



Item No. 6 Town of Atherton

FINANCE COMMITTEE STAFF REPORT

TO: FINANCE COMMITTEE

FROM: ROBERT BARRON III, FINANCE DIRECTOR

DATE: MARCH 21, 2017

SUBJECT: REPORT ON THE CIVIC CENTER PROJECT FUNDING AND ASSOCIATED FUNDING PLAN APPROVED BY THE CITY COUNCIL

RECOMMENDATION

Receive the Report.

BACKGROUND

Staff was asked to provide the Finance Committee with an update on the Civic Center Project Funding and associated Funding Plan discussed and approved by the City Council.

The City Council during its January 18 Study Session reviewed the Civic Center Project and asked staff for options should Atherton Now not reach its funding target of \$25 million. Discussions included the constraints of Measure L and the funding needs of the Project. As the Committee is aware, Measure L was a ballot vote related to the use of private donations for the Town Center's design and construction. While later determined to be advisory, the Council at the time and now treat Measure L as if it were a binding measure.

The Council sought options for consideration if Atherton Now did not reach its target. Staff presented possible funding options for the Civic Center project based on the assumption that Measure L was reversed, which included the use of General Fund ERAF, Building Fee Funds, Unallocated General Funds, and possible funding options of Certificates of Participation (COPs). (These are highlighted in the two attached study session reports)

The City Council directed staff to move a ballot measure, planned for June 6, 2017 to reverse the provisions of Measure L and allow the use of General Funds on the Project. Staff was also directed to investigate, in more detail, the requirements for Certificates of Participation and create a funding plan for the Civic Center using all available General Funds. At the April 5, 2017 City Council Study Session, a representative from Urban Futures will discuss COPs and how they work as a possible funding source for any remaining funding gap for the project.

Report on the Civic Center Project Funding and Funding Plan

March 14, 2017

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Questions have been posed whether the CIP projects are at risk with potential funding of the Civic Center project. The January 18, 2017 staff report, discusses the Town's 5-Year CIP program. Identified in that Report are additional park improvements of about \$740,000 as the main projects at risk. No other projects of significance are at risk. Below is the City Council approved Funding Plan:

Civic Center Project Funding Plan	
Item/Fund	Amount
Design Cost Estimate (100% Design Development)	\$3,305,255
Construction Cost Estimate (100% Design Development)	\$22,253,000
Total Design & Construction Cost	\$25,558,255
Atherton Now Donation	(\$7,000,000)
Remaining Requirement	\$18,558,255
Application of Revenue from Building Fees	(\$2,935,000)
Remaining Requirement	\$15,623,255
Allocation of FY 2016/17 ERAF	(\$1,103,185)
Allocation of FY 2017/18 ERAF (Estimated)	(\$1,066,958)
Allocation of FY 2018/19 ERAF (Estimated)	(\$1,000,000)
Remaining Requirement	\$12,453,112
Existing Unallocated General Fund Available	(\$6,861,653)
Remaining Requirement	\$5,591,459
Existing CIP Unallocated Funds	(\$4,423,138)
Remaining Requirement	\$1,168,321
Remaining Requirement to be met by a combination of Additional Donation Receipts, Annual Budget Revenues over Expenditures, and Short-term Certificates of Participation – without the addition of new tax burdens	

The Council reviewed and approved the above Funding Plan for the Project. The remaining funding requirement shown above will be met by a combination (in order of priority) other funds: 1) additional donation receipts; 2) annual budget revenues over expenditures; and 3) short-term Certificates of Participation. The Council was clear that there would be no additional tax burden submitted to fund the project. Special Funds cannot be used for the project. These include the Special Parcel Tax, Measure A, Measure M, and other funds specifically earmarked for other purposes. The Council also advised that they may or may not allocate all the unallocated General Funds available. The Council was advised that Urban Futures may recommend that a COP between \$5 million and \$10 million be issued depending on the available annual lease payment obligation supportable by the Town's General Fund. If the COP is of that amount, some of the unallocated funds would remain untouched.

ATTACHMENT

1. CC Study Session Civic Center project staff report 1-18-17
2. CC Study Session Civic Center project staff report part II 2-1-17



**Item No.
Town of Atherton**

CITY COUNCIL STAFF REPORT – STUDY SESSION AGENDA

TO: HONORABLE MAYOR AND CITY COUNCIL

**FROM: GEORGE RODERICKS, CITY MANAGER
ROBERT BARRON III, FINANCE DIRECTOR
MARTY HANNEMAN, CITY ENGINEER**

DATE: JANUARY 18, 2017

**SUBJECT: CIVIC CENTER PROJECT – REVIEW, DISCUSS AND PROVIDE STAFF
WITH FEEDBACK REGARDING FUNDING STATUS AND OPTIONS**

RECOMMENDATION

Review, Discuss and provide staff with feedback regarding funding status and options for the Civic Center Project.

BACKGROUND

When Measure L was approved in November 2012 it stated as follows:

“Should the Town of Atherton use funds primarily from private donations to construct a new Town Center? Other funding sources might include funds derived from Building fees or future grant money, but would not use general fund or parcel tax money.”

The summary and impartial analysis of the measure stated that a “YES” vote restricts the types of funds that could be used for the new Town Center improvements, to generally requiring that other non-tax sources, such as Building fees and grants, be used. Other funding sources cannot include general fund tax money or parcel tax funds without further voter approval.

Measure L is clear with respect to restrictions on the use of general fund or parcel tax funds. Building fees may be used in proportion to the development requirement within the project. The specific use of special parcel tax funds is further restricted within its own approving measure (Measure X, 2013) restricting those funds to the funding of “...public safety and crime prevention services and capital improvements for street, drainage and flood control projects...”

