

City of Sacramento

Legislation Text

File #: 2019-01065, Version: 1

Title:

Funding for the North Natomas Community Center and Aquatic Complex Project (L19140410)

File ID: 2019-01065

Location: North Natomas Regional Park between Town Center Drive and Via Ingoglia, District 1

Recommendation:

Discuss the options on funding \$14.4 million for the construction of the North Natomas Community Center and Aquatic Complex (NNCCAC). If City Council opts to proceed with construction, direct the City Manager and City Treasurer to: 1) prepare a report approving funding option two (interfund loan); 2) bring forward a reimbursement resolution for the planned capital investment program (City Treasurer); and 3) return to Council in August with the recommended transfer of funds, execution of a Funding Agreement with the Natomas Unified School District (NUSD), and award of the construction contract(s).

Discuss the options on funding \$14.4 million for the construction of the North Natomas Community Center and Aquatic Complex (NNCCAC). If the City Council opts to proceed with construction, pass a Motion: 1) selecting Funding Option No. 2 identified below (interfund loan) as the preferred method to finance the \$14.4 million shortfall in funding for the North Natomas Community Center and Aquatic Complex (NNCCAC) project; 2) directing the City Treasurer to bring a resolution in August 2019 to City Council for reimbursement of funds loaned pursuant to Funding Option No. 2 (interfund loan) through the Capital Investment Program; and 3) directing the City Manager to return to City Council in August 2019 with a resolution for: a) transfer of funds under Funding Option No. 2; b) execution of a funding agreement with the Natomas Unified School District (NUSD); c) execution of a joint use agreement with the NUSD; and d) execution of a change order to Agreement No. 2019-0184 with Otto Construction to approve the Guaranteed Maximum Price (GMP) for construction of the NNCCAC.

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Presenter: Fran Halbakken, Project Executive, (916) 808-7194, Office of the City Manager; James Christensen, Facilities Manager, (916) 808-5863, Department of Public Works

Attachments:

- 1-Description/Analysis
- 2-Background
- 3-External Loan Option

Description/Analysis

Issue Detail: The following list summarizes significant actions taken thus far for the NNCCAC Project (the "Project"). Additional background information is included in Attachment 2.

- October 24, 2017 - Council approved a professional services agreement with BCA Architects, Inc. for preliminary design of the Project (City Agreement 2017-1254 and Resolution No. 2017-0404). The agreement with BCA was amended on June 7, 2018 for completion of final design work.
- June 7, 2018 - Council approved the North Natomas Regional and Community Park Master Plan amendment and Schematic Design Plans for the Project (Resolution No. 2018-0215).
- August 31, 2018 - City staff in the Facilities Division issued a Request for Qualifications to select a design-assist contractor for construction of the Project.
- Through a selection process that included a rating system based on qualifications and interviews, Otto Construction was chosen as the most qualified contractor to construct the Project.
- February 1, 2019 - The City executed a design-assist construction contract with Otto Construction, for pre-construction services for the Project with the option for Guaranteed Maximum Price (GMP) construction services (City Agreement 2019-0184).
- June 20, 2019 - Otto Construction provided the City with a proposed GMP for construction of the Project. Otto Construction stated that its GMP proposal is guaranteed for 90 days.

The total estimated cost for the Project is \$45 million.

On June 19, 2019, the NUSD authorized \$10.6 million in funding for the Project, provided NUSD and the City enter into a joint use agreement and that the City Council approves full funding for the Project no later than July 31, 2019 (NUSD Resolution No. 19-16). The joint use agreement between the City and NUSD needs to be executed by December 18, 2019.

Regarding City funding, City Council previously transferred approximately \$5 million from the North Natomas Public Facilities Fee fund to the Project fund. Staff also proposes approximately \$12 million

for the Project through the North Natomas Finance Plan. Staff has identified another \$2.6 million for the Project through an Internal Finance Plan to be paid from future revenues from the Greenbriar and Panhandle Finance Plans. Finally, another \$542,000 for the Project can be transferred from the Community Facilities District 3 fund. The City funding described in this paragraph totals approximately \$20 million.

Despite the previously identified \$20 million in City funding and the \$10.6 million in funds committed by the NUSD, a Project funding shortfall in the amount of approximately \$14.4 million remains. On June 4, 2019, the Council directed staff to return to Council after the recess with financing options to address the shortfall over the short and long-term. The following summarizes the three options identified by City staff for short-term financing of the Project:

1. Funding Option 1 - Available Fund Balance in the General Fund

The available fund balance in the General Fund is approximately \$27.3 million. These funds are available for investment in one-time capital projects, future labor agreements and to address the fiscal challenges identified in the out-years of the General Fund forecast.

2. Funding Option 2 - Interfund Loan from the Water Fund

On June 9, 2015, the Council adopted an Interfund Loan Policy (Motion No. 2015-0141). This policy permits loans to be approved by Council between various City funds provided there is a repayment plan approved, including identification of the funds that will be used to repay the loan, and interest is imposed at a rate equal to the investment earnings the fund would have received if the loan had not been granted.

The Water Fund (Fund 6005) has available fund balance that could be used for a short-term loan. Provided the Council issues bonds for the larger capital investment program within the next 18 months and the Water Fund is repaid with interest, there won't be an impact on the Water fund. The estimated cost for an interfund loan to cover the loss of anticipated interest earnings is approximately \$457,000.

