

REPORT FROM

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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Date: January 13, 2020

CAO File No. 0220-05291-0703

Council File No.

Council District: ALL

To: The Council  
The Mayor

From: Richard H. Llewellyn, Jr., City Administrative Officer

Subject: **STATUS OF THE MUNICIPAL IMPROVEMENT CORPORATION OF LOS ANGELES (MICLA) COMMERCIAL PAPER PROGRAMS AND REAUTHORIZATION OF EXPIRED MICLA PROJECTS**

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### RECOMMENDATIONS

That the Council, subject to the approval of the Mayor:

1. Authorize the Controller to disencumber up to \$962,562.07 and reduce \$49,973,542.57 in appropriations in Fund 298 as specified in Attachment A;
2. Reauthorize the use of up to \$79,368,039 in MICLA financing for projects listed in Attachment B until the end of Fiscal Year 2021-22 to allow for continued use of these funds beyond the City's MICLA Three-Year Policy;
3. Authorize the Controller to reduce \$19,870,334.73 in appropriations and disencumber \$4,540,004.65 in Fund 26X and appropriate \$19,860,138.64 and encumber \$4,540,004.65 in Fund 298 as specified in Attachment C; and,
4. Authorize the City Administrative Officer to make technical corrections, as necessary, to the transactions authorized through this report, as required, to implement the Mayor and Council's intentions.

### SUMMARY

Consistent with the City's Financial Policies, the City Administrative Officer (CAO) is reporting on the status of the Municipal Improvement Corporation of Los Angeles (MICLA) Commercial Paper (CP) Programs. This report contains updates on the MICLA CP Programs, including the total amount of outstanding notes and recent interest rates. Also included are recommendations meant to keep the City compliant with the Internal Revenue Services (IRS) bond proceeds expenditure time limitations and the City's Financial Policies, namely the "Three-Year Spending Policy." The City's Three-Year Spending Policy states that MICLA funds that remain unspent for a period longer than three years from the date of availability shall be subject to reversion to pay debt service and/or

to offset new MICLA projects. The City Policies also state that MICLA funds remaining unencumbered after 18 months from the availability of the bond proceeds shall be subject to reversion.

Identified in this report are MICLA projects with MICLA authority and appropriations from Fiscal Year (FY) 2016-17 and prior years that exceed the Three-Year Spending Policy. As part of the ongoing compliance review of the MICLA CP Programs, this Office is recommending disencumbering approximately \$1 million and reducing almost \$50 million in appropriations for MICLA projects falling under the following categories: 1) the project's funding source changed from MICLA to another funding source, 2) the project is complete and no longer requires the remaining MICLA funding, or 3) the project has been delayed and/or requires further analysis (Attachment A). Departments impacted by this action should work with this Office to develop feasible project proposals and expenditure plans and resubmit budget requests for their projects as part of the 2020-21 budget process and/or subsequent budgets.

This Office is also recommending the reauthorization of approximately \$79 million in expired MICLA authority through the end of FY 2021-22 for projects currently in progress that require ongoing funding over the next couple of years (Attachment B). The reauthorization list also includes projects authorized in the 2017-18 Adopted Budget, which are currently compliant with the Three-Year Spending Policy, but are not anticipated to be completed before the end of FY 2019-20 (i.e., the three-year mark). The reauthorization of \$79 million includes the initial reauthorization, as required by Council policies, of \$800,000 for the Whittsett Soccer Complex Master Plan approved in the 2016-17 Adopted Budget. In accordance with Council policies, all projects allocated MICLA financing as part of the Adopted Budget must be reauthorized by Council prior to expending MICLA CP and/or bond proceeds. This action authorizes continued spending for this project through FY 2021-22.

Included in the reauthorization list are expired MICLA projects funded with the MICLA, Lease Revenue Refunding Bonds, Series 2016-B (MICLA 2016 Bonds). The MICLA 2016 Bonds were issued in June 2016 to finance, among other things, various capital projects totaling approximately \$37.6 million, including the Sixth Street Viaduct Replacement Project (C.F. 14-1510-S5) and the Marianna Site Yards and Shops Acquisition (C.F. 18-0829-S2). Due to project delays, a majority of the bonds issued for these two projects (and others) have not been spent. In accordance with the City's Financial Policies, the bond proceeds in the MICLA 2016 Bonds Fund (Fund 26X) will be repurposed to pay debt service on outstanding MICLA 2016 Bonds and the appropriations and encumbrances will be transferred to MICLA CP Fund 298 as reauthorizations. Attachment C reflects the transfers described in this section.

