



STAFF REPORT

To the Honorable Mayor and City Council of the City
From the City Manager

To the Honorable Chair and Board of the Redwood City
Public Facilities and Infrastructure Authority
From the Treasurer

DATE: May 24, 2021

SUBJECT

Approve sale of revenue bonds to provide financing and award the construction contract for the Veterans Memorial Building/Senior Center Project

RECOMMENDATION

1. By motion, City Council, in its capacity as the legislative body of the City, adopt a resolution authorizing proceedings and agreements relating to the issuance and sale of bonds (the “Bonds”) in the aggregate principal amount not to exceed \$65,400,000 by the Redwood City Public Facilities and Infrastructure Authority (the “Authority”) to provide financing for public improvements to be owned and operated by the City, and directing certain actions;
2. By motion, City Council, in its capacity as the governing body of the Redwood City Public Facilities and Infrastructure Authority, adopt a resolution authorizing the issuance and sale of lease revenue bonds to finance capital improvement projects for the City of Redwood City, and approving related documents and official actions; and
3. By motion, City Council, in its capacity as the legislative body of the City, approve and authorize the City Manager to execute the contract documents and award the standard form contract for the Veterans Memorial Building/Senior Center Project to Thompson Builders Corporation of Novato for their responsive and responsible low total bid of \$51,097,000, including authority for the City Manager or the City Manager’s designee to increase the contract amount, if necessary, up to 10% of the amount awarded, for a total not to exceed amount of \$56,206,700, contingent on the approval, sale and close of the Bonds.

STRATEGIC PLAN GUIDING PRINCIPLE

Excellence in Government Operations

BACKGROUND

Revenue Bond Sale

The proposed financing will provide funds to finance Phase 1 of the project, which includes the construction of a new Veterans Memorial Building/Senior Center on the site currently occupied by the Senior Center Annex, Herkner Pool, and the National Football League (NFL) Alumni Building at Red Morton Park, in addition to a public promenade, parking for the facility, various site improvements, and related traffic improvements (the “Financed Project”). Phase 1 improvements include a new Veterans Memorial Building/Senior Center (VMBSC) with a theater, catering kitchen, multi-purpose rooms, senior club room, wellness/Adaptive Physical Education rooms, non-profit partner offices, gardening space, roof top track, and mini-gym that includes pickleball courts. Programs that seniors are receiving now for free or low-cost will continue at the new VMBSC.

Phase 2 of the project is not part of the Financed Project and will be financed by the YMCA. Phase 2 will include the construction of a new YMCA building to replace the existing Sequoia YMCA facility on the new site, plus parking and certain jointly financed site improvements.

Award of Construction Contract

Since 2011, the City has embarked on reimagining the Veterans Memorial Senior Center Campus at Red Morton Park. There are a total of five separate buildings in the northern portion of the Park which includes the Veterans Memorial Senior Center (VMSC), the Gift Shop/VMSC Administration Building, the Senior Center Annex (“Old 49er Building”), the NFL Alumni Building, and Herkner Pool. All of these buildings are at various stages of decay, are inefficient in terms of energy usage, require significant maintenance obligations, and are inefficient to staff and for facility operations.

The complex of buildings receives over 150,000 annual visits, hosts dozens of senior clubs and hundreds of free or low-fee community programs each year, and serves as a “second home” for many of our honored senior citizens in Redwood City, including our Veterans. Herkner Pool is a seasonal pool that only has outdoor changing spaces and showers, and is operational for just 6-8 weeks a year. Staff has, in the past, provided contracted aquatics services using private vendors, however, the costs of maintaining and operating the pool has become too significant to retain vendors.

When the City initiated the reimagining process for these five buildings, staff were informed that the YMCA of Silicon Valley initiated their own facility scoping process so they could build a new and larger facility while retaining operations in Redwood City.

On December 14, 2011, the Parks, Recreation and Community Services (PRCS) and YMCA staff presented to the City Council a partnership agreement to consider building a joint-use intergenerational health, wellness, and recreational facility at Red Morton Park. The City Council authorized staff to move forward with the exploration of this concept and appointed a “City-Y Partnership Task Force” to provide input and feedback to staff regarding the development of a Letter of Intent (LOI) with the YMCA.

The City Council approved the LOI with the YMCA on December 8, 2014.

In 2015, the City and the YMCA developed a Request for Qualifications/Proposal for Phase I of architectural services that included a full site analysis, building massing, constraints analysis, and the development of a project description. The City and the YMCA selected an architectural firm to perform this service in conjunction with the first community meeting for input about the project and specifically as to whether there was interest in preserving or rebuilding the VMSC as part of the overall project.

