



CITY OF BEVERLY HILLS STAFF REPORT

Meeting Date: February 19, 2008
To: Honorable Mayor & City Council
From: Noel Marquis, Assistant Director of Administrative Services -
Finance
Subject: Recommended Phase II Capital Projects for Debt Financing

INTRODUCTION

This report seeks City Council direction on our Phase II bond issuance for new capital projects and the potential refunding of prior debt to take advantage of current lower interest rates. In the fiscal year 2006/2007 City Capital Projects Budget, a number of projects were identified that required some source of outside funds to allow their construction. At that time the City Council authorized Phase I of the Capital Projects and the City issued two series of bonds; a) the \$81,600,000 City of Beverly Hills Public Financing Authority 2007 Lease Revenue Bonds (Lease Bonds), and b) the \$35,495,000 City of Beverly Hills Public Financing Authority 2007 Water Revenue Bonds (Water Bonds). The Lease Bond proceeds are being used to build the new Vehicle Shop and Parking structure at the Foothill and Third Street City property, fund a portion of the City Hall remodel and refunded the 1998 and certain portions of the 1999 bonds saving the City substantial future interest costs. The Water Bond proceeds are being used to finance the replacement of the Coldwater Canyon Reservoir and provide much of the funding for the Water Meter Replacement project.

After careful analysis, staff is recommending moving forward with Phase II of the proposed capital projects program which includes three bond issues that provide the funding for the buyout of the Water Treatment Plant, refunding 1998 Water and Wastewater debt issues and the 331 Foothill building. These projects are more fully described in the following discussion. Staff requests that the City Council review the list of recommended Capital Improvement Projects and give staff direction on their eligibility for debt financing. In addition, the City once again has an opportunity to refund portions of two earlier debt issues at current lower interest rates that would save the City substantial costs over the remaining lives of those issues. Council's action at this time is not a final approval but rather direction to staff to continue the discussion and preparation of Phase II of the debt and refunding program. Formal City Council approval will come at a later City Council Meeting with legal notice given to the public and under a formal hearing process.

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DISCUSSION

The City has been under an ambitious capital revitalization and improvement effort for the last several years. Phase I of this plan began in fiscal year 2006/2007 with the issue of the Lease Revenue and Water Revenue bonds. Since then, a number of additional major capital projects identified as Phase II have been conceptually developed and were listed in the FY 2007/2008 Capital Improvement Budget. As indicated at the City Budget Hearings in May and June, 2007 some of these projects will require debt financing to be constructed and/or implemented. After careful analysis and research, staff has estimated the exact costs of each project (both hard and soft costs) and staff is seeking Council's direction for using debt financing for these projects. Staff wants to make it clear to Council that Council's direction at this time is not final approval. That will come at a later City Council Meeting with legal notice given to the public and under a formal hearing process. The purpose of this report is to get direction from the City Council only.

The recommended capital projects fall into three categories. One is Water Enterprise Funded Projects, one is Wastewater Enterprise Funded refinancing and the third is General Fund or officially called Lease Revenue Funded Projects. Since the funding sources and the use sources for each category are different, we have separated like a typical public bond official statement would. The description of each project and the updated total amount of the hard and soft costs are listed below:

Water Enterprise Projects

1. **Buyout of Water Treatment Plant and Public Works Office** – The City intends to exercise its option to buyout the lease for the Water Treatment Plant and Public Works Facility from Earth Tech, Inc., pursuant to the exercise of an option granted under the Design, Build, Operate and Finance Agreement dated as of February 21, 2001, between the City and Earth Tech, Inc. Under this agreement, the earliest date this option can be exercised is April 2008.

The current lease term has 15 years remaining. Staff recommends that the bonds be issued with a term of 16 years. Because the required debt reserve fund is used to make the final debt service payment, a 16 year debt service schedule will keep the same 15 year payment schedule for the City. Under this financing scenario and the current interest rates the City would save approximately \$66,500 annually.

2. **Refund the 1998 City of Beverly Hills Public Financing Authority Water Revenue Refunding Bonds, Series 1998A** – Due to the current favorable interest rates in the bond market we are recommending refinancing \$10,790,000 of our 1998 Water Revenue Refunding Bonds. This refinancing will result in a net present value savings of approximately \$575,000.

Wastewater Enterprise Projects

1. **Refund the 1998 City of Beverly Hills Public Financing Authority Wastewater Revenue Refunding Bonds, Series 1998A** – Due to the current favorable interest rates in the bond market we are recommending refinancing \$18,035,000 of our 1998 Wastewater Revenue Refunding Bonds. This refinancing will result in a net present value savings of approximately \$775,000.

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General Fund (Lease Revenue Funded) Projects

331 Foothill Road Office Building - The City has immediate, long-term space requirements for which it needs to plan and is taking steps to address this through the reconfiguration of City Hall ground floor, and the development of this office building at 331 Foothill Road, which at the outset will house the Cable TV studio and offices. The office is also designed to accommodate a restaurant to meet the needs of the Entertainment Business District; and provide commercial office space for lease.

A summary of the building is as follows:

1. The office building is an approximately 72,000 square foot, four-story structure with its primary façade and entrance along Foothill Road.
2. The first floor includes a 6,500 square foot restaurant with an outdoor patio that will overlook the Public Works building fountain
3. The second and third floors are designed for office tenants, either single or multiple occupancies
4. The City's cable TV studio is located on the fourth floor because of its high ceiling requirements to accommodate the recording, production, staff offices and equipment.
5. The exterior is a contemporary design of glass, cement fiber panels, and other elements compatible with the adjacent Public Works building.

Because much of this buildings space will be leased to commercial tenants, at least during the first several years, this financing will be done as a taxable issue.

FISCAL IMPACT

Staff is currently asking Council for direction at this time. Specific costs and the total fiscal impact will be explained in detail when the formal request for financing comes before the Council at a future meeting. However, all of the Water and Wastewater Enterprise projects recommended above have debt payment revenue sources included in our current utility rates. In fact the lower costs of financing versus the capital lease for the Water Enterprise and the lower interest rates of the refinanced Wastewater Enterprise will reduce operating costs and reduce the pressure on rates. All of the General Fund projects recommended above have new debt payment revenue sources above and beyond our current operational revenue needs which will pay for those projects.

RECOMMENDATION

Staff recommends that the City Council give direction and identify the projects Council sees as being debt financed projects.


Scott G. Miller, Director of
Administrative Services/CFO

Approved By