



DATE: November 13, 2018

CATEGORY: Unfinished Business

DEPT.: Finance and Administrative Services

TITLE: **Authorization of the Shoreline Regional Park Community Revenue Bonds, 2018 Series A and B, and Execution of a Memorandum of Understanding between the City and Shoreline Regional Park Community**

RECOMMENDATION

Acting as the Shoreline Regional Park Community Board of Directors:

1. Adopt a Resolution Authorizing the Issuance and Sale of Mountain View Shoreline Regional Park Community Revenue Bonds, Authorizing and Directing Execution of Related Documents, Including a Supplemental Indenture of Trust, a Bond Purchase Agreement and an Official Statement, Declaring the Intention to Reimburse Certain Expenditures, and Authorizing Official Actions, to be read in title only, further reading waived (Attachment 1 to the Council report).
2. Adopt a Resolution Approving a Memorandum of Understanding with the City of Mountain View and Authorizing and Directing Official Actions, to be read in title only, further reading waived (Attachment 2 to the Council report).
3. Appropriate up to \$4.0 million, in the Shoreline Regional Park Community Fund, to be set aside in the 2011 Series A Bonds Reserve Subaccount within the Reserve Account.

Acting as the Mountain View City Council:

1. Adopt a Resolution Approving a Memorandum of Understanding with the Mountain View Shoreline Regional Park Community and Authorizing and Directing Official Actions, to be read in title only, further reading waived (Attachment 3 to the Council report).
2. Adopt a Resolution Authorizing the Purchase of Mountain View Shoreline Regional Park Community Revenue Bonds, 2018 Series B, to be read in title only, further reading waived (Attachment 4 to the Council report).

BACKGROUND

The Mountain View Shoreline Regional Park Community (Shoreline Community) was formed in 1969 by special legislation to provide a form of local government to enable public authority and private interests to cooperate in the development of the Shoreline Community and create and operate a regional park, and provide a means of financing the responsibilities of the Shoreline Community, including the issuance of debt to fund infrastructure improvements. The Shoreline Community receives tax increment revenues, which are used to pay the principal and interest on bonds, loans, advances, or other indebtedness incurred by the Shoreline Community to finance the purposes of the Shoreline Community.

The Shoreline Community has issued bonds for a variety of purposes since its inception for projects related to major streets and roadway improvements, Landfill closure, purchase of open space, and most recently, in 2011, for construction of Fire Station No. 5 and the Athletic Fields. The 2011 Series A Bonds (2011 Bonds), with a current outstanding principal amount of \$27.8 million, are the only Shoreline Community bonds outstanding.

At the Council meeting on June 12, 2018, staff presented to Council the proposal for the issuance of bonds and the use of professional services. At that meeting, Council provided approval of the professional services and preliminary direction for staff to proceed with the initial steps for the issuance of debt.

ANALYSIS

Staff has been working with the professional service providers discussed below since July to review and prepare for the issuance of Shoreline Community bonds. Staff has been reviewing the projects and State and Federal laws associated with the Shoreline Community and a bond issue. After reviewing potential capital projects, staff is proposing to add a couple of projects and delete one. Projects originally proposed on June 12, 2018 are 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.

3. CIP No. 18-70, Acquisition Real Property, Plymouth Street Realignment: \$28.5 million (\$13.4 million funded from North Bayshore Development Impact Fee).

These projects would require Shoreline Community bond proceeds of \$49.2 million. However, a couple of unscheduled projects with no identified funding are also high-priority projects, as follows:

1. Plymouth Street Realignment Construction and Bus Lane Expansion: \$21.5 million.
2. Sailing Lake Improvements (including repairs of the docks, public restrooms, and expansion of the kitchen): \$2.5 million.

Staff is also proposing to exchange the Acquisition, Plymouth Street Realignment (CIP 18-70) with the Shoreline Boulevard Phase I Reversible Bus Lane and ROW Acquisition (CIPs 18-43 and 18-47) and add Fire/Police Training rooms for Fire Station No. 5 (CIP 20-31) for a total bond issue of up to \$72.0 million. In past budgets, staff had identified a potential need of approximately \$100 million in transportation projects that would need to be bond funded.

In order for the Shoreline Community to comply with Federal tax law, some of the projects must be financed by taxable bonds¹. Specifically, CIP 20-35 Ped/Bike Overcrossing will be financed with taxable bonds because the Shoreline Community does not expect to spend all of the 2018 Bond proceeds within three years (which is required by Federal tax law), and the improvements proposed to the Sailing Lake facility will be financed with taxable bonds because they are leased to private businesses (which is generally not permitted for tax-exempt bonds). Therefore, staff is proposing two series of bonds (collectively 2018 Bonds) as follows:

- Series A (tax-exempt) bonds (2018 Series A Bonds) that would generate proceeds of approximately \$58.6 million for projects; and
- Series B (taxable) bonds (2018 Series B Bonds) that would generate approximately \$10.2 million of proceeds for projects.

