



City of Costa Mesa

Agenda Report

77 Fair Drive
Costa Mesa, CA 92626

File #: 22-678

Meeting Date: 5/17/2022

TITLE:

CONDUCT TAX EQUITY AND FISCAL RESPONSIBILITY ACT (TEFRA) HEARING, ADOPT A RESOLUTION APPROVING THE ISSUANCE CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY REVENUE OBLIGATIONS FOR THE BENEFIT OF VANGUARD UNIVERSITY OF SOUTHERN CALIFORNIA IN AN AMOUNT NOT-TO-EXCEED \$30,000,000

DEPARTMENT: ECONOMIC AND DEVELOPMENT SERVICES DEPARTMENT/PLANNING DIVISION

PRESENTED BY: DANIEL INLOES, ECONOMIC DEVELOPMENT ADMINISTRATOR

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RECOMMENDATION:

Staff recommends the City Council:

1. Conduct a public hearing as required by Section 147(f) of the Internal Revenue Code of 1986 to receive comments relating to the issuance by the California Enterprise Development Authority (the "Authority") of not to exceed \$30,000,000 in the Authority's Revenue Obligations (the "Obligations") for the benefit of Vanguard University of Southern California, a California nonprofit public benefit corporation (the "Borrower").
2. Adopt a Resolution approving the issuance of the Obligations by the Authority to finance and refinance the Facilities for the benefit of the Borrower.

BACKGROUND:

California Enterprise Development Authority (CEDA)

CEDA (hereafter the "Authority") is a joint exercise of powers authority (JPA) established by the California Association for Local Economic Development (CALED) whose purpose is to issue tax-exempt and taxable conduit revenue bonds to fund commercial and industrial development projects within member jurisdictions. Federal and state laws provide the ability for cities and counties to join together under cooperative agreements to form joint powers authorities to issue tax-exempt and taxable bonds to fund projects that provide a public benefit and serve the needs of residents within the jurisdictions of the participating members. Cities and counties in California utilize joint powers authorities primarily for economies of scale, to access specialized transaction knowledge and resources, and to avoid using valuable local staff time on these types of transactions.

The Authority is a joint powers authority created by the cities of Selma, Lancaster and Eureka. There are approximately 200 cities and counties who are associate members of the Authority. The Authority's activities are dedicated to providing economic development assistance to member jurisdictions as an extension of the economic development assistance provided by CALED to its members. The City became an associate member of the Authority on September 3, 2019. As an Associate Member of the Authority, the City is eligible to participate in the Authority's programs.

The Borrower

The Borrower and the Authority have requested that the City conduct a Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA") hearing and approve a resolution in accordance with Internal Revenue Code Section 147(f) authorizing the issuance of tax-exempt obligations by the Authority in an amount not to exceed \$30,000,000. A TEFRA hearing is required by the Internal Revenue Code ("Code") before tax-exempt debt can be issued for the benefit of a private nonprofit corporation. The hearing gives the public an opportunity to comment on the use of tax-exempt funds by the Borrower.

The proceeds of the Obligations will be used to finance and refinance the construction, development, improvement, installation, equipping and furnishing of certain educational and ancillary facilities located at the Borrower's Vanguard University of Southern California campus at 55 Fair Drive and 2374 Newport Boulevard in Costa Mesa (the "Campus"), including, but not limited to, an approximately 61,000-square-foot gymnasium/event center with locker rooms, a weight room, athletic training room and various athletic offices, classrooms, laboratories and administrative offices, and other campus improvements (collectively, the "Facilities"). The proceeds of the Obligations will also be used to pay certain costs of issuance and capitalized interest in connection with the issuance of the Obligations.

Founded in 1920, the Borrower is a Section 501(c)(3) organization and owns and operates a private university with an enrollment of approximately 2,250 students in connection with its charitable religious purposes. The Facilities will enrich the lives of students on the Campus and help improve the Borrower's programs in the City.

The issuance of the Obligations as tax-exempt will reduce financing and debt service costs for the Borrower. In order to satisfy the requirements for the obligations to be issued as tax-exempt, an applicable elected representative, which is also a member of the Authority, is required to conduct the TEFRA hearing and approve the issuance of the tax-exempt obligations in accordance with Section 147(f) of the Code. The City Council of the City of Costa Mesa constitutes an applicable elected representative under Section 147(f) of the Code.

A public notice of the public hearing was published on behalf of the City at least seven days prior to the hearing in the *Daily Pilot* newspaper by the law firm of Kutak Rock LLP.

ANALYSIS:

Vanguard University of Southern California has operated in Costa Mesa at 55 Fair Drive since 1950. A Master Plan for the future expansion of Vanguard University of Southern California was approved by the City Council on February 19, 2019 by a 5-2 vote (Councilmembers Marr and Reynolds voting no). The Master Plan allowed for the overall expansion of the university including additional administrative buildings, additional classroom buildings, and student housing, a parking structure,

and campus beautification and infrastructure upgrades. Once constructed, the additions to Vanguard University of Southern California will constitute a substantial addition to the university and increase the footprint of educational facilities within the City of Costa Mesa.

CEDA currently has over 16 member cities in Orange County, which include Newport Beach, Huntington Beach, Irvine, and Santa Ana. Partnering with CEDA allows for qualified projects to receive fiscal support through this joint powers authority to ensure qualifying projects are built. Qualifying projects include non-profit facilities, manufacturing facilities and clean energy upgrades.

Supporting the issuance of Obligations to Vanguard University of Southern California will increase the potential success of the project, expedite the construction process, and help to build and open this community educational resource.

A previous TEFRA hearing for this project was held on March 3, 2020 where City Council approved a resolution approving the issuance of tax-exempt obligations by the California Enterprise Development Authority (CEDA) in an amount not-to-exceed \$42,000,000 to finance and refinance certain facilities for the benefit of Vanguard University of Southern California, a California nonprofit public benefit corporation. This TEFRA hearing is for a second hearing and approval from the City of Costa Mesa as an applicable representative body so Vanguard University of Southern California might secure additional financing through CEDA.

ALTERNATIVES:

The City Council could decide not to approve the Resolution and Vanguard University of Southern California would need to seek authorization from another applicable elected representative body such as the County of Orange or secure a different financing source for its campus at 55 Fair Drive.

FISCAL REVIEW:

There is no fiscal impact to the City. The adoption of the Resolution approving the financing and refinancing of the Facilities and the issuance of the Obligations complies with the requirements of Section 147(f) of the Internal Revenue Code of 1986. The City does not bear any responsibility for the tax-exempt status of the interest on the Obligations, the debt service on the Obligations or any other matter related to the Obligations.

LEGAL REVIEW:

The City Attorney's office has reviewed the Agenda Report and Resolution and approves it as to form.

CITY COUNCIL GOALS AND PRIORITIES:

This item is administrative in nature.

CONCLUSION:

Staff recommends the City Council:

1. Conduct a public hearing as required by Section 147(f) of the Internal Revenue Code of 1986 to receive comments relating to the issuance of the Obligations by the Authority to finance and

refinance the Facilities.

2. Adopt a Resolution approving the issuance of the Obligations by the Authority to finance and refinance the Vanguard University of Southern California Facilities for the benefit of the Borrower.