2019-20.

The modifications related to debt management and compliance with SB 1029 and potential of issuing debt for the Shoreline Community transportation projects were discussed with the Council Finance Committee (CFC) on March 27, 2018 (See Attachment 2). The CFC approved recommending the policy modifications to the City Council and bringing the potential for Shoreline Community debt to this next step.

## ANALYSIS

The City's bond counsel, Jones Hall, notified staff in 2017 regarding the new requirements. Modifications to the policy are required prior to the issuance of any debt. Staff has identified potential future financing needs during past budget cycles as follows:

1. Shoreline Regional Park Community – Transportation projects
2. Wastewater – Sanitary sewer main projects
3. Certificates of Participation (COPs) – Police/Fire Administration Building
4. Certificates of Participation (COPs) – Hope Street Project, downtown parking

Before any debt can be issued, Council Policy A-11, Financial and Budgetary Policy (Policy A-11), requires modification to the Debt Management section to be in compliance with SB 1029. Staff is recommending modifications to Council Policy A-11 to comply with SB 1029. The proposed changes have been reviewed by Jones Hall and the CFC (see Exhibit A to the Resolution).

In addition to the changes approved by the CFC and recommended for compliance with SB 1029, staff is recommending additions to the Reserve Policies as follows:

- Transportation Reserve – The General Fund Transportation Reserve shall be used for the purpose of major priority transportation projects to mitigate traffic congestion, improve infrastructure, and meet the needs of the City, as authorized by the City Council.
  - The Shoreline Regional Park Community shall maintain reserves as follows:
    - (4) (1) General Reserve shall be maintained at 25 percent of operating expenditures.

- ~~(2)~~ (2) Sea Level Rise Reserve shall be incrementally increased to accumulate approximately \$30 million in funds for projects identified in the Shoreline Sea Level Rise Study.
- ~~(3)~~ (3) Landfill Reserve shall be incrementally increased to accumulate funds to rebuild the landfill system. The Landfill Master Plan identified a need for a \$12 million reserve to rebuild the landfill system in case of a catastrophic event.

This is to incorporate in the policy the proposed new General Fund Transportation Reserve and the Shoreline Community Reserves.

#### Shoreline Regional Park Community – Transportation Projects

The earliest need for debt has been identified for the Shoreline Community. Between the projects identified above (CIPs 20-34, 20-35, and 18-70), there is \$42.8 million of funding required. The Shoreline Boulevard/101 Off-Ramp Realignment and Construction Project (CIP 20-34), is in preliminary design, and staff received responses to a Request for Proposals for design of the Ped/Bike Overcrossing (CIP 20-35) on May 14 and is currently reviewing the responses received. All projects are at various stages of design and construction could begin as early as 2019.

The estimated balance of the Shoreline Community Fund for Fiscal Year 2017-18 is \$15.7 million. There is insufficient funding to fund the identified projects at this time.

Other funding sources, such as a revenue measure for the restructuring of the business license tax, could generate additional funds, but the revenues could be used for Citywide transportation projects and do not need to focus only on the Shoreline Community. In addition, if a revenue measure is proposed and passed, the timing of receipts for the funds would not be sufficient to match the timeline of the construction of the CIPs. The Ped/Bike Overcrossing (CIP 20-35) may also be a project that could be funded by the developer of the Shoreline Commons project; however, the timing of that development does not currently match the timeline of construction. If the developer does fund the overcrossing, the bond funds could then be redirected for another Shoreline Community project at a later date.

Therefore, it would be appropriate to issue debt to fund these major priority transportation projects. The issuance of debt is generally a four- to six-month process. The general timeline would be as follows:

- July/August – Begin the preparation of Official Statement and other related bond documents (Bond Documents).
- September – Second and third review of Bond Documents.
- October – Present Bond Documents to City Council for review and approval.
- October – Rating agency presentations.
- November – Price bonds.
- December – Finalize and print Official Statement and other related Bond Documents.
- 2019 – Funds available for projects to begin.

Based on the timeline and workload capacity of staff, if Council approves, staff would begin to work on this project this summer.

