

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)
INFRASTRUCTURE STATE REVOLVING FUND (ISRF) PROGRAM**

STAFF REPORT

EXECUTIVE SUMMARY

Name of Applicant: City of Capitola	Requested Financing Amount:	\$1,372,500
Name of Project: Pacific Cove Parking Lot Project	Requested Financing Term:	20 years
Project Address: 426 Capitola Avenue, Capitola, CA 95010	Interest Rate:	2.26%
	Tier:	Tier 1
Leased Property Addresses: 430 Kennedy Drive, Capitola, CA 95010		
Project Description: The Project consists of the relocation of mobile homes and mobile home tenants from Pacific Cove Mobile Home Park, and construction of a new parking lot facility on the vacated land and related appurtenances, construction of a walkway to an adjacent existing City-owned parking lot, and installation of signage and pay meters in both parking lots and elsewhere in the City. The Project also includes the relocation of a City-owned mobile home to a location adjacent to the new parking lot to provide additional storage and office space.		
Use of Financing Proceeds: Proceeds will be used for construction, construction contingency, engineering, permits, environmental assessment, title insurance, appraisal and I-Bank fees. The proceeds will not be used for tenant or mobile home relocation costs.		
Source of Repayment: General Fund	Form of Financing Agreement: General Fund Lease Agreement	
Scoring Criteria:	Score	
Project Impact	30	
Community Economic Need	0	
Land Use/Environmental Protection/Housing Element	40	
Leverage	15	
Readiness	<u>10</u>	
TOTAL	95	
I-Bank Staff: Tad Thomas	Date of Staff Report: June 12, 2013	
Date of I-Bank Board Meeting: June 18, 2013	Resolution Number: 13-07	
Staff Recommendation: Staff recommends approval of Resolution No. 13-07 authorizing financing to the City of Capitola in an amount not to exceed \$1,372,500 for the Pacific Cove Parking Lot Project subject to conditions contained therein.		

PROJECT DESCRIPTION

The City of Capitola (City) is requesting ISRF Program financing for the Pacific Cove Parking Lot Project (Project), which includes the relocation of mobile homes and mobile home tenants from Pacific Cove Mobile Home Park (Park) under a City-approved relocation plan (Relocation Plan), and construction of a new parking lot facility on the vacated land (Lower Parking Lot) and related appurtenances, construction of a walkway to an adjacent existing City-owned parking lot (Upper Parking Lot), and installation of signage and pay meters throughout the Village (defined below). The Project also includes the relocation of one of the purchased mobile homes to the Lower Parking Lot to provide additional storage. The Lower Parking Lot and the Upper Parking Lot are located behind City Hall at 426 Capitola Avenue, in an area that is commonly referred to as Capitola Village (Village). The Village is largely a quaint seaside destination with beach, commercial, retail, and restaurant establishments that serve visiting tourists and local residents throughout the year (Exhibit 1–Project Location).

The Project consists of the following components:

- Park mobile home tenant and mobile home relocation pursuant to the Relocation Plan. This Project component is complete and was independently financed by the City through a Lease and Sublease Agreement between the City and Public Property Financing Corporation of California dated on March 23, 2012 (PPFC Agreement).
- Construction of Lower Parking Lot paving, curbs and gutter, drainage, shuttle stops, the renovation of an existing public bathroom, installation of lighting and landscaping, and construction of walkways in both the Lower Parking Lot and the Upper Parking Lot.
- Installation of signage and pay meter stations in the Lower Parking Lot, Upper Parking Lot and throughout the Village.
- Relocation of a City-owned mobile home in the Lower Parking lot to provide additional storage for the City.

The Lower Parking Lot site was originally developed in 1875 near Noble Gulch Creek as a campground along with the Southern Pacific Railway, and was thereafter used for several decades as a campground. The City's application states that in the 1960's the site officially became the Pacific Cove Mobile Home Park. The Park was acquired by the City in 1984 for the express purpose of converting it into a public parking facility at a later time.

