



# Administrative Report

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N.1., File # 24-1000

Meeting Date: 6/11/2024

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**To:** MAYOR AND CITY COUNCIL

**From:** LUKE SMUDE, ASSISTANT TO THE CITY MANAGER

## **TITLE**

DISCUSSION AND POSSIBLE ACTION RELATED TO THE ISSUANCE OF BONDS TO FINANCE THE RENOVATION OR REPLACEMENT OF CRITICAL PUBLIC INFRASTRUCTURE, SUCH AS THE CITY'S PUBLIC SAFETY FACILITIES, PUBLIC WORKS YARD, AND CITY HALL, AND THE ACQUISITION OF PUBLIC OPEN SPACE

## **EXECUTIVE SUMMARY**

The City of Redondo Beach has a number of key public facilities that are in need of renovation or replacement. The City Council directed staff to research financial vehicles that could assist the City in funding these improvements. Under state law, cities can issue various forms of bonds to facilitate long-term borrowing to pay for a number of public improvements, including facility repair or replacement and the acquisition of open space. Two prevalent types of bonds utilized by cities are General Obligation Bonds and Lease-Revenue Bonds. Each carries its own set of requirements and guidelines that must be followed in order to properly issue the bonds and expend the related proceeds.

To assist with this discussion, the City contracted with Griffin Structures, Inc. (Griffin), one of the City's on-call consultants, to complete a Facilities Cost Analysis that details the costs associated with renovating or replacing the following City facilities: City Hall, Police Department Headquarters, Police Department Annex, Public Works Yard, Fire Station 1, and Fire Station 2. Griffin's estimates place the total renovation costs of these facilities at \$84.2 million, and replacement at over \$160.5 million. The Council could choose to replace some of the identified facilities, while renovating others, and could contemplate issuing bonds to support the reconstruction of other critical public infrastructure, such as City streets. Additionally, Bond proceeds could be utilized to support public open space acquisition.

This item provides an opportunity for the Council to discuss the City's critical infrastructure needs, the methods available to finance these projects, the bond uses that are eligible under current and proposed law and the process/threshold to issue the bond funds. Following Council discussion and direction, staff will engage the appropriate consultants/expertise to advance the consideration.

## **BACKGROUND**

As per the City Charter, Redondo Beach maintains a Balanced Budget. Maintaining this balance requires continued effort to ensure that fluctuations in either revenues or expenditures do not upset the long-term health of the City's finances. Specifically, it is essential that the City has, or can

conservatively forecast, ongoing revenue to cover ongoing expenditures. This need often limits the City's ability to make significant annual General Fund investments in public infrastructure or take on new debt service to cover the costs associated with borrowing funds for capital financing.

Despite the General Fund capital investment limitations, it is critical that the City find a way to adequately maintain the numerous facilities that are needed to support the City's various Department operations and deliver critical public services. While regular and preventative maintenance are budgeted annually, the City's Budget cannot immediately absorb the cost to undertake extensive renovation or replacement of these key City facilities. As such, outside financing vehicles must be considered in order to generate sufficient capital resources to carry-out these projects.

Municipal bonds are a financial instrument frequently employed by cities in order to fund long-term investment while not breaking the bank in the short term, as the repayment of bond proceeds are spread out over time. Two types of bonds frequently utilized are General Obligation (GO) Bonds and Lease-Revenue Bonds (LRB).

GO bonds are a form of long-term borrowing in which a City issues bonds that are repaid over many years with semi-annual debt service payments generated through increases to residents' property taxes. This is also known as an "ad valorem" tax because the total value of the tax increase is proportional to the assessed value of parcels in the City. Issuing GO bonds requires the City Council to pass a resolution proposing the GO bond issuance which specifies the purpose, amount, and estimated impact on property taxes for residents of the City. This estimate is generally expressed as an estimated dollar amount per \$100,000 of assessed value for each taxable parcel in the City. Initial estimates based on the total assessed valuation of all parcels in the City indicate that, for every \$100 million of GO bonds issued, an additional tax of \$12.50 to \$13 per \$100,000 of assessed value of a given parcel would be levied.

Under current law, GO bond measures must be passed by a two-thirds majority, although this may change if California Assembly Constitutional Amendment 1 (ACA 1) is passed as part of the General Election in November. ACA 1, if passed by statewide voters, would lower the voter threshold to 55% for bonds that fund the construction, reconstruction, rehabilitation, or replacement of public infrastructure, among other items. In order for a bond measure to qualify under ACA 1, new accountability measures must be addressed both before and after the bond issuance. Prior to being placed on the ballot, the City would have to demonstrate that a local program (i.e. the City's Capital Improvement Program) or ordinance exist through which projects will be funded, along with a certification of the City that alternative funding sources have been evaluated prior to approving the Bond Measure.

