



# *CITY COUNCIL AGENDA REPORT*

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MEETING DATE: DECEMBER 5, 2006

ITEM NUMBER:

**SUBJECT: SALE OF 2006 CERTIFICATES OF PARTICIPATION - PD FACILITY FINANCING**

**DATE: NOVEMBER 22, 2006**

**FROM: FINANCE DEPARTMENT /ADMINISTRATION DIVISION**

**PRESENTATION BY: MARC R. PUCKETT, DIRECTOR OF FINANCE**

**FOR FURTHER INFORMATION CONTACT: MARC R. PUCKETT (714) 754-5243**

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## **RECOMMENDATION:**

Hold public hearing and approve resolution finding significant public benefit with respect to certain capital improvements and authorizing the execution and delivery of documents relating to the sale and delivery of not to exceed \$30,205,000 City of Costa Mesa 2006 Certificates of Participation for the Police facility expansion project, and authorizing certain documents and directing certain actions in connection therewith.

## **BACKGROUND:**

The existing Police headquarters facility was constructed in the mid-1960s at the same time as other portions of the municipal complex. At the time the facility was constructed, there was less than half the number of residents in the City and less than half the number of police officers on staff than there are today. The additional space created in the facility will primarily be used for an emergency operations center and additional office space for staff. The emergency operations center will also be a multi-purpose facility available for use by other City departments and the public.

The City Council has previously awarded a contract to construct the expansion of the Police department headquarters facility. Construction of the expansion and improvements to the facility are currently underway and are expected to be completed in the latter part of 2008. The existing facility will remain open throughout the construction phase to varying degrees. Prior to incurring any related PD expansion project expenditures, the City Council adopted a "reimbursement resolution" on December 6, 2005, as required by the Internal Revenue Service in order to allow the City to incur project expenditures and then reimburse itself from the debt proceeds upon issuance of the Certificates of Participation. Proceeds from the sale and issuance of this debt will be used first to reimburse the City for project expenditures incurred and paid prior to the sale of the securities. Secondly, the debt proceeds will be used to fund the project construction expenditures during the remaining course of the construction phase of the project. Any residual debt proceeds in the trust account upon completion of the project may be used for future debt service payments or early retirement of outstanding debt if the Certificates are callable.

Current revenue sources to fund capital project expenditures were not sufficient to fund the construction costs of the Police facility expansion project necessitating the issuance of debt to finance the capital costs of the project over a longer period. The project expenditures are estimated at \$27,123,000. The debt structure proposed calls for issuance of Certificates of Participation scheduled to mature over a twenty-year payback period and includes no capitalized interest costs.

### **ANALYSIS:**

It is anticipated that the Certificates of Participation will be sold on a “competitive” basis. It is anticipated that the pricing will be completed during the first week of January, 2007. However, pricing of the securities is dependant upon market conditions during that week. The Certificates are scheduled to mature over a twenty-year payback period and include no capitalized interest costs. The final aggregate principal amount of the Certificates and the maturity schedule will be determined following award to the winning bidder. However, in no case will the final aggregate amount exceed \$30,205,000. The Certificates will bear interest (computed on the basis of a 360-day year of twelve 30-day months) from their date of sale at the rate or rates fixed upon at the time of sale, but not to exceed 6%. Based upon current market conditions, it is anticipated that each series of Certificates maturing each year will bear interest ranging from 3.6% to 4.35%. The rates of interest and yields for the Certificates will be adjusted at the time of pricing and sale of the securities based on market conditions then existing. The Certificates will be delivered to the winning bidder(s) in fully registered form in denominations of \$5,000 or any integral multiple thereof, all dated as of the date of delivery. The City also maintains the right to optionally pre-pay the Certificates based upon the schedule outlined in the attached Notice of Sale. The City is also pledging the Police Facility, City Hall and the land the municipal complex resides on as collateral to the owners of the Certificates.

A Preliminary Official Statement outlining the scope of the project, terms and conditions of the sale of the Certificates of Participation and pertinent information relating to the City of Costa Mesa, its organizational structure, demographics, and relevant financial information has been prepared and is available for public inspection in connection with the sale of these securities. A copy of the Preliminary Official Statement is attached to this report for informational purposes. A copy is also on file in the City Clerks Office and/or may be obtained at the offices of the City’s Financial Advisor, Harrell & Company Advisors.

In accordance with Government Code Section 6586 (a), (c) and (d), the City must hold a public hearing to consider public testimony concerning the possible issuance of Certificates of Participation by the Public Finance Authority to finance certain public capital improvements, including the Police Facility renovation and expansion, and other existing City facilities and street improvements within the boundaries of the City. In brief, the resolution presented approves the sale of the bonds by the Authority and finds that there is significant public benefit with the capital improvements to be financed with the proceeds of the Authority Bonds in addition to certain other findings as outlined in the resolution.

**FISCAL REVIEW:**

The Public Finance Authority can issue Certificates of Participation pursuant to Government Code to facilitate the financing of certain public improvements where there is a finding of significant public benefit. Financing the construction of the Police facility also allows the City to take advantage of legal arbitrage which exists as a result of the City's ability as a tax-exempt public agency to issue debt at a rate of interest less than the rate of interest which the City can earn on its temporarily surplus funds. The debt issue will not exceed \$30,205,000. Annual debt service payments over the twenty-year payback period will be approximately \$2,250,000 each year.

**LEGAL REVIEW:**

The attached resolution has been reviewed and approved as to form and content by bond counsel.

**CONCLUSION:**

The attached resolution is recommended for adoption. Adoption of the proposed resolution is necessary to provide the designated City officials and staff with the authorization to execute and deliver the Certificates of Participation, execute the various financing documents in connection with the Certificates, and circulate an Official Statement.

The City's bond counsel, Kurt Yeager of Stradling, Yocca, Carlson and Rauth, and the City's financial advisor, Suzanne Harrell of Harrell and Associates, will be available together with staff at the public hearing to answer any questions regarding the financing and issuance of the debt.

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MARC R. PUCKETT  
Director of Finance

Attachments:

1. [A Resolution of the City of Costa Mesa](#)
2. [Amended and Restated Trust Agreement](#)
3. [Agency Agreement](#)
4. [First Amendment to Site Lease](#)
5. [First Amendment to Assignment Agreement](#)
6. [First Amendment to Lease Purchase Agreement](#)
7. [Continuing Disclosure Certificate](#)
8. [Notice of Sale](#)
9. [Preliminary Official Statement](#)
10. [Preliminary Statement of Sources and Uses of Funds](#)