



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Julia H. Cooper

**SUBJECT:** SEE BELOW

**DATE:** September 1, 2020

Approved

Date

9/3/2020

**COUNCIL DISTRICTS: 2 and 6**

**SUBJECT: CONDUCT TAX EQUITY AND FISCAL RESPONSIBILITY ACT (TEFRA) HEARING AND ADOPT RESOLUTION APPROVING THE REISSUANCE OF \$48,250,000 OF CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY REVENUE OBLIGATIONS FOR THE BENEFIT OF VALLEY CHRISTIAN SCHOOLS**

## RECOMMENDATION

- (a) Hold a Tax Equity and Fiscal Responsibility Act (“TEFRA”) Public Hearing for the reissuance of up to \$48,250,000 in tax-exempt obligations (“the “2017 Obligations”) by the California Enterprise Development Authority (the “Authority” or “CEDA”). The proceeds of the 2017 Obligations were loaned to Valley Christian Schools, a California nonprofit religious corporation, duly organized and existing under the laws of the State of California (the “School”) pursuant to that certain Loan Agreement, dated as of June 1, 2017, by and among First Republic Bank, the California Enterprise Development Authority and the School (the “Loan Agreement”). The proceeds of the 2017 Obligations loaned to the School were used for the purpose of (a) financing, refinancing or reimbursing the School for (i) the construction, installation and equipping of elementary school buildings and playground and parking improvements located at 1500 Leigh Avenue, San Jose, California, and a high school baseball stadium and field and various improvements, and (ii) the acquisition, construction, installation, improvement, renovation, furnishing and equipping of a junior high school and high school campus owned by the Borrower located at 100 Skyway Drive, San Jose, California, and an acquisition of approximately 11.37 acres of land immediately adjacent thereto (the “Facilities”).
- (b) Consideration of a resolution approving the reissuance of 2017 Obligations by the Authority in a principal amount of up to \$48,250,000 to be used to refinance the cost associated with certain educational facilities and to pay certain expenses incurred in connection with the reissuance of the 2017 Obligations.

## **OUTCOME**

Holding the TEFRA hearing and adoption of the proposed resolution will authorize the Authority to reissue the 2017 Obligations. The proceeds of the 2017 Obligations loaned to the School were used for the purpose of (a) financing, refinancing or reimbursing the School for the acquisition, construction, installation and equipping of the Facilities and (b) paying certain financing costs and costs of issuance in connection with the 2017 Obligations.

## **BACKGROUND**

The School has requested that the Authority reissue one or more series of its tax-exempt revenue obligations in an aggregate principal amount not to exceed Forty Eight Million Two Hundred Fifty Thousand Dollars (\$48,250,000). The proceeds of the 2017 Obligations loaned to the School were used for the purpose of (a) financing, refinancing or reimbursing the School for the acquisition, construction, installation and equipping of the Facilities and (b) paying certain financing costs and costs of issuance in connection with the 2017 Obligations.

The School has provided the following information to City staff on its mission and curriculum.

*The mission of the School is to provide a nurturing environment offering quality education supported by a strong foundation of Christian values in partnership with parents, equipping students to become leaders to serve God, to serve their families, and to positively impact their communities and the world.*

*The School supports the homes and churches of students in providing an education that is grounded in the Judeo-Christian values of the Bible as reflected in the life and teaching of Jesus Christ. The School is committed to a Quest for Excellence<sup>™</sup> in all of its educational programs and provides a comprehensive kindergarten through twelfth grade curriculum with a rigorous college preparatory program. Firmly founded on Christian values, the School challenges youth to aspire toward lives of character, service and influence while pursuing their individual Quest for Excellence.*

## **ANALYSIS**

The City is an associate member of the Authority, a joint powers authority established by the California Association for Local Economic Development whose purpose is to issue tax-exempt and taxable conduit revenue bonds to fund commercial and industrial development projects within member jurisdictions.

