TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER DEPARTMENT: ADMINISTRATIVE SERVICES
DATE: MARCH 4, 2002 CMR:145:02

SUBJECT: APPROVAL OF A RESOLUTION WHICH AUTHORIZES: 1) ISSUANCE AND SALE OF NOT TO EXCEED $35,460,000 PRINCIPAL AMOUNT OF 2001 UNIVERSITY AVENUE OFF-STREET PARKING ASSESSMENT DISTRICT LIMITED OBLIGATION IMPROVEMENT BONDS TO CONSTRUCT TWO NEW PARKING GARAGES; AND 2) OFFICIAL ACTIONS RELATED TO THE BOND ISSUANCE

REPORT IN BRIEF

On March 19, 2001, Council approved a new University Avenue Off-Street Parking Assessment District. After receiving authorization in May 2001 to sell $9,135,000 in the first in a series of two assessment bond issues, staff is now requesting that Council adopt a Resolution authorizing the sale of $35,460,000 in the second series of assessment bonds and allow staff to take the necessary official actions to sell the bonds. The required cash collection period, in which District property owners had the opportunity to pay their assessments before the financing, ended on January 28. On behalf of the District, the City collected $901,964 in cash payments from property owners during the second series process.

It is recommended that Council approve selling bonds up to an amount not to exceed $35,460,000. Funds from the bond proceeds will be used for the acquisition, construction and management expenditures needed to build the garages. Proceeds also will be used to pay bond issuance expenses. After selling the second series of bonds, the Assessment District will have issued $44,595,000 in improvement bonds and received approximately $1,075,000 in total cash payments. Construction of the garages is anticipated to begin in April 2002.
RECOMMENDATION
Staff recommends that the City Council:

1. Adopt a Resolution Authorizing Issuance of Limited Obligation Improvement Bonds.

2. Authorize staff to implement the sale of bonds of an amount not to exceed $35,460,000 for acquisition, construction, management, and bond issuance expenditures.

BACKGROUND
On March 19, 2001, Council approved a new University Avenue Off-Street Parking Assessment District (CMR:170:01). The assessment district is the financing mechanism through which funds are being raised (bond sale) to build two new parking structures on lots R (High/Alma South Garage) and S/L (Bryant/Florence Garage). Property owners within the assessment district (including the City of Palo Alto) will make annual assessment payments to retire the bonds. After receiving authorization in May 2001 to sell the first in a series of two assessment bond issues (CMR:237:01), the bonds were sold in June 2001. Proceeds from the first issue were used to repay project advances from the General Fund, as well as to pay design costs, refunding and refinancing of prior year assessment bonds, project management, and bond issuance costs.

On December 10, 2001, Council passed a resolution to begin the 30 day cash payment period for the second series of assessment bonds (CMR:444:01). The cash payment period is when property owners have the option to pay their assessments to avoid incurring financing and future interest costs. This period ended on January 28, allowing staff to begin the process of issuing bonds to finance construction of the garages.

DISCUSSION
Staff is now requesting that Council adopt a Resolution authorizing the second series of assessment bonds and allowing staff to take the necessary official actions to sell the bonds. Staff is seeking Council’s authorization to sell up to $35,460,000 million in bonds for acquisition, management, construction, and bond issuance expenditures for the garages. When combined with the first series, the Assessment District will have issued $44,595,000 in bonds to refinance old bonds and construct the new garages and collected approximately $1,075,000 in cash payments. Staff anticipates the second assessment bond series sale will occur in the last week of March.

To maximize the quality of the bond issue and minimize interest expense, staff will deliver a rating presentation to Standard and Poor’s (S&P) prior to the bond sale. City staff, along with the City’s bond counsel and financial advisor, will participate in the presentation. Information such as the ability of the University Avenue Off-Street Assessment District to
pay prior assessment commitments, the current assessed value of District property, and the overall financial viability of the downtown area will be discussed. A high rating from S&P and the probable use of bond insurance should ensure a safe issue for investors and lower interest costs. Staff will advise Council of the rating agency’s analysis as soon as it is received.

