



KENSINGTON FIRE PROTECTION DISTRICT

DATE: June 29, 2022

TO: Board of Directors Special Meeting
Kensington Fire Protection District

RE: **Agenda Item 3a**
Public Safety Building Seismic Renovation – Schedule and Financing

SUBMITTED BY: Bill Hansell, General Manager

Background Info

Seismic Renovation Project Schedule:

Attached is the published project schedule for the seismic renovation project.

Financing Bid Process:

At the direction of the Board, District staff worked with NHA Advisors, the District's fiduciary municipal advisor, and Oppenheimer & Co., a registered broker-dealer serving as the District's placement agent, to solicit bids for the financing of the District's proposed public safety building project. Oppenheimer submitted the bid request to 22 financial institutions with a history of purchasing similar financial obligations. Bids were received from five (5) financial institutions.

The District, in cooperation with NHA Advisors, selected Capital One Public Finance as its financing partner based on a combination of proposed interest rate and financing terms. The interest rate was locked at 4.07% for a 25-year term, which is shorter than the 30-year assumption that had previously been assumed. The shorter term should result in considerable interest savings to the District over the life of the loan. The total borrowing amount and interest costs will be provided at the regular Board meeting on July 13th, 2022 following receipt of the construction bids.

Given recent interest rate volatility, the timing of the bid process has worked out in the District's favor. As of Friday, June 24th, 2022, the 10-year Treasury rate is 18 basis points (0.18%) higher than when bids were received.

Legal Structure Overview:

The Board will be asked to approve the financing with Capital One Public Finance and the related legal documents at its July 13th, 2022 meeting. The financing will be structured as a lease/leaseback. The District's obligation to make lease payments will be secured by an annual appropriation from the District's general fund.

Why a lease/leaseback structure? – Statutory constraints on discretionary borrowing by special districts limit how special districts can incur debt without receiving voter approval. There are a few recognized exceptions to this rule and a municipal lease financing is one exception recognized by California courts. Property or equipment leases are not subject to voter approval nor considered debt for purposes of constitutional and statutory law. Special districts have the

statutory authority to sell or lease property and the lease financing structure utilizes this authority. Special districts commonly use municipal lease financings to finance capital public improvements.

The documents for this financing are summarized below. A graphical depiction of the leaseback structure is provided as an attachment to this staff report.

Site Lease: Pursuant to the Site Lease, the District leases property to the CSDA Finance Corporation, (the “Corporation”) in order to facilitate the financing of the project. It is anticipated that the District will then lease the property back from the Corporation pursuant to the Lease Agreement described below.

Lease Agreement: Under the Lease Agreement, the District agrees to lease the property back from the Corporation in exchange for the payment by the District of rental payments (representing a principal component and an interest component). The Lease Agreement describes certain covenants, representations and warranties of the District and the Corporation, as well as, among other things: (i) the terms and conditions related to the deposit and application of funds, (ii) the term of the financing, and (iii) provisions related to the lease payments.

Assignment Agreement: The Corporation will assign its right to receive the lease payments as well as the right to enforce said payments to Capital One. As consideration for such assignment, Capital One provides the funding for the project and as such is entitled to receive the assigned lease payments described in the lease agreement.

Memorandum of Lease: This document memorializes and facilitates the recording of the Lease Agreement.

Escrow Agreement: Capital One’s bid requires the loan proceeds to be held in trust by BOK Financial for the benefit of the District.

Next Steps:

The aforementioned legal documents are currently going through the review process with the financing team and District Counsel, Meyers Nave. Construction bids are expected to be received on Friday, July 1st, 2022 with a goal of selecting the winning construction bid the following week. District staff will work with NHA Advisors to determine the optimal financing need once the winning construction bid is selected.

At the July 13th, 2022 meeting, the Board will be provided with the draft legal documents and a summary of the financing results and projections. If the Board approves the financing, the financing team will finalize and execute all documents prior to the July 20th, 2022 delivery of funds.

Recommended Action

No action is required at this time.



KENSINGTON FIRE PROTECTION DISTRICT

DATE: June 24, 2022

TO: KFPD Board and Staff, KPPCSD Board and Staff, City of El Cerrito Staff, & General Public Notice

RE: Public Safety Building Seismic Renovation Schedule

SUBMITTED BY: Bill Hansell, General Manager

The design and planning for the seismic renovation of the **Kensington Public Safety Building**, begun in 2015, is nearing the Construction Phase pending final approval by the KFPD Board of Directors. Since the [Board's approval on 04/14/2021](#) to proceed with the [2019 PSB conceptual plan](#), staff have reported monthly on progress to finalize the permit and bid documents. [Planning approval](#) was obtained on 03/18/2022 and a building permit is expected shortly.