¹ The interest on “taxable bonds” is subject to Federal income taxation. The interest on “tax-exempt” bonds is generally exempt from Federal income taxation. The interest on both taxable bonds and tax-exempt bonds is excluded from California personal income taxation.

The restricted balance available in the Shoreline Community Fund at the end of Fiscal Year 2017-18 is \$16.8 million. This balance is required to pay the indebtedness of the Shoreline Community related to capital projects and intergovernmental payments, among other things, and meet the Shoreline Community's statutory obligations during the period after July 1 but prior to the receipt of tax revenues for Fiscal Year 2018-19. There is insufficient funding in the Shoreline Community without issuing the 2018 Bonds to fund the time-sensitive capital projects described above.

Other funding sources, such as the revenue measure just passed on the November ballot to restructure the business license tax, will generate additional funds, but those revenues could be used for Citywide transportation projects and do not need to focus only on the Shoreline Community. In addition, the restructured business license tax is not effective until January 1, 2020 and not fully phased in until January 1, 2022 and, therefore, would not generate revenues in time to meet the funding needs of these projects. The Ped/Bike Overcrossing project could be funded by the developer of the Shoreline Commons project; however, the timing of that development remains unknown and so does not match the proposed construction timeline for the Ped/Bike Overcrossing project. If the developer does fund the Ped/Bike Overcrossing project, the 2018 Bond funds could then be redirected for another Shoreline Community project at a later date. Development Impact Fees are another potential funding source, but are currently insufficient to fund these projects.

FINANCING STRUCTURE

The Revenue Bonds would be issued with a pledge that tax increment revenues from the Shoreline Community will be used to pay the principal and interest due on the 2018 Bonds. There is no other source of revenue pledged and no financial obligation from the City's General Fund or any other funds. A bond coverage ratio of 125 percent is required to issue the 2018 Bonds on a parity basis with the 2011 Bonds. The debt service coverage for Fiscal Year 2017-18 was 1,243 percent. Debt service coverage is estimated to be approximately 584 percent in Fiscal Year 2019-20, the first full year of debt service after issuance of the 2018 Bonds.

Documents

Bond counsel and staff have reviewed the proposed issue and transactions and concur that they are appropriate and consistent with the intent and language of the Mountain View Shoreline Regional Park Community Act (Act). To effectuate and facilitate the issuance of debt, staff is recommending the Shoreline Community:

- Authorize and direct execution of the Sixth Supplemental Indenture of Trust (Sixth Supplemental Indenture) with the trustee for the 2018 Bonds.
- Authorize for distribution the preliminary official statement (POS) (see Attachment 5) and final official statement for the purpose of disclosing material information about the 2018 Bonds to the investing public.

The resolution and POS are attached; the other draft documents, including agreements for professional services with PFM Financial Advisors LLC (PFM), with Jones Hall for bond and disclosure counsel services, and Stifel, Nicolaus & Company, Inc. (Stifel) as underwriter of the 2018 Bonds are available in the City Clerk's Office for review. On June 12, 2018, the Shoreline Community Board authorized the engagement of Professional Services with PFM, Jones Hall, and Stifel. The final documents will be in substantially the same form as the draft documents.

Sixth Supplemental Indenture

In 1992, an Indenture of Trust (Master Indenture) was executed by Shoreline Community and a trustee to serve as governing document for all future debt issued by the Shoreline Community. The Master Indenture has been supplemented five previous times as outlined in the Resolution (see Attachment 1).

Amendments to the Master Indenture are proposed in the Sixth Supplemental Indenture that are in the public interest of the Shoreline Community, including changes related to the conditions for issuing Parity Bonds under the Indenture and the provisions related to debt service reserve funds. Certain amendments require consent of a majority of bondholders, and the procedures will be as follows:

1. Notices will be sent to the 2011 Bondholders.
2. Consent of the 2018 Bondholders, who will constitute a majority of the outstanding bondholders, is obtained with the Sixth Supplemental Indenture.
3. Within 60 days after the 2018 Bonds have been issued, staff will return with a resolution to be adopted by the Shoreline Community Board accepting the consent of the bondholders.

4. A notice will be sent to the bondholders and posted to the Municipal Securities Rulemaking Board's (MSRB's) Electronic Municipal Market Access system (EMMA) website, the official source for municipal securities data and documents.

Preliminary Official Statement

The POS is the document used to disclose key information about the 2018 Bonds to the investing public and is the most important document for the members of the Board to review.

