

DATE: July 14, 2015

TO: Mayor and City Council

FROM: Director of Finance

SUBJECT: Financing Plan for Measure C-Funded Capital Projects

RECOMMENDATION

That Council reviews and comments on the proposed financing plan that leverages Measure C funds for building the new 21st Century Library & Learning Center, and completing improvements to multiple fire stations, a fire training center, and City streets.

BACKGROUND

During the June 3, 2014 municipal election, the voters of the City of Hayward passed a ballot measure (Measure C) to increase the City's Transaction and Use Tax (district sales tax) by half a percent for twenty years. This half-cent increase became effective October 1, 2014, ultimately bringing Hayward's Sales and Use Tax to 10.0%. Staff estimates that the new district sales tax will initially generate approximately \$10 million annually (with some annual growth) in locally controlled revenue that can be allocated by the City Council and will remain in place until October 1, 2034.

This is a general tax that is considered discretionary in nature; however, these funds, as stated by Council during the election cycle, are intended for improvements to infrastructure and City services. The City Council established a number of specific project priorities for these funds (Attachment I). As the projects have been refined the actual costs have fluctuated slightly, but overall, these priorities and related costs are fairly close to originally projected.

A large portion of the Measure C revenues will be used to fund debt service for construction of the new 21st Century Library and Community Learning Center, completion of fire station retrofits and improvements, rehabilitation and expansion of the existing fire training center, as well as for extensive street improvements. Of the estimated \$10 million in annual revenue, staff estimates that debt service payments for the above defined projects will total approximately \$5,500,000-5,750,000 annually. The remaining \$4,250,000-\$4,500,000 is to be allocated among police services, maintenance services, and street repairs as determined by Council.

DISCUSSION

Staff has assembled a financing team for the issuance of the Measure C debt financing: NHA Advisors (Municipal Advisor) and Jones Hall (Bond & Disclosure Counsel), and appropriate City staff. The team is developing a financing plan that will maximize the available Measure C resources at the lowest possible cost to the City for the maximum possible benefit and flexibility.

Basic Financing Structure

The City identified financing needs for the 21st Century Library and Learning Center (\$53 million), improvements to all City fire stations (\$9.4 million), and construction of a new fire training center (\$6.8 million). In addition, staff proposes to finance streets projects (\$12 million).

Streets Projects. Initially, streets improvements were planned to be on a “pay-go” basis at \$1 million per year. Staff is recommending leveraging this funding and financing \$12 million of streets projects as part of the overall financing package. This will provide a more impactful and effective streets improvement effort – which will result in greater immediate improvement to the City’s Pavement Condition Index (PCI). The rising cost of materials will result in increased future year street improvements costs, and with a continually degrading PCI, the needed improvements will be greater, costing even more to bring them up to standards. The current plan is to complete a large improvement project in FY 2016 and then utilize available cash as approved by City Council for additional streets projects on a pay-go basis.

As a note, financing of streets projects is difficult given the lack of available assets with which to secure the financing (banks usually do not like to secure streets). Staff is able to wrap this initial project into the larger financing package and secure the funding through the other project assets. A stand-alone financing of streets projects is more difficult to establish. However, staff is looking into alternative options and will present these to City Council if they become viable, including the possible use of Measure BB transportation funds.

