

Meeting Date: 7/19/2016

Report Type: Public Hearing

Report ID: 2016-00719

Title: Conduct a TEFRA Hearing and Adopt a Resolution Approving the Issuance of Bonds by California Municipal Finance Authority ("CMFA") for the Benefit of Riverside School, Inc. (Noticed 07/05/2016)

Location: District 4

Recommendation: Conduct a public hearing under the requirements of TEFRA regarding the issuance of revenue bonds by the California Municipal Finance Authority ("CMFA") for Nonprofit Corporations for the benefit of Riverside School, Inc. and upon conclusion pass a Resolution authorizing the issuance and sale of revenue bonds by CMFA for the benefit of Riverside School, Inc.

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Presenter: Lisa Yang, Treasury Analyst, (916) 808-2267, Office of the City Treasurer

Department: City Treasurer

Division: City Treasurer

Dept ID: 05001011

Attachments:

- 1-Description/Analysis
- 2-Background
- 3-Resolution

City Attorney Review

Approved as to Form
Joseph Cerullo
7/13/2016 4:29:11 PM

Approvals/Acknowledgements

Department Director or Designee: John Colville - 7/5/2016 9:41:33 AM

Description/Analysis

Issue Detail: Through the California Municipal Finance Authority (“**CMFA**”), a joint-powers agency, Riverside School, Inc. (the “**Borrower**”), a § 501(c)(3) non-profit corporation, is seeking private activity tax-exempt revenue bond financing in an amount not to exceed \$15,000,000 (the “**Bonds**”). The proceeds of the Bonds will be used to —

- finance the acquisition, improvement, and equipping of certain school facilities containing approximately 25,502 square feet and located at 6115 Riverside Boulevard in Sacramento;
- fund a debt-service reserve fund;
- fund a capitalized interest account; and
- pay certain expenses incurred in connection with the issuance of the Bonds.

The facilities are to be owned and operated by Riverside School, Inc., a non-profit public-benefit corporation duly incorporated and existing under California law and an organization described in § 501(c)(3) of the Internal Revenue Code of 1986 (the “**Tax Code**”).

Under § 147(f) of the Tax Code, CMFA may not issue the Bonds until a public hearing is conducted by the jurisdiction where the facilities to be financed are located. CMFA’s representatives have requested that the City hold the public hearing as required. The City is already a member of the CMFA.

Importantly, CMFA, not the City, will be issuing the Bonds, and the City will not incur any financial obligation in connection with the financing or subsequent asset acquisition by being a member of CMFA and approving the issuance. In addition, the City’s General Fund will have no obligation to pay or ensure the full and timely payment of debt service on the Bonds.

Policy Considerations: Under § 147(f) of the Tax Code, the City Council must conduct a public hearing because the Bonds will be for the benefit of a project within the City. The City must also adopt a resolution approving the issuance of the Bonds by the CMFA for the benefit of Riverside School, Inc. to satisfy the requirements of both the Tax Code and Government Code § 6500.

CMFA represents, on behalf of the Borrower, that it is legally authorized and empowered to undertake this financing. The City Attorney’s Office reviewed the hearing notice and the attached resolutions and concluded that the City Council has the legal authority to take the recommended action.

Economic Impacts: Not applicable.

Environmental Considerations: Not applicable. This report concerns action that does not constitute "approval" as defined by CEQA because it does not commit the City to a definite course of action in regard to the project (14 Cal. Code Regs. §15352 [CEQA Guidelines]).

Sustainability: Not applicable.

Commission/Committee Action: Not applicable.

Rationale for Recommendation: Under the Government Code, the City must be a member of CMFA to hold the requisite hearing and approve the issuance of the Bonds. The City is already a member of CMFA; however, under §147(f) of the Tax Code, CMFA may not issue the Bonds unless the City approves the issuance after holding a public hearing for which reasonable public notice is given. Accordingly, it is requested that City Council hold the required public hearing regarding the issuance of the Bonds and approve the issuance of the Bonds by CMFA.

Financial Considerations: The City's membership and participation in CMFA will not affect the City's appropriation limit and will not constitute any type of indebtedness by the City. The Bonds will be paid entirely from repayments by Riverside School, Inc. under a loan agreement with CMFA. Neither the full faith and credit nor the taxing power, if any, of the City is pledged to the payment of the principal of, any premium for, or interest on the bonds.

Local Business Enterprise (LBE): Not applicable.

Background

Riverside School, Inc.

Brookfield School was established in Sacramento in 1962 as a for-profit private school serving students from kindergarten through eighth grade. Pinnacle Schools, Inc., of Salt Lake City purchased Brookfield in 2004 and currently manages it.