The Joint Powers Act, comprising Articles 1, 2, 3 and 4 of Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the Government Code of the State of California and Section 145 of the Internal Revenue Code of 1986, as amended (the “Code”) provide for the reissuance of tax-exempt “private activity” obligations by a conduit governmental issuer on

behalf of a 501(c)(3) corporation to finance facilities used, owned and/or operated by such entity. For interest on such private activity obligations to be tax-exempt, Section 147(f) of the Code requires, among other things, the obligations and the facilities financed thereby must be approved by both the governmental unit which will issue the obligations (in this case, the Authority) and the governmental unit in which the obligation-financed facilities are located (City of San Jose). Further, a public hearing, for which reasonable notice has been given, must be held. This hearing and process is referred to as TEFRA, after the Tax Equity and Fiscal Responsibility Act of 1982.

The Facilities financed and refinanced with the proceeds of the 2017 Obligations are located within the jurisdiction of the City. Therefore, the City has been asked as a member of the Authority to conduct the public hearing, and to approve the reissuance of the 2017 Obligations as the host governmental unit. The Authority has effectuated proper notice of the hearing via publication in the *Mercury News* at least 7 days in advance and has provided City staff with proof of publication. The 2017 Obligations will be payable solely from amounts received pursuant to the terms and provisions of the loan agreement to be executed by the Authority and the School. The City will not be a party to the loan agreement or any other documents in connection with the reissuance of the 2017 Obligations. The 2017 Obligations will not be secured by any form of taxation or by any obligation of either the City or the Authority. The 2017 Obligations do not represent or constitute a general obligation of either the City or the Authority.

The holding of the TEFRA hearing and the adoption of the resolution approving the Authority's reissuance of the 2017 Obligations do not in any way constitute the City's approval of any land use entitlements for the Facilities. At the time of the prior financing in 2017, the 2017 Obligations were structured with a relatively short term and a final maturity date of July 1, 2032. This was based on the School's assumptions at that time. The COVID-19 pandemic has created uncertainties for many independent schools, including the School. The School's earlier assumptions for a rapid payment of the 2017 Obligations are no longer valid. Due to the effects of the pandemic on economic activity and interest rates, the lender for the 2017 Obligations has offered the School a reduction in the interest rate for the 2017 Obligations and a longer amortization period. The School is ready to take advantage of the lender's offer to help restructure the 2017 Obligations to meet the challenges of the pandemic.

The tax-exempt reissuance of the 2017 Obligations cannot proceed without the City's approval.

## **CONCLUSION**

Conducting the TEFRA Hearing will authorize the CEDA to reissue the 2017 Obligations for the benefit of the School to reduce the interest rate on the financing and extend the amortization period.

### **EVALUATION AND FOLLOW-UP**

This action will facilitate the reissuance of the 2017 Obligations by the Authority and requires no follow up with the City Council.

### **CLIMATE SMART SAN JOSE**

The recommendation in this memo aligns with one or more Climate Smart San José energy, water, or mobility goals.

### **PUBLIC OUTREACH**

The TEFRA hearing to be held as part of the action items on the September 15, 2020 Council Agenda is a method of notifying the community of the Authority's intent to issue tax-exempt private activity obligations for the Facilities. The public hearing notice is scheduled to be published in *The Mercury News* on or about September 4, 2020 announcing the time and location of the public hearing. This memorandum and the proposed resolution will be posted to the City's Council Agenda website for the September 15, 2020 Council Meeting.

### **COORDINATION**

This memorandum has been prepared in coordination with the City Attorney's Office and the Planning, Building and Code Enforcement Department.

### **COMMISSION RECOMMENDATION/INPUT**

No commission recommendation or input is associated with this action.

### **COST IMPLICATIONS**

There is no fiscal impact to the City. The adoption of the resolution approving the financing of the Facilities and the reissuance of the 2017 Obligations complies with the requirements of Section 147(f) of the Code. The City does not bear any responsibility for the tax-exempt status of the interest on the 2017 Obligations, the debt service on the 2017 Obligations or any other matter related to the 2017 Obligations.

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September 1, 2020

**Subject: TEFRA Hearing for Valley Christian Schools**

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**CEQA**

Valley Christian Schools Planned Development Rezoning Environmental Impact Report  
(Resolution No. 76915), and Addenda thereto, File No. PDC12-12-012.

Mitigated Negative Declaration for the Valley Christian Elementary School. File No. CP01-06-047.

/s/

JULIA H. COOPER

Director of Finance

For questions, please contact Nikolai J. Sklaroff, Deputy Director, Debt & Treasury Management at (408) 535-7832.