



## ADMINISTRATIVE SERVICES DEPARTMENT

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### CUPERTINO PUBLIC FACILITIES CORPORATION STAFF REPORT

Meeting: SEPTEMBER 15, 2020

#### Subject

Authorizing the execution and delivery of documents relating to the sale and delivery of the City of Cupertino's 2020A Certificates of Participation ("Certificates") to refinance the City's outstanding Certificates of Participation (2012 Refinancing Project) ("2012 Certificates" or "Refunded Certificates") for debt service savings and authorizing related actions.

#### Recommended Action

Adopt Resolution No. \_\_\_\_\_ of the Board of Directors of the Cupertino Public Facilities Corporation authorizing the execution and delivery of documents relating to the sale and delivery of the 2020A Certificates of Participation in a principal amount not to exceed \$27 million and authorizing and directing certain actions in connection therewith.

#### Discussion

This report is a companion to a report on the City Council agenda.

The Cupertino Public Facilities Corporation (the "Corporation"), formed in 1986, is a nonprofit public benefit corporation organized and existing under the laws of the State of California with the authority to assist in the financing and refinancing of the construction, reconstruction, modernization and equipping of certain capital improvements on behalf of the City of Cupertino (the "City"). The City Council comprises the Board of Directors of the Corporation. The City's Mayor, Vice Mayor, Secretary, and Treasurer serve as the President, Vice President, Secretary, and Treasurer of the Corporation.

The Corporation previously assisted the City in executing and delivering the City's \$43.940 million 2012 Certificates, which are currently outstanding in the amount of \$27.010 million, have interest rates ranging from 3.000% to 3.125%, and a final maturity of July 1, 2030. The 2012 Certificates can be currently refunded on any date without premium. Municipal bond rates are currently near historical lows. The Corporation has determined that refinancing the 2012 Certificates for debt service savings will provide a public benefit to the City and its residents by reducing annual debt service payments

through 2030, reducing the cost of the public capital improvements refinanced using the proceeds of the Refunded Certificates.

In order to facilitate the sale and delivery of the Certificates, the City will lease certain real property consisting generally of City Hall, Administrative Offices, Cupertino Community Hall/Council Chambers, Senior Center, and Quinlan Community Center properties and the existing improvements thereon (the “Leased Premises”), to the Corporation under a **Site Lease** in consideration of the payment of an upfront rental payment; and the Corporation will sublease the Leased Premises back to the City under a **Lease Agreement** in consideration of the agreement by the City to pay semiannual lease payments (the “Lease Payments”).

The Corporation will assign its right to receive the Lease Payments to The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), under an **Assignment Agreement**. In consideration of such assignment, the Trustee will execute and deliver not-to-exceed \$27 million aggregate principal amount of Certificates, each evidencing a direct, undivided fractional interest in the Lease Payments, the proceeds of which will be applied to refinance the 2012 Certificates, as provided in a **Trust Agreement** among the Corporation, the City, and the Trustee, and an **Escrow Agreement** between the City and The Bank of New York Mellon Trust Company, N.A., as escrow agent (the “Escrow Agent”).

Staff recommends that the Board of Directors of the Corporation adopt the proposed Resolution that approves all documents and actions needed to authorize the issuance and sale of the Certificates, including the following substantially final form financing documents together with any changes or additions deemed advisable and approved by the President, Vice President, Treasurer, Secretary, or other officers of the Corporation designated in writing by the President or Treasurer:

- Site Lease between the City as lessor and the Corporation as lessee, whereby the City leases the Leased Premises to the Corporation in consideration of the payment by the Corporation to the City of an upfront rental payment which is sufficient to enable the City to refinance the 2012 Certificates and to pay related financing costs.
- Lease Agreement between the Corporation as lessor and the City as lessee, whereby the Corporation subleases the Leased Premises back to the City in consideration of the payment by the City of semiannual Lease Payments.
- Assignment Agreement between the Corporation and the Trustee, providing for the Corporation’s assignment of certain of its rights in the Site Lease and the Lease Agreement, including its right to receive Lease Payments, to the Trustee for the benefit of the Certificate owners.

- Trust Agreement among the City, the Corporation, and the Trustee, whereby the Trustee agrees to execute and deliver the Certificates, and which sets forth the material terms and provisions relating to the Certificates.
- Escrow Agreement between the City and the Escrow Agent containing terms by which the Escrow Agent will hold proceeds of the Certificates on behalf of the owners of the 2012 Certificates to pay and discharge the 2012 Certificates and give proper notice to the owners.
- Termination Agreement among the City, the Corporation, and the Trustee for the 2012 Certificates providing for the termination of the 2012 Site Lease, the 2012 Lease Agreement, and the 2012 Assignment Agreement relating to the 2012 Certificates.
- Certificate Purchase Agreement between the City and the underwriter Stifel, Nicolaus & Company, Inc., pursuant to the terms and provisions of which the Certificates will be sold with a negotiated method of sale, such terms and provisions including the underwriter's discount not to exceed 0.50% of the par amount of the Certificates.
- Preliminary Official Statement pursuant to which the Certificates will be offered for purchase by the public and must contain all facts material to the Certificates and the Corporation (with certain permitted exceptions to be completed in the final Official Statement) and must not omit or misstate any such material facts. The Preliminary Official Statement has been reviewed and approved for transmittal to the Board by the City's financing team. The distribution of the Preliminary Official Statement by the Corporation is subject to federal securities laws, including the Securities Act of 1933 and the Securities Exchange Act of 1934. These laws require the Preliminary Official Statement to include all facts that would be material to an investor in the Certificates. Material information is information that there is a substantial likelihood would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the Certificates. If the Board concludes that the Preliminary Official Statement includes all facts that would be material to an investor in the Certificates, it must adopt a resolution that authorizes staff to execute a certificate to the effect that the Preliminary Official Statement has been "deemed final."
- Amended Debt Management Policy that contains general policies regarding the City and its related entities' use and management of debt and has been updated to include continuing disclosure policies and procedures.

If the Resolution is adopted by the Board, sale of the Certificates is expected to be completed on or about the week of October 5<sup>th</sup> with a delivery/closing date on or about

the week of October 26<sup>th</sup>, at which time the City will receive the proceeds for refinancing the 2012 Certificates.

Sustainability Impact

No sustainability impact.

Fiscal Impact

Assuming S&P's affirmation of the City's AA+ General Fund rating and based on interest rates as of September 1, 2020 (plus a 50 basis point cushion), the sale and delivery of the Certificates is estimated to result in cash flow savings of approximately \$4.15 million through June 1, 2030. Annual debt service savings is estimated to be approximately \$415,000. Net present value savings is estimated to be approximately \$2.26 million (or 8.36% on \$27.010 million of refunded 2012 Certificates). The estimated savings are net of all financing costs and will benefit the City's General Fund.

In accordance with California Government Code Section 5852.1, good faith estimates are provided with respect to the Certificates in Exhibit A.

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Prepared by: Kristina Alfaro, Director Administrative Services

Reviewed by: Dianne Thompson, Assistant City Manager

Approved for Submission by: Deborah Feng, City Manager

Attachments:

A – Exhibit A: Good Faith Estimates

B – Resolution No. \_\_\_\_\_

[Note: This report and the Resolution reference documents that are attached to the companion report on the City Council agenda.]