TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER
DEPARTMENT: ADMINISTRATIVE SERVICES
DATE: SEPTEMBER 8, 2008
CMR: 350:08

SUBJECT: TEFRA HEARING REGARDING CONDUIT FINANCING FOR THE KEYS FAMILY DAY SCHOOL PROJECT LOCATED AT 3981 EL CAMINO REAL AND 2890 MIDDLEFIELD ROAD, PALO ALTO, AND ADOPTION OF A RESOLUTION APPROVING THE ISSUANCE OF REVENUE BONDS BY THE CALIFORNIA MUNICIPAL FINANCE AUTHORITY IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED $20,000,000 FOR THE PURPOSE OF FINANCING AND/OR REFINANCING THE ACQUISITION, CONSTRUCTION, IMPROVEMENT AND EQUIPPING OF EDUCATIONAL FACILITIES FOR THE KEYS FAMILY DAY SCHOOL

RECOMMENDATION
1) Conduct a public hearing under the requirements of the Tax Equity and Fiscal Responsibility Act of 1983 (TEFRA) and the Internal Revenue Code of 1986, as amended (Code); and
2) Adopt a resolution (Attachment A) approving the issuance of the bonds by the California Municipal Finance Authority (CMFA) for the benefit of Keys Family Day School, Inc. (Borrower) in financing Keys Family Day School.

BACKGROUND
Keys Family Day School, Inc. (Keys) requested that the CMFA serve as the municipal issuer of bonds for the Keys Family Day School project in an aggregate principal amount not to exceed $20,000,000 of tax exempt revenue bonds. Proceeds from the issuance of the bonds will be used: (i) to fund the demolition of an existing facility and the construction and equipping of one or more new buildings to be used as educational facilities on property owned by Keys located at 3981 El Camino Real, Palo Alto, California (the "El Camino Campus"), including furniture, fixtures and equipment and design, architectural, engineering, project management, project consultants and other similar expenses relating thereto, (ii) to fund certain other capital expenditures, renovations, equipment and relocation expenditures at the El Camino Campus and on property owned by Keys located at 2890 Middlefield Road, Palo Alto, California (the "Middlefield Campus"); (iii) refinance an existing bank loan used to acquire and improve the El
Camino Campus; and (iv) pay other expenses related to the issuance of the Bonds, including but not limited to funding a debt service reserve fund, costs of issuance, and capitalized interest (collectively, the "Project"). The Project will be owned and operated by Keys.

In order for all or a portion of the bonds to qualify as tax-exempt bonds, the City of Palo Alto must conduct a public hearing (TEFRA Hearing), providing the members of the community an opportunity to speak in favor of or against the use of tax-exempt bonds for the financing of the project. Prior to the hearing, reasonable notice must be provided to the members of the community. Following the close of the TEFRA hearing, an “applicable elected representative” of the governmental unit hosting the proposed project must provide its approval of the issuance of the bonds for the financing of the project.

**DISCUSSION**
Since the facilities to be financed with the proceeds of the CMFA’s debt are located within the jurisdiction of the City of Palo Alto, the City has been asked to conduct a TEFRA hearing and adopt a resolution (Attachment A) that approves both the issuance of bonds by the CMFA for the benefit of Keys.

As cited in the published notice of August 20, 2008, the public hearing is simply an opportunity for all interested persons to speak or to submit written comments concerning the proposal to issue the debt and the nature or location of the facility to be financed; however, there is no formal obligation on the part of the borrower or the Council to respond to any specific comments made during the hearing or submitted in writing.

The financing includes, but is not limited to finance the acquisition, construction, improvement and equipping of educational facilities and certain other matters relating thereto located at 3981 El Camino Real and 2890 Middlefield Road, Palo Alto.

The CMFA is a joint exercise of powers authority that the City became a member of on April 14, 2008. The Joint Exercise of Powers Agreement provides that the CMFA is a public entity, separate and apart from each member executing such agreement. The debts, liabilities and obligations of the CMFA do not constitute debts, liabilities or obligations of the members executing such agreement. The bonds to be issued by the CMFA for the project will be the sole responsibility of the borrower, and the City of Palo Alto will have no financial, legal, moral obligation, liability or responsibility for the project or the repayment of the bonds for the financing of the project. All financing documents with respect to the issuance of the bonds will contain clear disclaimers that the bonds are not obligations of the City of Palo Alto or the State of California but are to be paid for solely from funds provided by the borrower.

The City is in no way exposed to any financial liability by reason of its membership in the CMFA. In addition, participation by the City in the CMFA does not impact the City’s appropriations limits and will not constitute any type of indebtedness by the City. Outside of holding the TEFRA hearing and adopting the required resolution, no other participation or activity of the City or the City Council with respect to the issuance of the bonds will be required. Based on the benefits of the project to the Palo Alto community and the lack of any financial...
obligations on the part of the City, staff recommends that Council approve the attached resolution.

**RESOURCE IMPACT**
As stated, the City will incur no financial obligation from approval of the recommendations. Keys Family Day School, Inc. is requesting authority to issue up to $20 million in bonds through the CMFA. The City will receive a fee for its services when the bonds are issued. The City would receive approximately $8,300 if the par amount of the bonds issued is $20 million.

**POLICY IMPLICATIONS**
Actions recommended in this report are consistent with Council’s prior actions in supporting non-profit financings under the TEFRA (e.g., approving tax-exempt financing through the California Municipal Finance Authority for the Gideon Hausner Jewish Day School projects, CMR: 184:08).

**ENVIRONMENTAL REVIEW**
Action on this item does not constitute a project under Section 21065 of the Public Resources Code.
ATTACHMENTS
Attachment A: Resolution Approving the Issuance of Revenue Bonds by the California Municipal Finance Authority for the Purpose of Financing or Refinancing Acquisition, Construction, Improvement and Equipping of Educational Facilities for the Benefit of Keys Family Day School, Inc.