Should non-tax sources fall short of the funding requirements, in order for the Town to use available General Funds or use other tax revenue sources, such as Enhanced Infrastructure Financing Districts (EIFD), Bond Measures, or Certificates of Participation, for the project, Measure L must be returned to the voters and the restriction on the use of General Funds must be removed. The soonest this can occur is June 2017 as a Special Ballot Measure. In order to use the

current or an enhanced Parcel Tax, Measure L must be returned to the voters to remove the restriction on the Parcel Tax (June 2017) and the Special Parcel Tax Measure must also be returned to the voters (November 2017) to modify the expenditure restrictions within the Measure.

FINDINGS/ANALYSIS

Atherton Now – Donation Status

The latest funding report from Atherton Now is November 2016. This was provided to the Council in December 2016. The Report advised that they are pursuing a campaign goal of \$10 million by the end of the 2016 and received a \$1 million challenge grant. As of December 1, 2016, Atherton Now reported Total Cash and Pledges of \$6,074,727. Atherton Now has remitted \$958,165 to the Town in support of the Design Phase of the Project. A payment of \$780,526 is anticipated in February 2017. Of the \$6,074,727 total funds, \$2,844,262 remains in pledge form.

For the purposes of this Report, it is estimated that Atherton Now will continue to fund raise over the coming months and will reach approximately **\$7,000,000 in total available funds**. There is concern that if the Town were to attempt to revise Measure L; some donors may pull their remaining funds/pledges from Atherton Now and the donation amount available will be reduced. However, given that Atherton Now has publicly reduced its original campaign goal of \$25 million down to \$10 million, an amount less than required to fund the project, it is hoped that this has been communicated to donors and any restrictions on funding have been removed.

Design Costs

The initial design cost for the Civic Center Project was \$3,220,080. The Community Development Department (CDD) – Building & Planning – component of this cost was \$257,606 (8%) and the Atherton Now portion was \$2,125,253 (66%). The Library portion of the project (based on square footage) is approximately 26% picking up the remainder at \$837,221. As reported earlier, the CDD component increased based on allocated square footage from 8% to 13.6% (\$437,931) resulting in a corresponding reduction in the Atherton Now portion to 60.4% or \$1,944,928. Staff anticipates that design costs may rise to approximately \$3,500,000 based on design revisions and process changes (estimate is for the purposes of this Report only – the actual amount may be different). This estimate results in design cost allocations of \$476,000 to CDD and \$2,114,000 to Atherton Now.

Assuming Atherton Now reaches the estimated \$7,000,000 in contributions, there will be \$4,886,000 remaining for construction.

Project Cost Estimates

The Library component of the project is fully funded with separate Library Funds and is not included in this Report for ease of discussion. Further, the remaining project has been segregated into base bid components and add-alternates. Add-alternates are also not included in this Report for the purposes of discussion. Alternates for the remaining project include:

- Energy Monitoring Systems

- Micro-Grid System
- Photovoltaic Systems
- Mechanical Chilled Water Thermal

These add-alternates have cost estimates, but construction would only proceed with dedicated funding. Design of the above must be incorporated into the design costs for the project.

The 50% Design Development Cost Estimate provides a construction estimate of \$17,259,000 and a site work estimate of \$4,588,000 for a **total construction estimate of \$21,847,000**. This amount excludes some furniture and fixtures, but includes a contingency for design development of 7-8% and a cost escalation factor of 5%. Basic assumptions are a start date of August 2017, prevailing wage, 20-month construction, and no phasing requirements. It does not include any cost escalation if the project starts later than August 2017, includes no substantial changes to the corporation yard, does not include loose furniture and fixtures, and does not include any scope changes. As the Council is aware, there may be changes to the preceding.

Available Other Funds

The following discussion assumes that Measure L is overturned in June 2017 to allow the Town to use General Funds toward the project as well as the remaining donation funds.

With a total construction estimate of \$21,847,000, subtracting the remaining Atherton Now funds of \$4,886,000 leaves a funding gap of \$16,961,000.

Building Fee Funds

A portion of this gap is funded via the Building Facilities Fund. This fund had an initial amount of \$2,100,000. This amount will be reduced by the design cost allocation of \$476,000 leaving approximately \$1,624,000. As discussed prior, the initial amount was short by approximately \$1,200,000 based on allocated space in the new building. A portion of the difference can be made up by transfer from the Building Reserve Fund (established by the Council in 2014 from excess Building Fees) of \$505,000 and approximately \$330,000 in available Construction Time Limit Penalty fees. **This leaves available building funds for construction of \$2,459,000**, still short, but allocating other funds without raising building fees would redirect funds from the Town's basic operating general fund revenues.

Reducing the funding gap of \$16,961,000 by \$2,459,000 leaves \$14,502,000.

Unallocated Surplus Funds

Since FY 2011/12, the Town has been fortunate to have benefited from rising property values, an increase in ERAF contributions, cost-controlled budgeting, and prudent fiscal management. We have set funds aside within the Town's General Fund Unallocated Funds and Capital Improvement Fund. There is \$4,663,980 within the Town's General Fund as Unallocated Surplus and \$4,423,138 saved within the Town's CIP Fund – presently not allocated to any specific project.

Reducing the funding gap of \$14,502,000 by \$9,087,118 leaves \$5,414,882.

ERAF Funds

The Town receives an annual ERAF allocation from the State via the County of San Mateo. The Town could allocate anticipated ERAF to the Project. Taking this action would affect the ability of the Town to use the next two years of ERAF toward reduction of specific pension or OPEB liabilities. In FY 2016/17, the Town's unallocated ERAF is \$1,103,185. The Town can expect ERAF in FY 2017/18 of approximately \$1,000,000.

