

Honorable Chair and Members  
Of the Public Financing Authority  
City Hall  
Torrance, California

Members of the Authority:

Subject: **Finance** – 2009 Certificates of Participation

### **RECOMMENDATION**

Recommendation of the Auditor that the Public Financing Authority approve the preliminary official statement and adopt a **RESOLUTION** authorizing and directing the issuance of 2009 Certificates of Participation (the “2009 COP”) in the amount not to exceed \$28,000,000. (Companion to Council Item 12A)

### **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 property is located at 465 Crenshaw Boulevard in Torrance. The City Council approved the property purchase agreement, on September 1, 2009 and is currently in the due diligence period, which will close on November 25, 2009.

On September 22, 2009, Council approved in concept the use of 2009 COPs to finance the purchase of the land. On October 20, Council authorized staff to explore refunding the City’s 1998 Certificates of Participation (the “1998 COP”) as part of the land acquisition financing. The current outstanding principal balance on the 1998 COP is \$6,770,000.

The City has issued Certificates of Participation in the past to fund projects such as police, fire, and other community facility improvements. Certificates of Participation are structured as a lease obligation of the City with its financing authority (Torrance Public Financing Authority - TPFA). The lease payments are assigned to the purchaser of the Certificates of Participation and are used to repay the COPs. The City is obligated to make lease payments as long as it uses the buildings and this is why there are “high essential” use requirements for the underlying asset for COPs. The Lease Agreement does not create a mortgage, and the investor does not have the ability to foreclose on the asset. In the event the City does not make the lease payment, the trustee for the 2009 COPs, after exhausting the reserve fund, will bring an action against the City to compel the City to make the lease payment, or to re-let the property.

The asset being recommended to be used to secure the 2009 COP is the main City Hall building, which includes the main City Hall, the east and west annexes as well as the building that currently houses fire prevention and the employee break room. The value of City Hall is estimated at over \$37 million, which will be more than sufficient to cover the \$28 million (not to exceed) needed for the financing.

Based on current market conditions, it is expected that the term of the 2009 COP will be thirty (30) years, with an average annual debt service between \$1.2 to \$1.3 million for the land acquisition piece and approximately \$530,000 annually for the refunding of the 1998 COP. Staff has set a threshold of at least \$200,000 in savings for the 1998 COP to be refunded.

The pricing of the 2009 COP will be done immediately after the City is ready to release all contingencies, which will be prior to November 25, 2009. Funds will be available prior to the anticipated December 15, 2009 close of escrow.

The financing program related to the acquisition of the PPG Industries site has been developing for over one year. City staff has spent extensive time with legal and financial consultants developing a financing plan that will provide the City with a cost effective method for purchasing the land. As part of any Certificates of Participation issue, the City requires the services of bond counsel, disclosure counsel, financial advisor, trustee and underwriter. The City proposes to engage the services of Jones Hall (bond and disclosure counsel), Northcross, Hill & Ach (financial advisor), and Bank of New York (trustee). Each of these firms has worked with the City over the last 10 years on various projects that required financing.

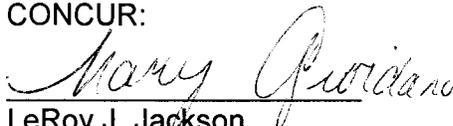
Given the market conditions and who's investing (institutional vs. retail), timing constraints of the land acquisition purchase agreement and the short window for providing funds necessary to close escrow. Staff, based on advice provided by the City's financial advisor, Northcross, Hill & Ach, is recommending using Morgan Stanley as the underwriter to negotiate the pricing of the 2009 COP. This deal will most likely have heavy retail investor participation, which Morgan Stanley has one of the largest retail operations. Morgan Stanley has provided similar services to the City over the last 15 years and has proposed an underwriting fee that is very competitive with the market. The RESOLUTION authorizes staff to negotiate and execute the appropriate professional services agreements with each of the above mentioned firms.

Respectfully submitted,



Eric E. Tsao  
Auditor

CONCUR:



LeRoy J. Jackson  
Executive Director

Attachments:

- A. Resolution
- B. Trust Agreement (Limited Distribution)
- C. Property Lease (Limited Distribution)
- D. Lease Agreement (Limited Distribution)
- E. Assignment Agreement (Limited Distribution)

## RESOLUTION NO. \_\_

**RESOLUTION OF THE BOARD OF DIRECTORS OF THE TORRANCE PUBLIC FINANCING AUTHORITY AUTHORIZING THE EXECUTION AND DELIVERY BY THE AUTHORITY OF DOCUMENTS WITH RESPECT TO THE EXECUTION AND DELIVERY OF CITY OF TORRANCE CERTIFICATES OF PARTICIPATION, AND AUTHORIZING THE EXECUTION OF NECESSARY DOCUMENTS AND RELATED ACTIONS IN CONNECTION THEREWITH**

**WHEREAS**, the City of Torrance (the "City") has made an offer purchase that certain property consisting of approximately 15 acres, located at 465 Crenshaw Boulevard in the City, being APN 7352-002-008 and APN 7352-002-010 (the "Land"), which offer has been accepted, subject to certain conditions, including close of escrow on the purchase of the Land by December 17, 2009; and

**WHEREAS**, the City wishes to finance the purchase price of the Land, together with related costs, using a lease financing structure and certificates of participation, utilizing the City's civic center complex, located at 3031 Torrance Boulevard in the City (the "Leased Property") as the subject of the lease financing; and

**WHEREAS**, the City, working together with the Torrance Public Financing Authority (the "Authority"), has previously caused the execution and delivery of 1998 Refunding Certificates of Participation, dated December 17, 1998 and executed and delivered in the original principal amount of \$10,300,000 (the "Prior Certificates"); and