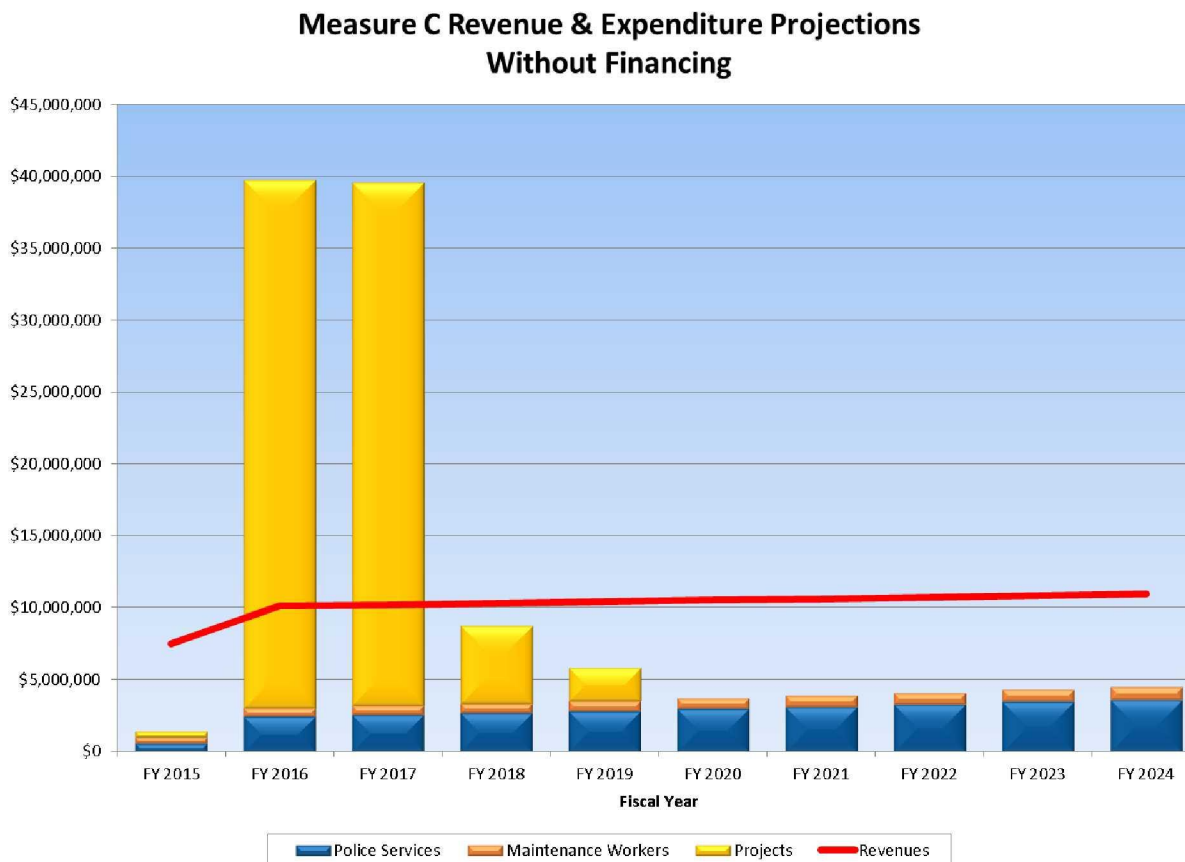
The total of Measure C capital projects is approximately \$82 million. This does not include additional funds that would be beneficial to allow for expanding and upgrading the fire training center as a regional facility beyond the original plans. The current plan is to finance \$60 million in project costs and use \$22 million in available Measure C cash.

Funding Source	Amount
Bond Financing Proceeds	\$60,000,000
District Tax Revenue (2015-2017)	\$22,000,000
Total Available for Projects	\$82,000,000

It is anticipated that the timing of the project expenditures will be quicker than the receipt of district sales tax revenues. Given this lack of synchronicity between cash flow and project timing, the City has developed a financing plan that allows for sufficient funds at the time of bid award for the identified project contracts and the start of construction.

The preliminary project cash flow for the identified projects is shown in Chart 1 below.