On March 24, 2011, the City was hit by a two-day rain storm that caused the failure of a 72-inch corrugated metal drainage pipe that conveys Noble Gulch Creek under the Park (Flood Disaster). Once the pipe ruptured, water eroded the soil, creating a sinkhole directly under a mobile home that sent a torrent of water down Capitola Avenue and into the Village. The cleanup was extensive and Village businesses were closed for more than a week. A portion of the broken pipe was immediately repaired by the City with remaining portions left unrepaired. In September 2012, the City hired V&A Consulting Engineers (V&A) to re-inspect the remaining unrepaired pipe sections. V&A concluded that unrepaired sections of the pipe had corrosion that could compromise and develop new sink holes and recommended that the unrepaired pipe sections be repaired. Repairs were completed by JW Ebert Corporation and a Notice of Completion was recorded on April 9, 2013.

According to the City, due to the extent of the repairs needed to reconstruct the Park and the requirements to comply with updated health and safety codes, it was not economically feasible to reconstruct the Park. The City decided to relocate the mobile home residents and the mobile homes and instead construct the additional parking lot facility on the vacated Park site.

The City's has analyzed its parking situation and economic development needs in many studies over the years. The studies showed that traffic congestion was a hazard to local residents and visitors and also contributed to excessive exhaust fumes impacting air quality. In regards to parking, one study dated December 2008 entitled "Parking Analysis for the Capitola Village Area" (2008 Parking Study), RBF Consulting observed that when parking spaces in the Village were no longer available, vehicles circulate around the Village multiple times attempting to find parking that created congestion. The 2008 Parking Study attempted to better match parking supply with demand in the Village and to plan for future development under a Local Coastal Plan as required by the Coastal Commission (new laws required greater beach access to the public). The 2008 Parking Study estimated a parking shortfall of 176 spaces. The 176 space shortfall was based on an estimated 1,036 of parking spaces available and a peak parking demand of 1,212 spaces in the Village. This estimate only identified the minimum amount of parking needed at peak demand without growth, and without any parking to address traffic problems in the Village.

The City Traffic and Parking Commission (Commission) also conducted a study in 2009 that considered a number of options to meet the City's parking needs. One option was to construct a multi-story parking garage next to City Hall. The second option was to develop surface parking in the Park. A more recent report called a "Report on Parking Expansion Alternatives for the City of Capitola" dated April 14, 2010 and issued by the Commission estimated the need for additional parking spaces could be as high as 799 to provide for optimal traffic circulation and to accommodate a potential future hotel and new Esplanade Pedestrian Plan.

In regards to the City's economic development needs, the City's application included a letter dated May 21, 2009, to the United State Department of Commerce Economic Development Administration, in which the City acknowledged that, "[t]he City of Capitola, once the retail center to Santa Cruz County, has over the last ten years experienced a significant decline in its sales tax revenue and job base." The letter further stated that major retail anchors in Capitola mall had entered into bankruptcy and an auto dealership has moved from the City. The letter explained that in an effort to address the changing retail environment, the City prepared an Economic Development Strategy (Strategy) dated March 5, 2012, and that the Strategy identified several opportunities to enhance the City's local economy. One such opportunity included expanding the uses and business opportunities of the Village that require additional parking to stimulate the local economy. Because the Village is considered a highly desirable tourist destination and is frequented by both local and regional residents, and because customer parking patterns show that the primary use of the parking is for retail, restaurant, beach and residential purposes, the City reports that the Project will facilitate economic development in the Village. So desperate is the need for additional parking for the community that the Commission determined that expansion of public parking serving the Village should be one of the City's highest priorities.

Given the Flood Disaster expenditures, the economic uncertainty since the U.S. fiscal crisis of 2008 and the need to enhance its local economy with expanded business opportunities, and the high cost of building a multi-story parking garage, the City's application states the City Council decided in March 28, 2013 to proceed with the Project. The Project will provide an additional 226 additional spaces, and is a first step to addressing the need for additional parking in the Village and to alleviate traffic congestion, reduce automobile emissions, alleviate pedestrian hazard and improve the quality of life for local residents.

