



## CITY COUNCIL STAFF REPORT

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**TO:** Honorable Mayor and City Council      **DATE:** November 22, 2021  
**FROM:** Matthew Bronson, City Manager  
**PREPARED BY:** Deanne Purcell, Administrative Services Director  
**SUBJECT:** Measure K-14 Bond Issuance Direction

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### **RECOMMENDATION**

Adopt a Resolution providing direction to staff to proceed with the issuance and sale of Measure K-14 General Obligation Bonds for local street repair projects in an amount not to exceed \$10,000,000.

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### **BACKGROUND**

#### **Bond Issuance**

In November 2014, the City's voters approved Measure K-14 which authorized the City to issue up to \$48 million in general obligation bonds to repair and resurface local streets. The City has issued the first three bonds in the series for a total of \$28 million. These issuances were as follows: \$5 million in March 2015, \$8 million in March 2016, and \$15 million in December 2017 (the "Prior GO Bonds") with \$20 million in bond authorization available.

On August 23, 2021, staff provided a street repair update to the Council which highlighted that the City has completed 11 Measure K-14 projects to date with the 12<sup>th</sup> project under construction and the 13<sup>th</sup> project starting in the fall. The City has repaired approximately 60% of local streets since Measure K-14 was approved and is on track for repairing all remaining local streets over the next 8-10 years. There is \$1.9 million in remaining proceeds from the 2017 \$15 million Measure K-14 bond sale that are expected to be spent by March 2022 weather permitting. To continue with the current pace of street improvements to local streets, the Council concurred with staff's recommendation to begin planning for the next bond issue and to bring a resolution of intent to the Council this fall.

Following the August 23<sup>rd</sup> meeting, staff worked with Albert Peché of A. M. Peché & Associates LLC (who has been the City's Financial Advisor on the first three bond obligations) to review the tax rate estimate per \$100,000 for this next bond issuance. During the initial planning process in 2014 for Measure K-14 and for all subsequent bond issuances, the Financial Advisor used a conservative assessed valuation (AV) growth rate of 2.5% annually. The actual AV growth rate for the City has been substantially higher each year as shown in the table on the following page:

Fiscal Year	Assessed Valuation	Percent Increase
2015-16	1,465,324,529	5.21%
2016-17	1,548,746,463	5.69%
2017-18	1,627,337,660	5.07%
2018-19	1,730,925,741	6.37%
2019-20	1,816,621,652	4.95%
2020-21	1,901,510,870	4.67%
2021-22	1,962,334,679	3.20%

The tax rate for the repayment of all general obligation bonds is set by the County Auditor Controller’s office in July and August for the coming fiscal year. In general, the tax rate is based on three factors: 1) amount of bonds issued, 2) interest rates when the bonds are issued, 3) assessed valuation. In addition, when setting the tax rate, the Auditor Controller’s Office takes into consideration the amount of funds on deposit in the Debt Service Fund, where the *ad valorem* taxes collected are deposited, and unsecured tax delinquencies.

The progression of the actual Tax Rate for the Measure K-14 bonds per \$100,000 of AV is:

2015-16	\$24.00
2016-17	\$34.31
2017-18	\$51.35
2018-19	\$85.00
2019-20	\$85.00
2020-21	\$85.00

These tax rates have consistently been lower than updated projections with bond issuances given the continued citywide growth in AV. For the Council’s reference, Table 1 below shows the projected tax rates shown to Council on October 2, 2017, when the Council was considering \$10 million, \$12 million, or \$15 million in general obligation (GO) bond funding based on estimated “AA” rated interest rates:

Table 1

Bond Issue Amounts Under Consideration in October 2017	2018-19 Tax Rate Per \$100,000	2019-20 Tax Rate Per \$100,000
\$10,000,000 GO Bond Issue	\$83.86	\$84.16
\$12,000,000 GO Bond Issue	\$88.73	\$91.46
\$15,000,000 GO Bond Issue	\$96.22	\$102.84

