

DECEMBER 20, 2016

TO: MAYOR AND COUNCIL MEMBERS

**FROM: ROBERT S. TORREZ
INTERIM CITY CONTROLLER**

**SUBJECT: REQUEST FOR DIRECTION REGARDING MEASURE “P”
INFRASTRUCTURE PROJECTS AND APPROVING THE DEVELOPMENT
OF A BOND ISSUANCE FOR A CERTAIN AMOUNT TO LEVERAGE
MEASURE “P” REVENUE**

SUMMARY

On October 18, 2016, staff presented to the Mayor and City Council a draft Strategic Plan for the use of Measure “P” district tax revenue. Council requested that staff bring back a recommended list of projects and a more detailed plan of finance that leverages the new revenue.

BACKGROUND

Included with the October 18 staff report and presentation was a list of critical, unfunded City needs. The list totaled \$73.3 million and included street construction and repair; parks improvements; Fire services equipment; facility improvements; technology upgrades; job training programs; and, the establishment of a rainy day reserve.

Clearly, street improvements are a high priority. At the same time, the City is in need of upgrades to its existing parks and upgrades to its safety camera technology.

The draft Strategic plan also included a general financing proposal. Staff recommended using a portion of the annual district tax revenue to support the issuance of bonds to pay for the infrastructure projects listed in the draft Strategic Plan, such as street repair and construction. The City’s needs are extensive, and pay-as-you go, using only the approximate \$7 million to \$8 million projected annual revenue, would not enable the City to address its many needs in a significant manner. Issuing bonds is the primary option that will enable the City to leverage the annual revenue to pay for critically needed upgrades within the next few years.

RECOMMENDED PROJECTS

The following list of projects were identified and are listed in increments that could be funded by the issuance of bonds supported by an annual pledge of Measure “P” revenue of roughly \$2.0 million, \$3.0 million or \$4.0 million per year.

1. **Central Avenue \$2.2 million** – Phase 2 of the Central Avenue street reconstruction is estimated to require approximately \$2.2 million in funding. This funding will complete the Central Avenue upgrade from Compton Boulevard south to Greenleaf. Improvements will include, for specific locations, sidewalk, curb and gutter repairs, pedestrian ramp installation, and pavement resurfacing.
2. **Compton Boulevard West \$4.0 million** – It is recommended that the repavement of Compton Boulevard be completed in two phases. Phase 1 would repave the western portion of Compton Boulevard, between Stanford Avenue and Willowbrook Avenue, at a cost of approximately \$4.0 million. The project would also include specific location repair/construction of curbs, gutters, some sidewalks and pedestrian ramps.
3. **Compton Boulevard East \$3.8 million** – Phase II of the Compton Boulevard repavement would cost approximately \$3.8 million and include improvements between Willowbrook and Harris Avenue. The City was awarded a \$1.9 million grant to pay for the cost of safety related improvements as well as pedestrian and bike path improvements along the easterly portion of Compton Boulevard. In addition to the resurfacing of pavement along the entire length, the work would also include specific location curb, gutter and sidewalk repair funded by Measure “P.”
4. **Residential Streets \$20.0 million** – This major undertaking would involve the slurry seal, grind and overlay or full depth replacement of a significant portion of the City’s residential streets that have been identified by the Pavement Management Study to be in fair to poor condition. We propose that \$5 million per Council district be allocated for residential street repairs. Please note that the proposed \$5 million per district would cover the approximate 20%, or \$1 million, cost of design work, management and inspections, and \$4 million for actual construction, per district. Further, the \$5 million per district does not include the cost of upgrading underground utilities such as water and sewer lines, or any non-City utilities. A study will be conducted to determine what underground utilities should be upgraded now or at the same time as the streets are repaved. Some funding for the upgrade of the City’s underground utilities is available from Water and Sewer bonds issued in 2009.

5. **Parks \$1.6 million** – Staff is recommending that three parks projects be funded. They are Burrell McDonald Park \$285,000; Sibrie Park \$773,000; and, South Park \$450,000. Funds will pay for improvements such as walking paths; playground equipment; new restrooms; basketball court resurfacing; exercise stations and equipment along walking trails; landscaping; benches; and picnic tables.
6. **Citywide Safety Cameras \$650,000** – Funds are needed to upgrade and centralize integration of all surveillance cameras located at City Hall, Public Works Yard, Water Yard, General Services Yard and Parks.

Estimated costs for infrastructure projects 1 through 6 above, total approximately \$32.2 million. Please refer to the attached chart which illustrates the projected tasks and timelines of the street related projects listed above.