PROJECT SOURCES AND USES OF FUNDS

The table below outlines the Project sources and uses:

Project Uses	Project Sources		
	I-Bank	Capitola	Total
Construction & Contingency	\$1,230,000		\$1,230,000
Engineering/Planning/Permits/Environmental/Title Insurance/Appraisal	\$130,833		\$130,833
Capitola Relocation Plan		\$2,390,000	\$2,390,000
Origination Fee	\$11,667		\$11,667
Total	\$1,372,500	\$2,390,000	\$3,762,500

The City submitted a copy of Resolution 3953, adopted on April 11, 2013, committing an amount not to exceed \$2,390,000 to the Project, which financing was borrowed from Public Property Financing Corporation of California pursuant to pursuant the PPFCA Agreement.

ELIGIBILITY CRITERIA

The City and the Project meet all of the ISRF Program statutory and supplemental threshold eligibility criteria.

GENERAL CITY INFORMATION

The City, incorporated as a General Law City in 1949, is a small coastal community located, on the northern edge of Monterey Bay, 35 miles north of Monterey and 75 miles south of San Francisco, in Santa Cruz County (County). The City occupies approximately two square miles and serves a population of 9,981.

The City operates under a City Council-City Manager form of government. The Council is comprised of four Council Members and a Mayor, all of whom are directly elected by the citizens. The Council Members serve four-year staggered terms; and the Mayor and Vice-Mayor are elected annually by the Council. The Council has the authority to establish all laws and regulations with respect to municipal affairs, subject only to the limitations of the City Municipal Code and State law.

The City Council appoints a City Manager to serve as the City's chief administrative officer. The City Manager provides direction and leadership to all City departments and ensures that all City Council policies are implemented. The City provides police protection, street, park

and facilities maintenance; recreation, building, planning, zoning, administrative, and financial services. Independent special districts provide fire protection, water, sewer, and drainage services.

The City is host to numerous events, including the Begonia Festival, Capitola Art and Wine Festival, and the annual Wharf to Wharf race. The City offers fishing and boating services in addition to its beachfront restaurants, shops, and entertainment. Other visitor and tourist attractions include the Capitola Historical Museum and Capitola Wharf. The County's tourism industry, which employs as estimated 5,400 people with an annual payroll in excess of \$80 million, is an important industry within the county and especially the City. A majority of tourist related businesses, including motels, restaurants and amusements, are located within the City limits and within nearby City of Santa Cruz, which are the two prime tourist destinations in the County.

CREDIT ANALYSIS

Source of Financing Repayment

Source of Revenue to Repay Proposed ISRF Program Financing:	General Fund (Fund)
Type of Audited Financial Documents Reviewed:	<input checked="" type="checkbox"/> Comprehensive Annual Financial Reports (CAFR) <input type="checkbox"/> Basic Financial Statements (F/S) <input type="checkbox"/> Other:
Audit Years Reviewed.	Fiscal Year End June 30 (FYE) :2010; 2011; 2012
The auditor's reports for all years indicate that the financial statements present fairly, in all material respects, the financial position of the City, and that the results of its operations and the cash flows are in conformity with generally accepted accounting principles.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No.
Adopted Budget(s) Reviewed:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Budget Year(s) Reviewed:	2012-2013

Comparative Balance Sheet Analysis

The City's comparative Governmental Funds Balance Sheet analysis for the City's General Fund (Fund) for the last three fiscal years is as follows:

