TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER DEPARTMENT: PUBLIC WORKS
DATE: JUNE 7, 2004 CMR:282:04

SUBJECT: REQUEST FOR APPROVAL OF “A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PALO ALTO DETERMINING IMPROVEMENT FUND SURPLUS AND ORDERING ITS DISPOSITION - UNIVERSITY AVENUE AREA OFF-STREET PARKING ASSESSMENT DISTRICT”

RECOMMENDATION
Staff recommends that Council approve the attached Resolution “Determining Improvement Fund Surplus and Ordering Its Disposition - University Avenue Area Off-Street Parking Assessment District” (Attachment A).

Staff recommends disposing of the University Avenue garage project surplus of $4,041,756 in the following manner:

1. Use $3,541,756 of the surplus to redeem a portion of outstanding bonds and to pay associated redemption costs
2. Retain $500,000 of the surplus in a new maintenance fund to pay for long-term capital improvements to the Lot R (High/Alma South) and Lot S/L (Bryant/Lytton) garages

BACKGROUND
On March 19, 2001, the City Council adopted a Resolution Adopting Engineer’s Report, Confirming the Assessment, Ordering the Work and Directing Actions with Respect Thereto for the new University Avenue Area Off-Street Parking Assessment District (Assessment District). The Assessment District was formed to finance the design and construction of two parking garages downtown. The Lot R (High/Alma South) garage was opened September 23, 2003 and the Lot S and L garage (Bryant/Lytton) was opened on November 26, 2003, both ahead of schedule. The new garages provide over 900 parking spaces, an increase of 700 spaces over what was previously available on these sites.

DISCUSSION
This item was previously presented to the Finance Committee on March 16, 2004 (CMR:118:04, Attachment A). At that time the staff recommendation was to:
1. Retire approximately $3.0 million of bonds as soon as feasible;
2. Offset debt service by approximately $1.0 million over the next 2 years ($0.62 million in 2004-05 and $0.38 million in 2005-06);
3. Retain $0.5 million in a new maintenance fund to finance long-term capital improvements to the Lot R (High/Alma South) and Lot S/L (Bryant/Lytton) garages.

Prior to making the above recommendation to the Finance Committee, staff had met with major downtown property owners to discuss use of surplus options. There was not a unanimous view of how to use the funds. One property owner recommended using all funds to retire bonds, while two others were in favor of offsetting the annual assessment over the next 3 years. A fourth favored funding a maintenance fund given experience with deterioration of garages and the need for substantial repairs over time.

Staff has since met a second time with the same property owners who have had continued discussions amongst themselves. They now feel that it would be more beneficial in the long-term to retire the long-term debt, given that the economy is showing increasing signs of a recovery. Staff understands the rationale for this position since additional bond retirement results in additional interest cost savings. The property owners were also in agreement over the need to establish a $0.5 million to fund any future capital improvements that might be needed at the new garages.

The combined effects of these revised recommendations would be to mitigate assessments and interest costs over the next 27 years. In addition to the $3.5 million in surplus funds, approximately $0.39 million of the Debt Service Reserve (DSR) for the Assessment Bonds will be used to retire bonds. The DSR is required to match the maximum annual debt service payment and since annual debt service payments are being lowered through the redemption, the level of the DSR is lowered as well. Staff estimates that nearly $3.8 million in bonds will be retired with a consequent savings of $3.5 million in interest costs. The current 2003-04 assessment is $1.16 per square foot (one-time, capitalized interest funds were available in 2003-04 to reduce the expected assessment from $1.35 per square foot to $1.16 per square foot). Based on the revised recommendations above, it is estimated that the annual per square foot assessment will be approximately $1.01 per square foot until the assessment bonds are retired:

<table>
<thead>
<tr>
<th>As Recommended in CMR:118:04</th>
<th>Current Recommendation</th>
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<tbody>
<tr>
<td>2004-2005 $ 0.97 per square foot</td>
<td>2004-2005 $1.01 per square foot</td>
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<td>2005-2006 $1.08 per square foot</td>
<td>2005-2006 $1.01 per square foot</td>
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<tr>
<td>2006-2007 $1.24 per square foot</td>
<td>2006-2007 $1.01 per square foot</td>
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Finally, by creating a maintenance fund, property owners and merchants are ensured that adequate funds will be available for future capital repairs.

**RESOURCE IMPACT**
The University Avenue Assessment District Improvement Fund has a surplus of $4.04 million. This surplus will be used to retire approximately $3.5 million in bonds ($3.8 million including debt service reserve funds), pay expenses related to the bond retirement, and fund a $0.5 million maintenance fund. It is expected that the retirement will save approximately $3.5 million in
interest costs over the life of the remaining bonds. After retiring bonds, the resulting assessment per square foot is estimated at $1.01 per square foot.

POLICY IMPLICATIONS
There are no established Council policies regarding the distribution of surplus funds for an Assessment District. Staff has discussed use of the surplus funds with Bond Counsel and the uses described in this report are permitted by the bond documents.

TIMELINE
With approval of the resolution and staff’s recommendation at this time, staff will have adequate time to place assessment changes on the County’s 2004-05 bill to property owners.

ENVIRONMENTAL ASSESSMENT
No environmental clearance is required for financial actions. An Environmental Impact Report was prepared for the garages as part of the PC zoning application and was certified by Council on December 20, 1999.

ATTACHMENTS
Attachment A: Resolution Determining Improvement Fund Surplus and Ordering Its Disposition - University Avenue Area Off-Street Parking Assessment District
Attachment B: CMR:181:04

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