7. **Additional Residential Streets \$10 million** - Instead of allocating \$5 million per district to upgrade residential streets, \$7.5 million per district could be allocated.
8. **Fire Apparatus Replacement \$5.3 million** – Would include replacement of three Fire Engines; one Fire Truck; and three vehicles.
9. **Sheriff Station Repair \$700,000** – The Sheriff Station was to have been renovated several years ago with proceeds from the City's 2008 lease revenue bonds. However, the project was not started and the remaining bond proceeds were used to pay down the outstanding balance of the 2008 bonds as part of the 2016 refunding. To date, approximately \$54,000 has been spent for preliminary design work.
10. **Additional Parks Projects \$400,000** – Would include replacement of Lueders Pool Pump, \$100,000; renovation of MLK Monument, \$150,000; and, upgrades at Olympic Park, \$150,000.
11. **Fire Station Repairs \$2.0 million** – Would include repair and upgrades to front driveways; new concrete in rear of stations; interior/exterior painting; and, interior upgrades

Estimated costs for infrastructure projects 8 through 12 total \$18.4 million. The total of infrastructure projects 1 through 12 is approximately \$50.1 million.

12. **Additional Residential Streets \$10 million** - Instead of allocating \$7.5 million per district to upgrade residential streets, \$10.0 million per district could be allocated.
13. **Facility Upgrades \$2.0 million** – Would include needed upgrades to Career LINK; Fire Stations; and, parks facilities, including upgrades of roofing systems, HVAC and other structural improvement to City facilities.
14. **Fire Department ECG Monitors \$150,000** – Cash financing of four ECG Monitors to be used for Advanced Life Support by Fire Paramedics.
15. **Citywide IT Infrastructure Upgrade \$1.5 million** – Would include upgrades of critical servers; telecommunications; work stations; and, fiber optic network connectivity.
16. **Local Access Channel 36 Upgrade \$500,000** – Would provide for essential equipment infrastructure upgrades for the City's Local Access Channel in City Hall and Council Chambers.
17. **Accounting System Upgrades \$300,000** – The accounting system was partially upgraded several years ago, however, some modules that were purchased by the City have not been installed due to lack of funding, leaving the City with a combination of new automated systems and old manual systems. Upgrades would install the remaining modules including Citywide budgeting; HRMIS; fixed assets tracking; job/work order; and, accounts receivable.

Estimated costs for infrastructure project 13 through 17 total \$14.5 million, bringing the total of all infrastructure projects 1 through 17, to \$64.6 million.

RECOMMENDED PLAN OF FINANCE

It is recommended that the City Council authorize the issuance of tax exempt lease revenue bonds to fund streets and other infrastructure projects listed in this report.

The following table provides estimates on three levels of bond issuance:

	<u>Option 1</u>	<u>Option 2</u>	<u>Option 3</u>
Bond Issue Size	\$30,390,000	\$46,240,000	\$60,000,000
Proceeds for Projects	\$32,250,000	\$49,000,000	\$64,000,000
Debt Service Reserve	\$986,500	\$1,500,000	\$1,946,000
True Interest Cost	4.221%	4.221%	4.221%
Term	30 years	30 years	30 years
Average Annual Bond Payment	\$1,969,992	\$2,997,685	\$3,889,955
Required Annual Pledge	\$2,170,030	\$3,300,000	\$4,278,951

Bond Proceeds Available March, 2017
 First Bond Payment Date September, 2017

Note that, in today's market, it is anticipated that investors will pay a premium amount for the City's bonds; they will pay more than the face value of the bonds. Thus, it is possible to sell, for example, \$30.4 million in bonds and generate a total of \$32.2 million in proceeds. Some of the bond proceeds will be used to pay related fees to underwriters, bond counsel, the trustee bank, rating agencies, printing costs, regulatory fees, etc. All figures are subject to change based on market conditions at the time of sale. Fees are negotiable and may vary.

The Debt Service Reserve is a standard requirement of all bonds. This reserve would be in place for the life of the bonds and, in the final year, would be used to help make the final bond payment. The reserve offers protection to the bond investors in the event the City misses, or defaults on, a bond payment.

The bond structure would incorporate a lockbox feature, where the City would pledge a portion of the Measure "P" tax revenue to be deposited in a lockbox held by a trustee bank. To illustrate, under Option 1 requiring a \$1.9 million annual bond payment, the City would be required to deposit approximately \$2.2 million annually into the lockbox, so that the funds needed to make the estimated \$1.9 million annual payments are available to the trustee prior to the actual bond payment dates. The amount deposited would be 10% above the actual bond payment amount to provide additional security for the bond investors. The lockbox feature would make these bonds attractive to

investors, since it provides additional security that the annual bond payments will be funded and made. Any funds remaining in the lockbox after bond payments are made would be released to the City for any general use.

The Total Interest Cost of 4.221% would include the interest paid on the bonds, as well as the cost of the fees, mentioned earlier, that are paid to the underwriter, underwriter's counsel, bond/disclosure counsel, printing, rating agency fees and any other related fees. Rates illustrated are as of December 6, 2016 and are subject to change based on market conditions at time of issuance (sale of the bonds).

In addition, we believe there may be a good chance these bonds can attain an investment grade rating. Investment grade is BBB- and above.