Reducing the funding gap of \$5,414,882 by \$2,103,185 leaves \$3,311,697.

Does This Affect Our Allocated Reserves?

No. Using the Town's unallocated General Fund surpluses does not affect the Town's mandatory allocated reserves. We retain \$3,713,724 in reserves that will remain untouched.

Does This Affect Our Parcel Tax Revenue?

No. The Town receives \$1,860,000 per year in Parcel Tax Funds. The revenue measure is scheduled to be renewed in November 2017. If the revenue measure is not modified and is passed as it is currently established, the Town will continue to receive \$1,860,000 and may allocate it each year per Council policy. Current allocation is 80% to the Town's CIP - \$1,488,000 and 20% to Public Safety - \$372,000.

If the Town uses unallocated CIP funds for the Project and the Special Parcel Tax fails to pass in November 2017, there will be significant impact to CIP projects since the Special Parcel Tax is a primary component of the Town's Capital Improvement Program.

Are There CIP Projects in the 5-Year CIP That Are "At Risk"?

Assuming the Special Parcel Tax continues, if the Town allocates the unallocated surplus to the Civic Center Project, does the action put any of the projects in the 5-Year CIP at risk? Yes. The following is a list of the Town's current CIP Projects funding in the current FY and out years.

Projects in italics are "at risk."

- Series Street Light Project – Funded at \$753,000 with Parcel Tax, and Measure A. This project would remain FULLY FUNDED.
- Traffic Control Devices – Funded at \$75,000 with Measure A. This project would remain FULLY FUNDED.
- Traffic Safety Improvement Program – Funded at \$250,000 with Measure A. This project would remain FULLY FUNDED.
- ECR HAWK – Funded at \$127,339 with Parcel Tax. This project would remain FULLY FUNDED.

Civic Center Project – Funding Status and Options

January 18, 2017

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- ECR Complete Streets – Funded at \$200,000 with Parcel Tax. This project would remain FULLY FUNDED.
- Bike/Ped Master Plan Projects – Funded at \$2,834,000 with Parcel Tax and Capital Improvement Fund in FY 2016/17. This includes the \$1.5 million Middlefield Project. This project would remain FULLY FUNDED. However, it is anticipated that the project will not be fully implemented.
- Quad Gates Study – Funded at \$100,000 with Parcel Tax. This project would remain FULLY FUNDED. However, it is anticipated that this project funding will not be required.
- Road Maintenance Program – Funded at \$4,775,000 with Parcel Tax, Measure A, Gas Tax, and Measure M. This project would remain FULLY FUNDED.
- Bridge Maintenance Program – Funded at \$250,000 with Parcel Tax, Gas Tax, and Measure M. This project would remain FULLY FUNDED.
- NTMP – Funded at \$125,000 with Measure A. This project would remain FULLY FUNDED.
- Drainage Improvement Program – Funded at \$3,000,000 with Parcel Tax and Atherton Channel Funds. This project would remain FULLY FUNDED.
- Upper Channel Monitoring – Funded at \$40,000 with Atherton Channel Funds. This project would remain FULLY FUNDED.
- Belbrook Way Culvert Repair – Funded at \$350,000 with Measure A. This project would remain FULLY FUNDED.
- Marsh Road Project – Funded at \$300,000 with Parcel Tax. This project would remain FULLY FUNDED.
- ADA Program – Funded at \$160,000 with Parcel Tax and Capital Improvement Fund. There is \$40,000 AT RISK (\$10k per year in out years).
- Atherton Library – Funded at \$8,335,200 with Library Funds. This project would remain FULLY FUNDED.
- Civic Center Project – Funded at \$23,674,278 with donations, Capital Improvement Funds, and Building Capital Funds. Currently under discussion.
- Town Center Repairs – Funded at \$52,500 with Capital Improvement Fund. These funds are AT RISK, but with the new Civic Center may not be needed.
- Park Improvement Program – Funded at \$740,000 with Capital Improvement Funds. There is \$505,000 AT RISK in out years. The specific projects are portions of the Pedestrian Circulation, Pavilion Parking Lot Turn Around, Vehicular Circulation, and Relocation of the Pre-School. Relocation of the pre-school is the largest amount at \$350,000.

What about the Town’s Master Plans and Long-Range Projects?

The Town’s CIP addresses the short-term priority projects. The Town’s financial posture with respect to long-range priority projects is “save then spend” allocating ERAF, excess revenues over expenditures, and grants toward these larger projects.

What about Excess Revenues over Expenditures Year over Year?

It is anticipated that the Town’s current revenue picture will be maintained; however, it is also anticipated that there will be increases to employment costs and overall operating expenditures. These excess revenue funds will be used to maintain the Town’s positive financial picture. However, in FY 2016/17, there is an anticipated \$1,285,323 in General Fund Revenues over General Fund Operating Expenditures. The City Council allocates these funds out to the various buckets of CIP, unallocated surplus, etc. This is *before* the addition of and transfers into the General Fund of ERAF and the 20% Parcel Tax. It is anticipated that this revenue over expenditure trend will continue but the amount may fluctuate year to year. These funds may be committed to the Civic Center Project funding gap or to some debt service financing alternative. They are not included in the above calculations but they would reduce the funding gap.

What are some of the options for funding the project and what do they look like?

There are various funding options available for consideration by the Council to address the funding of the project whether it is funding the project in its entirety or funding all or a portion of the project. To use any of these options, Measure L must be overturned. The options include:

Enhanced Infrastructure Financing Districts (EIFDs)

An EIFD may be created within the Town and it may be used to finance the construction or rehabilitation of public infrastructure. The EIFD funds these improvements with the property tax increment of the taxing agencies within the boundaries of the EIFD with their consent (cities, counties, special districts, etc. – not schools). To create an EIFD, the legislative body forms a Public Financing Authority (PFA) made up of 3 members of the City Council. If there is more than one taxing entity in the EIFD (depending on the underlying parcels within the EIFD itself), the majority of the PFA must be members of the legislative bodies of the taxing entities with at least two public members.