### **Update on MICLA CP Programs**

The City has two MICLA CP Programs, the general MICLA CP Program authorized for up to \$425 million and the MICLA Los Angeles Convention Center (LACC) CP Program authorized for up to \$100 million. Since the establishment of the MICLA CP Programs, the Mayor and Council have allocated, through various adopted budgets and interim reports, MICLA CP capacity to finance and refinance capital equipment, the acquisition and improvement of real property, and other financing

needs of the City. As of January 1, 2020, there is \$242.1 million in MICLA CP and \$12.7 million in MICLA LACC CP outstanding for a total of \$254.8 million outstanding.

Below are the range of interest rates throughout the 2019 calendar year and the total amount of outstanding notes by CP program as of January 1, 2020.

Program	Reporting Period	Interest Rate Range	Amount Outstanding
MICLA CP (Tax-Exempt)	1/1/19 – 12/31/19	1.00% to 2.05%	\$ 216,300,000
MICLA CP (Taxable)		1.73% to 2.60%	25,800,000
MICLA LACC CP (Taxable)		1.93% to 2.70%	12,700,000
		<b>Total:</b>	<b>\$ 254,800,000</b>

The recommendations in this report to unencumber, unappropriate, and reauthorize various projects are in compliance with the City's Financial Policies, Three-Year Spending Rule. The issuance the debt as a result of the MICLA reauthorizations will not impact the City's debt capacity for non-voted approved debt as the issuance of debt for these projects has been accounted for and is already included in the debt ratio.

**FISCAL IMPACT**

There is no impact to the General Fund as a result of the recommendations in this report as funds are budgeted in the 2019-20 Adopted Budget for the payment of interest on commercial paper notes issued for the reauthorized projects. The transfers recommended in this report are based on existing appropriations between MICLA Bond Fund No. 26X to the MICLA CP Fund No. 298.

**DEBT IMPACT**

The issuance of Municipal Improvement Corporation of Los Angeles (MICLA) debt is a General Fund obligation. The issuance of MICLA debt for the reauthorized projects included in this report would cause the City to borrow approximately \$79,369,000 at an approximate 5.5 percent interest rate over 20 years. The total estimated debt service is \$132,830,000, including interest of approximately \$53,461,000. During the life of the bonds, the estimated average annual debt service is \$6,642,000 over 20 years.

Actual interest rates may differ as rates are dependent on market conditions at the time of issuance. We cannot fully predict what interest rates will be in the future.

In accordance with the City's Debt Management Policy, the City has an established debt ceiling to guide in evaluating the affordability for future debt. The debt ceiling for non-voted direct debt as a percentage of General Fund revenues is 6.0 percent. The City is currently at 3.92 percent for 2019-20. The issuance of the debt for this project will not impact the City's debt capacity for non-voted approved debt as the issuance of debt for the projects is already included in the debt ratio.

## **DISCUSSION**

### **Background**

The City has two CP programs secured by lease agreements with MICLA, payable from the General Fund. The MICLA CP Programs allow the City to access the financial markets quickly, to obtain flexible, short-term maturities, to borrow only amounts needed as invoices are received, and to borrow at more favorable rates, thus reducing the overall cost of borrowing to the City. Commercial paper is a short-term borrowing mechanism for construction financing, real property acquisition, or the purchase of capital equipment. CP notes have maturities ranging from one to 270 days. Upon maturity, the CP notes are either re-sold in the market or refinanced into long-term bonds. Permanent longer-term financing, typically fixed-rate bonds, occur as projects are completed, when capital equipment has been received, or when the amount of outstanding notes approaches the maximum limit. The permanent financing restores the borrowing capacity available under the MICLA CP Programs for additional capital equipment and real property projects. As of July 1, 2019, the City has \$1.5 billion in lease revenue bonds and certificates of participation outstanding.

In 2004, the City and MICLA established a commercial paper program authorizing MICLA to issue up to \$200 million in lease revenue CP notes. The MICLA CP program has increased from time to time, and is currently authorized for up to \$425 million. Projects financed with the MICLA CP Program expend directly from Fund 298.

