TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER DEPARTMENT: ADMINISTRATIVE SERVICES

DATE: APRIL 25, 2005 CMR: 218:05

SUBJECT: REDEMPTION OF SERIES 2002-B CERTIFICATES OF PARTICIPATION FOR COMMERCIAL SPACE NEXT TO LOT S/L PARKING STRUCTURE

This is an information report and no Council action is required.

BACKGROUND
On December 10, 2001, the Council approved construction of a non-parking area that was an extension of the Lot S/L parking structure. Space in this facility was originally intended for use by a teen center and for commercial activity. As a result of a Youth Master Plan study, however, an alternative to the teen center proposal was developed for delivering youth services. It was decided (CMR:444:01) that the non-parking area would be used solely for commercial use and that 75 percent of net revenues (after payment of debt service and City assessment obligations) would be directed to fund youth and teen activities throughout the City.

In January 2002, the City issued $3.555 million in taxable Certificates of Participation (COPs) to finance and construct the non-parking area facility. Debt service on the COPs, a responsibility solely of the General Fund, was to be paid from rental revenue received from commercial lessees using the building. Of the total COPs issued, $3.1 million was targeted for construction. As a consequence of the weak economy prior to construction, bids and the eventual construction costs for the non-parking area came in lower than anticipated. This resulted in surplus funds.

DISCUSSION
With substantial completion of the non-parking area in November 2004, staff identified approximately $929,000 in excess construction proceeds. It is important to note that proceeds from the COPs can only be used for construction and financing costs or, if there are excess proceeds, to offset debt service or defease (redeem) the COPs. After consulting with Bond Counsel and the City’s Financial Advisor, staff initiated a process to utilize these funds in reducing the City’s obligations and costs.

Instead of using the proceeds to offset annual debt service, staff elected to explore partially defeasing or redeeming the COPs. A similar strategy was recently utilized for the University Avenue Area Off-Street Parking Assessment District Series Bonds which had $4.0 million in excess construction proceeds (CMR:282:04). By defeasing or calling the COPs, the City reduces its interest costs over the life of the COPs (they mature in 2022). The “call” date, or the date that the City could redeem Series 2002-B COPs from Certificate holders, however, was March 1, 2010. Since the COPs could not be directly called from Certificate holders, staff pursued an alternative plan. This was to take the
unspent proceeds to buy treasury securities to fund an escrow account that would fund debt service and pre-pay the COPs that can be called in 2010. Between the excess construction proceeds and a lowering of the required debt service reserve for the remaining COPs, the City was able to pay financing costs and be in a position to refund $900,000 (par value) of the Series 2002-B Taxable COPs. The effect of this transaction is to reduce annual debt service costs by approximately $85,000 annually or to save $1.5 million (nominal amount) over the life of the financing.

In addition to alleviating current General Fund budget pressures, this transaction moves up the date by which the City can realize net revenues for youth and teen programs. Based on the current lease agreement with Form Fitness, staff estimates that in the year 2008-09, there will be net revenues available for youth activities.

**RESOURCE IMPACT**

By placing excess construction and debt service reserve funds into an escrow account to defease $900,000 of Series 2002-B Certificates of Participation, the City’s General Fund will save approximately $58,000 in debt service in 2004-05 and around $85,000 in debt service annually through 2022. The nominal, cumulative value of these savings is $1.5 million.

**POLICY IMPLICATIONS**

Defeasing or redeeming Certificates of Participation is consistent with prior Council policy direction in refinancing debt when there are significant net present value savings.

**TIMELINE**

This transaction has been completed.

**ENVIRONMENTAL REVIEW**

This is not a project for purposes of the California Environmental Quality Act (CEQA).

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