EIFD were created as a replacement for redevelopment agencies and function in similar ways. Once the PFA is formed, it may issue bonds payable from funds within the district with 55% voter approval of either the voters or landowners within the District. Each landowner has one vote for each acre or portion of acre of land owned. Revenue from property tax increment is used for debt service on the bonds issued. When using “tax increment financing,” tax revenue within a district area is split into two components: base revenue – the amount available before the district is established; and incremental revenue – the new revenues in excess of the base revenue generated *after* the development project. Exclusive use of the incremental revenue is given to the entity establishing the district (the Town) to generate a revenue stream to underwrite the proposed project (bonds).

The Town does not own enough taxable property to fund the project using its own tax increment. If the Town were to form a town-wide EIFD, all of the taxing entities (except schools) in the EIFD area would need to agree to freeze their property tax increment at a specified amount and commit increases to the Town in order to finance the bonds issued to build the Civic Center Project. EIFDs (like Redevelopment Project Areas) function best when there is a singular parcel or land area in question, owned by the underlying agency that will be redeveloped for a higher and better use and the district is solely that area.

While an EIFD may be used as a vehicle, staff does not recommend its use in this case. If an EIFD is a selected option, staff recommends engaging a financial consultant to assist the Town with the process.

Certificates of Participation (COP)

COPs are financing techniques that provide long-term financing through a lease or installment sale agreement. Typically, local governments use COPs when issuing and leasing property to themselves. Under California law, COPs do not constitute indebtedness and do not require voter approval. COPs allow the public to purchase participation in a cash flow stream related to the developed project. That cash flow stream can be guaranteed by future revenues to the Town via installment payments on the debt.

In a typical COP financing structure, an issuer – the Town – enters into a financing lease or installment sale agreement and instructs the bank serving as a trustee, in exchange for money, to execute and deliver certificates of participation in the lease to finance the project. The issuer uses the COP proceeds to fund the project. The issuer – the Town – is designated as the lessee. The Town would establish a second entity, such as a Joint Powers Authority or Non-Profit Corporation, designated as the lessor. The lessee would then lease the project being financed to the lessor. The lessor then leases the project back to the lessee in exchange for installment payments (debt).

COP financing structures are generally used for long-term financing of major public projects such as Administration Buildings, Water and Sewer Systems, Public Safety Facilities, Schools, Courthouses, etc.

Staff believes that COP financing may be a viable alternative to finance some of the funding gap or the gap+. The amount financed would be dependent on the length of financing and debt service that the Town could afford under its present and future operational revenue. This option would also allow the community to “invest” with a return on that investment in the Project. An example of financed amounts and the required debt service are shown below with a 5-year COP and interest at 5%.

COP Amount	COP Amount with Interest	Annual Debt Service for 5 Years
\$2,000,000	\$2,285,175	\$457,034
\$3,000,000	\$3,427,762	\$685,552
\$4,000,000	\$4,570,350	\$914,070
\$5,000,000	\$5,712,938	\$1,142,586
\$6,000,000	\$6,855,525	\$1,371,104

Staff recommends a financial consultant to assist the Town with the financing measure.

Special Bond Measures

Another option for consideration would be the issuance of general obligation (GO) bonds. GO bonds are issued as debt by a local public entity. The bonds pledge the “full faith and credit” of agency as security for payment of principle and interest to bond holders. GO bonds require a two-thirds vote for issuance for specific projects.

GO bonds are the most secure type of municipal securities available and therefore usually attain the lowest interest costs of other comparable long-term securities. The issuer – the Town – is authorized by the voters to levy an ad valorem tax on all taxable property within the jurisdiction at any rate necessary to collect enough money each year to pay for principal and interest coming due on the outstanding bonds.

GO bonds are generally used for long-term financing of major public projects such as Administration Buildings, Water and Sewer Systems, Public Safety Facilities, Schools, Courthouses, Libraries, Public Works improvements, etc.

Staff believes that GO bonds may be a viable alternative to finance all of the funding gap or the gap+; however, this option would represent a new tax and would trigger a 2/3-vote required measure in November 2017. An example of bond amounts and the required debt service are shown below with interest at 5% and a 5-year bond.

Bond Amount	Amount with Interest	Annual Debt Service	# of Parcels	Optional 1-time Payment/Parcel	Payment Over 5-Years
\$2,000,000	\$2,519,040	\$503,808	2,500	\$1,008	\$202
\$3,000,000	\$3,775,800	\$755,160	2,500	\$1,510	\$302
\$4,000,000	\$5,038,080	\$1,007,616	2,500	\$2,015	\$403
\$5,000,000	\$6,294,840	\$1,258,968	2,500	\$2,518	\$504
\$6,000,000	\$7,551,600	\$1,510,320	2,500	\$3,021	\$604

Staff recommends a financial consultant to assist the Town with the financing measure.

Parcel Tax Increase

A final option for consideration by the Council is the possibility of adding an specified amount to the existing Special Parcel Tax for the November 2017 ballot measure. The Council could add a short-term (2 year or 3 year) provision to the Parcel Tax Measure in November to fill some or all of the funding gap. A two-year, \$500 per parcel addition to the Parcel Tax (i.e. sunset after 2-years) would raise approximately \$2.5 million.

Staff believes that augmenting the Parcel Tax may be a viable alternative to finance all of the funding gap or the gap+; however, this option would represent a new tax and would trigger a 2/3-vote required measure in November 2017.