In November 2015, the Mayor and Council also approved a \$110 million MICLA CP Program to be used as temporary financing for capital improvements and capital equipment purchases relating to the Los Angeles Convention Center (MICLA LACC CP Program) (C.F. 15-1206). The MICLA LACC CP Program is currently authorized for up to \$100 million.

The MICLA CP Programs are secured by direct-pay letters of credit (LOCs) from five commercial banks. The current LOCs for the MICLA CP Programs expire on June 30, 2022.

### **Sweeping Expired MICLA**

This report contains recommendations to disencumber approximately \$1 million and reduce almost \$50 million in appropriations for MICLA projects falling under one of the following categories: 1) the project's funding source changed from MICLA to another funding source, 2) the project is complete and no longer requires the remaining MICLA funding, or 3) the project has been delayed and/or requires further analysis (Attachment A). The largest amounts being swept are \$17 million for the North Central Animal Shelter project, \$12 million for the Digital In-Car Video (Phase IV) project, \$7.4 million for the City Hall East Electrical System Upgrades and P4 Improvements, and approximately \$10 million for fleet and communication equipment replacements for the Fire and Police Departments.

The North Central Animal Shelter project, which was authorized for \$17 million in MICLA funding as part of the 2016-17 Adopted Budget, no longer requires MICLA funding since the funding source

was swapped to Proposition F General Obligation Bonds. The Digital In-Car Video (Phase IV) project, which was authorized for \$12 million in MICLA funding as part of the 2015-16 Adopted Budget, no longer requires MICLA funding because the project was fully funded with cash through the Police Department's budget (C.F. 12-0757-S1). The City Hall East Electrical System Upgrades and P4 Improvements, approved for MICLA funding as part of the 2013-14 Adopted Budget, does not require the full funding amount at this time since its full project scope is tied to the developments associated with the Los Angeles Street Civic Building and the broader Civic Center Master Development Plan. The Police and Fire Department fleet and communication equipment replacements, approved in the 2014-15 to 2016-17 Adopted Budgets, have not been procured and purchased in a timely manner consistent with the Three-Year Spending Rule. As such, it is recommended that the expired authorities be swept and that recently authorized MICLA funding be spent instead. Departments impacted by this action should work with this Office to develop feasible project proposals and expenditure plans and resubmit budget requests for their projects as part of the 2020-21 budget process and/or subsequent budgets.

### **Reauthorization of Expired MICLA**

This report contains the reauthorization of approximately \$79 million in expired MICLA authority through the end of FY 2021-22 for projects currently in progress, that require ongoing funding over the next couple of years (Attachment B). The largest amounts being reauthorized are \$25 million for the LAPD Property Warehouse and \$13 million for the Marianna Yards and Shops Acquisition. In December 2018, Council authorized a Purchase and Sale Agreement with 1925 N. Marianna, LLC, the developer, to acquire land and design-build the LAPD Property Warehouse (C.F. 18-0937). The anticipated project completion date for the LAPD Property Warehouse and Marinna Site Yards and Shops Acquisition, both of which happen concurrently, is June 2020. The next highest reauthorized amount is \$9.5 million for the Sixth Street Viaduct Replacement. As of July 2019, the project construction was about 499 days behind schedule and approximately 40% complete, with an anticipated completion date of March 2022. Lastly, this report includes an \$8 million reauthorization for the Northeast Police Station Parking Structure. As of November 2019, the construction of the 240 parking space structure was about 65% complete, with an anticipated completion date of May 2020.

### **ATTACHMENTS**

- Attachment A: Fund 298 Disencumberances and Unappropriations
- Attachment B: Reauthorization of Expired MICLA Projects
- Attachment C: Transfer of Appropriations From Fund 26X to Fund 298

