TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER    DEPARTMENT: ADMINISTRATIVE SERVICES

DATE: JULY 23, 2007    CMR: 309:07

SUBJECT: REQUEST FOR APPROVAL OF RESOLUTIONS AUTHORIZING THE REFUNDING OF THE UNIVERSITY AVENUE OFF-STREET PARKING ASSESSMENT DISTRICT LIMITED OBLIGATION IMPROVEMENT BONDS

RECOMMENDATION

In order to have the flexibility to refinance University Avenue Off-Street Parking Assessment District Limited Improvement Bonds when interest rate conditions improve, staff recommends that the City Council:

1. Adopt a “Resolution of the Council of the City of Palo Alto Declaring its Intention to Levy Reassessments and to Issue Refunding Bonds.”


BACKGROUND

In 2001 and 2002, Council approved the issuance of two series of bonds for the University Avenue Off-Street Parking Assessment District in the total amount of $44.6 million. The assessment district was used to finance the design and construction of two parking garages downtown. Both garages have been completed and are currently fully utilized by downtown employees and the public. Property owners within the assessment district (including the City of Palo Alto) make annual assessment payments to pay debt service on those bonds. On a periodic basis, analysis of outstanding bonds is conducted to determine if there are potential opportunities for reducing debt service.
DISCUSSION
Because of an advantageous interest rate environment in April 2007, the City’s financial advisor, Stone and Youngberg, then determined that a refinancing would yield $2.4 million, or 6.3 percent, in net present value savings (NPV). This would have reduced a property owner’s assessment by approximately $0.14 per square foot per year. Staff consulted with major downtown property owners and the Chamber of Commerce and it was agreed to move ahead with the refinancing pending Council approval.

In bond financings and re-financings, considerable lead time (approximately 3 months) is necessary to prepare the legal documents and reports necessary to issue bonds. The assessment district effort included extra steps and reports that are not ordinarily part of a more traditional re-financing. During the re-financing process, interest rates began to move steadily upward thereby reducing the potential savings originally estimated. A rule of thumb in refunding bonds is to obtain at least three to five percent in NPV savings. In mid-June, and as documents were being finalized, rising interest rates caused the NPV savings to fall to $1.0 million or 2.7 percent. Estimated assessment savings fell to approximately $0.09 per square foot.

Given the considerable work performed by staff, the financial advisor, bond and disclosure counsels, and the assessment engineer on this effort, staff is requesting that Council approve all the resolutions authorizing refunding the assessment bonds and allowing staff to move ahead should interest rates move downward. Staff would not act until NPV savings reached at least 3.0 percent or approximately $1.2 million. Should such a scenario emerge, additional work would be necessary e.g., a Standard and Poor’s credit rating analysis, but the City would be able to move the bonds to market more quickly. Staff would inform Council if and when this occurs.

The refunding bond’s principal amount will not exceed $37,515,000 and will be paid during the same amortization period as the existing bonds. The bonds will be sold competitively through Stone and Youngberg which means that multiple underwriters or firms will be asked to bid on the bonds. The bidding process is designed to achieve the lowest interest cost to the issuer and to maintain an open process. As in prior assessment bond issues, the City will contract with a paying agent to make debt service payments and the City will hold all bond proceeds (except those escrowed for refunding) in the required funds and reserves.

It is recommended that Council adopt the attached Resolutions (Attachments A, B, C) to allow staff to refund the current University Avenue Off-Street Parking Assessment District Bonds if and when the interest rate becomes favorable. By adopting these resolutions, the City Council authorizes various City officials to complete and execute various documents. The Resolutions also approve the forms of the following documents:

1. Reassessment Engineer’s Report (Exhibit A)
2. Paying Agent Agreement (Exhibit B)
3. 2001 and 2002-A Bond Escrow Deposit and Trust Agreements (Exhibits C and D)
4. The public bond sale documents, including the official Notice of Sale to the investment community (Exhibit E)
5. The form of the bond (Exhibit F, G, and H)
RESOURCE IMPACT
If a refunding occurs resulting in the minimum NPV savings cited above, it is expected property owners (including the City) annual assessments will decrease by approximately $0.11 per square foot. Since the assessment roll must be sent to the County by August, savings would not be realized until 2008-09.

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ATTACHMENTS
Attachment A: Resolution of the Council of the City of Palo Alto Declaring its Intention to Levy Reassessments and to Issue Refunding Bonds.


Attachment C: Resolution of the Council of the City of Palo Alto Authorizing the Issuance of Refunding Bonds and Approval and Authorizing Related Documents and Actions

  Exhibit A  Reassessment Engineer’s Report  
  Exhibit B  Paying Agent Agreement  
  Exhibit C  Escrow Deposit and Trust Agreement (2001-A Bonds)  
  Exhibit D  Escrow Deposit and Trust Agreement (2002-A Bonds)  
  Exhibit E  Terms and Conditions or Preliminary Official Statement  
  Exhibit F  Official Notice of Sale  
  Exhibit G  Notice of Intention  
  Exhibit H  Proposal for Purchase