In November 2021, the district conducted a [long-term financial analysis](#) for the project, which concluded that the renovation and associated costs were feasible despite construction industry inflation, and that the district could maintain the necessary emergency and vehicle reserves. Prior building cost estimates were revised in [October](#) and [December 2021](#), and again in [February 2022](#). Due to inflationary factors, the financial analysis was also [updated](#) to track rising interest rates. In April 2022, the board approved the [acquisition of loan proposals given the interest rate concern](#). Fortunately, the timely RFP process locked in a rate before an historic Federal Reserve increase. The locked rate, though, and the anticipated construction bids mean that the district has reached a financial threshold where the seismic work may become infeasible in the future with any further cost or interest rate increases.

In order to ensure that the necessary seismic work can proceed, the following critical path schedule is presented. Please note that the schedule is pending the receipt of the construction bids in order to finalize the financial plan and, subsequently, the approval to proceed at the [July 13, 2022 Board of Directors meeting](#). Critical dates are highlighted in red.

KENSINGTON PSB SEISMIC RENOVATION SCHEDULE

06/29/2022 = Schedule Progress Update and Actions (Special Board Meeting)

07/01/2022 = PSB Bid Opening Date (Bid prices expire after 90 days on 09/30/2022)

07/13/2022 = PSB Bid Award & Bond Approval (Interest rate lock expires - Regular Board Mtg)

09/26/2022 = Initialize vacating PSB (Fire and Police Depts)

09/29/2022 = General Contractor Mobilization begins on PSB Site

10/06/2022 = Complete vacating PSB

10/07/2022 = General Contractor begins demolition phase

04/08/2024 = PSB Renovation Construction Complete (Note: Maximum 18mos schedule)

Please note: All PSB Seismic Renovation documents are posted at:
<https://www.kensingtonfire.org/public-safety-building>