Additional research is required to determine the exact specifications of this certification (which would be a new requirement under the law if ACA 1 is passed), but staff is confident that the City's existing programs provide a framework for project execution and that an applicable analysis of alternative funding sources could be completed prior to passing a resolution calling for a bond measure to be placed on the ballot for November 2024. ACA 1 also mandates the creation of a citizens' oversight committee that would ensure bond proceeds are expended appropriately. The accountability requirements of ACA 1 surpass those established in California Government Code Title 5, Division 2, Part 1, Chapter 3, Article 1.5 - Bond Accountability. It is unclear how a failure of ACA 1 would impact any accountability measures taken to satisfy the proposed ACA 1 requirements in advance of a bond measure, but it is recommended that the City perform these obligations regardless in order to benefit

from the adjusted voter threshold amount.

Throughout this process the City would partner with a Municipal Advisor and Bond Counsel to prepare a schedule and ensure all statutory requirements are met. If the bond measure is approved, a bond issuance ordinance must be approved detailing the interest rate, maturity schedule, and planned sale method for the GO bond. An Underwriter would assist the City in pricing and selling the bonds, and, once complete, bond proceeds are used to fund the projects identified in the bond resolution and bond measure.

LRBs are different than an ad valorem GO bond, in that they are backed by specific, dedicated City revenue streams (typically the City’s General Fund revenue) as opposed to the taxing power of the issuing agency. As was the case with the LRB issued by the City to refinance pension debt, the annual debt service payment associated with the bond must be absorbed among the City’s other ongoing annual expenditures. To initiate the LRB process, the City Council would approve a resolution, rather than prepare a ballot measure. LRBs can be issued without voter consideration if the proposed bond issuance complies with the Offner-Dean rule, which exempts LRBs from voter approval if bond repayment relies solely on a project revenue stream as opposed to the agency’s taxing power.

Either option is informed by the identification of capital needs and a determination of cost of the desired facility improvements or land acquisition. In preparation of this discussion, the City engaged Griffin, an on-call consultant, to complete a Facilities Cost Analysis detailing the costs associated with renovating or replacing the following City facilities: City Hall, Police Department Headquarters, Police Department Annex, Public Works Yard, Fire Station 1, and Fire Station 2. Griffin conducted site walks of these facilities to evaluate their current condition and gather additional information to estimate the cost associated with either renovating or replacing these facilities.

While additional analysis of each facility may be warranted, the Facilities Cost Analysis is useful to approximate the cost implications associated with renovating or replacing the facilities addressed in the study and will serve as a critical component in evaluating the possibility of advancing a bond measure. The estimated costs from the study are included in the table below:

<b>Facility</b>	<b>Renovation</b>	<b>Replacement</b>
City Hall	\$36,256,000	\$63,802,000
Police Department Headquarters	\$12,446,000	\$29,420,000
Police Department Annex	\$10,557,000	\$21,811,000
Public Works Yard	\$6,032,000	\$15,232,000
Fire Station #1	\$11,191,000	\$17,232,000
Fire Station #2	\$7,691,000	\$13,016,000
<b>Total</b>	<b>\$84,173,000</b>	<b>\$160,513,000</b>

The study is laid out in a “pick and choose” format where Council can elect to renovate some facilities and replace others based on facility need, overall cost, or any other factor related to a potential bond measure. The estimates include: general conditions of the facilities; overhead and profit; bonds and insurance, design contingency, and cost escalations based on the midpoint of construction which

would occur years in the future.

Council could also elect to include additional funding in a bond measure to acquire property to fulfill a need for more open space in the community, or to fund roadway improvements. Public opinion research could be conducted by an outside firm to help assess the willingness of the Redondo Beach community to support the various public infrastructure types (including open space) and amounts that could be pursued through a bond issuance. A quote for these services from FM3 Research is included as an attachment to this report.

Regardless of the final form of bond issuance, immediate work is required if the City Council would like to have a bond measure included on the November 2024 ballot. With that, staff requests that Council provide direction on: whether or not to advance this item by engaging outside partners to further study and prepare a bond measure; what facilities Council would like to see renovated or replaced; and if additional funding should be considered to facilitate open space acquisition and/or street improvements. A presentation on the subject will be provided at the June 11 CC meeting. It should be noted, that based on staff's research to date, which includes conversations with outside legal bond counsel, there is sufficient time for the City to evaluate and call for an election to consider a GO bond measure as part of the November 5, 2024 General Election.

### **COORDINATION**

This item was coordinated with the City Treasurer and Public Works Department.

### **FISCAL IMPACT**

There is no fiscal impact associated with this item. If directed by Council, future costs for the possible issuance of GO bond could be incurred to employ a Municipal Advisor, Bond Counsel, Underwriter, or research firm, however, each of these partners would be engaged separately through agreements approved by the Council and most, if not all, would be engaged after calling for the bond measure election. Given the City's budget/revenue limitations, it is recommended that the issuance of a bond for public infrastructure purposes be repaid through an ad valorem property tax assessment rather than through General Fund debt service payments.

### **APPROVED BY:**

*Mike Witzansky, City Manager*

### **ATTACHMENTS**

- Bill - California Assembly Constitutional Amendment 1
- California Government Code Title 5, Division 2, Part 1, Chapter 3, Article 1.5 - Bond Accountability
- Study - Facilities Cost Analysis, completed by Griffin Structures, Inc.
- Quote - FM3 Research, Proposal to Conduct Public Opinion Research