



Staff Report

File #: REPORT 20-0612, Version: 1

Honorable Mayor and Members of the Hermosa Beach City Council
Regular Meeting of September 22, 2020

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
HERMOSA BEACH APPROVING THE ISSUANCE AND
SALE OF REFUNDING LEASE REVENUE BONDS BY THE
HERMOSA BEACH PUBLIC FINANCING AUTHORITY TO
REFUND OUTSTANDING 2015 LEASE REVENUE BONDS
AND APPROVE RELATED DOCUMENTS AND ACTIONS**

(Finance Director Viki Copeland)

Recommended Action:

Staff recommends that the City Council approve the resolution entitled “Resolution of the City Council of the City of Hermosa Beach Approving the Issuance and Sale of Refunding Lease Revenue Bonds by the Hermosa Beach Public Financing Authority to Refund Outstanding 2015 Lease Revenue Bonds and Approving Related Documents and Actions.”

Executive Summary:

The resolution (**Attachment 1**) authorizes staff to execute documents required to issue lease revenue bonds sufficient to fund the remaining \$9.89 million outstanding 2015 Lease Revenue Bonds.

Mark Northcross, Financial Advisor, Northcross Hill Ash (NHA Advisors), Charles (Chick) Adams, Bond Counsel, Jones Hall and Scott Ferguson, Bond Counsel, Jones Hall will be in attendance to answer any questions.

Background:

In 2015, the City issued \$11.6 million in lease revenue bonds to fund a portion of its \$17.5 million settlement with the MacPherson Oil Company. The bonds have a final maturity of 2035 and carry an average interest rate of 3.16%. The bonds are secured by a pledge of the City’s General Fund revenues. Since the transaction is legally a lease, the City needed to encumber certain assets as the subject of the lease. These leased assets comprise the City Hall complex, including the fire station and the police station. The 2015 lease revenue bonds are callable without premium on November 1, 2020. There are currently \$9.89 million of those bonds outstanding.

Analysis:

The City's financial advisors, NHA Advisors, believe that the 2015 bonds can be refinanced now at an interest rate of approximately 2.0%, with a financing term matching the original financing term through 2035. The average interest rate on the outstanding 2015 bonds is 3.16%%. The cash flow savings are projected to be \$60,000 per year, with a total of \$965,000 in cash flow savings through 2035. A commonly used measure for the benefit of a refinancing of municipal bonds is called the "present value savings." This figure is a present value, using a discount rate equal to the interest rate on the bonds. In the case of the City's 2015 bonds, the present value savings are projected to be over \$870,000, a figure equal to almost 9% of the outstanding amount of the 2015 bonds. A refinancing of municipal bonds with a potential present value savings in excess of 5% of par value of the refunded bonds is considered to be a very strong refinancing.

Total costs of issuance for the lease revenues are estimated at \$227,000. Of this total, the cost of financial advisor, bond counsel, credit rating, appraisal and other financing costs are estimated at \$170,000. The remainder of these costs are for the bond underwriter's discount for selling the lease revenue bonds.

Legal documents-the resolution specifically authorizes execution of the following documents:

Lease agreement. Under this agreement, the City agrees to make semi-annual lease payments to the Hermosa Beach Public Financing Authority. The lease agreement requires the City to provide both casualty, liability, and rental interruption insurance with regard to the City Hall and Fire Station. The lease agreement also includes provisions that would enable the City to encumber the City Hall complex with an additional lien in the future should it decide to finance a remodeling of the City Hall complex.

Site Lease. Under this agreement, the City leases the City Hall complex to the Authority in return for receiving the proceeds of the lease revenue bonds issued by the Authority.

Indenture of Trust. The indenture is a contract between the City and a trustee bank, Bank of New York Mellon Trust Company, under which Bank of New York would provide standard bond trustee services for the lease revenue bonds.

Escrow Agreement. This document sets forth the terms and conditions under which the trustee bank for the proposed bond issue would hold the bond proceeds prior to prepaying the 2015 lease revenue bonds on November 1, 2015.

Bond Purchase Agreement. This document sets forth the terms under which the proposed underwriter for the transaction, Stifel Nicolaus & Company, would purchase the bonds from the City for resale to bond investors.

Official Statement. This is a key document that discloses to potential purchasers of the lease revenue bonds the fundamental terms of the transaction, and the risk associated with ownership of

the lease revenue bonds.

General Plan Consistency:

PLAN Hermosa, the City's long range planning document, was adopted by the City Council in August 2017, and envisions future where "Hermosa Beach is the small town others aspire to be; a place where our beach culture, strong sense of community, and commitment to sustainability intersect." One of the guiding principles to achieve the vision is to make decisions and take actions that help contribute to the City's economic and fiscal stability.

A focus of the Governance chapter in the General Plan is to ensure that decision-making and leadership are conducted in ethical, transparent, and innovative manner that reflects community values. Goal 1 of the Governance chapter speaks to maintaining a high degree of transparency and integrity in the decision-making process.

Fiscal Impact:

The cash flow savings are projected to be \$60,000 per year, with a total of \$965,000 in cash flow savings through 2035.

Attachments:

1. Resolution 20-XXXX - City Council Issuance and Sale of Revenue Lease Bonds
2. Amended and Restated Lease Agreement
3. Amended and Restated Site Lease
4. Indenture of Trust
5. Escrow Agreement
6. Bond Purchase Agreement
7. Preliminary Official Statement

Respectfully Submitted by: Viki Copeland, Finance Director

Noted for Fiscal Impact: Viki Copeland, Finance Director

Legal Review: Mike Jenkins, City Attorney

Approved: Suja Lowenthal, City Manager