Other Options

The Council also has a number of other options that could be considered. These include:

Reducing Project Scope

The Council could set a project budget based on available funding and direct staff to reduce the project in scope to match the identified budget. Staff has recently been through this exercise already with the CCAC and project architect and eliminated nearly 3,000 square feet from the facility. While there may be additional reductions possible, staff does not anticipate that these reductions would materially affect the cost; and, these reductions would trigger additional architectural design costs.

Postpone Project Until Funds Can Be Saved

The Council could direct staff to postpone the project and save additional revenues until the funding gap is met. Postponing the project will create additional costs through construction cost escalation. However, doing so will also allow Atherton Now to continue to fund raise for the project. Staff would still suggest that Measure L be considered for the ballot in June 2017. It is likely that the Library could begin construction as a separate project under this alternative; however, the site work and other improvements would have to be de-coupled and modified to allow this to occur.

Staff is not able to identify the exact cost impact of this alternative.

Scrap the Project

Finally, staff would be remiss if we did not mention a final alternative of scrapping the project in its entirety. While the new Town Center Project would be eliminated, the Town would need to renovate or rehabilitate the existing structures in the near term. The Town could use existing surplus funds (approximately \$9 million) to renovate the existing historic Town Hall in connection with the new Library (funded separately) to use as a continued Council Chambers, demolish the Building Department and Police Department temporary buildings, dedicate and renovate the existing City Hall as the Police Department, and build a non-frill pre-fabricated permanent structure to serve as administration and community development. There would be limited site work with this option.

Staff does not know what the cost would be for this option or what the final product would look like; however, it is clear that the only facility that could be maintained as currently designed would be the Library since it has a separate funding source. All others would be rehabilitated existing structures or new prefab facilities. The existing site would be retained to a significant degree.

POLICY CONSIDERATIONS

Staff is seeking policy feedback on the funding options to pursue further and whether to proceed with steps to consider changes to Measure L and general discussion of funding alternatives.

Specific direction to staff regarding Measure L will be considered as an action item under the Regular Agenda.

FISCAL IMPACT

None at this time.

PUBLIC NOTICE

Public notification was achieved by posting the agenda, with this agenda item being listed, at least 72 hours prior to the meeting in print and electronically. Information about the item is also disseminated via the Town's electronic News Flash and Atherton Online. There are approximately 1,200 subscribers to the Town's electronic News Flash publications. Subscribers include residents as well as stakeholders – to include, but be not limited to, media outlets, school districts, Menlo Park Fire District, service providers (water, power, and sewer), and regional elected officials.

ATTACHMENTS

None.



**Item No.
Town of Atherton**

CITY COUNCIL STAFF REPORT – STUDY SESSION AGENDA

TO: HONORABLE MAYOR AND CITY COUNCIL

**FROM: GEORGE RODERICKS, CITY MANAGER
ROBERT BARRON III, FINANCE DIRECTOR
MARTY HANNEMAN, CITY ENGINEER**

DATE: FEBRUARY 1, 2017

**SUBJECT: CIVIC CENTER PROJECT – REVIEW, DISCUSS AND PROVIDE STAFF
WITH FEEDBACK REGARDING FUNDING STATUS AND OPTIONS
RELATED TO MEASURE L – PART II**

RECOMMENDATION

Review, Discuss and provide staff with feedback regarding funding status and options for the Civic Center Project – specifically related to Certificates of Participation and Measure L.

BACKGROUND

When Measure L was approved in November 2012 it stated as follows:

“Should the Town of Atherton use funds primarily from private donations to construct a new Town Center? Other funding sources might include funds derived from Building fees or future grant money, but would not use general fund or parcel tax money.”

The summary and impartial analysis of the measure stated that a “YES” vote restricts the types of funds that could be used for the new Town Center improvements. Donations must account for at least 50% of the total funds. Building fees or future grant money may be used for the remainder. Other funding sources cannot include general fund tax money or parcel tax funds without further voter approval.

At the January 18 Study Session, the Council directed staff to move forward with drafting a ballot measure, tentatively planned for June 2017, to modify the provisions of Measure L to allow the use of General Funds toward the project. Staff is crafting that draft language for Council adoption at the February 15 Regular Meeting. Preliminary language is included in the discussion below.

The Council also directed that staff investigate in more detail the requirements for Certificates of Participation and provide Council with further opportunity for discussion to create a funding plan for the Civic Center.

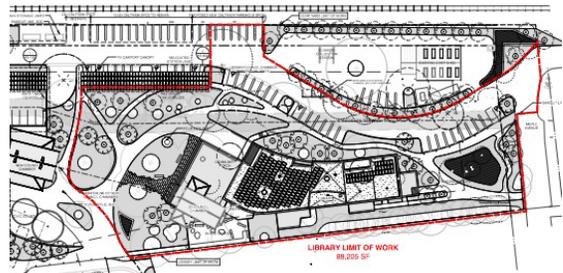
Lastly, Measure X (2013) – the Special Parcel Tax – does not allow the use of the parcel tax funds for the Town Center. In addition to being restricted via Measure L, the specific language of Measure X prevents the use of the funds for the Project. If the Council wanted to consider the use of the Special Parcel Tax for the project, it would need to amend the language of the Parcel Tax itself (November 2017); or, reallocate the funding percentages to fund more of the Town’s public safety costs to free up General Funds (assuming revisions to Measure L). Special Parcel Tax funds may be used for “...public safety and crime prevention services and capital improvements for street, drainage and flood control projects...”

