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City to Borrow $46 million - But Incurring This Debt Won't Require Voter Approval.

The Palo Alto City Council tonight (Oct. 15) will consider a plan for financing construction of a $45.8 million parking garage in the California Avenue district, using a process that doesn't involve voter approval.

Under the financing method, called Certificates of Participation, or COPs, the city would lease some of its property to the Palo Alto Public Improvement Corp., an entity formed by the city in 1983 to serve as an intermediary in financing activities. The Public Improvement Corp.'s board consists of the city council's members.

The leased property would be the parking garage itself after construction is complete; before then, the leased property would likely be the Rinconada Library, according to a report to the council from City Manager Jim Keene.

After leasing the property, Palo Alto Public Improvement Corp. would then lease the property back to the city. Investors who buy the certificates of participation would be paid with a portion of the lease payments.
Money for the lease payments — an estimated $2.417 million per year for 30 years — would come from the city's General Fund. Voter approval is not needed to sell Certificates of Participation.

Bonds require voter approval

In contrast, California cities need voter approval to issue general obligation bonds, which are backed by property tax revenue.

In a document issued in the mid-1990s, the California state treasurer's office offered cities advice on lease-based financing such as Certificates of Participation. The treasurer said the lease-based strategies were becoming the financing method of choice for many cities.

"This 'quiet revolution' in municipal finance, however, has raised concerns as to the role of the public in deciding questions of infrastructure spending and public borrowing," the treasurer noted.

The state treasurer recommended that cities establish a lease capacity, "that portion of general fund revenues which safely can be devoted to lease payments on an annual basis." Other guidelines advised determining the need for the proposed project, as well as the cost-effectiveness of the lease financing.

In addition, the treasurer said, cities should create financial reports that include all leasing activity "as a check against the unplanned accumulation of general fund lease obligations."

$410,000 in fees

The city would raise up to $50 million by selling the Certificates of Participation, which would be

used to build the parking garage. The proceeds would also cover the approximately $410,000 in costs to issue the certificates.

Standard and Poor's is giving the certificates a rating of AA+, the highest possible for certificates of participation. That should lead to more competitive bidding for the certificates, according to Keene's report.

With council approval, the Certificates of Participation would be sold by the end of the year.

The California Avenue parking garage will be built on the city's surface parking lot at 350 Sherman Ave. It will provide a total of 636 parking spaces on six levels: four above ground and two underground.

The city says construction of the garage is a "key step" toward building a new police station on neighboring property at 250 Sherman Ave. Construction of the police station would proceed after the parking garage is completed.

The parking garage and police station are part of the city's infrastructure plan. Palo Alto is also looking to raise money for infrastructure projects through Measure E, the city's proposal on the November ballot to raise the hotel tax in Palo Alto from 14% to 15.5%. Measure E is expected to generate about $2.6 million a year.

Tax-exempt COPs?

Another detail to be determined regarding the certificates of participation for the California Avenue parking garage is whether all the certificates issued will be tax-exempt. While tax-exempt certificates may be more appealing to investors, issuing a portion of the certificates as taxable would allow the city to lease a floor of the garage to a private entity.

If one-quarter of the certificates were taxable, the city's debt service would increase by an estimated $1.1 million over the 30-year amortization period.

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by Elaine Goodman

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