



City Council Report

915 I Street, 1st Floor

Sacramento, CA 95814

www.cityofsacramento.org

File ID: 2017-01528

December 5, 2017

Consent Item 03

Title: Authorization to Submit Financial Application to California Infrastructure and Economic Development Bank: Memorial Auditorium Renovation Project (M17100103) [Published for 10-Day Review 11/22/2017]

Location: 1515 J Street, District 4

Recommendation: Pass a Resolution: 1) authorizing the submission to the California Infrastructure and Economic Development Bank (IBank) of an application for a loan in an amount not to exceed \$15 million for the Memorial Auditorium Renovation Project (M17100103); authorizing the incurring of an obligation to IBank for the financing of a capital improvement project if IBank approves the application; declaring the City's "official intent" to reimburse certain expenditures from the proceeds of the loan; amending the City's Budget and increases the Project budget by the amount of the IBank loan and to repay the loan with Transient Occupancy Tax; and approving other matters in connection therewith.

Contact: Desmond Parrington, Project Manager, (916) 808-5044; Fran Halbakken, Assistant City Manager/Project Executive, (916) 808-7194, Office of the City Manager.

Presenter: None

Attachments:

1-Description/Analysis

2-Resolution

Description/Analysis

Issue Detail: Improvements to the Memorial Auditorium are needed to relocate Community Center Theater events there while the Theater interior is under construction. Improvements include rigging, sound, lighting, seating, restrooms, and other work to improve the patron experience. The total cost of the project is estimated to be \$16.17 million.

Staff recommends applying for an Infrastructure State Revolving Fund Program Loan (ISRF Loan) offered by the California Infrastructure and Economic Development Bank (IBank) in an amount not to exceed \$15 million to finance the construction of the Memorial Auditorium Renovation Project (Project) and to reimburse the City's General Fund and the Community Center Fund (Fund 6010) for obligated pre-construction costs.

Policy Considerations: This resolution is required to meet the application requirements of the IBank. Furthermore, the requested action supports the following General Plan policy:

ERC 4.1.3 - The City shall enhance the quality of existing City-owned arts and cultural resources and facilities through reinvestment, communications and marketing.

Economic Impacts: None

Environmental Considerations: The application for financing from the IBank will have no significant effect on the environment and is exempt from California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Section 15061(b)(3). The Project was previously evaluated and determined to be exempt under CEQA Guidelines Section 15301, which exempts projects involving the repair, maintenance, and minor alteration of an existing facility, and involves negligible or no expansion of use; and CEQA Guidelines Section 15302, which exempts projects involving reconstruction of existing structures and facilities, where the reconstruction will be located on the same site as the existing structure and will have substantially the same purpose and capacity.

Sustainability: Not applicable.

Commission/Committee Action: None

Rationale for Recommendation: Sufficient funds are not available in the Convention Center Complex Renovation Project (M17100100) in Fund 6010 to move forward with construction of the Project. This report recommends applying for an ISRF Loan, which is designed to provide low-cost financing for infrastructure and economic development projects. IBank has provided

a preliminary review of the project and has indicated the project is eligible for up to \$15 million dollars in funding.

Financial Considerations: The estimated total project cost is \$16.17 million, of which \$12.5 million is the estimated construction cost (improvements), with the balance representing estimated soft costs (planning, design, and other pre-construction costs). The source of repayment of the ISRF Loan will be a gross pledge of Transient Occupancy Tax (TOT) revenues excluding the portion of the TOT that is provided to Visit Sacramento (see City Code section 3.28.040). As such, the City's General Fund will have no obligation to pay or ensure the full and timely payment of debt service related to this ISRF Loan.

Fiscal year 2017 TOT revenues were approximately \$28.5 million, while the average TOT revenue collections over the past three years is \$26.1 million per year. Current outstanding principal and interest on existing revenue bonds paid from TOT revenue is approximately \$15.06 million (1993 Series A Bonds) plus \$1.15 million (1993 Series B Bonds) for a total of \$16.2 million through November 1, 2019. It is expected that future projected revenues should be sufficient to repay the ISRF Loan.

This ISRF Loan is expected to be the first of several loans desired to be obtained from IBank's ISRF Program and California Lending for Energy and Environmental Needs (CLEEN) Center for the overall Convention Center Complex financing. Future ISRF and CLEEN Loans associated with the Convention Center Complex financing are expected to be associated with the Convention Center and the Community Center Theater. Staff expects to seek similar approval from City Council to submit applications for the other ISRF and CLEEN Loans in calendar year 2018.

Local Business Enterprise (LBE): Not applicable.

RESOLUTION NO. 2017-XXXX

Adopted by the Sacramento City Council

December 5, 2017

AUTHORIZING THE SUBMISSION OF AN APPLICATION TO THE CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK FOR FINANCING THE MEMORIAL AUDITORIUM RENOVATION PROJECT (M17100103), AUTHORIZING THE INCURRING OF AN OBLIGATION PAYABLE TO IBANK FOR THE FINANCING OF A CAPITAL IMPROVEMENT PROJECT IF IBANK APPROVES THE APPLICATION, DECLARING THE CITY'S OFFICIAL INTENT TO REIMBURSE CERTAIN EXPENDITURES FROM THE PROCEEDS OF AN OBLIGATION, AND APPROVING CERTAIN OTHER MATTERS IN CONNECTION THEREWITH

