



AGENDA REPORT

Meeting Date: September 2, 2008
Item Number: D-1
To: Honorable Mayor & City Council
From: Scott G. Miller, Ph.D., Director of Administrative Services/CFO
Subject: **RESOLUTION OF THE COUNCIL OF THE CITY OF BEVERLY HILLS
MAKING A FINDING OF PUBLIC BENEFIT IN CONNECTION WITH
THE FINANCING FOR THE ACQUISITION AND CONSTRUCTION
OF CERTAIN PUBLIC IMPROVEMENTS AT 331 FOOTHILL ROAD**
Attachments: 1. Resolution

RECOMMENDATION

Staff recommends the City Council make a finding of public benefit in connection with the financing for the acquisition and construction of certain public improvements at 331 Foothill Road.

INTRODUCTION

This report seeks City Council approval of the methodology and process to be used to provide the necessary financing for the acquisition and construction of certain public improvements by the City of Beverly Hills Public Financing Authority in connection with the 331 Foothill Road office building in the aggregate principal amount not-to-exceed \$35,000,000.

DISCUSSION

The City has been monitoring an opportunity for financing the 331 Foothill Road office building project. Because of the nature of the project traditional tax exempt bond financing is not available to the City. Initially staff investigated the option of issuing taxable municipal bonds. Unfortunately the current market conditions make that option cost prohibitive to the City, even with our excellent credit rating. Two other options were investigated by staff; 1) a commercial real estate mortgage, and; 2) privately placing a taxable bond.

After review of both financing options, receipt of bids for both options from several financial institutions, discussion with the City's Financial Advisors, a unanimous recommendation to enter into a commercial real estate construction and real estate loan with City National Bank was reached by the Finance and Audit City Council committee and staff.

While the City cannot itself enter into a traditional real estate mortgage agreement, the City's Public Financing Authority does have the legal authority to enter into such a transaction. To accomplish this, the City would need to deed the property underlying the project (i.e. 331 Foothill Road) to the Public Financing Authority. Additionally, the City would loan up to the construction loan amount to the Public Financing Authority to use as collateral during the construction period by placing those funds in an interest bearing CD. Once the construction is complete, the Public Financing Authority will use the land and constructed office building as collateral for a commercial real estate loan. At that time the funds used as collateral plus their interest earning would be returned to the City. Further, the City would enter into a long term lease purchase agreement with the Public Financing Authority for the term of and at the annual debt service cost of the mortgage. At the end of the lease period the Public Financing Authority will deed the property and building back to the City.

Community Development staff are currently working on a lot line adjustment for the 331 Foothill Road property that will allow a separate deed for this property to be recorded. At that time staff will present the City Council with the necessary documentation to deed the 331 Foothill Road property to the Public Financing Authority.

Because a bid has been accepted and approved by the City Council and the beginning of construction is imminent, the need to complete this financing is imperative. Staff recommends that the City Council authorize the City Manager, Chief Financial Officer and City Attorney to complete the necessary documents as long as they meet the following requirements:

- The amount financed does not exceed \$35,000,000
- The interest rate differential of the construction loan and the deposited collateral fund is not greater than 1.00%
- The term of the real estate mortgage loan is not greater than 20 years
- The interest rate of the real estate mortgage loan is fixed for the entire period of the loan and the interest rate does not exceed 7.00%
- All of the terms and condition of the City National Bank Commitment Letter are fully met by City National Bank

FISCAL IMPACT

It is important to note that this commercial real estate transaction reduces the size of the financing by about \$8.5 million dollars when compared to the size of a municipal bond issue that would have been needed to accomplish this project. The reason for this is that a traditional bond would require the City to include a debt

service reserve (normally equivalent to the highest annual debt service payment) to protect bond investors from a possible City financial failure and capitalized interest (to pay debt service interest payments during the construction period) equivalent to the debt service interest payments during the construction period in the amount of debt issued. These costs are avoided with a commercial construction loan through the construction period that is rolled over into a commercial real estate loan at completion of the project.

Further, the interest rate that the City will receive from this transaction is substantially less than that available in the current taxable municipal bond market. Overall the City will save from the reduced size of the issue, reduced interest rate and shorter financing period. Taken together these factors will save the City several million dollars over the life of this financing. Additionally, leasing of much of this space to commercial tenants at current market rates will provide the source of the funding for the mortgage payments on this facility.