KENSINGTON FIRE PROTECTION DISTRICT

FACILITIES FUNDING DISCUSSION UPDATE

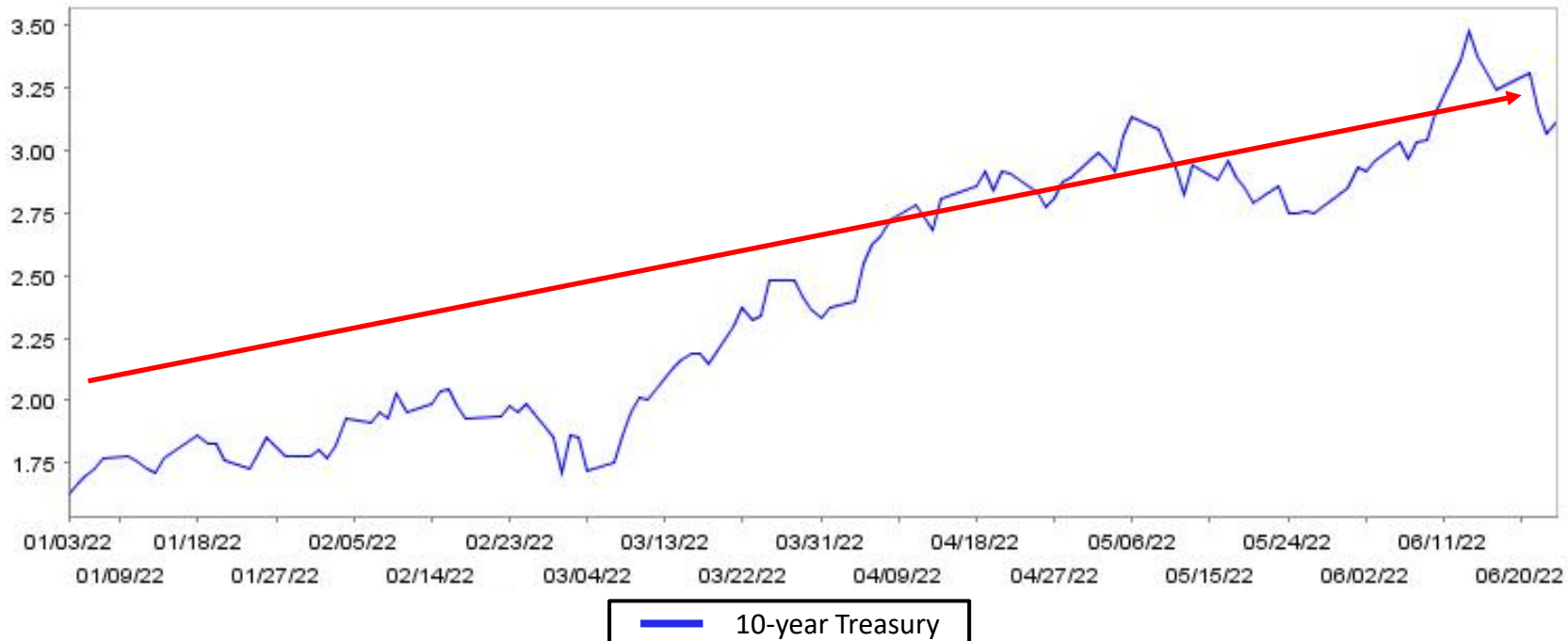


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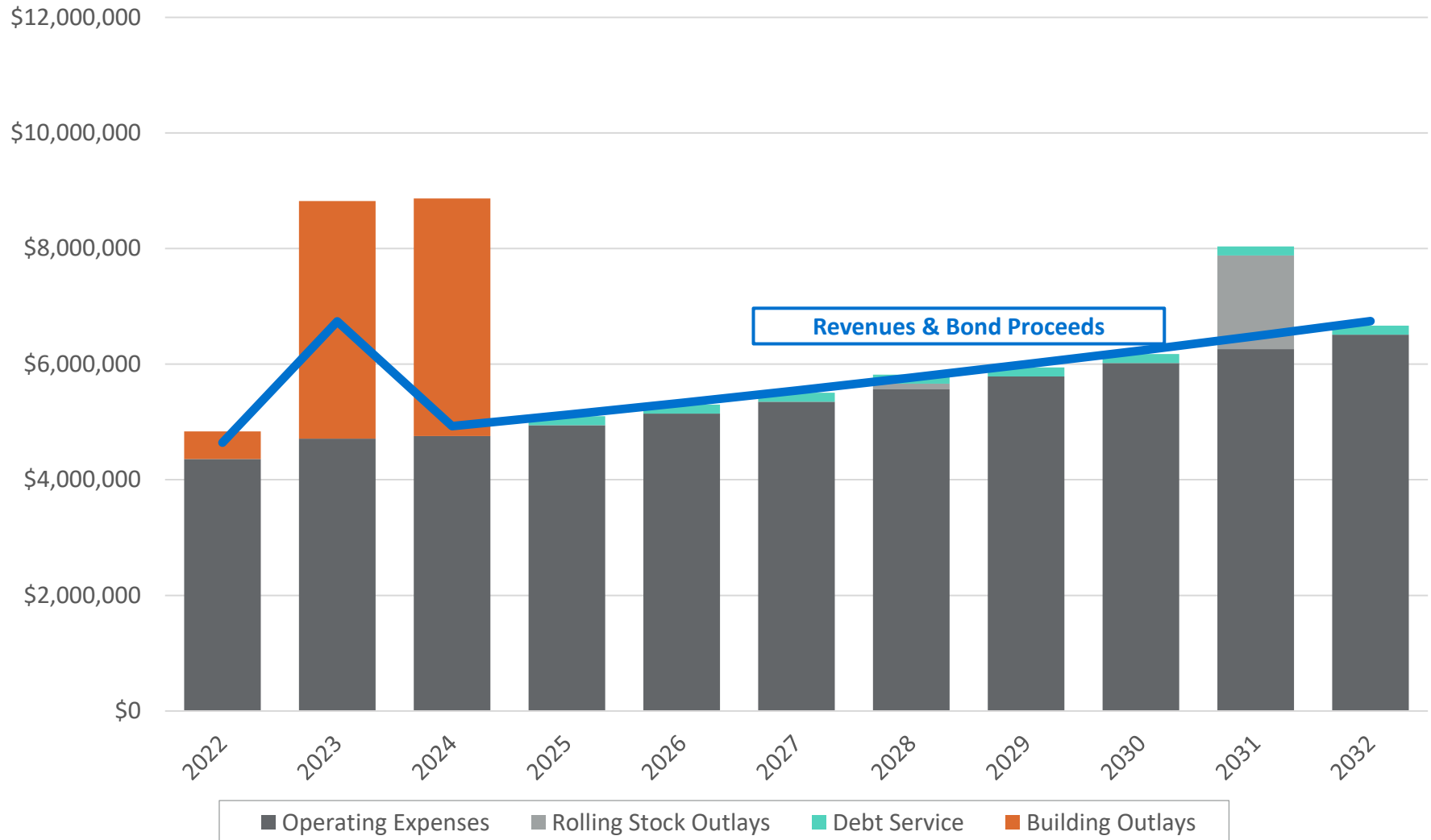
Historical Interest Rates

