

Council Meeting of
September 22, 2009

Honorable Mayor and Members
Of the City Council
City Hall
Torrance, California

Members of the Council:

Subject: **Finance** – Approve in concept the use of Certificates of Participation (COP's) to purchase the land located at 465 Crenshaw Boulevard, Torrance, California

RECOMMENDATION

Recommendation of the Finance Director that the City Council approve in concept the use of Certificates of Participation (COPs) to finance the purchase of land located at 465 Crenshaw Boulevard, Torrance, California.

BACKGROUND/ANALYSIS

The City of Torrance (the "City") is currently in escrow to purchase approximately 15 acres from PPG Industries, Inc. for a future regional transit center as well as other public uses. The City Council approved the purchase agreement, on September 1, 2009, to purchase the property located at 465 Crenshaw Boulevard, owned by PPG Industries.

Staff is recommending financing the purchase of the above property through the issuance of Certificates of Participation (COP's).

City staff will bring back to the City Council in October an item for approval of the required financing documents in order to secure the financing interest rate in November immediately after the final contingency release date. Funds will become available prior to the anticipated December 15, 2009 close of escrow.

The City has issued COP's in the past to fund improvements to its public facilities. As part of each financing, the City will engage the services of a bond counsel, disclosure counsel and financial advisor.

COP's are widely used as a financing vehicle by local governments to finance construction projects and land acquisitions. In a COP, an investor purchases a share of the lease revenues that is leased to the municipality rather than bonded indebtedness securing those revenues.

The process to access the capital markets through the COP's structure can either be done through a competitive bid process (similar to a construction contract) or through a negotiation with a single firm. The City has used both formats over the years depending on the project and financing structure.

The financing timeline has the City pricing the COP's the week following the end of the "contingency period" which is November 25. The pricing is scheduled after the "contingency" period closes because once the COP's are priced the City is committed to the financing deal and funds will be received on December 15.

Under a competitive process, the City would advertise the sale of the COP's, usually ten days, and hold an auction/bid opening on a specific date. If the interest rates are not satisfactory to the City, the bids would be rejected and the process would start over.

A negotiated arrangement allows the City to factor in market events and choose the "pricing" date and the ability to adjust maturity dates. Given the state of the financial markets, 90% of the deals this year have been negotiated because of the additional flexibility in the pricing arena.

Given the tight timeframe between the last contingency release date and close of escrow and the absolute requirement to fund by a specific date (close of escrow on the property), as well as the additional flexibility in "pricing", staff is recommending that the City enter into a negotiated underwriting arrangement. This will provide the City with the security and assurance that the financing can be accomplished and funds will be available prior to the close of escrow. The City's financial advisor will ensure that the interest rates proposed by any underwriter are as low as possible and will be monitored with the market comparables.

The City would look at an underwriter that has a large retail coverage, which is ideal for the size of the issue and add some protection should the institutional investors withdraw from the market.

It is important to note that this item only requests the Council to approve the concept of financing the land purchase using COP's through a negotiated process. All of the formal legal and financing documents will be brought back to the Council for approval on October 27.

Respectfully submitted,



Eric E. Tsao
Finance Director

CONCUR:


LeRoy J. Jackson
City Manager

Attachment: Financing Timetable

**CITY OF TORRANCE
2009 Certificates of Participation
(Land Acquisition Project)**

FINANCING TIMETABLE

Date	Task to be Accomplished
August 6	City submits offer for property
September 1	City offer is accepted (90-day clock starts)
Week of September 14	Distribute draft legal documents and Preliminary Official Statement (POS)
September 22	City Council Financing Plan – approve in concept
September 28	Distribute revised draft of legal documents and POS
October 5	Final comments due on legal documents and POS
October 8	Distribute documents to rating agencies
October 13	Submit electronic documents to City by noon
Week of October 19	Rating agency meetings or calls
October 27	City Council approval of financing documents and legal documents
October 29	Receive ratings
Week of November 9	Finalize POS and post electronically
November 25	Complete contingency release (90 th day)
Week of November 30	Price COP
December 4	Distribute draft of final Official Statement; closing documents
December 7	Comments due on final Official Statement
December 9	Submit final Official Statement to printer
December 10	Print and mail final Official Statement
December 14	Pre-closing
December 15	Closing; fund escrow
December 15	Land Purchase Escrow – Required Closing (120 th day)