BACKGROUND

- A. The California Infrastructure and Economic Development Bank ("**IBank**") administers a financing program to assist local governments with the financing of eligible projects in accordance with the Bergeson-Peace Infrastructure and Economic Development Bank Act (Gov. Code §§ 63000–63089.98 (the "**Act**").
- B. IBank created the Infrastructure State Revolving Fund Program (the "**ISRF Program**") under the Act.
- C. IBank has instituted an application process for financing under its ISRF Program.
- D. IBank's Criteria, Priorities, and Guidelines for the Selection of Projects for Financing under the ISRF Program, dated February 23, 2016, and as amended from time to time (the "**Criteria**"), establishes requirements for the financing of projects under the ISRF Program.
- E. The City of Sacramento (the "**Applicant**") desires to submit an application (the "**Financing Application**") to IBank under the ISRF Program for financing and refinancing the costs of the Memorial Auditorium Renovation Project (the "**Project**") in an amount not to exceed \$15,000,000.
- F. The Act and the Criteria require the Applicant to make, by resolution of its governing body, certain findings before a project is selected for financing by IBank.

- G. The Applicant expects to incur or pay certain expenditures in connection with the Project from revenues of its Transient Occupancy Tax that are reimbursable with the proceeds of tax-exempt bonds or other tax-exempt securities under Federal Tax Law (defined in section 3 below) before incurring indebtedness for the purpose of financing costs associated with the Project on a long-term basis (the “**Reimbursement Expenditures**”).
- H. The Reimbursement Expenditures include expenditures for architectural, engineering, surveying, soil testing, and similar costs that were incurred before the commencement of the acquisition, construction, or rehabilitation of the Project and constitute “preliminary expenditures” as defined in Treasury Regulation 1.150-2(f)(2) (collectively, the “**Preliminary Expenditures**”).
- I. The Preliminary Expenditures do not exceed 20% of the amount of the Obligation (defined in paragraph J below).
- J. The Applicant reasonably expects that a financing arrangement in an amount not to exceed \$15,000,000 (the “**Obligation**”) will be entered into under, and memorialized by, one or more financing agreements and related documents (collectively, the “**Financing Agreement**”) and that certain proceeds of the Obligation will be used to reimburse the Applicant for Reimbursement Expenditures incurred or paid before incurring the Obligation.
- K. The Applicant acknowledges that because IBank funds the ISRF Program, in part, with the proceeds of tax-exempt bonds, IBank has certain compliance obligations that may require it to have the Applicant enter into one or more new financing agreements to replace the Financing Agreement (collectively, the “**Replacement Agreement**”) on terms and conditions substantially identical to the original Financing Agreement.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

- Section 1. The City Manager or his designee (collectively, the “**City Manager**”) is hereby authorized to sign and submit to the IBank a Financing Application in an amount not to exceed \$15,000,000 and any document related thereto.
- Section 2. The City Council hereby approves the filing of a Financing Application with IBank for the Project and, in connection that approval, finds and certifies that—

- a. the Project facilitates the effective and efficient use of existing and future public resources to promote both economic development and conservation of natural resources;
- b. the Project develops and enhances public infrastructure in a manner that will attract, create, and sustain long-term employment opportunities;
- c. the Project is consistent with the City of Sacramento 2035 General Plan and, to the extent applicable, the Sacramento County General Plan of 2005-2030;
- d. the proposed financing is appropriate for the Project;
- e. the Project is consistent with the Criteria; and
- f. it has considered (1) the impact of the Project on California's land resources and the need to preserve those resources; (2) whether the Project is economically or socially desirable; and (3) whether the project is consistent with, and in furtherance of, the State Environmental Goals and Policy Report (as defined in the Criteria).

Section 3. The Applicant hereby declares its official intent to use proceeds of the Obligation to reimburse itself for the Reimbursement Expenditures with the proceeds of tax-exempt bonds or other tax-exempt securities issued under the Internal Revenue Code of 1986, as amended, and the implementing Treasury Regulations (collectively, "**Federal Tax Law**"). This declaration is made solely for purposes of establishing compliance with applicable requirements of Federal Tax Law, and its date is controlling for purposes of reimbursement under Federal Tax Law. It does not bind the Applicant to make any expenditure, incur any indebtedness, or proceed with the Project.

Section 4. All Reimbursement Expenditures, except for certain Preliminary Expenditures, were made no earlier than 60 days before the date of this resolution. The Applicant will allocate proceeds of the Obligation to pay Reimbursement Expenditures within eighteen months of the later of the date the Reimbursement Expenditures were paid or the date the Project was placed in service or abandoned, but in no event more than three years after the Reimbursement Expenditures were paid.

Section 5. The City Manager or the City Manager's designee is hereby authorized and directed to act on behalf of the Applicant in all matters pertaining to the Financing Application and (if IBank approves the Financing

Application) the Obligation. This authorization and direction includes signing and delivering the Financing Agreement, any Replacement Agreement, any related financial documents that are needed—

- (1) to pledge to the repayment of the Obligation, on a parity basis with the Applicant's obligations in connection with any existing debt, the revenues of the Transient Occupancy Tax and all legally available amounts in the Community Center Fund;
- (2) to provide covenants relating to, among other things, maintaining the debt-service-coverage ratio required by IBank, the rates and charges to be pledged, and any other security or collateral securing the Obligation; and
- (3) to take any other action necessary or desirable to enable the Applicant to enter into the Financing Agreement and incur the Obligation.