Noel Marquis
Finance Approval



Scott G. Miller
Approved By

RESOLUTION NO. ____

RESOLUTION OF THE COUNCIL OF THE CITY OF BEVERLY HILLS
MAKING A FINDING OF PUBLIC BENEFIT IN CONNECTION WITH THE
FINANCING FOR THE ACQUISITION AND CONSTRUCTION OF
CERTAIN PUBLIC IMPROVEMENTS AT 331 FOOTHILL ROAD

WHEREAS, the City of Beverly Hills (the “City”) and the Parking Authority of the City of Beverly Hills have entered into a Joint Exercise of Powers Agreement establishing the City of Beverly Hills Public Financing Authority (the “Authority”) for the purpose, among others, of financing the construction and improvement of certain public capital improvements in the City; and

WHEREAS, for the purpose of raising funds necessary to finance the construction and equipping of an office building to be located at 331 Foothill Road, which shall include public facilities for the City’s cable television studios and offices and beautification improvements (the “Improvements”), the Authority proposes to borrow money from a commercial lending institution and repay that money over time; and

WHEREAS, for the construction period of the Improvements, the City will loan the Authority up to the construction loan amount for use as collateral by the Authority for the construction loan; and

WHEREAS, the City will authorize the Authority to use the interest earned on the collateral to make interest payments on the construction loan; and

WHEREAS, the City will enter into a license agreement to allow the Authority to enter the Site and construct the improvements; and

WHEREAS, pursuant to a quitclaim deed, the City will deed to the Authority the real property located at 331 Foothill Road, Beverly Hills, California 90210 (the “Site”) and the improvements to be constructed thereon (the “Facilities” and, together with the Site, the “Leased Property”); and

WHEREAS, pursuant to a lease purchase agreement between the City and the Authority (the “Property Lease”), the City will lease and purchase the Leased Property from the Authority, and the Authority may use the lease payments paid by the City to the Authority under the Property Lease to repay the commercial loans; and

WHEREAS, the proceeds of the commercial loans will be used by the Authority to construct the Improvements; and

WHEREAS, the Authority previously authorized the issuance of lease revenue bonds to finance the construction of the Improvements, but now believes that commercial loans will result in less expensive financing for the City; and

WHEREAS, pursuant to Section 6586.5 of the California Government Code after notice duly published in accordance with law, this City Council held a public hearing on this date with respect to the proposed commercial loan and financial transaction described herein; and

WHEREAS, the City Council has duly considered these transactions and wishes at this time to make certain findings regarding significant public benefits that will result to the constituents of the City, with respect to these transactions;

NOW, THEREFORE, BE IT RESOLVED, BY THE CITY COUNCIL OF THE CITY OF BEVERLY HILLS, as follows:

Section 1. Recitals. The above recitals, and each of them, are true and correct.

Section 2. Finding of Public Benefit. The City Council hereby finds that the financing of the Improvements described above by a commercial construction loan and a commercial real estate loan will result in significant public benefits to the constituents of the City, including demonstrable savings in effective interest rate and bond issuance costs in that this method of financing will reduce the size of the financing by approximately \$8.5 million dollars when compared to a municipal bond issue, and will result in more efficient delivery of City services to residential and commercial development. The City Council hereby also approves the financing transaction as described above.

Section 3. Authorization to Execute Documents for Collateral. The City Council hereby authorizes and directs the City's Chief Financial Officer to take such actions and execute such documents to consummate (i) the transfer by the City to the Authority of up to \$35,000,000 for placement into an interest bearing certificate of deposit for use by the Authority as collateral during the construction period ("Collateral") and (ii) to authorize the Authority to use the interest earned on the Collateral to pay the interest payments on the construction loan.

Section 4. License Agreement. The City Council hereby authorizes and directs the execution of a license agreement or similar document to authorize the Authority to enter the Site and construct thereon the Improvements. The City Council hereby approves execution of the license agreement in a form satisfactory to the City Manager, City Attorney, and Chief Financial Officer.

Section 5. Effective Date. This resolution shall take effect from and after its passage and adoption by the City.

Section 6. The City Clerk shall certify to the adoption of this Resolution and shall cause this Resolution and his certification to be entered in the Book of Resolutions of the Council of the City.

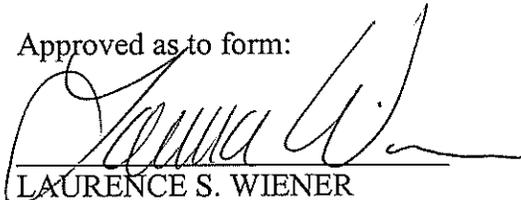
Adopted and approved this 2nd day of September 2008.

BARRY BRUCKER
Mayor of the City of Beverly Hills,
California

ATTEST:

BYRON POPE, City Clerk

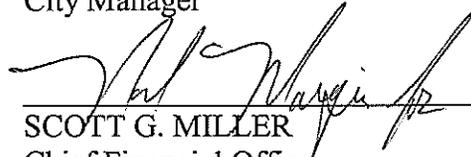
Approved as to form:



LAURENCE S. WIENER
City Attorney

Approved as to content:

RODERICK J. WOOD
City Manager



SCOTT G. MILLER
Chief Financial Officer