- ▶ Interest rate volatility persists in 2022
- ▶ It's hard to predict where interest rates may go, but the general trend has been increasing rates
- ▶ The Fed raised its benchmark interest rate by 0.75% to combat rising inflation
 - ▶ Signaled an additional 0.5%-0.75% rate increase in July



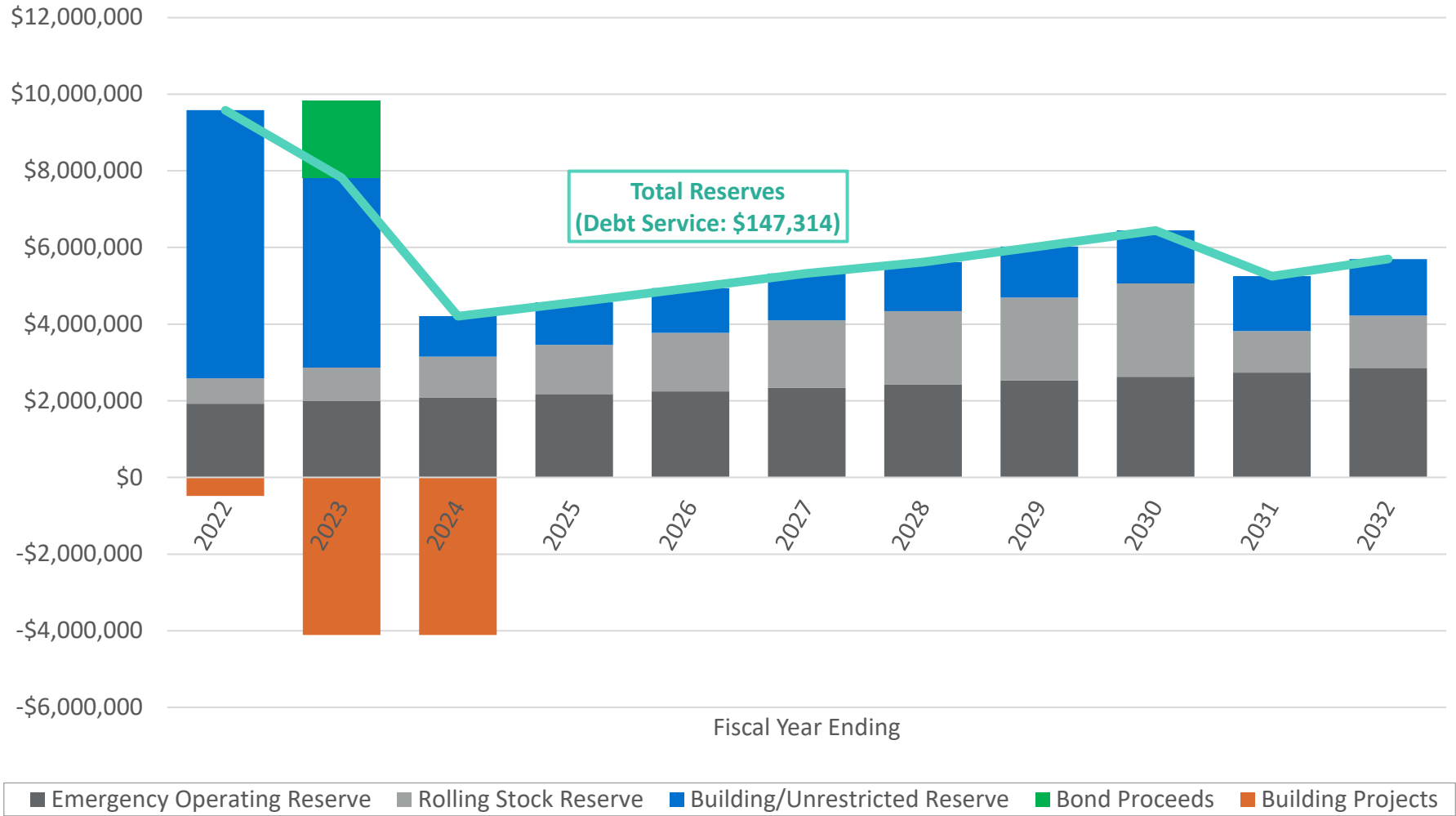
Cash Flows – 4.07% (\$147K Annual Debt Service)

- ▶ Capital One has provided a locked interest rate of 4.07% (25-year term)
- ▶ \$147K of annual debt service generates \$2M for projects
- ▶ Final borrowing amount to be determined after construction bids are received



Reserves – 4.07% (\$147K Annual Debt Service)

- ▶ Annual debt service of \$147K would:
 - ▶ Fund \$2M of building projects



Lease/Leaseback Structure

