



**EAST BAY REGIONAL PARK DISTRICT
FINANCE COMMITTEE
AGENDA STAFF REPORT**

DATE	July 9, 2024
TITLE	Recommendation to Authorize the Issuance of Promissory Notes in the Principal Amount of up to \$47,500,000 for Construction of Peralta Oaks North Building
DIVISION	Finance and Management Services
FROM	Deborah Spaulding, Assistant General Manager of Finance & Management Services/CFO
APPROVED	Sabrina Landreth, General Manager

RECOMMENDATION

Staff requests that the Finance Committee recommend that full Board of Directors authorize issuance of up to \$47,500,000 in Promissory Notes, for the Improve Peralta Oaks North Project (IPON).

BACKGROUND

Consistent with prior Board discussion, staff and financial consultants have explored options to finance refurbishing and improvements to the building at 2955 Peralta Oaks North, also known as the Improve Peralta Oaks North project.

The building at 2955 Peralta Oaks North was acquired by the East Bay Regional Park District (Park District) in 2019 at a negotiated price of \$14.4 million with the intent of renovating the building to meet the Park District's need for a new Public Safety headquarters and additional administrative space. The project was proposed for the following reasons: (1) the Park District's current administrative building at 2950 Peralta Oaks Court cannot accommodate all current administrative personnel and allows no room for growth; (2) the current public safety building has long outlived its useful life and cannot accommodate all current public safety personnel; (3) the Board of Directors meeting room is undersized, difficult to access, and needs technological upgrades. The Public Safety Division includes the Park District's Police, Fire, Emergency Dispatch and Lifeguard Services Departments. This division plays a critical role fulfilling the mission of the Park District, including protecting natural resources with the wildfire reduction/fuels management program and providing a safe environment for park users.

The Peralta Oaks North building was initially constructed in 1983 and was purpose built for use by the State Compensation Insurance Fund. It is a four-level, steel frame building of approximately 107,000 square feet, of which approximately 65,000 square feet are occupiable. It has been the Park District's intent to renovate the building to meet current code requirements and be certified LEED Gold, and to meet the Park District's specific programmatic and operational needs to fulfil the Park District's mission.

Construction Costs

Prior to purchasing the building in 2019 the Park District obtained a construction cost estimate for renovation of the building of \$30 million. However, Bay Area construction costs have escalated significantly since that time. Additionally, the original estimate was construction only, which did not include the "soft costs" associated with designing & permitting, construction management, and furniture,

fixtures & equipment (FF&E). The LEED Gold design standard also added costs to the project. The most recent cost estimate for the project, completed just prior to bid issuance, was \$81 million. To-date, project costs and encumbrances for the design, construction management and other related costs have been approximately \$6.9 million.

Bids for construction were received on June 5, 2024. The low bid was \$59,847,000. Design & Construction staff have requested a 20% contingency amount to be set aside (\$11,969,400). The “soft costs” for construction management, architectural and engineering services, staff time, FF&E and other costs are estimated at \$9,805,600. Combined costs of construction, soft costs, and the contingency total \$81,622,000.

Funds Available

On April 16, 2024, by resolution 2024-04-084, the Park District’s Board of Directors approved the reassignment of \$21.6 million in Committed Fund Balance (determined to be duplicative of the 32% of General Fund revenues included in Unassigned Fund Balance). The \$21.6 million was appropriated into a project called Future Office Needs (558600), with the understanding that the Board would later be asked to consider allocating this full amount to the Improve Peralta Oaks North Project. If these funds are fully allocated to the IPON project, the amount of additional funding required to complete the project would be approximately \$47 million.

Existing Funding Sources for IPON	
\$ 341,000	Improve Peralta Oaks North (Proj 159300)
881,000	2012 Promissory Notes
33,400,000	Future Office Needs Project (558600)
\$34,622,000	Total Sources
<i>\$47,000,000</i>	<i>Funding Gap</i>

Promissory Note Issuance

Under Section 5544.2 of the California Public Resources Code, the Park District has the authority to incur indebtedness to be evidenced by promissory notes, the proceeds of which shall be applied to acquire necessary and proper lands and facilities for the Park District. The Public Resources Code stipulates that indebtedness incurred for the acquisition of lands and facilities not designated in the Park District's Master Plan must be repaid during a period not to exceed 20 years. The Peralta Oaks North facility is not included in the Park District’s Master Plan. The Board approved a Debt Management Policy on February 21, 2017. The issuance of Promissory Notes would be in compliance with this Debt Management Policy. The Park District will need to include in each of its annual budgets the funding required to make payments on the Promissory Notes and to annually set aside a portion of property tax revenues or other legally available funds of the Park District sufficient to pay the interest and principal which will be due in that year.

In accordance with Government Code Section 5852.1, the issuance of Promissory Notes would require the Board to obtain and disclose required information at an open public meeting in a staff report made publicly available on a specific date. Staff plans to bring this item to the Board Meeting of July 16, 2024.

The Park District previously issued \$25 million in Promissory Notes in 2012 to finance the acquisition and improvement of facilities for Park District staff, including the acquisition of the Peralta Oaks North Building. The annual bond payment for the 2012 Promissory Notes is approximately \$1,420,000 annually continuing through 2037.