FINDINGS/ANALYSIS

Summary of Estimated Project Cost

The project has completed 100% Design Development and the final cost estimate is underway. This will be presented to the Council at the February 15 Council Meeting for consideration. At that point, the Council will have the most accurate estimate of project cost to date. The estimate assumes a project award date of late Fall 2017, prevailing wage, a 20-month construction (completing in FY 2019), and no phasing requirements. The estimate does not include substantial changes to the corporation yard, does not include loose furniture and fixtures, and does not include any scope changes (to include those approved by Council at the last meeting).

Also, these costs do not include the Library portion of the project as the Library is separately and fully funded. The overall project site is approximately 234,940 square feet. The Library, based on location and allocated square footage, is responsible for approximately 88,205 square feet of that total. This includes an allocated portion of the required site work. The Library is designed as a sustainable facility to the maximum extent possible given its funding.



The remainder of the project improvements fall under Measure L funding requirements – Administration, Community Development, Police, Public Works, and Council Chambers and associated site work. Except for specific, Council-identified items for inclusion in the base project, these areas are designed as sustainable but only to meet the requirements of the California Green Building Code. Further, specialty items and next-level site amenities are all add-alternates or removed from the design entirely. Sustainability elements that go beyond the California Green Building Code requirements are also identified as add-alternates. Specific sustainability items to be designed as add-alternates per Council direction are:

- Energy Monitoring Systems
- Micro-Grid System
- Photovoltaic Systems
- Mechanical Chilled Water Thermal

Civic Center Project – Funding Status and Options II

February 1, 2017

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These add-alternates have cost estimates, but construction would only proceed with allocated funding. Bid documents must include detailed design in order to be included as an add-alternate for the project. Grant approval will also require detailed design drawings.

The table below is a summary of the cost estimates provided at the January 18 Council Meeting.

Civic Center Project Funding Plan	
Item/Fund	Amount
Design Cost Estimate (50% DD)	\$2,590,000
Construction Cost Estimate (50% DD)	\$21,847,000
Total Design & Construction Cost	\$24,437,000
Atherton Now Donation (29% of total)	(\$7,000,000)
Remaining Requirement	\$17,437,000
Application of Revenue from Building Fees	(\$2,935,000)
Remaining Requirement	\$14,502,000
Allocation of FY 2016/17 ERAF	(\$1,103,185)
Allocation of FY 2017/18 ERAF (Estimated)	(\$1,000,000)
Allocation of FY 2018/19 ERAF (Estimated)	(\$1,000,000)
Remaining Requirement	\$11,398,815
Existing General Fund Unallocated Surplus	(\$4,663,980)
Remaining Requirement	\$6,734,835
Existing CIP Unallocated Surplus	(\$4,423,138)
Remaining Requirement	\$2,311,697
Remaining Requirement to be met by a combination of Additional Donation Receipts, Annual Budget Revenues over Expenditures, and Short-term Certificates of Participation – without the addition of new tax burdens	

The remaining \$2.3 million+ funding requirement could be met through: 1) the use of increased donations from Atherton Now; 2) excess General Fund Revenues over Expenditures; and/or 3) issuance of Certificates of Participation.

Staff anticipates that the Town’s current revenue picture will be maintained; however, it is also anticipated that there will be increases to employment costs and overall operating expenditures. These excess revenue funds are used to maintain the Town’s positive financial picture. In FY 2016/17, there is an anticipated \$1,285,323 in General Fund Revenues over General Fund Operating Expenditures. This is *before* the addition of and transfers into the General Fund of ERAF and the 20% Parcel Tax allocated to Public Safety. It is anticipated that this revenue over expenditure trend will continue but the amount may fluctuate year to year. These funds may be committed to the Project funding gap or to a COP financing alternative. Over the period of construction (FYs 2017/18, 2018/19, & 2019/20) the Town could accumulate \$2-\$3 million in

excess revenues over expenditures. Allocation of these funds does not affect the Town's required 35% reserves for operations and emergencies.

Certificates of Participation (COP)

COPs are financing techniques that provide short- or long-term financing through a lease or installment sale agreement. Typically, local governments use COPs when issuing and leasing property to themselves. Under California law, COPs do not constitute indebtedness and do not require voter approval. The Town's positive cash flow stream can be used as a guarantee for the lease payment.

In simplified form, for a traditional COP, the Town would create a Public Finance Authority (PFA) – typically the City Council itself. The PFA leases the new facility to the Town. The Town pays the lease obligation to the PFA via a bank trustee who in turn pays the COP investors. COP financing structures are generally used for financing of major public projects such as Administration Buildings, Water and Sewer Systems, Public Safety Facilities, Schools, Courthouses, etc. A COP is a viable option to close the small funding gap for the project. A financial consultant would be hired to assist the Town with the financing measure.

Attached is a narrative from the Town's Finance Director providing a broad overview of Certificates of Participation.

Special Parcel Tax

At the January 18 Study Session, the Council eliminated the option of any new tax increase dedicated to the Project. However, the Council also discussed the use of the Town's Parcel Tax. As discussed above, if the Council wanted to consider the use of the Special Parcel Tax directly for the project, it would need to amend the language of the Parcel Tax itself (November 2017); or, reallocate the funding percentages to fund more of the Town's public safety costs to free up General Funds (assuming revisions to Measure L). Amending the language of the Special Parcel Tax to add a surcharge would result in a new tax. However, reallocation of the contribution toward public safety would not.

Use of the Town's unallocated surplus' or general funds do not impact the nearly \$5.73 million in capital projects over the next 4 years directly funded by the Town's Special Parcel Tax. However, if the November 2017 Parcel Tax is not successful in its current form, the \$5.73 million in capital projects related to streets, drainage, and flood control projects would be put in jeopardy. These include the annual Road Maintenance Program (\$2.6 million over 4 years), planned drainage improvement projects (\$2.2 million over 4 years), Bridge Improvements (\$125,000) and Bicycle/Pedestrian Improvement Projects (\$800,000 over 4 years).