Chart 1



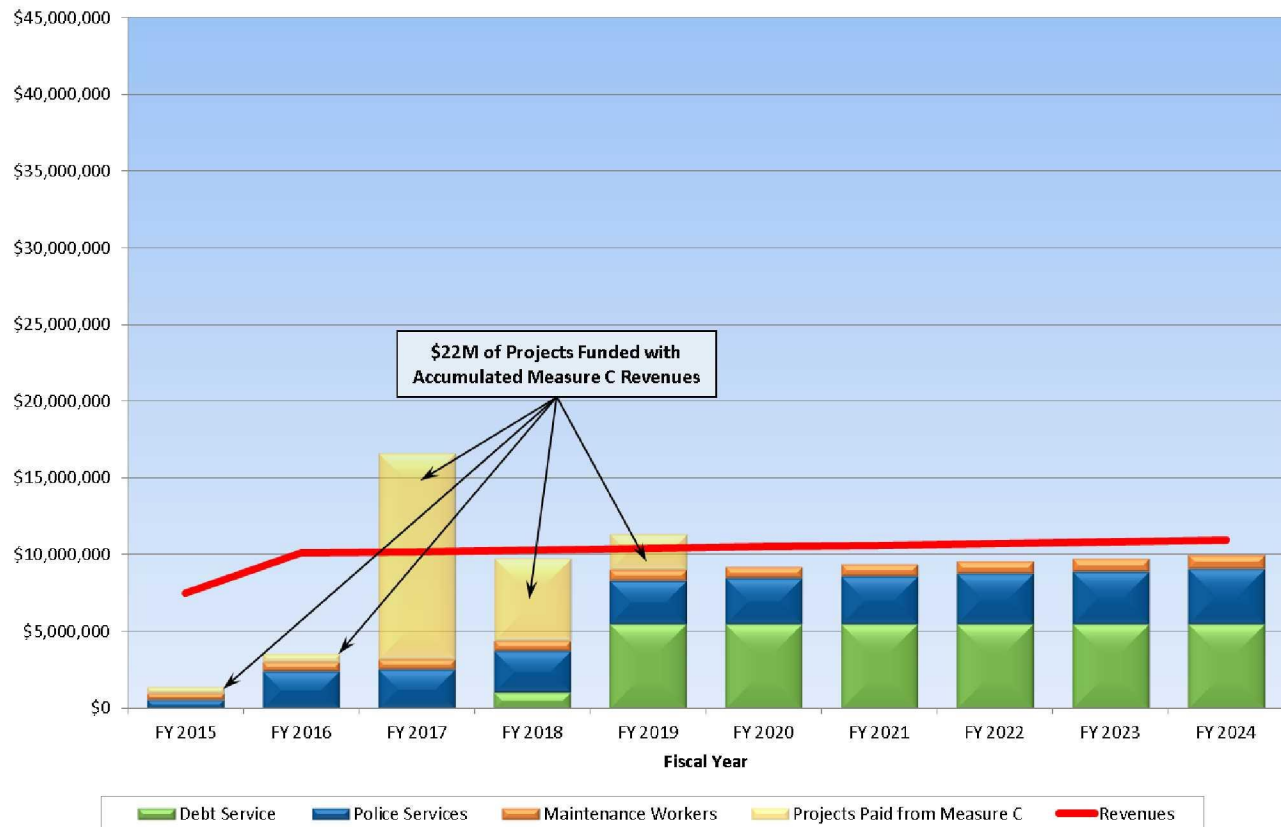
Based on preliminary cash flow projections for the proposed projects, the financing team has developed a funding strategy that uses available Measure C revenue to augment the financing. The City began earning Measure C revenue in November 2014 and has accrued \$6.5 million to date; the City anticipates earning about \$10 - \$10.5 million in FY 2016 and each year thereafter (with some assumed annual growth) until sunset of the tax.

Use of available cash will allow the City to leverage its funds to achieve the best possible financing structure and to be able to fund construction costs as-needed in advance of bond funding. Incorporating the funding strategy into the construction projections provides for positive cash flow throughout the term of the Measure C sales tax revenue receipts as shown below in Chart 2. The financing team has completed a detailed cash flow analysis that considers all funding resources and project costs in order to ensure that the City is able to meet all of its obligations.

In addition to funding project expenditures, a portion of the sales tax revenues will also be used for operations and staffing. The preliminary cash flow for those expenditures is shown below.

Chart 2

**Measure C Revenue & Expenditure Projections
With Financing**



Through the issuance of debt, the City is able to leverage future sales tax revenues and use available cash funds when needed in the earlier years. Initial analysis indicates that the City could use approximately \$5.5 million per year of the \$10 million in projected sales tax revenues and generate over \$60 million in project funds. In addition to the bond proceeds of \$60 million, the City will collect and have available sales tax revenues through FY 2018 to contribute to the projects.

The financing plan assumes conservative revenue growth of 1-2%. This is intended to help address an inevitable economic recession that would result in a significant decrease in the district sales tax revenues. Analysis completed by the City’s sales tax consultant, MuniServices, assumed a possible recession beginning in FY 2018 and potential revenue reductions of 3-5%, with a three year rebound.

Establishing a reserve and making relatively conservative projections will provide a buffer and allow the City to continue to make its debt service payments and fund other project costs. While services can be reduced if necessary in the event of lower revenues, the debt service on the City’s obligation will remain at a fixed amount each year. The City’s Municipal Advisor recommends that a portion of the residual transaction and use tax be put into a reserve to provide liquidity in the event that a future year’s revenues are below projections. Maintaining a tax reserve to meet projected debt service payments will mitigate any budgetary risk associated with declining sales tax revenues. The current plan provides for a base reserve of \$5.5 million, with some annual growth each year.