Council elected to proceed at that time with a \$15 million issuance amount which was projected to produce a 2019-20 tax rate of \$102.84 per \$100,000 but instead led to a rate of \$85.00 or nearly 20% less. The conservative AV projections compared to the actual growth in AV have continued to produce lower tax rates than initially projected as the GO tax is spread over a larger assessed valuation that were described in October 2017. Staff and the Financial Advisor are continuing to use a conservative 2.5% AV growth rate when estimating the tax impact after a proposed \$10 million GO sale (the “2022 GO Bonds”) along with the prior GO Bonds based on estimated “AA” rate interest rates shown in Table 2 on the following page:

Table 2

<b>Bond Issue</b>	<b>2021-22 Tax Rate Per \$100,000</b>	<b>2022-23 Tax Rate Per \$100,000</b>
\$10,000,000 GO Bond Issue	\$99.05	\$99.05

Although the Auditor Controller Office’s will ultimately set the tax rate, it is estimated that the tax rate would be approximately \$99.05 per \$100,000. This estimated tax rate for this new bond would be lower than the anticipated tax rate for the previous \$15 million GO bond issued in December 2017 which ultimately produced a lower rate as noted.

Staff is seeking the Council’s approval to direct staff to commence with proceedings for the issuance of the 2022 GO Bonds in a principal amount not to exceed \$10 million. This amount would provide sufficient funding for the next three years of street repair with \$10 million in bond authorization remaining. Pending such direction, the subsequent schedule of related actions would be:

1. Adoption of Resolution of Issuance of Bonds – December 13, 2021
2. Acceptance of Competitive Sale Bids on Parity – January 6, 2022
3. Closing of Bond Sale – January 26, 2022

Please note that the date of acceptance of competitive bids and closing date may change, dependent upon market conditions. Lastly, staff is recommending the Council adopt the Resolution of Intent shown in Attachment 1 to provide direction to staff to proceed with planning for this next bond issuance. In June 2014, the Council authorized the City to enter into agreements with A. M. Peché & Associates LLC to act as Financial Advisor and Nossaman LLP to serve as Bond Counsel and Disclosure Counsel. Albert Reyes, formerly of Nossaman LLP, has served as Bond and Disclosure Counsel for all prior City GO Bond issues and the 2020 Water Revenue Bonds, is now with Kutak Rock LLP. This resolution of Intent authorizes City Staff to enter into a new agreement with Kutak Rock LLP so that Mr. Reyes can continue serving in these roles for the City’s GO bond program.

The Financial Advisor and the Bond Counsel will be paid along with other costs of issuance from the proceeds of the Bond Issue once the transaction closes. As was the case with the first three bonds, these costs will be paid for from the premium generated for the 2022 GO Bonds and the full par amount of \$10 million will be deposited into the Project Fund to be used solely for Measure K-14 street repair work.

**FISCAL IMPACT**

There is no direct fiscal impact resulting from the Council taking action to initiate the process of issuing and selling the 2022 GO Bonds. Once the 2022 GO Bond issuance is completed in January 2022, the additional funds would be made available for street repair projects in early 2022. The final debt service schedule will be submitted to the Auditor Controller’s office and the County will place the debt service on the tax rolls for 2022-23 with first payment scheduled for late 2022.

## **ALTERNATIVES**

The Council has the following alternatives to consider:

1. Adopt a Resolution providing direction to staff to proceed with the issuance and sale of Measure K-14 General Obligation Bonds for local street repair projects in an amount not to exceed \$10,000,000; or
2. Do not adopt a Resolution; or
3. Provide alternative direction to staff.

## **PUBLIC NOTIFICATION**

The agenda was posted in accordance with the Brown Act.