City of Capitola Balance Sheet							
	For Fiscal Year Ending (FYE) June 30,	2010		2011		2012	
	Source:	CAFR	%	CAFR	%	CAFR	%
Assets							
Cash and Investments		\$4,302,128	56.8%	\$3,404,776	51.6%	\$2,230,509	38.6%
Accounts Receivable		\$72,996	10%	\$59,874	0.9%	\$82,740	1.4%
Due from Other Governments		\$1,192,556	15.7%	\$1,102,819	16.7%	\$1,301,949	22.5%
Due from Other Funds		\$36,837	0.5%	\$53,157	0.8%	\$198,498	3.4%
Advances to Other Funds (Due from successor agency)		\$1,968,028	26.0%	\$1,968,028	29.8%	\$1,968,028	34.0%
Prepays		\$7,088	0.1%	\$5,519	0.1%	\$2,408	0.0%
Total Assets		\$7,579,633	100.0%	\$6,594,173	100.0%	\$5,784,132	100.0%
Liabilities and Fund Balance							
Liabilities							
Accounts Payable		\$412,496	5.4%	\$832,952	0.1263	\$282,899	4.9%
Accrued Liabilities		\$387,721	5.1%	\$395,096	6.0%	\$256,545	4.4%
Deferred Revenue		\$346,768	4.6%	\$368,671	5.6%	\$418,196	7.2%
Deposits Payable		\$178,866	2.4%	\$238,001	3.6%	\$248,143	4.3%
Total Liabilities		\$1,325,851	17.5%	\$1,834,720	27.8%	\$1,205,783	20.8%
Fund Balance							
Reserved for:							
Prepays		\$7,088	0.1%				
Advances to Other Funds		\$1,968,028	26.0%				
Unreserved, Reported In:							
General Fund		\$4,278,666	56.4%				
Nonspendable				\$1,973,547	29.9%	\$1,970,436	34.1%
Unassigned				\$2,785,906	42.2%	\$2,607,913	45.1%
Total Fund Balance		\$6,253,782	82.5%	\$4,759,453	72.18%	\$4,578,349	79.15%
Total Liabilities and Fund Balance		\$7,579,633	100.0%	\$6,594,173	100.00%	\$5,784,132	100.00%
Total Liabilities to Total Assets		0.17		0.28		0.21	
Total Fund Balance/Total Liabilities		4.72		2.59		3.80	

Fund Total Assets declined \$1,795,501 over a three year period, mainly due the \$2,071,619 decrease in Cash and Investments account that was partially offset by an increase in amounts Due from Other Governments and Due from Other Funds. The City indicates that the decrease in Cash and Investments account was mainly used to finance the costs related to the Flood Disaster. Advances to other Funds represent loans to the former Redevelopment Agency (RDA) that include a \$618,028 debt used to establish the RDA, and approximately \$1.35 million to finance the acquisition of Rispin Mansion (a designated historical property).

Over the last three years, Fund Total Liabilities increased from \$1,325,851 for FY 2010 to \$1,834,720 for FY 2011 and improved to \$1,205,783 in FY 2012. The high increase for FY 2011 was also related the Flood Disaster. Most of the decrease for the last three years was Accounts Payable and Accrued Liabilities.

The City financed the \$1.87 million dollars Flood Disaster repairs with Fund cash on hand and in the Emergency Reserve and a Contingency Reserve accounts. The City's policy regarding Emergency Reserves was first adopted in June 8, 2000 at 5% of General Fund

expenditures to protect against significant one-time cost of which may arise from unpredictable emergency events, and the City's Contingency Reserve was set at 10% of General Fund expenditures. The two reserves permit the Fund to weather unanticipated fiscal hardships without a significant increase in long term liabilities.

The City recently increased the two reserve levels to 10% of Fund expenditures for the Emergency Reserve and to 15% for the Contingency Reserve. The City plans to rebuild both reserves over the next five years by allocating approximately 40% to 45% of the funds generated from the recently passed Measure O (see below) for this purpose. This will place the City in a good financial position to address future hardships.

The Fund Total Fund Balance decreased \$1,675,433 from FY 2010 to FY 2012 resulting from financing deficit in Net Change in Fund Balance (further explained below) for FY 2011 and FY 2012 as well as the Flood Disaster recovery costs. The ratio of Total Fund Balance to Total Liabilities remains average at 3.8 times as of FYE 2012.

Comparative Revenue and Expenditure Analysis

The comparative Governmental Fund Types Statement of Revenue, Expenditures, and Changes in Fund Balances for the last three fiscal years are summarized below:

