



STAFF REPORT TO THE CITY COUNCIL

DATE: Regular Meeting of November 12, 2024

TO: Mayor and Members of the City Council

VIA: Dante Hall, City Manager

SUBMITTED BY: Edwin Gato, Director of Finance

SUBJECT: Consideration of Adoption of a Resolution Directing the City Manager and Director of Finance and Their Designees to Take Actions Necessary to Prepare for Issuance of Lease Revenue Refunding Bonds, including but not Limited to Actions Related to Evaluating the Feasibility of Refinancing

RECOMMENDED ACTION:

Adopt a Resolution of the City Council of the City of Hercules Directing the City Manager, Director of Finance, and Their Designees to Take Actions Necessary to Prepare for Issuance of Lease Revenue Refunding Bonds, including but not Limited to Actions Related to Evaluating the Feasibility of Refinancing.

DISCUSSION:

Background

In 2009, the City authorized the Hercules Public Financing Authority (the "Authority") to issue Taxable Lease Revenue Bonds, Series 2009 (Bio-Rad Project) (the "Prior Bonds"). The purpose of these bonds was to finance the acquisition of certain real property located at 203-295 Linus Pauling Drive in the City (the "Leased Premises"). This property consists of five buildings totaling approximately 96,847 square feet, where Bio-Rad Laboratories, Inc. ("Bio-Rad") conducts office, laboratory, and light manufacturing operations.

To facilitate the issuance of the Prior Bonds, the City entered into a Lease Agreement with Bio-Rad (the "Bio-Rad Lease"). According to this agreement, Bio-Rad makes annual Base Rent payments that increase over time for the use of the Leased Premises. These Base Rent payments provide the City with the necessary funds to cover scheduled principal and interest payments on Prior Bonds.

Before the bond year ending July 1, 2023, the Base Rent payments were not enough to cover the debt service on the Prior Bonds. At the time of issuance, the Authority purchased a guaranteed investment contract with a portion of the proceeds of the Prior Bonds to make up the expected shortfall between the Base Rent payments paid by Bio-Rad and debt service on the Prior Bonds through the bond year ending July 1, 2023. Since then, the Base Rent payments have exceeded the annual principal and interest payments on the Prior Bonds, providing additional amounts which the City is entitled to retain.

In conjunction with the issuance of the Prior Bonds, the City entered into a Cooperation Agreement with the Authority. Under this agreement, the City agreed to make scheduled principal and interest payments on Prior Bonds if the Base Rent payments are insufficient. Moreover, Bio-Rad has the option to terminate all or part of the Bio-Rad Lease on or after September 15, 2023. If this occurs, the City's General Fund will become responsible for the scheduled principal and interest payments on Prior Bonds.

Additionally, Bio-Rad has the right to purchase the Leased Premises on the 15th, 20th, and 25th anniversary dates of the Lease Commencement Date (September 15, 2008) for specified amounts, or at the Expiration Date (September 14, 2038) of the Bio-Rad Lease for \$1. The City also advanced \$2 million to Bio-Rad for tenant improvements at an interest rate of 4.5%, and the outstanding balance as of October 31, 2024, is \$1,291,231.83.

Analysis

Bio-Rad has requested several meetings with City staff to discuss options for purchasing the Leased Premises under the Bio-Rad Lease or the feasibility of refinancing the Prior Bonds for debt service savings and reducing the Bio-Rad Base Rent payments commensurately. On November 4, 2024, Bio-Rad sent a letter to the City (attached here) requesting that the City proceed with pursuing a refunding of the Prior Bonds.

Staff recommend that the Council adopt a resolution to engage the financing team, which includes bond and disclosure counsel, a municipal advisor, a trustee, and an underwriter/placement agent. Their role will be to evaluate the feasibility of refinancing and to take the necessary actions to move forward, including negotiating any amendments to the Bio-Rad Lease as needed. This action will not commit the City to authorize the issuance of refunding bonds or to amend the Bio-Rad Lease at this stage. The bond financing process typically takes about 3 to 4 months. Staff plans to seek authorization from the Council and Commission to issue the refunding bonds and will present draft financing documents to the Council in February 2024.

FISCAL IMPACT:

There is currently no fiscal impact associated with adopting the Resolution. If the Resolution is adopted, staff and consultants will begin the refinancing process. However, consultant fees will only be paid if the refinancing is completed, and those fees will be covered by the bond proceeds.

ATTACHMENTS:

1. Resolution
2. Bio-Rad Letter