**Attachment A - Fund 298 Disencumberances and Unappropriations**

BFY	Fund	Department	Appropriation Unit	Disencumber	Unappropriate
2016	298	32	32M903 - NETWORK INFRASTRUCTURE	-	\$ 4,330.53
2017	298	32	32N903 - NETWORK INFRASTRUCTURE	-	221,585.56
			<b>Subtotal</b>	<b>\$ -</b>	<b>\$ 225,916.09</b>
2015	298	38	38L200 - Fleet Replacement	-	1,009,353.88
2015	298	38	38L206 - Communication Equipment Replacement	-	189,211.60
2016	298	38	38M132 - ITA	-	25,789.99
2016	298	38	38M200 - FLEET REPLACEMENT	-	1,226,083.62
2016	298	38	38M206 - COMMUNICATIONS EQUIPMENT REPLACEMENT	-	457,831.20
2017	298	38	38N132 - ITA	-	144,433.15
2017	298	38	38N200 - FLEET REPLACEMENT	-	5,262,099.33
2017	298	38	38N206 - COMMUNICATIONS EQUIPMENT REPLACEMENT	817,149.77	970,524.47
			<b>Subtotal</b>	<b>\$ 817,149.77</b>	<b>\$ 9,285,327.24</b>
2015	298	40	40L140 - GENERAL SERVICES	-	72,945.00
2015	298	40	40L20T - GSD MATERIALS TESTING EQUIPMENT	-	8,274.57
2015	298	40	40L21M - BUILDING EQUIPMENT LIFE CYCLE REPL PROGRAM	63,545.60	63,545.60
2015	298	40	40L25M - CAPITAL REPAIR -POLICE ADMN BLDG	-	3,981.26
2016	298	40	40M140 - GENERAL SERVICES	-	1,122,511.18
2016	298	40	40M21M - BUILDING EQUIPMENT LIFE CYCLE REPL PROGRAM	-	7,939.96
2016	298	40	40M22F - GSD EMERGENCY GENERATOR REPLACEMENT	-	1,757,873.29
2016	298	40	40M24M - MUNICIPAL BLDG ENERGY & WATER MGMT & CONSERVATION	0.40	586.25
2016	298	40	40M25M - CAPITAL REPAIR -POLICE ADMN BLDG	-	2,126.64
2016	298	40	40M26M - CAPITAL REPAIR -FIGUEROA PLAZA	47,559.59	47,559.60
2017	298	40	40N140 - GENERAL SERVICES	-	10,187.00
2017	298	40	40N21M - BUILDING EQUIPMENT LIFE CYCLE REPL PROGRAM	6,540.05	6,540.60
2017	298	40	40N29M - CAPITAL REPAIR -PUBLIC SAFETY FACILITIES	-	0.01
			<b>Subtotal</b>	<b>\$ 117,645.64</b>	<b>\$ 3,104,070.96</b>
2015	298	50	50LTCF - CONSULTANT FEE (ELECTRICAL FIRE LIFE SAFETY)	9,784.66	25,019.66
2015	298	50	50LTPC - BUILDING PLAN CHECK/PERMITS	-	30,000.00
2016	298	50	50MRV2 - PROJECT DETOUR PLAN INTERSECTION WORK	-	15,801.85
2017	298	50	50NPAT - NEW FIRE STATION 39	17,982.00	17,982.00
2017	298	50	50NPAV - NORTH CENTRAL ANIMAL SHELTER RENOVATIONS	-	17,000,000.00
2018	298	50	50PTSR - CHE COOLING SYSTEM REPLACEMENT	-	468,000.00
2018	298	50	50PTSU - City Hall East Electrical System Upgrades and P4 Improvement	-	7,426,000.00
			<b>Subtotal</b>	<b>\$ 27,766.66</b>	<b>\$ 24,982,803.51</b>
2015	298	70	70L734 - TRANSPORTATION EQUIP-MICLA BY15	-	13,608.97
2015	298	70	70L735 - POLICE HELICOPTER-MICLA BFY15	-	3,445.48
2015	298	70	70L737 - DIG INCAR VIDEO SYS DICVS-MICLA BFY15	-	61,817.00
2016	298	70	70M140 - GENERAL SERVICES	-	59,542.50
2016	298	70	70M733 - POLICE HELICOPTER-MICLA BFY16	-	6,408.23
2016	298	70	70M734 - TRANSPORTATION EQUIP-MICLA BFY 16	-	1,844.86
2016	298	70	70M737 - DIGITAL IN-CAR VIDEO SYSTEM DICVS-MICLA BFY16	-	12,000,000.00
2017	298	70	70N733 - POLICE HELICOPTER-MICLA BFY17	-	46,748.78
2017	298	70	70N734 - TRANSPORTATION EQUIP-MICLA BFY17	-	182,008.95
			<b>Subtotal</b>	<b>\$ -</b>	<b>\$ 12,375,424.77</b>
			<b>Grand Total</b>	<b>\$ 962,562.07</b>	<b>\$ 49,973,542.57</b>