In October 2015, a community workshop was held and over 150 people attended. Through a facilitated input session, a majority of attendees indicated that they would prefer a new facility be built.

On June 27, 2016, the City Council approved an Exclusive Negotiating Agreement (ENA) between the City and the YMCA. The ENA allowed the City and the YMCA to exclusively negotiate the details of the joint intergenerational community center project.

On November 13, 2017, the City Council approved the Professional Design Agreement with ELS Architecture and Urban Design to develop the master plan and schematic design for the project.

During 2018, the City held six public workshops and numerous stakeholder meetings that led to approval of the schematic design of the project.

On September 9, 2019, the City Council approved the professional management and inspection services agreement to provide assistance during the remaining design phase, bidding, and construction. The project plans and specifications were completed and the project was advertised for construction bidding in March 2020.

On October 12, 2020, the City Council rejected all bids for the project previously received and directed staff to re-advertise the project at a later date. Due to the COVID-19 pandemic, the bond market became unstable, and it was unclear whether the City would be able to issue bonds at a favorable interest rate. Additionally, construction impacts to the adjacent neighborhood would have been especially noticeable at that time with many more residents working and attending school from home due to the pandemic. For both financial and community impact reasons, staff had determined the project construction should be delayed for at least one year.

ANALYSIS

Revenue Bond Sale

Plan of Finance

California cities may not pledge future fiscal year general fund revenues to repay debt obligations unless such obligations have been approved by a 2/3rd vote of the electorate. However, because California courts have ruled that a lease is not a debt, cities may enter into multi-year leases payable from their general funds for the purpose of financing capital projects.

The Authority was established by the City Council in 1986 (Ordinance No. 1928) for the purpose of financing the construction, acquisition, maintenance and improvement of public facilities and infrastructure within the City. The Authority has the power to lease real or personal property, to construct,

acquire, maintain and improve public facilities and infrastructure within the City, and to issue revenue bonds to accomplish such purposes.

To finance the Financed Project, the City will enter into a multi-year lease with the Authority, and will use General Fund revenues to make lease payments.

Using a lease-leaseback structure, (i) the City will, pursuant to a site lease, lease the VMBSC and related real property and improvements (the “Leased Property”) to the Authority in exchange for a lump sum payment sufficient to construct Phase 1 and (ii) the Authority will lease the Leased Property back to the City pursuant to a lease agreement (the “Lease Agreement”) over a multi-year period in exchange for semi-annual payments by the City to the Authority. Because the Authority does not have sufficient funds to make the site lease payment to the City, it will sell lease revenue bonds secured by the lease payments to be made by the City, and use the proceeds from the bond sale to make the site lease payment to the City. The lease payments will mirror the debt service on the revenue bonds.

Because the City cannot legally be obligated to make lease payments prior to beneficial use of the VMBSC, it will finance the lease payments due during the construction period. The City will begin making lease payments with General Fund revenues in fiscal year 2023-24, and the City will pay lease payments in an amount sufficient for the Authority to fully repay the bonds by fiscal year 2052-53.

The following table shows the estimated sources and uses of funds and a verification that the total funding sources for the project equal the total project budget. The requested maximum bond authorization amount is larger than the projected bond sale amount to allow for changes in market conditions that influence how the bonds are offered to investors at the time of the sale and to allow for an increase in the project budget if the low bid is challenged.

Redwood City Public Facilities and Infrastructure Authority
 Lease Revenue Bonds, Series 2021
 (Veterans Memorial Building/Senior Center)

Preliminary Sources and Uses of Funds

SOURCES		
Bonds	61,155,000.00	
Park in lieu Fees	15,500,000.00	
Stanford Dev. Fees	1,000,000.00	
Original Issue Premium	<u>2,189,842.70</u>	
Total Sources		79,844,842.70
USES		
Reimbursements	-	
Senior Center	<u>75,505,702.00</u>	
Total Project		75,505,702.00
Costs of Issuance		
Bond Counsel	42,500.00	
Municipal Advisor	45,000.00	
Trustee	1,200.00	
Official Statement Statistics, Publication Fees	500.00	
Title Insurance	12,000.00	
Trustee Counsel	4,500.00	
Official Statement Printing & Posting	3,000.00	
Disclosure Counsel	30,000.00	
Contingency	10,000.00	
Bond Counsel Disbursements	2,500.00	
Standard & Poor's Global	<u>39,000.00</u>	
Total		190,200.00
Underwriter's Discount @ .026%		159,771.40
Debt Service Reserve Fund @ None		-
Capitalized Interest		3,986,612.50
Rounding		<u>2,556.80</u>
Total Uses		79,844,842.70
Proceeds Verification		
Total project cost	75,505,702.00	
Remaining costs	<u>63,544,461.00</u>	
Already expended	11,961,241.00	
Remaining appropriated funds	4,538,759.00	
Total Cost	75,505,702.00	
less already paid	<u>(11,961,241.00)</u>	
Equals net requirement	63,544,461.00	
Unspent appropriations	4,538,759.00	
Deposit to project fund	<u>59,005,702.00</u>	
Total proceeds available	63,544,461.00	
Proceeds available=remaining costs?	TRUE	

