



# City of Palo Alto

## City Council Staff Report

(ID # 10675)

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**Report Type: Action Items**

**Meeting Date: 11/4/2019**

**Summary Title: PUBLIC HEARING: TEFRA Hearing for Bowman School**

**Title: TEFRA HEARING: Regarding Conduit Financing for the Bowman International School Project Located at 4000 Terman Drive, Palo Alto and 693 Arastradero Road, Palo Alto; and Approving the Issuance of Revenue Obligations by the California Enterprise Development Authority for the Purpose of Financing and Refinancing the Cost of the Acquisition, Development, Construction, Installation, Equipping and Furnishing of Various Educational Facilities and Other Matters Relating Thereto**

**From: City Manager**

**Lead Department: Administrative Services**

### **Recommendation**

- 1) Conduct a public hearing under the requirements of the Tax Equity and Fiscal Responsibility Act of 1982 (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 Enterprise Development Authority (CEDA) (the "Authority") on behalf of and for the benefit of Bowman International School (aka Bowman School) (the "School").

### **Background**

The School which has a campus in Palo Alto, has requested that the Authority (CEDA), a joint powers agency, issue one or more series of revenue bonds in an aggregate principal amount not to exceed \$30,000,000 (the "Bonds") including but not limited to revenue bonds issued as part of a plan to finance the Project described herein, to refinance existing School debt and finance the cost of design, development, construction, installation, equipping and furnishing of educational facilities of the School. The TEFRA hearing will allow the issuance of tax-exempt bonds resulting in lower financing costs and debt service costs for the School.

In order for the Bonds to be tax exempt, the federal Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA") needs the City to (a) conduct a public (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 and (b) adopt a Resolution approving the issuance of the Bonds by the Authority for the benefit of the School.

According to TEFRA requirements, prior to the hearing, reasonable notice must be provided to the members of the community. This was done by the Authority's financing team with coordination with the City Clerk's Office. 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 under Section 147(f) of the Code.

There is no financial impact to the City from its approval of the issuance of the Bonds. The Authority will act as issuer and perform all of the necessary legal and administrative responsibilities associated with the financing. The Bonds are special, limited obligations of the Authority payable solely through the repayment of the loan by the School which will be used to pay the principal of and interest on the Bonds. The Bonds issued by the Authority are not an obligation of the City or any member of the Authority. Neither the full faith or credit, nor the taxing power of the City, any member of the Authority, the State or any political subdivision is pledged to the repayment of the Bonds.

The School is a private nonprofit school, founded in May 1995; it is a preschool through Grade 8 Montessori School located in Palo Alto, California. The School states it is accredited by the Western Association of Schools and Colleges (WASC) (only one of two WASC accredited Montessori schools in California) and the International Montessori Council (IMC).

The School's mission statement is to inspire children to love learning in an academically challenging and internationally-aware program that promotes leadership, respect, responsibility, and independence. The School's goal is to embrace the challenge of equipping the next generation through an individualized, integrated, hands-on approach based on the proven Montessori methods of development and learning. Additional School information can be found in its website at <https://bowmanschool.org/>.

### **Discussion**

Since the School is 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 the issuance of bonds by the Authority for the benefit of the School. This public hearing is 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 School or the Council to respond to any specific comments made during the hearing or submitted in writing.

The bonds are intended to finance the Project described herein. The Authority will loan the proceeds of the Bonds to the School for the purpose of (a) (i) refinancing outstanding indebtedness incurred by the School, the proceeds of which were used to finance and refinance the cost of the acquisition, construction, development, equipping and furnishing of educational facilities located at 4000 Terman Drive, Palo Alto, consisting of a two-story building (with improved basement) containing 23,428 square feet of classrooms, library, faculty lounge with full kitchen, three adult restrooms, administrative offices, music room and other related

facilities, and (ii) financing the cost of the acquisition, construction, development, equipping and furnishing of an approximately 16,340 square foot academic village located at 693 Arastradero Road, Palo Alto consisting of a building with additional classrooms, a multi-purpose building with an auditorium and offices and other related facilities (collectively, the “Facilities”) and (b) paying certain costs of issuance in connection with such financing. The financing and refinancing of the Facilities with tax-exempt obligations will allow the School to achieve significant debt service savings and deploy resources towards providing educational services provided by the School to residents of the City of Palo Alto and the surrounding communities in accordance with its mission. The School is subject to the City’s land use and development standards and has already obtained entitlements and began construction at 693 Arastradero Road.