The POS for the 2018 Bonds discloses information related to the Shoreline Community regarding the tax increment revenues that are pledged for the repayment of debt and associated risks. The financing team, consisting of staff, bond counsel, disclosure counsel, municipal advisor, and underwriter, has prepared and reviewed the POS to comply with securities laws requirements. Under Federal securities laws, the POS must include all facts that would be material to an investor in the 2018 Bonds. Material information is information that there is a substantial likelihood would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the 2018 Bonds, including the following:

- The estimated sources and uses of funds relating to the 2018 Bonds;
- The purposes for which the proceeds of the 2018 Bonds will be used;
- The terms relating to the 2018 Bonds (payment dates, redemption terms, etc.);
- The security for repayment of the 2018 Bonds (property tax revenues received by the Shoreline Community);
- Information regarding the Shoreline Community and the assessed properties within the Shoreline Community;
- Risk factors relating to the 2018 Bonds;
- Information regarding the City of Mountain View (City); and
- The Shoreline Community's audited financial statements.

This information is contained in the POS. Members of the Shoreline Community Board may review the POS and/or question staff and consultants to ensure they are

comfortable that the POS includes all material facts. All members of the Shoreline Community Board and members of staff involved in the process of issuing the 2018 Bonds participated in securities law training prior to reviewing and approving this bond issue and the disclosure document (POS). The Securities and Exchange Commission (SEC) is the Federal regulatory body with the responsibility for enforcing Federal securities laws. The SEC has repeatedly emphasized the importance of municipal issuers providing training to individuals participating in the disclosure process (including members of the City Council or Board).

A transmittal of the POS from disclosure counsel regarding the Board's obligations is also included (see Attachment 6).

Agreements for Professional Services

Several professional services are required with a public debt offering, as follows:

Municipal Advisor—The municipal advisor assists the agency in the financial analysis of the issuance of debt, including debt structure, bond pricing, credit analysis, review of official statements, credit rating agency presentations, etc. Through an RFP process, staff has been working with PFM as municipal advisor since early 2018. PFM is the nation's leading independent municipal financial advisor.

Bond Counsel—Jones Hall was involved with the original legislation creating the Act and is the most familiar with the details of the Act and the Shoreline Community. They are experts, 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. Jones Hall provided the securities law training to members of the Shoreline Community Board and staff.

Underwriter—The underwriter is the entity that purchases and markets the debt. The City has historically used Stone & Youngberg as underwriter. Stone & Youngberg was acquired by Stifel in 2011. Stifel is the leader in California public finance in terms of issue amount and number of bond transactions.

At the June 12, 2018 Council meeting, the Shoreline Community Board approved staff's recommendation to engage 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 the debt issue. This is the industry standard and is similar to rolling all of the closing costs into a home loan.

PURCHASE OF SHORELINE COMMUNITY BONDS BY THE CITY OF MOUNTAIN VIEW

When the Shoreline Community issued the 2011 Bonds, Council was interested in the City purchasing and directed staff to allow the City to purchase up to \$10.0 million of the 2011 Bonds.

The investment of public funds is governed by California Government Code Section 53600. A local agency's investment policy must comply with the Government Code, but may be more restrictive. Council Investment Policy B-2, Section 10.1.10, permits the investment of municipal bonds issued by the City of Mountain View or any component unit of the City at limits and maturities as approved by the City Council.

If the 2018 Bonds are approved to be issued, and the Council authorizes staff to purchase some of the 2018 Bonds, any 2018 Bonds purchased would be placed in the City's investment portfolio and the interest allocated on an average daily cash balances basis. The City's investment portfolio is currently approximately \$600.0 million, primarily invested in Treasuries and agencies of the U.S. Government. The interest yield on the City's investment portfolio has varied over the past 20 years, from a high of 5.7 percent to a low of 1.4 percent and currently has an annual yield of approximately 2.0 percent.

The 2018 Bonds are proposed to be issued for a maximum term of 30 years. The current market for a similar issue is estimated with an interest yield of 3.4 percent in the short term to 4.6 percent in the longer term. The actual interest yields will depend on market conditions on the date the bonds are priced. Current five-year Treasury yields are approximately 3.0 percent.

Staff recommends that the City Council authorize the purchase of the 2018 Series B Bonds up to \$12.0 million, with a maximum maturity of 30 years. The 2018 Series B Bonds (taxable) will have a higher yield than the 2018 Series A Bonds (tax exempt) on equivalent maturities, and the City would not benefit from the ownership of tax-exempt bonds because the City does not pay taxes. In addition, the City's purchase of the 2018 Series B Bonds avoids some of the complications that would arise if the City purchased the tax-exempt 2018 Series A Bonds. Staff is requesting the flexibility to determine the actual amounts and maturities depending on market conditions at the time of pricing.