In 2013, Pinnacle Schools decided to move Brookfield School to another site. To that end, Pinnacle paid \$1.4 million to acquire 5.13 vacant acres at 6115 Riverside Boulevard in Sacramento. Pinnacle then transferred the land to the current owner, Boyer Brookfield, L.C., which is to design, coordinate, and manage the construction of new school buildings at the site. Construction was divided into two phases. The first phase was completed in October 2014, when the new school site opened its doors; it consisted of six buildings, one administrative building, and five classroom buildings with restrooms, parking, landscaping, and other site improvements. The second phase, which has not yet begun, will consist of a pre-kindergarten classroom building and a multi-purpose room.

Brookfield School leases the new school site from Boyer Brookfield for approximately \$777,000 a year with an annual 3% escalation rate. There is also a proposed agreement by which Brookfield School will buy the school site from Boyer Brookfield for \$9.4 million.

Pinnacle Schools recently decided to convert Brookfield School to non-profit operation through the creation of a new § 501(c)(3) non-profit corporation, named Riverside School, Inc., which will continue doing business as Brookfield School to maintain the legacy and goodwill the school has established.

California Municipal Finance Authority (“CMFA”)

The CMFA was organized in 2004 under the Joint Exercise of Powers Act (Government Code §§ 6500 – 6599.3). It is a joint-powers authority created to strengthen local communities by promoting economic development and charitable activities throughout California. With the goal of giving back to California communities, the CMFA acts as a municipal conduit issuer and assists local governments, non-profits, and businesses with the issuance of taxable and tax-exempt financing aimed at improving the quality of life in California. To date, over 200 municipalities have become members of CMFA.

RESOLUTION NO. 2016-_____

Adopted by the Sacramento City Council

July 19, 2016

APPROVING THE ISSUANCE OF THE CALIFORNIA MUNICIPAL FINANCE AUTHORITY INDEPENDENT SCHOOL REVENUE BONDS (RIVERSIDE SCHOOL PROJECT) SERIES 2016 IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$15,000,000 FOR THE PURPOSE OF FINANCING THE ACQUISITION, IMPROVEMENT, AND EQUIPPING OF SCHOOL FACILITIES AT 6115 RIVERSIDE BOULEVARD AND OTHER RELATED MATTERS

BACKGROUND

- A. The California Municipal Finance Authority (the “**Authority**”) is authorized to issue revenue bonds for the purposes, among other things, of financing or refinancing projects of any nature in California. It was created by a *Joint Exercise of Powers Agreement* dated as of January 1, 2004 (the “**Agreement**”), in accordance with the Joint Exercise of Powers Act (California Government Code §§ 6500 – 6599.3).
- B. Riverside School, Inc. is a California nonprofit public-benefit corporation and an organization described in section 501(c)(3) of the Internal Revenue Code of 1986 (the “**Borrower**”). The Borrower has requested that the Authority issue one or more series of revenue bonds in an aggregate principal amount not to exceed \$15,000,000 (the “**Bonds**”) for the acquisition, improvement, and equipping of school facilities at 6115 Riverside Boulevard in Sacramento, California (the “**Project**”), which the Borrower will own and operate.
- B. Under section 147(f) of the Internal Revenue Code of 1986 (“**Section 147(f)**”), the Authority’s issuance of the Bonds must be approved by the City’s “applicable elected representative” because the Project is located within an area over which the City has jurisdiction.
- C. The City Council is the City’s “applicable elected representative” for purposes of Section 147(f).
- D. The Authority has requested that the City Council approve the Authority’s issuance of the Bonds to satisfy the approval requirements of Section 147(f) and section 4 of the Agreement.
- E. Notice of the public hearing has been duly given as required by the Section 147(f), and the City Council held the public hearing as noticed, giving all interested persons an opportunity to be heard on all matters relative to the financing of the Project and the Authority’s issuance of the Bonds.

- F. It is in the public interest and for the public benefit that the City Council approve the Authority's issuance of the Bonds for the purpose described.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

- Section 1. The statements in the Background are true.
- Section 2. The Authority's issuance of the Bonds is hereby approved. This approval (a) is given for the sole purpose of complying with Section 147(f) and section 4 of the Agreement; (b) is conditioned on the City Council's understanding that the City is not obligated to pay any principal, interest, fees, or other costs associated with the Authority's issuance of Bonds; and (c) is neither an approval of the underlying credit issues of the proposed Project nor an approval of the financial structure of the Bonds.
- Section 3. This resolution does not obligate the City or any City department (a) to provide any financing for the Project or any refinancing of the Project; (b) to approve any application or request for, or take any other action in connection with, any planning approval, permit, or other action necessary for the Project; (c) to make any contribution or advance any funds to the Authority; or (d) to take any further action with respect to the Bonds, the Authority, or the City's membership in the Authority.
- Section 4. The City's officers are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents they consider necessary or advisable to carry out, give effect to, or comply with this resolution.
- Section 5. This resolution takes effect immediately upon its passage.