The bonds will be offered at a competitive sale around March 28, with the assistance of the City’s financial advisor, Stone and Youngberg. A competitive sale means that underwriters or investment banking firms will be asked to bid on the bonds. The bidding process is designed to achieve the lowest interest cost to the issuer and to maintain an open process. Proceeds from the sale will be delivered to the City in early April. As in prior assessment bond issues, the City will contract with a paying agent to make debt service payments and the City will hold all bond proceeds (except those escrowed for refunding) in the required funds and reserves.

**Required Council Action**

The Council must adopt the attached Resolution (Attachment A) to allow the Limited Obligation Improvement Bonds, City of Palo Alto, University Avenue Off-Street Parking Assessment District, Series 2002-1 to be authorized, sold and delivered. By adopting this resolution, the City Council authorizes various City officials to complete and execute various documents. The Resolution also approves the forms of the following documents:

- Preliminary Official Statement, containing information material to the offering and sale of bonds (Exhibit A).
- The form of the bond (Exhibit B)
- The public bond sale documents, including the official Notice of Sale to the investment community (Exhibit C).

**RESOURCE IMPACT**

Funding required for the second phase of the parking structure project totals $35,460,000. Attachment B shows the sources of funding for the project and intended uses. The chief sources of funding are bond proceeds and cash payments from District property owners. Staff has prepared a number of budget amendments in the 2001-02 midyear report to reflect the transactions associated with the bond sale and anticipated project expenditures.

During the recent 30-day cash collection period, the City collected $901,964 in cash payments. These proceeds will be used for project expenditures and will offset the need to borrow funds.

Property owners in the District will first see an increase in their assessment on the property tax bill in November 2002. In November 2003, the full, annual assessment of an estimated $1.45 per square foot will begin to be collected. As a result of Proposition 218, the City will be required to pay an assessment for special benefits to its properties from public
improvements and for any general benefits that cannot be ascribed to a specific property. The impact for 2001-02 from these requirements is estimated at $157,000. This expense was included in the 2001-02 midyear adjustments approved by the Finance Committee on February 5, 2002.

POLICY IMPLICATIONS
Approval of the bond financing is consistent with prior Council policy direction.

TIME LINE
January 28  Cash payment period ends, determine final bond size, and distribute financing documents to rating agencies and bond insurers

March 4  Council adopts resolutions authorizing assessment bonds and approving required financing documents

Week of Mar 11  Ratings presentation on assessment bonds

March 21  Bids on assessment bonds received

March  Construction bids evaluated

March 28  Assessment Bond closing and bond proceeds received

April 3 & 4  Council Action on Contract and Notice of Award of Contract

April  Contractor mobilization and construction of garages and non-parking area begins

ENVIRONMENTAL REVIEW
An Environmental Impact Report for the parking structures was prepared as part of the PC zoning application and was certified by Council on December 20, 1999, by adoption of Resolution No. 7917.

ATTACHMENTS
Attachment A: A Resolution of City Council of the City of Palo Alto Authorizing Issuance of Limited Obligation Improvement Bonds.

Exhibit A  Terms and Conditions or Preliminary Official Statement
Exhibit B  Form of Bond
Exhibit C  Public Sale Documents
Attachment B: University Avenue Area Off-Street Parking District: Estimated Sources and Uses of Funds for Second Financing Phase

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ATTACHMENT B

University Avenue Area Off-Street Parking District: Estimated Sources and Uses of Funds for First Financing Phase

Sources of Funds:

Proceeds from Bond Sale $ ?
Cash Payments by Property Owners

Total Sources $36,418,000

Uses of Funds:

Project Fund $ 
Administrative Allowance 
Cost of Issuance 
Underwriter Discount and Bond Insurance 
Issuance Contingency

Total Uses $36,418,000