**Attachment B - Reauthorization of Expired MICLA Projects**

<b>No.</b>	<b>PROJECT</b>	<b>FY Authorization</b>	<b>Amount</b>	<b>Anticipated Completion</b>
1	El Pueblo - Winery Restrooms	2004-05	\$1,013,634	January 2020
2	BSS Yard relocation facility	2012-13 2013-14	\$2,700,000 \$2,000,000	December 2020
3	South Park	2014-15	\$1,347,342	March 2021
4	Vision Theater / Manchester Jr. Arts	2014-15	\$3,070,371	August 2020
5	Rancho Cienega Sports Complex	2014-15 2015-16	\$2,038,861	December 2021
6	Asphalt Plant No. 1	2015-16	\$1,883,265	December 2020
7	Bridge Improvement Program - Contingency Matching Funds	2015-16	\$255,492	June 2020
8	Sixth Street Bridge	2015-16 2016-17	\$9,561,059	April 2022 (full project completion)
9	Marianna Acquisition	2016	\$12,950,000	December 2020
10	BSS Equipment & Vehicles	2016-17	\$1,658,271	June 2020
11	Capital Repair - Flg Plaza	2016-17	\$1,000,000	December 2020
12	Capital Repair - Public Works	2016-17	\$750,000	December 2020
13	LAPD MTD Solar Array	2016-17	\$4,710,385	October 2021
14	LAPD Property Warehouse	2016-17	\$25,159,937	Fall 2020
15	Northeast Police Station Parking Structure	2016-17	\$7,985,505	May 2020
16	Old Arlington Library	2016-17	\$944,470	Fall 2020
17	Taylor Yard G2 Parcel	2016-17	\$355,446	June 2021
18	Whitsett Soccer Complex	2016-17	\$800,000	March 2021
19	Clean Streets - Satellites	2017-18	\$2,384,000	December 2020 (full project completion)
20	Warner Grand	2017-18	\$1,500,000	January 2021 (full project completion)
	<b>Total</b>		<b>\$79,368,039</b>	

**Attachment C - Transfers from Fund 26X to Fund 298**

BFY	Fund	Department	Appropriation Unit	Disencumber	Unappropriate
2016	26X	50	50MCON - CONSTRUCTION UNFORESEEN TUNNEL ARCH ELEMENTS	\$ 4,239,622.47	\$ 4,559,628.03
2016	26X	50	50MCTY - OTHER CITY CONSTRUCTION FINANCING COSTS	1.00	785,120.23
2017	26X	40	40N25M - CAPITAL REPAIR -POLICE ADMN BLDG	-	1,089.50
2017	26X	40	40N28M - CAPITAL REPAIR -MARVIN BRAUDE BLDG	7,574.08	16,680.67
2017	26X	50	50MCSS - CONSULTANT SRVCS TUNNEL PLAZA	253,003.00	646,458.96
2017	26X	50	50MRA2 - STEEL ARCH SALVAGE FOR HISTORIC PRESERVATION	729.68	729.68
2019	26X	40	40R31L - Yards and Shops Acquisition	-	12,550,000.00
2019	26X	50	50RNPP - Northeast Police Parking Structure	-	912,755.61
2019	26X	50	50RTYS - Yards and Shops Acquisition	39,074.42	397,872.05
			<b>Total</b>	<b>\$ 4,540,004.65</b>	<b>\$ 19,870,334.73</b>

**Transfer to:**

BFY	Fund	Department	Appropriation Unit	Encumber	Appropriate
2016	298	50	50MCON - CONSTRUCTION UNFORESEEN TUNNEL ARCH ELEMENTS	\$ 4,239,622.47	\$ 4,559,628.03
2016	298	50	50MCTY - OTHER CITY CONSTRUCTION FINANCING COSTS	1.00	785,120.23
2017	298	50	50MCSS - CONSULTANT SRVCS TUNNEL PLAZA	253,003.00	646,458.96
2017	26X	40	40N28M - CAPITAL REPAIR -MARVIN BRAUDE BLDG	7,574.08	7,574.08
2017	298	50	50MRA2 - STEEL ARCH SALVAGE FOR HISTORIC PRESERVATION	729.68	729.68
2019	298	40	40R31L - Yards and Shops Acquisition	-	12,550,000.00
2019	298	50	50RNPP - Northeast Police Parking Structure	-	912,755.61
2019	298	50	50RTYS - Yards and Shops Acquisition	39,074.42	397,872.05
			<b>Total</b>	<b>\$ 4,540,004.65</b>	<b>\$ 19,860,138.64</b>