### Sewer Main Projects

Staff has also been monitoring the financial needs of major wastewater construction projects and the potential for the issuance of debt for this purpose. Most recently, in the Fiscal Year 2018-19 Narrative Budget, staff identified projects of approximately \$15.0 million for sewer main projects that are scheduled for Fiscal Year 2019-20. These projects could begin early in Fiscal Year 2019-20, and staff has identified possible funding sources for these projects as follows:

- Interfund borrowing of \$5.0 million.
- Private Placement Debt for approximately \$10.0 million.

By allowing for a combination of interfund borrowing and private placement debt, it would provide flexibility to repay some of the debt if additional capacity or impact fees are received. Some suggestions for potential interfund borrowing would be the General Fund Reserve, Strategic Property Acquisition Reserve, Shoreline Community Reserve,

Water or Wastewater Reserves, Equipment Replacement Reserve, etc. A funding source can be determined at a later date. Private placement debt is less intensive than a public offering and is also less costly. Typically, a private placement debt is not greater than \$15.0 million with a maturity of 15 years or less. If Council approved, staff would return for approval of private placement debt in late fall.

### Professional Services

There are professional services that are required with a public debt offering as follows:

- Financial Advisor
- Underwriter
- Bond Counsel

**Financial Advisor**—The financial advisor assists the agency in the financial analysis of the issuance of debt, including debt structure, bond pricing, credit analysis, assistance with preparation of official statements, credit rating agency presentations, etc. Through an RFP process of another agency that staff participated in, PFM Financial Advisors LLC (PFM) has been selected as financial advisors. PFM is the nation's leading independent municipal financial advisor.

**Underwriter**—The underwriter is the entity that purchases and markets the debt. The City has historically used Stone & Youngberg as underwriters. Stone & Youngberg was acquired by Stifel, Nicolaus & Company, Incorporated (Stifel) in 2011. Stifel is the leader in California public finance in terms of issue amount and number of bond transactions. Staff is recommending to continue to use Stifel as the City's underwriters for future debt needs.

**Bond Counsel**—Jones Hall wrote the Shoreline Regional Park Community Act (Act) and is the most familiar with the details of the Act and the Shoreline Community. They are experts in California public finance, and their practice is solely devoted to public finance. They have served as bond counsel for every Shoreline Community debt issue since inception and have served as the City's bond counsel for all other debt issues, including the debt issued for City Hall, parking structures, water financing, etc.

Staff recommends engaging the professional services of the above for each of their expertise in their areas related to the issuance of debt. All fees are paid through the

proceeds of any debt issue, and no fees are incurred if no debt is issued. This is the industry standard and is similar to rolling all of the closing costs into a home loan.

### **FISCAL IMPACT**

There is no fiscal impact to the modifications proposed to Council Policy A-11 or providing direction to staff regarding the potential issuance of Shoreline Community or sewer debt. If Council supports staff to proceed with either or both debt issues, staff will return to Council with the formal documents and actions necessary for the issuance of either or both debt issues.

### **CONCLUSION**

Staff has identified financing needs for Shoreline Community Transportation Projects, sewer main projects, and other future capital projects. Prior to the issuance of debt, Council Policy A-11 is required to be modified to comply with legislation SB 1029. Staff is requesting modifications to Council Policy A-11 to comply with SB 1029. The CFC met on March 27, 2018 and recommended the modifications. Additional modifications to the policy are recommended to add new reserves to the Reserve section of the policy.

Staff is also requesting direction to proceed with the preparation of documents for debt for the Shoreline Community transportation projects and sewer main projects. The issuance of debt is a labor-intensive process involving staff and third-party professional services. If Council provides staff with direction to pursue either or both debt issues, staff is requesting approval of the firms PFM, Stifel, and Jones Hall to provide the professional services related to the debt issues. No costs are incurred until a debt transaction is completed.

If Council provides direction for staff to proceed, staff will return to Council with drafts of the potential preliminary official statement and legal documents, along with the specific parameters related to the maximum size and interest rate of a debt issue.

### **ALTERNATIVES**

1. Council could not accept the modifications or provide different modifications to Council Policy A-11.
2. Council could direct staff to defer or not to proceed with the issuance of Shoreline Community debt for transportation projects.

3. Council could direct staff to include a different amount or different Shoreline Community projects for the issuance of debt.
4. Council could direct staff to defer the sewer main projects or provide other funding options.
5. Council could provide other direction.

**PUBLIC NOTICING** – Agenda posting.

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Attachments: 1. Resolution  
2. [CFC Memo, March 27, 2018](#)