From a timing perspective, if Measure L is revised in June 2017 and the Town is able to bid the Project in late Fall 2017 and the renewal of the Special Parcel Tax in November 2017 fails; staff would not recommend that the Council award the Project using all of the unallocated surplus'. It is critical that the Special Parcel Tax is renewed in order to sustain the Town's Capital Improvement Project Plan. Without the Special Parcel Tax, some or all of the Town's current surplus should be used to fill in the need for basic capital projects. The Town reviews the allocation

of the Parcel Tax each June. After completion of the Project in 2019, the Council should carefully review the allocation of the Parcel Tax and balance it against the then financial outlook to determine if it should be allocated at 100% or less.

Value Engineering

Once the Project is approved for 100% Design Development (February 15, 2017), staff and the CCAC Project Management Ad Hoc Committee will begin the task of identifying areas of the project that can be considered for value engineering. These may include landscaped areas, materials, exterior and interior features, etc. Some of these areas may result in an exterior aesthetic change. If so, these would be returned to the Council via the CCAC for consideration.

At the January 18 Study Session, it was also suggested that the Town could delay implementation of portions of the project, such as the new Council Chambers, in an effort to save funds in the short-term.

It would be appropriate for the Council to have a high-level conversation around what would be acceptable and what would not with respect to significant project changes or phased construction. Staff does not have sufficient detail at this time to provide the Council with vetted cost estimates for impact. Staff does not recommend that the Council consider a reduction in the functional spaces of the facility as these spaces are based on minimum needs and have been reviewed and reduced to the maximum extent possible.

Measure L

At the January 18 Study Session and Regular Meeting, the Council discussed modifications to Measure L. In that discussion the Council targeted June 2017 as the possible Special Election for the measure. At this time, there may be limited, if any, other measures on the June 2017 ballot and the County of San Mateo now has a “vote by mail” process that the Town may use for the measure. Staff is still trying to nail down the cost estimate for the Special Election. That estimate will be a part of the February 15 Staff Report.

City Council discussion points for consideration of the ballot measure include:

- Identification of key areas of the Town’s Funding Plan and Message
- Discussion of Ballot Measure Language
- Discussion of a Committee to craft the Ballot Argument
- Creation of a Campaign Committee and Process

A starting point possible ballot measure language could be:

“Should the Town of Atherton be allowed to use available general funds to fund the remaining funding need of the new Town Center? Other funding sources include private donations, grants, and building fees; but the Town would not use any of the Town’s parcel tax or mandatory reserves.”

The ballot argument language would address issues related to a funding plan (shown above) and the issue of no new project-specific taxes.

POLICY FOCUS

Staff is seeking policy feedback on the funding plan, Measure L, and project alternatives.

FISCAL IMPACT

None at this time.

PUBLIC NOTICE

Public notification was achieved by posting the agenda, with this agenda item being listed, at least 72 hours prior to the meeting in print and electronically. Information about the item is also disseminated via the Town’s electronic News Flash and Atherton Online. There are approximately 1,200 subscribers to the Town’s electronic News Flash publications. Subscribers include residents as well as stakeholders – to include, but be not limited to, media outlets, school districts, Menlo Park Fire District, service providers (water, power, and sewer), and regional elected officials.

ATTACHMENTS

Certificates of Participation Overview

CERTIFICATES OF PARTICIPATION

Certificates of Participation (COP's) are a method of structuring and distributing tax-exempt leases to investors by dividing the rental payments and lease into fractionalized interests or shares for individual sale to investors. The share is represented by a formal certificate, much like a bond. COPs can be placed privately or sold publicly. COPs are sold for large asset financing and tend to be used more for real property rather personal property acquisitions.

The structure of COP financing starts with a public agency embarking on a construction project. The agency then enters into a tax-exempt lease with a specifically-formed JPA, leasing company, bank or other lessor. For example, the Town of Atherton would create the Atherton Public Financing Authority (APFA), a JPA and enter into a tax-exempt lease with the APFA. The APFA participates in the construction of the building project and leases the new building (the Civic Center) back to the Town via a financing lease. The APFA issues the COPs for sale to investors as marketable securities. The APFA has rights to receive lease payments which are assigned to a trustee. The trustee (a bank) implements and produces to an underwriter, COPs within the lease payments. Within these lease payments are designated tax-exempt interest to investors. The underlying proceeds of the COPs are used by the Town to build the new Civic Center. The process looks as follows –

1. The Town identifies the leaseable asset, the purpose for incurring debt, and the amount of debt to be incurred.
2. The Town leases or transfers the leaseable asset/building to a lessor (APFA).
3. The APFA leases the building back to the Town.
4. The APFA's right to receive lease payments are transferred to a Trustee (bank).
5. The Trustee executes Certificates of Participation which are sold to members of the public.

Legal Authority

In tax-exempt lease financing, a public agency is using its authority to acquire or dispose of property, rather than its authority to incur debt. This provides long-term financing through either a lease or lease-purchase agreement that legally does not constitute debt within the State constitutional debt limitation.

A tax-exempt lease may be used to finance any property that the public agency has the statutory authorization to lease. Only land and depreciable property may be leased. Leased property is the capital asset to be used by the public agency for its own operations. A key characteristic of a tax-exempt lease that distinguishes it from bond indebtedness is a non-appropriation clause. This is a fiscal funding clause where payments of the lease are dependent upon an annual appropriation by the governing body. A lessee is not in default under the lease if it does not appropriate funds. Under State law rental payments are classified as operating expenses and not as debt. If there is no appropriation in a given year, the lessee (town) loses use and possession of the asset (building).