## **ATTACHMENTS**

1. Resolution of Intent Providing Directing Staff to Proceed With Planning for the Issuance of General Obligation Bonds to Finance the 2022 Street Project and Appointing Bond Counsel and Disclosure Counsel in Connection Therewith

**RESOLUTION NO. 21-**

**RESOLUTION OF THE CITY OF GROVER BEACH, CALIFORNIA DIRECTING STAFF TO PROCEED WITH PLANNING FOR THE ISSUANCE OF GENERAL OBLIGATION BONDS TO FINANCE THE 2022 STREETS PROJECT AND APPOINTING BOND COUNSEL AND DISCLOSURE COUNSEL IN CONNECTION THEREWITH**

**WHEREAS**, the City of Grover Beach (the "City") is empowered under Article 1 of Chapter 4 of Part 3 of Division 4 of Title 4 of the Government Code of the State of California, commencing with Section 43600 thereof, and Section 53506 *et. seq.* of the Government Code of the State of California to its issue general obligation bonds which are authorized by two-thirds of the electors voting on the proposition; and

**WHEREAS**, more than two-thirds of the electors voting at a municipal election held on November 4, 2014, voted in favor of Proposition K-14 (the "Bond Authorization") authorizing the issuance by the City of general obligation bonds in the aggregate principal amount of up to \$48,000,000 for the purpose of providing funds to repair and resurface deteriorating residential and major streets (the "Improvements"); and

**WHEREAS**, the City Council desires to direct staff to pursue the steps necessary to issue general obligation bonds (the "2022 Bonds") under the Bond Authorization in the aggregate principal amount of not to exceed \$10,000,000 to finance certain Improvements (the "2022 Streets Project") and to appoint Kutak Rock LLP, as bond counsel and disclosure counsel, for the issuance of the 2022 Bonds.

**NOW, THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED BY THE CITY COUNCIL OF THE CITY OF GROVER BEACH AS FOLLOWS:**

**SECTION 1. Direction to Staff.** The City Manager and Administrative Services Director of the City are each hereby authorized and directed to take such actions as are necessary or appropriate to provide for the issuance of the 2022 Bonds in the aggregate principal amount of not to exceed \$10,000,000 to finance the 2022 Streets Project, and, at such time as determine appropriate, to present to this City Council all resolutions and documents necessary in connection therewith. Nothing in this Resolution shall in any way commit the City to issue any 2022 Bonds, and the City is under no obligation to go forward with issuance of the 2022 Bonds unless satisfactory terms are presented to the City.

**SECTION 2. Approval of Bond Counsel and Disclosure Counsel.** The City Council hereby appoints the firm of Kutak Rock LLP, as bond counsel and disclosure counsel, in connection with the proposed issuance of the 2022 Bonds. The City Council hereby authorizes and directs the City Manager and Administrative Services Director to execute and deliver an agreement with Kutak Rock LLP for its services as bond counsel and disclosure counsel. Payment of fees and expenses with respect to such agreement shall be contingent upon the issuance of the 2022 Bonds.

**SECTION 3. Other Acts.** The officers and staff of the City are hereby authorized and directed, jointly and severally, to do any and all things, to execute and deliver any and all documents, which in consultation with the City's City Attorney and Kutak Rock LLP, bond counsel, they may deem necessary or advisable in order to effectuate the purposes of this

Resolution, and any and all such actions previously taken by such officers or staff members are hereby ratified and confirmed.

**SECTION 4. Effective Date.** This Resolution shall take effect upon adoption.

On motion by Council Member \_\_\_\_\_, seconded by Council Member \_\_\_\_\_, and on the following roll-call vote, to wit:

- AYES: Council Members –
- NOES: Council Members –
- ABSENT: Council Members –
- ABSTAIN: Council Members –
- RECUSED: Council Members –

the foregoing Resolution was **PASSED, APPROVED, and ADOPTED** at a regular meeting of the City Council of the City of Grover Beach, California this 22<sup>nd</sup> day of November 2021.

**\*\*DRAFT\*\***

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JEFF LEE, MAYOR

Attest:

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WENDI B. SIMS, CITY CLERK