MEMORANDUM OF UNDERSTANDING

The purpose of the Memorandum of Understanding (MOU) between the City and the Shoreline Community (see Attachment 7) is to ratify and memorialize in writing the established procedures and their respective roles to administer, loan, advance, reserve, or expend City and Shoreline Community funds in order to effect the purposes of the Act.

The Act recognizes the City will provide services and advance funds on behalf of the Shoreline Community for the purposes of the Shoreline Community. This includes, but is not limited to, the payment of salaries and benefits of employees that provide services directly to the Shoreline Community, the costs advanced by the City for administrative services (e.g., City Manager, City Attorney, Finance and Administrative Services, Information Technology, etc.) and public safety services (Police, Fire and Paramedic services), park maintenance, landfill maintenance, capital projects, and other contractual obligations. This MOU recognizes repayment of the City's advances as obligations of the Shoreline Community.

FISCAL IMPACT

Staff recommends the Council approve the issuance of bond parameters for a maximum principal amount of \$72.0 million (in addition to a potential cash funding reserve of up to \$4.0 million) at an interest rate not to exceed 5.5 percent on each series. Staff anticipates the actual bond issue and interest rate to be lower than these amounts and will advise of the actual principal amount and interest rate after the pricing of the bonds and the execution of the bond purchase agreement.

Based on an estimated \$68.8 million of debt proceeds (not including a potential premium or original issue discount), the issuance of the bonds will result in annual debt service payments that range from \$2.0 million to \$6.0 million for the 30-year life of the bonds. This range is because payments on the 2018 Bonds will be structured so the *total* Shoreline Community debt service (including the 2011 Bonds) will be approximately \$6.0 million annually. The taxable bonds are expected to amortize before the tax-exempt bonds due to their higher interest rates. The actual debt and debt service payments are anticipated to be less than the maximum authorized amount and interest rate, but will depend upon the actual municipal bond interest rates at the time of the pricing.

CONCLUSION

Staff has identified funding needs for priority Transportation and other critical projects to be funded by the Shoreline Community. The Shoreline Community currently has insufficient funds available to fund these projects. Therefore, staff is recommending the issuance of the 2018 Bonds in an amount not to exceed \$72.0 million at an interest rate not to exceed 5.5 percent on each series.

Bond counsel and staff have reviewed the proposed issue and transactions and concur that they are appropriate and consistent with the intent and language of the Act. To effectuate and facilitate the issuance of the 2018 Bonds, staff is recommending the Shoreline Community:

- Authorize and direct execution of the Sixth Supplemental Indenture with the trustee for the 2018 Bonds.
- Authorize for distribution the preliminary official statement and final official statement for the purpose of disclosing material information about the 2018 Bonds to the investing public.

Staff is recommending the authorization to purchase of up to approximately \$12.0 million of the 2018 Series B Bonds as an investment for the City's investment portfolio. A current five-year Treasury yields approximately 3.0 percent. The 2018 Bonds are projected with yields up to 4.6 percent.

Lastly, staff is recommending authorization to execute the MOU between the City and the Shoreline Community for the Shoreline Community to recognize the obligations to the City for the administrative expenses, maintenance of the park, and capital projects the City incurs on behalf of the Shoreline Community.

Bond counsel Chris Lynch of Jones Hall; municipal advisor Sarah Hollenbeck of PFM; underwriter Eileen Gallagher of Stifel; and staff are available to answer any questions.

ALTERNATIVES

1. Do not approve the authorization for debt and find other financing for the projects identified.
2. Do not approve authorization for debt and do not proceed with the transportation or other projects.

3. Do not approve City purchase of Shoreline Community 2018 Series B Bonds.
4. Provide other direction.

PUBLIC NOTICING – Agenda posting.

Prepared by:

Patty J. Kong
Finance and Administrative
Services Director

Approved by:

Daniel H. Rich
City Manager

PJK/2/CAM
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- Attachments:
1. Resolution Authorizing the Issuance and Sale of Mountain View Shoreline Regional Park Community Revenue Bonds
 2. Resolution Approving a Memorandum of Understanding with the City of Mountain View and Authorizing and Directing Official Actions
 3. Resolution Approving a Memorandum of Understanding with the Mountain View Shoreline Regional Park Community and Authorizing and Directing Official Actions
 4. Resolution Authorizing the Purchase of Mountain View Shoreline Regional Park Community Revenue Bonds, 2018 Series B
 5. Preliminary Official Statement
 6. Transmittal of the Preliminary Official Statement
 7. Memorandum of Understanding between the City of Mountain View and Mountain View Shoreline Regional Park Community