The Authority (CEDA) is a Joint Powers Authority (JPA) created in 2006 to address gaps in economic development financing. The Authority facilitates the issuance of private activity bonds for the purpose of economic and community development. The City became an associate member of on January 14, 2013. The Joint Exercise of Powers Agreement provides that the Authority is a public entity, separate and apart from each member executing such agreement. The debts, liabilities and obligations of the Authority do not constitute debts, liabilities or obligations of the members executing such agreement. The bonds to be issued by the Authority for the project will be the sole responsibility of the School, 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 School. The City is in no way exposed to any financial liability by reason of its membership in the Authority. In addition, participation by the City in the Authority 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. Bowman International School (aka Bowman School) is requesting authority to issue up to \$30 million in bonds through the Authority. The City will receive a fee of approximately \$2,335 to cover the cost for this hearing.

### **Policy Implications**

Actions recommended in this report are consistent with Council’s prior actions in supporting non-profit financings under the TEFRA (e.g., most recently approving tax-exempt financing through the California Municipal Finance Authority for Channing House on October 29, 2018, Staff Report ID # 9637).

**Environmental Review**

Action on this item does not constitute a project under Section 21065 of the Public Resources Code.

**Attachments:**

- Attachment A TEFRA Resolution for Bowman International School

Resolution No. \_\_\_\_\_

A Resolution of the City Council of the City of Palo Alto Approving the Issuance Tax-Exempt Revenue Bonds by the California Enterprise Development Authority in an Aggregate Principal Amount not to Exceed \$30,000,000 to Finance and Refinance the Cost of the Acquisition, Development, Construction, Installation, Equipping and Furnishing of School Facilities for Bowman International School, and other Matters Relating Thereto

A. Bowman International School, a California nonprofit public benefit corporation (the "School"), duly organized and existing under the laws of the State of California (the "State"), has requested that the California Enterprise Development Authority (the "Authority") issue, from time to time, pursuant to a plan of finance, its tax-exempt revenue obligations in an aggregate principal amount not to exceed \$30,000,000 (the "Bonds") for the benefit of the School, pursuant to Chapter 5 of Division 7 of Title 1 of the Government Code of the State (commencing with Section 6500) (the "Act") for the purpose of (a) (i) refinancing outstanding indebtedness incurred by the School, the proceeds of which were used to finance and refinance the cost of the acquisition, construction, development, equipping and furnishing of educational facilities located at 4000 Terman Drive, Palo Alto, California, and (ii) finance the cost of the acquisition, construction, development, equipping and furnishing of an approximately 16,340 square foot academic village located at 693 Arastradero Road, Palo Alto, California consisting of a building with additional classrooms, a multi-purpose building with an auditorium and offices and other related facilities (collectively, the "Facilities") and (b) paying certain costs of issuance in connection with such financing; and

B. The School is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code") and will own and operate the Facilities in connection with its mission of providing an independent, college preparatory school that exists to develop and inspire students; and

C. Pursuant to Section 147(f) of the Internal Revenue Code of 1986 (the "Code"), the issuance of the Bonds by the Authority must be approved by the City because the Facilities are located within the territorial limits of the City; and

D. The City Council of the City (the "City Council") is the elected legislative body of the City and is one of the "applicable elected representatives" required to approve the issuance of the Bonds under Section 147(f) of the Code; and

E. The Authority has requested that the City Council approve the issuance of the Bonds by the Authority in order to satisfy the public approval requirement of Section 147(f) of the Code and the requirements of the Joint Exercise of Powers Agreement Relating to the California Enterprise Development Authority, dated as June 1, 2006 (the "Agreement"), among certain local agencies, including the City; and



SECTION 4. This Resolution shall take effect from and after its adoption.

INTRODUCED AND PASSED:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

ATTEST:

\_\_\_\_\_  
City Clerk

\_\_\_\_\_  
Mayor

APPROVED AS TO FORM:

\_\_\_\_\_  
City Attorney

\_\_\_\_\_  
City Manager or Designee

\_\_\_\_\_  
Director of Administrative  
Services