The Capital Investment Program is a proposed concept whereby capital improvement revenue bonds (secured against City assets) will be issued for high-priority public projects to be paid back with future Measure U revenues. If the Capital Investment Program does not occur, the Water Fund would be repaid within 18 months from available fund balance in the General Fund.

3. Funding Option 3 - External Short-Term Direct Placement Loan

The City Treasurer's Office reached out to one of the City's bond underwriters regarding the possibility of obtaining a "direct placement loan" - similar to what the City obtained recently for the remarketing of the 1997 Lease Revenue Bonds (ARCO Arena Acquisition) and the Golden 1 Center financing. A "direct placement loan" is a financing tool obtained from a financial

institution such as a bond underwriter, bank, or other financial institution that may allow for more flexibility with respect to certain terms and conditions to better match the structure of an issuer's capital financing needs. A "direct placement loan" is more advantageous in certain instances than a traditional public offering because proceeds from the financing may be obtained more expeditiously, and costs of issuance are generally lower. Both variable and fixed-rate direct placement loan options were evaluated. The preliminary terms are included in Attachment 3. The estimated cost for this borrowing would be approximately \$589,000 to \$734,000. An appraisal of existing City assets would be required for these loans though, so this financing would take approximately seven to eight weeks to complete. It is anticipated that this financing would not be in place in time to award the GMP within the desired timeline.

All three of these options are anticipated to provide short-term funding. The funds borrowed would eventually be replaced with proceeds from the City's Capital Investment Program discussed during the FY2019/20 Budget hearings. Staff recommends Funding Option 2, the interfund loan from the Water Fund. However, whichever option is pursued, staff recommends that Council direct the City Treasurer bring a separate report to the Council that declares the City's official intent to reimburse itself from the planned Capital Investment Program tax-exempt bonds (to be issued at a later date).

In an effort to limit the cost of borrowing, staff also recommends that the funds used to close the construction shortfall be repaid from FY2018/19 year-end resources, if adequate resources are available.

Policy Considerations: The City Council must allocate sufficient funds for the Project before the GMP change order with Otto Construction can be approved. As there are inadequate funds in the existing Project budget, it is necessary to identify an additional source of funds for the approximately \$14.4 million funding shortfall. Construction of the Project cannot begin until there are adequate funds in the Project to cover the anticipated construction cost.

Economic Impacts: The new NNCCAC facility is expected to create 142 total jobs, 82 direct jobs and 60 jobs through indirect and induced activities and is estimated to generate approximately \$21.9 million total economic output (\$13.8 million of direct output and another \$8.1 million through indirect and induced activities).

The indicated economic impacts are estimates calculated using a calculation tool developed by the Center for Strategic Economic Research (CSER). CSER utilized the IMPLAN input-output model (2009 coefficients) to quantify the economic impacts of a hypothetical \$1 million of spending in various construction categories within the City of Sacramento in an average one-year period. Actual impacts could differ significantly from the estimates and neither the city of Sacramento nor CSER shall be held responsible for consequences resulting from such differences.

Environmental Considerations:

California Environmental Quality Act (CEQA): On June 7, 2018, City Council adopted the Mitigated Negative Declaration and the Mitigation Monitoring Program for the North Natomas Regional and Community Park Master Plan Amendment and Community Center and Aquatics Complex Project (Resolution No. 2018-0215).

Sustainability: The NNCCAC design has been reviewed for consistency with the goals, policies, and targets of the City’s Sustainability Master Plan, the Parks and Recreation Sustainability Plan, and the City’s 2035 General Plan. The NNCCAC Project will advance the goals, policies, and targets of these plans by improving the health of residents through access to a diverse mix of wellness and recreation activities.

Commission/Committee Action: On December 6, 2018, a Design Review Director’s hearing was held to review the design of the NNCCAC. The NNCCAC design received support from the City’s Urban Design Director.

Rationale for Recommendation: Additional funding in the amount of \$14.4 million is required so that the NNCCAC can be constructed during the proposed time frame. If such funding is not approved, the City could lose the \$10.6 million NUSD has authorized for the construction of the NNCCAC. Additionally, the GMP proposed by Otto Construction is only valid until September 20, 2019. If the GMP is not approved by then, the GMP amount could potentially increase.

Financial Considerations: As part of the FY 2018/19 budget hearings, Council requested that staff provide funding options for the NNCCAC. The following provides a summary of the Project funding already identified. As noted above, additional funding in the amount of approximately \$14.4 million is still needed.

Funding Source	Fund Number	Amount
Estimated Project Cost		\$45,000,000
Identified Funding Sources		
North Natomas Public Facilities Fee ¹	3206	16,900,000
North Natomas Fee Interfund Loan <i>(to be repaid by Greenbriar & Panhandle)</i>	3207	2,600,000
Community Facilities District 3 (CFD3) - Landscaping only	2230	524,000
Natomas Unified School District (bonds)	3702	10,600,000
Subtotal:		\$30,624,000
Estimated funding shortfall		\$14,376,000
¹ The NNCCAC budget is currently \$4.9 million <i>(Resolutions 2017-0404, 2018-0215 and 2019-0039)</i>		

As previously noted, this report does not include authorization to budget the Project or transfer funds. Staff will return to Council with a resolution authorizing the budget for the NNCCAC based on Council direction.

Local Business Enterprise (LBE): Eight sub-contractors and the general contractor, Otto Construction, are LBEs. Their bids account for 24.33% of the Project construction cost.