ANALYSIS

Based on the costs and existing funding sources for the IPON project, an additional \$47 million is required. If the Park District's Board approves the use of the full \$33.4 million in the Future Office Needs project (including the \$21.6 million transferred from Committed Fund Balance), as well as remaining unappropriated interest from the 2012 Promissory Notes, an additional allocation of \$4 million could be allocated from expected revenues exceeding expenditures in 2023. With this scenario the project funding would require an additional \$43 million, which based upon current market conditions could be achieved with issuance of \$39,045,000 in Promissory Notes. The sources of funding for the project would be as follows:

<u>SOURCE OF FUNDS</u>		<u>Notes</u>
Impr. Peralta Oaks North Proj. (159300)	\$ 341,000	balance (original budget was \$7.2 MM)
2012 Promissory Notes	881,000	interest earnings not yet appropriated
Future Office Needs Proj (558600)	33,400,000	includes \$21.6MM transfer from FB
Use of fund balance from 2023	4,000,000	balance from close of 2023 fiscal yr.
2024 Promissory Notes	43,000,000	\$39.045 debt w premium of \$3.955MM
Total Sources	\$ 81,622,000	

Based on this scenario, annual debt service is anticipated to be \$3,114,443 for the 20-year period from 2025-2044. Debt service would be budgeted from the General Fund, which would reduce funds available for annual operating costs. The title of this report indicates a larger debt issuance amount to account for a range of scenarios that could be recommended by the Committee and potential changes in market conditions.

Table I highlights two additional scenarios considered. Alternative A does not include the use of unassigned fund balance. Increased debt issuance funding would result in higher annual debt service costs of approximately \$3.5 million. Alternative B uses less funding from the Future Office Needs project, and instead requires use of additional unassigned fund balance (a portion of which would later need to be replenished to ensure that unassigned fund balance remains at 32% of annual revenues). This scenario uses a project contingency budget of 15% and results in annual debt service costs of approximately \$2.6 million.

Table I – Alternative Funding Scenarios Considered

SOURCE OF FUNDS	Alternative A	Alternative B
Improve Peralta Oaks North Proj (159300)	\$ 341,000	\$ 341,000
2012 Promissory Notes	881,000	881,000
Future Office Needs Project (558600)	33,400,000	23,400,000
Use of Unassigned fund balance	0	20,000,000
2024 Promissory Notes	47,000,000	35,000,000
Total Sources	\$81,622,000	\$79,622,000
<i>Annual Debt Service</i>	<i>\$3.5 million</i>	<i>\$2.6 million</i>

Staff is presenting to the Finance Committee draft materials to preview the formal actions the Board will need to take to effect issuance of the estimated \$39,045,000 in Promissory Notes. Following the Committee's review and discussion, the Committee is asked to recommend this action to the full Board for favorable consideration along with close-to-final form documentation which is being prepared for the July 16, 2024 Board Meeting.

On July 9th the Park District presented information regarding the Promissory Note offering to S&P Global and Moody's credit rating agencies. The rating agencies will evaluate the Park District's Promissory Note offering and provide ratings by July 16th. The competitive sale of the Promissory Notes will be scheduled for the end of July or early August (date to be determined based on market

conditions). At the competitive sale, underwriters will submit their bids on an online auction portal. The underwriter selected will be the one that proposes the lowest total interest cost to the Park District. Project funds will be deposited to escrow in mid-August.

Financing Team

The Park District Promissory Note financing team includes the following members of staff and outside consultants: General Manager Sabrina Landreth; AGM of Finance & Management Services/CFO, Deborah Spaulding; General Counsel, Lynne Bourgault; Bond Counsel Jones Hall; and Financial Advisor Fieldman, Rolapp & Associates, Inc.

FISCAL IMPACT

The following information is based on \$43 million in project funds generated from the sale of the Notes, which requires issuance of approximately \$39,045,000 in par amount with \$3,955,000 generated by issuing the notes at a premium. A bond is issued at a premium when it is sold for more than its principal amount, which occurs when the bond's stated interest rate is higher than the current market yield. The exact repayment terms of the Notes will be determined by market conditions at the time of sale, anticipated for August 2024. Under this scenario:

- Final maturity of the Notes shall not be more than 20 years from their date of issuance and delivery.
- The total principal amount of the Notes shall not exceed \$47,500,000.
- The purchase price to be received by the Park District for the Notes shall be not less than 100% of the par amount.
- The true interest cost of the Notes shall not exceed 5 percent (5.0%) per annum.

The resulting annual bond payment for the Notes is anticipated to be approximately \$3.1 million.

<u>SOURCES OF FUNDS</u>		<u>Notes</u>
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2024 Promissory Notes	43,000,000	\$39.045 debt w premium of \$3.955MM
Total Sources	\$ 81,622,000	

<u>USES OF FUNDS</u>		
Construction	\$ 59,847,000	Includes \$3.2 million FF&E
20% contingency	11,969,400	
soft costs	9,805,600	Incl. construct mgt, architect, staff cost
Total Uses	\$ 81,622,000	

Based on this scenario, the cost of issuance will be approximately \$260,000, which includes compensation to the Park District's financial advisors Fieldman Rolapp & Associates, and the law firm Jones Hall. Additionally, the costs of the Underwriting Fee (specific underwriter to be selected through the bond sale) is anticipated to be 0.4% of the bond issuance amount or \$156,180. These costs would be deducted from the bond proceeds following the completion of the successful bond sale.

ATTACHMENTS

Final draft Financing Documents and information including:

- A. Preliminary Official Statement
- B. Resolution Authorizing Sale of Promissory Notes
- C. Official Notice of Sale
- D. Indenture of Trust
- E. S.B. 450 Summary