Revenue growth in excess of debt service and reserve needs can be utilized for other eligible projects. Staff recommends an annual review of Measure C fund reserve levels and related costs at the mid-point of each fiscal year, as well as during the annual budget process. If funds are available in excess of the planned annual expenditure, the City Council may wish to consider allocating them toward additional capital projects, such as streets improvements on a pay-go basis.

Financing Structure

The proposed funding strategy calls for the City to issue certificates of participation (the “COP”) to fund the projects (library, fire station retrofits, fire training center, and street improvements). The anticipated interest rate on this issuance is about 3.5 – 4 percent. The actual rate will depend on the market at the time of issuance. The COP is similar to the financing tool used by the City to fund the City Hall project and relies on the City’s General Fund as the repayment source (the Measure C Transaction and Use Tax component of the General Fund).

In order for the City to issue the COP, the financing documents will require “collateral” in the form of real property to execute a lease agreement between the City and its financing authority. The Hayward Public Financing Authority (HPFA), whose governing board is the City Council, is the entity that will issue the COP debt. It is anticipated that the financing identifies the leased assets of the new library/learning center property, the improved fire stations, and the fire academy property as collateral. Given the new construction dollars required for the library/learning center project, the financing will also require the use of capitalized interest of about \$4.4 million during the construction period and a reserve fund of \$5.5 million. The total financing sources and uses are estimated as follows:

SOURCES	
COP Principal	\$70,710,000
Total Sources	\$70,710,000

USES	
Projects	\$60,000,000
Capitalized Interest	\$4,386,324
Reserve Fund	\$5,524,619
Cost of Issuance	\$425,000
Underwriter Discount	\$353,550
Miscellaneous	\$20,508
Total Uses	\$70,710,000

Process

Pending City Council direction, staff will work with the financing team to finalize the funding plan and develop the underlying financing documents, credit package, and official statement necessary to access the capital markets. On June 21, 2015, City Council will be required to approve the financing documents prior to the issuance of the COP.

PUBLIC INPUT

Staff presented recommendations for the use of the Measure C funds to both the Council Budget & Finance Committee and the City Council in November and December 2014¹. Consistent with those discussions, staff is presenting this financing plan for consideration and ultimate adoption by City Council on July 21, 2015.

NEXT STEPS

If direction is provided, the process to issue the COP will include the following steps:

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|---|--------------------|
| ➤ Draft the COP legal documents and preliminary official statement: | June/July 2015 |
| ➤ Develop credit review package necessary for the rating agencies: | July |
| ➤ COP Rating Agency process: | Early August |
| ➤ Submittal for the public bidding of the COP: | Mid-August |
| ➤ COP Sale – sets interest rates and determines underwriter: | Late August |
| ➤ Finalize COP documents for execution: | Early September |
| ➤ Fund projects: | Mid-September 2015 |

Prepared and Recommended by: Tracy Vesely, Director of Finance

Approved by:



Fran David, City Manager

¹ City Council Report, December 16, 2014, Item 10, page 251: <http://www.hayward-ca.gov/CITY-GOVERNMENT/CITY-COUNCIL-MEETINGS/2014/CCA14PDF/cca121614full.pdf>

**Funding Priorities for Sales Tax Measure
(Based on \$10 million in annual revenue)**

Capital Projects/Restoration of Services	Estimated Annual Debt Service Payment¹ or Annual Cost
Additional Police Services (Cost per officer: \$200,000/year)	\$2,000,000 (annual cost)
Library & Community Learning Center (Total unfunded cost: \$50,000,000)	\$3,990,000 (annual debt service)
Other Fire Station Retrofits/ Improvements (Total cost: \$10,000,000)	\$798,000 (annual debt service)
New Fire Station #6 Training Center (Total cost: \$8,200,000)	\$654,400 (annual debt service)
Street Repairs² (2 miles of overlay and 4 miles of slurry seal)	\$1,000,000 ³ (TBD)
Restoring 5 Maintenance Workers (Cost per worker: \$100,000/year)	\$500,000 (annual cost)
Total Annual Cost	\$8,942,400
Contingency	\$1,057,600
Total Committed Annual Revenue	\$10,000,000

^[1] Annual debt service payment based on 20-year amortization of bond funding

^[2] Current annual gas tax/Measure B funding for overlay/slurry seal = \$4 million

^[3] There may be efficiencies to be gained by issuing debt to allow for a larger number of streets to be repaired in the first few years after the revenue measure passes.