Required Approvals

City Council Resolution – The resolution before the City Council, in its capacity as the legislative body of the City, approves the Authority’s sale of the Bonds provided that: (a) the aggregate principal amount of the Bonds may not exceed \$65,400,000, (b) the net interest cost of the Bonds may not exceed 3.5%, and (c) the underwriter’s discount (exclusive of any original issue discount) may not exceed 1.0% of the principal amount of the Bonds. The resolution further approves financing documents in substantially the form on file with the City Clerk (including a site lease, the Lease Agreement, a continuing disclosure certificate that obligates the City to make certain annual disclosures to investors, and the preliminary official statement describing the Bonds), a negotiated public sale of the Bonds by the Authority and the distribution of the preliminary and final official statements. The resolution further approves execution of an agreement with Jones Hall for bond counsel services and an agreement with Quint & Thimmig LLP for disclosure counsel services and an agreement with the firm of William Euphrat Municipal Finance, Inc. as municipal advisor to the City in connection with the issuance of the Bonds. Finally, the resolution identifies officers of the City who are authorized to execute any and all other such documents that are necessary for the sale of the Bonds.

Authority Approvals – The resolution before the City Council, in its capacity as the governing body of the Authority, conforms in substance to the City resolution; provided, however, that the Authority resolution further approves an Indenture of Trust between the Authority and the trustee for the Bonds (the “Trustee”) setting forth the terms and provisions relating to the Bonds and an Assignment Agreement between the Authority and the Trustee, whereby the Authority assigns certain of its rights under the Lease Agreement to the Trustee for the benefit of the Bond owners. The resolution also appoints Jones Hall as bond counsel to the Authority, Quint & Thimmig LLP as disclosure counsel to the Authority, and William Euphrat Municipal Finance, Inc. as municipal advisor to the Authority.

Responsibilities of Elected Officials Under Federal Securities Laws

The preliminary official statement has been reviewed and approved for transmittal to the City Council by staff and its financing team. The preliminary official statement must include all facts that would be material to an investor in the Bonds. Material information is information that would have a substantial likelihood of actual significance in the deliberations of a reasonable investor in deciding whether to buy or sell the Bonds. Members of the City Council should review the preliminary official statement and may question staff and consultants to make sure members feel comfortable that it includes all material facts, and in particular, those portions that disclose information relating to the City.

The security for the Bonds is described in the sections of the preliminary official statement entitled “SECURITY FOR THE BONDS”; information about the City and its finances is set forth in “CITY FINANCIAL INFORMATION,” “OTHER FINANCIAL INFORMATION,” “THE LEASED PROPERTY,” and “Appendix A”; the key risk factors associated with the Bonds are described in the section of the preliminary official statement entitled “RISK FACTORS”; and certain limitations imposed by the California Constitution are described in “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS.”

Next Steps

No further actions of the City Council in connection with the Bonds are necessary. Bonds are scheduled to be sold on June 9 and to close on June 24. The City Council will be asked to award the Phase 1 construction contract on May 24, 2021, with construction expected to commence in July 2021. The VMBS is expected to be ready for occupancy by July 2023.

Award of Construction Contract

The proposed project includes 45,000 s.f. of multipurpose rooms, a caterer and food demonstration kitchen, a welcoming lobby for social gatherings, a 299-seat theater, exhibit space honoring veterans, NFL alumni exhibit space, pickle ball and half-court basketball gymnasium, wellness and adaptive physical education studios, roof top garden and walking track, various conferencing and administrative space for City staff and a host of non-profit organizations who partner with the City to provide numerous community services. The project also includes the construction of a public promenade connected to the park, and a new east side senior center parking lot.

The five base bids received at the bid opening on April 28, 2021 are summarized in the table below. The project included 11 deductive alternates in order to give opportunities to cut costs in the event that the base bid came in too high, but the contract documents dictate that award is based on the base bid.