The Town of Atherton in its intent to issue Certificates of Participation must form a public financing authority. Under California State law cities may issue tax-exempt revenue bonds through the formation of a public financing authority. The financing authority is created by Resolution of the Town. Within the Resolution, authorization is given to the City Council to be officers of the Authority. The Authority would meet similar to the City Council – similar to the way the Town

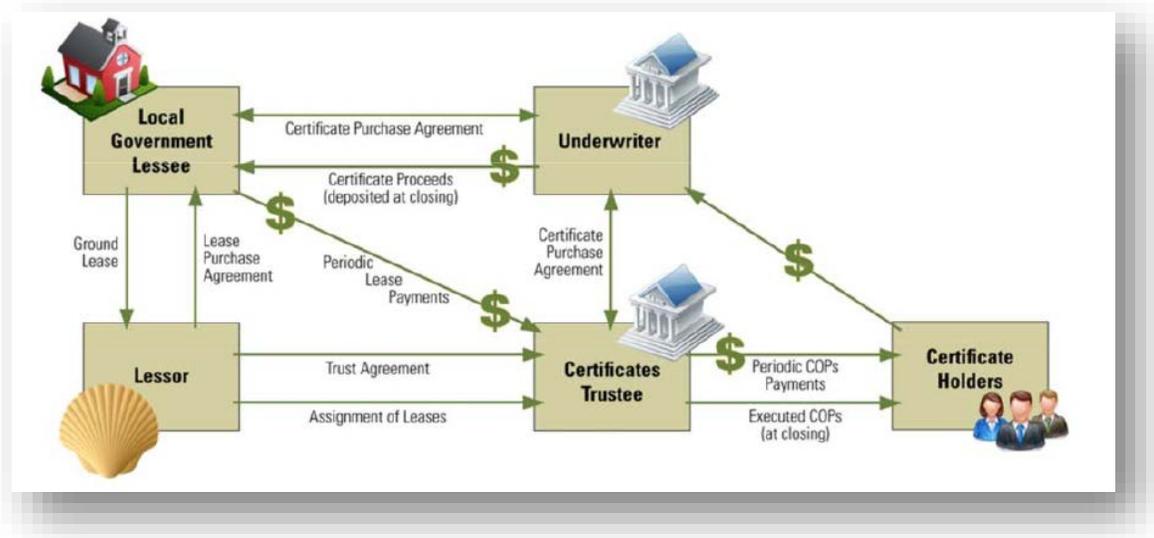
Certificates of Participation

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handles the Atherton Channel District Board. Once the COP is retired, the Financing Authority may be disbanded or fall dormant.

Certificates of Participation require no voter approval. They are implemented quickly and are very flexible. There is no established new revenue for COPs. They are a General Fund liability for the appropriation of making lease payments. COP financing could require abatement risk insurance for rental interruption. Below is a diagram of the Certificates of Participation process:



Process for Issuance of a COP

The process for issuing COPs begins with a financing team. In considering a COP, the finance team will incur costs (often referred to as a cost of issuance).

Roles and Responsibilities of Principal Participants in Municipal Financing

- *Issuer* – The Atherton Public Finance Authority (APFA) would be the Issuer of the COP.
- *Bond Counsel* – The Town would hire Bond Counsel to provide legal advice to the APFA and to draft the primary COP documents.
- *Financial Adviser* – The Financial Adviser would provide advice to the APFA on pricing and terms for the COPs.
- *Underwriter (Placement Agent/Purchaser)*- The Underwriter provides financial advice to the APFA, structures the financing, sets the price, and sells the COPs to interested investors.
- *Credit Rating Agency*- The CRA provides a credit rating for the bonds. (Standard & Poor's/Moody's)
- *Trustee (Fiscal Agent)* – The Trustee is often a commercial bank who administers bond payments and redemptions.
- *Discloser Council* – The Council prepares the Official Statement describing the security and its risk for investors.
- *Insurer* – The Town may need “rental interruption insurance”

- During the process of COP financing, considerations will need to be made on the size and term of the financing. A consideration will be how much of an annualized lease payment the Town's General Fund can bear. This will factor into how much should be considered for the overall COP and the length of repayment.

In issuing COPs, a credit rating of the agency will need to be done. The Town will need to do a credit presentation and credit rating agencies will review the Town's financials and conduct interviews. It takes approximately 10 days to do the rating. The more fund reserves the Town maintains, the better credit rating can be expected. The purpose of the rating is the issuer's ability to repay the COPs through maturity. This includes analyzing the credit quality of the bonds and assigning a rating. The credit rating, once the bonds are issued, is continuously reviewed to assess the credit quality of the COPs. COP financing takes approximately 90 days from start to finish.

Protection for Default

With tax-exempt lease financing, there is typically a requirement to maintain the last year of debt service set aside. This is normally held by the Trustee. The COP could include an insurance factor or the Town could create a cash reserve on its own. Another option would be to get bond insurance, as the insurance protects the investor. If the Town defaults, the Trustee could charge us a default interest rate. The cost of an insurance policy would be factored into the annual lease payment.

Who Buys the COPs?

The Town can condition who the COPs are sold to. The Underwriter can create a separate sale to Atherton residents first and then open it up to others. The Town can structure the COPs in a way that depending on the orders for the bonds, interest rates can be adjusted.

Financial Assistance

In preparation of COP financing it would be prudent that the Town solicit the help of a Financial Consultant Adviser. This professional would assist the Town in conducting a comparison of finance alternatives, and solicit proposals from underwriters, trustees, and other individuals that will participate in the process. The Advisor will also assist the Town in conducting an analysis of proposals and forecasts.