West Covina Not Selling City Hall

Will Refinance Bonds for Civic Center Renovation

By JOE BLACKSTOCK
Staff Writer

West Covina will not "sell" its City Hall to pay for renovation of the civic center but instead will refinance existing bonds for the work.

The City Council this week decided to ask the board that issued the original civic center bonds to issue $20.6 million in new securities to pay for the $3.1 million renovation.

While the project has been scaled down from original proposals, the plan still calls for an unusual financing method that may run afoul of federal tax laws.

To be constructed is a communications building just south of City Hall, together with an expansion of offices and a basement in the police building and minor alterations and repairs at City Hall.

An Upland firm, Berry Construction Co., was awarded the construction contract by the council this week for a low bid of $2.12 million, about $400,000 under projections. The rest of the $3.1 million will be used for architectural work, contingencies, furnishings and other costs.

The city will ask the County-West Covina Civic Center Authority to issue the bonds rather than the redevelopment agency.

At a meeting on April 30, Councilman Forest Tennant expressed reservations about the agency being involved in the sale proposal and asked if the joint-powers authority could serve the same purpose.

Assistant City Manager Leonard Eliot said the bond consultant has agreed the county-city board could issue the bonds, called certificates of participation. It would serve as leasing agent just as it has since the civic center was built in 1969, so no sale was necessary.

The council has been shown numerous alternatives on financing the plan from large bond issues down to simply paying for the work with cash now in the bank. The latter idea was judged too expensive over the next 30 years because of the significant interest that cash would otherwise generate during that time.

"Even though my conservative background tells me that I should just buy what I can afford, I realize that using full cash in this would cost us money," said Councilwoman Nancy Manners.

"This way, we're really making money on our money."

The complicated proposal is:

- If the civic center authority agrees, certificates of participation will be issued for $20.6 million (which is scaled down from an earlier proposal for a $36 million issue) at an interest rate near 10 percent.
- From the proceeds, about $9 million would be spent equally for construction, to retire existing bonds on the civic center and to issue the new bonds.
- The city will use the remaining $11 million to buy 30-year treasury notes currently yielding nearly 13 percent. The interest from the notes will generate a large portion of the annual payment needed to retire the civic center authority's new bonds.
- In order to get around federal arbitrage laws — which stops a city from issuing low-interest, tax-free bonds and then buying higher-interest bonds for longer than three years — West Covina proposes to sell itself the $11 million in notes within three years. The purchase would be paid for from contingency funds representing six years of capital improvement projects.
- With the proceeds from the "sale," the city would complete the $11 million in projects in the next three years.

The city's annual cost for paying off the existing bonds on the civic center is $306,000. Eliot said the average annual cost for the new proposal will be about $380,000.

At the end of the 30 years, the city would also still have the original treasury notes in its possession. They could even be sold off before the 30 years to pay off the debt earlier.

The council approved the plan this week without further comment about an opinion issued by the Internal Revenue Service that the plan may still be considered as arbitrage.

In March the Tribune obtained a two-page IRS opinion that the selling of the treasury notes to itself did not resolve the arbitrage problem. Because the notes never would leave the possession of the city, arbitrage would still exist, according to the IRS.

However, bond consultant William W. Reynolds in April said he talked with bond attorneys and experts who disagreed with the IRS statement, which was not a binding opinion.

In any case, if arbitrage is declared, the bond counsel, Jones Hall, Hill & White, and consultant, Rauscher Pierce Refsnes, Inc., both of San Francisco, would be liable for damages, not the city or civic center authority, he said.

Harvey Krieger, chairman of the civic center authority, said Wednesday his board would be willing to listen to the city's request to issue the certificates of participation.

A joint meeting of the City Council and authority in the near future to discuss the proposal will likely be scheduled, he said.