**WHEREAS**, interest rate savings will be achieved if the Prior Certificates are refunded; and

**WHEREAS**, the City has determined that it is in the interests of the City at this time to provide for the financing of the costs of: the acquisition of the Land, the funding of a reserve for the lease payments to be paid by the City, and the costs of issuance incurred in connection with the proposed financing (together, the "Project"), and the refunding of the Prior Certificates, by leasing the Leased Property to the Authority, pursuant to that certain Property Lease, dated as of December 1, 2009, by and between the City, as lessor, and the Authority, as lessee (the "Property Lease"), and subleasing the Leased Property pursuant to a Lease Agreement, dated as of December 1, 2009, between the Authority, as lessor, and the City, as lessee (the "Lease Agreement"); and

**WHEREAS**, for the purpose of obtaining the moneys required to finance the Project and refund the Prior Certificates, the Authority proposes to assign and transfer certain of its rights under the Lease Agreement to the Trustee, and in consideration of such assignment and the execution of a Trust Agreement, dated as of December 1, 2009, among The Bank of New York Mellon Trust Company, N.A. (the "Trustee"), the City and the Authority (the "Trust Agreement"), the Trustee has agreed to execute and deliver City of Torrance Certificates of Participation (Land Acquisition Project), Series 2009, each evidencing an undivided fractional

interest in the Lease Payments made by the City under the Lease Agreement (the "Certificates of Participation");

**WHEREAS**, all rights to receive lease payments under the Lease Agreement will be assigned without recourse by the Authority to the Trustee pursuant to an Assignment Agreement (the "Assignment Agreement");

**WHEREAS**, in consideration of such assignment, and the execution of the Trust Agreement, the Trustee will execute and deliver the Certificates of Participation, each evidencing and representing a proportionate interest in the base rental payments;

**WHEREAS**, the Board of Directors of the Authority (the "Board of Directors") has been presented with the form of each document referred to herein relating to the financing contemplated hereby, and the Board of Directors has examined and approved each document and desires to authorize and direct the execution of such documents and the consummation of such financing; and

**WHEREAS**, all acts, conditions and things required by the Constitution and laws of the State of California to exist, to have happened and to have been performed precedent to and in connection with the consummation of such financing authorized hereby do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the Authority is now duly authorized and empowered, pursuant to each and every requirement of law, to consummate such financing for the purpose, in the manner and upon the terms herein provided;

**NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE TORRANCE PUBLIC FINANCING AUTHORITY**, as follows:

**Section 1.** All of the recitals herein contained are true and correct and the Board of Directors so finds.

**Section 2.** The form of the Property Lease, on file with the Secretary of the Authority, is hereby approved, and the Chair of the Authority, the Vice Chair of the Authority, the Executive Director and Auditor of the Authority and the Secretary of the Authority (the "Authorized Officers") are each hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver the Property Lease in substantially said form, with such changes therein as the Authorized Officer executing the same may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

**Section 3.** The form of the Lease Agreement, on file with the Secretary of the Authority, is hereby approved, and the Authorized Officers are each hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver the Lease Agreement in substantially said form, with such changes therein as the Authorized Officer executing the same may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof; provided, however, that the aggregate amount of principal component of base rental payable under the Lease Agreement shall not exceed \$28,000,000, the term of the Lease Agreement shall not extend beyond September 1, 2039 (except in the event of default), and the

principal component of the Lease Payments payable by the City under the Lease Agreement shall bear a weighted average interest rate of not-to-exceed 6%.

**Section 4.** The form of Trust Agreement, on file with the Secretary of the Authority, is hereby approved, and the Authorized Officers are each hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver the Trust Agreement in substantially said form, with such changes therein as the Authorized Officer executing the same may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

**Section 5.** The form of Assignment Agreement, on file with the Secretary of the Authority, is hereby approved, and the Authorized Officers are each hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver the Assignment Agreement in substantially said form, with such changes therein as the Authorized Officer executing the same may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

**Section 6.** The execution and delivery of not to exceed \$28,000,000 aggregate principal amount of Certificates of Participation, payable in the years and in the amounts, with principal components and interest components with respect thereto as specified in the Trust Agreement as finally executed, are hereby authorized and approved.

**Section 7.** The officers of the Authority are hereby authorized and directed, jointly and severally, to do any and all things which they may deem necessary or advisable in order to consummate the transactions herein authorized and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution.

**Section 8.** All actions heretofore taken by the officers and agents of the Authority with respect to the transactions set forth above are hereby approved, confirmed and ratified.

**Section 9.** This Resolution shall become effective as of the date of its adoption.

Adopted and approved this \_\_\_ day of \_\_\_\_\_, 2009.

\_\_\_\_\_  
Mayor Frank Scotto

APPROVED AS TO FORM:  
JOHN FELLOWS III, City Attorney

ATTEST:

by \_\_\_\_\_  
Patrick Sullivan, Deputy City Attorney

\_\_\_\_\_  
Sue Herbers, City Clerk

STATE OF CALIFORNIA        )  
COUNTY OF LOS ANGELES    )    ss  
CITY OF TORRANCE            )

I, \_\_\_\_\_ Secretary of the Torrance Public Financing Authority, hereby certify that the foregoing Resolution was duly adopted by the Board of Directors of the Torrance Public Financing Authority at a meeting thereof held on October 27, 2009 by the following vote:

Ayes:                    BOARDMEMBERS:

Noes:                    BOARDMEMBERS:

Absent:                  BOARDMEMBERS:

ATTEST:

\_\_\_\_\_  
Secretary