Bidder		Bid Amount
1	Thompson Builders Corporation of Novato	\$51,747,000
2	BHM Construction, Inc. of Napa	\$53,926,300
3	S.J. Amoroso Const. Co., LLC of Redwood City	\$54,987,000
4	Alten Construction, Inc. of Richmond	\$55,006,000
5	Rodan Builders, Inc. of Hayward	\$55,621,000
	Engineer's Estimate	\$51,800,000 to \$57,000,000

The low bid of \$51,747,000 submitted by Thompson Builders Corporation is 0.1 percent lower than the Engineer's estimate of \$51,800,000. Staff recommends including the deductive alternate No. 1.A – Media Wall of (\$650,000) which will remove it from the project for a total bid of \$51,097,000 awarding the contract to Thompson Builders Corporation since they are the lowest responsive and responsible bidder.

FISCAL IMPACT

The sale of the Bonds will cause the City's General Fund to assume annual lease payments of approximately \$3.1 million per year, commencing in FY 2023-24. Actual debt service will depend on market conditions at the time bonds are sold. These lease payments are legal obligations of the City and are required to be appropriated during any period that the City has use and occupancy of the Leased Property. The City is also facing an increase in future pension contributions that will compete for General Fund resources. Both the anticipated debt service and increased future pension contributions were included in the updated 10 Year General Fund forecast presented to the City Council February 22, 2021. The payment of required pension contributions are mandated by state statute and cannot be reduced or deferred. In the event of a recession, or a decline in economic activity in the City caused by other factors, City revenues will likely decrease, and these lease payments, if not off-set by an increase in other General Fund revenues, will compete with discretionary General Fund expenditures, such as services and Capital Improvement Program expenditures, and may require a reduction in such discretionary expenditures.

The City Council has appropriated \$15,500,000 in funding of for this project over the past several fiscal years in the Park Impact Fee and Park-in-Lieu Funds and an additional \$1,000,000 was dedicated to this project from the Stanford in Redwood City Development Agreement. These funds have been allocated to

the soft costs of the project including public outreach, the design and development phase, construction drawings, project management, and construction administration services.

Budget appropriations for revenue related to the bond proceeds and expenditures related to the uses of the bond proceeds will be requested when bond documents are finalized and the financing transaction closes.

ENVIRONMENTAL REVIEW

The City Council adopted a resolution certifying the Final Environmental Impact Report for the Veterans Memorial Building/Senior Center Project on December 16, 2019. The Mitigation, Monitoring and Reporting Plan were made part of the Project Documents to provide for the compliance with all CEQA guidelines.

PUBLIC NOTICE

Public notification was achieved by posting the agenda, with the agenda items being listed, at least 72 hours prior to the meeting. Additionally, staff sent an email update to the interested parties list, which includes 701 contacts, announced the agenda item in the May 21, 2021 e-News City newsletter, and updated the Senior Affairs Commission and the Friends of the Veterans Memorial Senior Center at their respective board meetings.

ALTERNATIVES

The City Council/Authority Board may elect not to approve the sale of bonds. In such case award of the contract for the Financed Project will be delayed until alternative funding sources can be secured.

ATTACHMENTS

Attachment A – Resolution of the Redwood City Public Facilities and Infrastructure Authority Authorizing the Issuance and Sale of the Lease Revenue Bonds to Finance Capital Improvement Projects for the City of Redwood City, and Approving Related Documents and Official Actions

Attachment B – Resolution of the City Council of the City of Redwood City Authorizing Proceedings and Agreements Relating to the Issuance and Sale of Bonds in the Aggregate Principal Amount Not to Exceed \$65,400,000 by the Redwood City Public Facilities and Infrastructure Authority to Provide Financing for Public Improvements to be Owned and Operated by the City, and Directing Certain Actions

Attachment C – Preliminary Official Statement (including Appendix A – General Information about the City of Redwood City and County of San Mateo, and Appendix E – Form of Continuing Disclosure Certificate)

Attachment D – Summaries of principal legal documents

Attachment E – Indenture of Trust

Attachment F – Site Lease

Attachment G – Assignment Agreement

Attachment H – Bond Purchase Agreement

Attachment I – Project Location Map

REPORT PREPARED BY:

Michelle Poché Flaherty, Assistant City Manager / Administrative Services Director and Authority Treasurer
mflaherty@redwoodcity.org
(650) 780-7082

APPROVED BY:

Melissa Stevenson Diaz, City Manager