NEXT STEPS

Should the City Council approve staff's recommendation to pursue a bond issuance, as discussed in this report, staff will submit a resolution and report on an upcoming agenda for the hiring of the financing team (underwriters and legal counsel).

Once the bond financing team is in place, it will take approximately 60 days to prepare the related bond documents. Staff will need to meet with one or two of the bond rating agencies to review the City's plan of financing and request a credit rating. It is anticipated that the bonds can be sold and proceeds available in early March, 2017.

In the meantime, with City Council's approval of the financing plan, the Public Works Department can begin the process of developing specifications, requests for proposal for design/engineering, followed by RFPs for street construction. Construction contracts would be awarded once the bond proceeds are available, with construction completed within approximately 12-18 months.

FISCAL IMPACT

The issuance of lease revenue bonds will enable the City to address its most critical infrastructure needs, immediately. As indicated, average annual bond payments would be approximately \$2.0 million, \$3.0 million or \$4.0 million, depending on which funding option the City Council chooses. It is anticipated that the first bond payment would be due in September 2017.

Measure “P” tax is expected to generate \$7-\$8 million in annual revenue. A bond payment of \$2.0 million would leave \$5-\$6 million of Measure “P” revenue for other City uses.

RECOMMENDATIONS

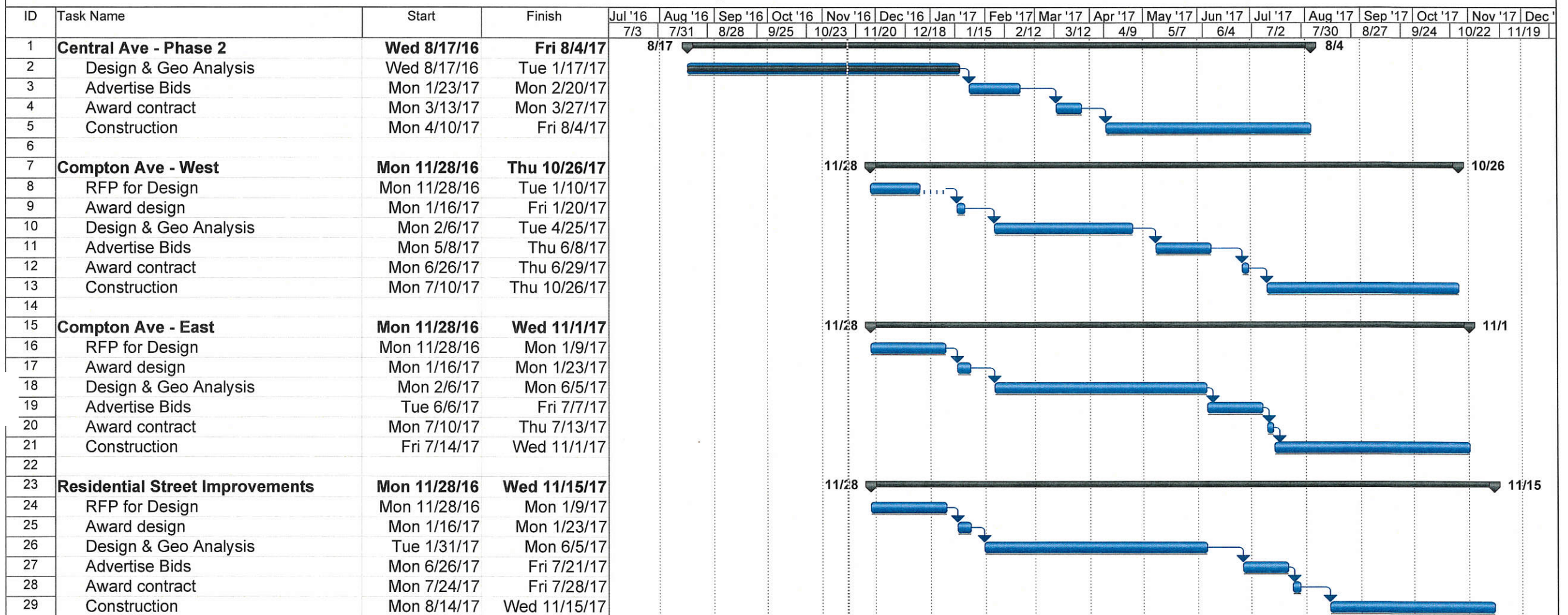
It is recommended that the City Council direct staff to begin the process of structuring a lease revenue bond issue from the bond financing options detailed in this report to fund infrastructure projects; direct staff to return to the City Council at a later date with a proposed bond financing team.

ROBERT S. TORREZ
INTERIM CITY CONTROLLER

APPROVED FOR FORWARDING:

JEROME G. GROOMES
INTERIM CITY MANAGER

Measure P - Street Projects Proposed Schedule



Project: 11-14-16-Measure P Project &
Date: Tue 11/15/16

Task  Progress
Split  Milestone

 Summary
 Project Summary

 External Tasks
 External Milestone

 Deadline 