City of Capitola Statement of Revenues, Expenditures and Changes in Fund Balances						
For Fiscal Year Ending (FYE) June 30,	2010		2011		2012	
Source:	CAFR		CAFR		CAFR	
% Change in Total Revenues				-3.29%		10.91%
Revenues						
Taxes	\$7,688,040	63.9%	\$7,624,970	65.6%	\$8,370,134	64.9%
Licenses and permits	\$589,535	4.9%	\$454,935	3.9%	\$610,940	4.7%
Fines & Forfeitures	\$803,198	6.7%	\$702,045	6.0%	\$724,407	5.6%
Intergovernmental	\$1,090,705	9.1%	\$1,118,889	9.6%	\$1,343,011	10.4%
Charges for Services	\$1,214,082	10.1%	\$1,186,897	10.2%	\$1,472,504	11.4%
Use of Money and Property	\$475,348	4.0%	\$384,744	3.3%	\$289,519	2.2%
Other Revenue	\$162,410	1.4%	\$155,133	1.3%	\$85,894	0.7%
Total Revenues	\$12,023,318	100%	\$11,627,613	100%	\$12,896,409	100%
Expenditures						
General Government	\$2,143,986	17.8%	\$2,874,417	24.7%	\$2,450,483	19.0%
Public safety	\$5,276,037	43.9%	\$5,307,054	45.6%	\$5,306,870	41.1%
Community Development	\$767,123	6.4%	\$700,953	6.0%	\$662,692	5.1%
Culture and Recreation	\$906,222	7.5%	\$898,752	7.7%	\$910,719	7.1%
Transportation	\$1,788,985	14.9%	\$2,015,284	17.3%	\$1,952,097	15.1%
Capital Outlay	\$32,324	0.3%	\$10,696	0.1%		
Debt service						
Total Expenditures	\$10,914,677	90.8%	\$11,807,156	101.5%	\$11,282,861	87.5%
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$1,108,641	9.2%	(\$179,543)	-1.5%	\$1,613,548	12.5%
Other Financing Sources (Uses)						
Transfers in	\$0		\$116,367		\$50,000	
Transfers out	(\$851,449)		(\$714,498)		(\$1,041,302)	
Other Financing Sources (Uses)	(\$851,449)		(\$598,131)		(\$991,302)	
Extraordinary Item						
Flood Disaster Loss			(\$795,304)		(\$622,631)	
Net Change in Fund Balance	\$257,192		(\$1,572,978)		(\$385)	
Fund Balance, Beginning of Year	\$5,996,590		\$6,253,782		\$4,759,453	
Adjustment			\$78,649		(\$180,719)	
Fund Balance, End of Year	\$6,253,782		\$4,759,453		\$4,578,349	

Over the last three fiscal years, Total Revenues increased 7.3%, while Total Expenditures as a percentage of Total Revenues increased by 3.3% over the same period. The City reports that the Flood Disaster contributed to the lower revenues and higher expenditures for FY 2011.

The three major sources of revenue for the Fund are sales tax, property tax, and transient occupancy tax that account for approximately 58% of all Fund operating revenues. Sales tax is the City's largest source of revenue accounting for 40% of the Fund, with property tax as

the second major source of revenue at 13% and the transient occupancy tax represents the third major source of revenue.

The City residents recently approved Measure O (¼ cent sales tax measure) that was designed to provide additional revenue to replenish the City's depleted reserve accounts in response to the Flood Disaster and weak economy. The new revenue will supplement in the short term and eventually replace revenues from the existing Sales Tax Measure D (¼ cent sales tax measure) scheduled to sunset on December 31, 2017. Both sales tax measures currently overlap in FY's 2013 thru 2017, and the additional revenue generated will be used to replenish the City's emergency reserves and fund some capital improvements. The City anticipates reserves will be fully funded in FY 2016. The City reports that it anticipates its financial position should continue to improve with additional sales taxes generated from a new Target store locating in the City, and additional transient occupancy tax revenues due to a new 84 room hotel that recently opened. The City also anticipates it can begin to address a number of delayed capital improvement projects given the passage of Measure O.

The Flood Disaster expenditures are reflected above partially in Transportation expenditure and as Extraordinary Item. Expenditures for Public Safety have remained fairly stable, and Community Development activities have experienced only a minor reduction. Transportation expenditures increased to \$2,015,284 for FY 2011 from FY 2010 due to the Flood Disaster and improved for FY 2012 due to a reduction in work activities by the City's Public Works Department.

Fund Transfers Out are funds used to service the 2007 Taxable Pension Obligation Bonds (2007 POB Bonds), citywide capital improvements and installation of parking meters.

Existing and Proposed Debt

The following table lists the current financial Fund obligations as reported in the City's Financial Application and reported in the CAFRs along with the proposed financing from the ISRF Program lease obligation:

Outstanding Debt	Original Issue Amount	Balance (June 30, 2012)	Total Annual Payment	Maturity
2007 POB Bonds	\$5,040,000	\$3,375,000	\$ 673,263	1-Aug-17
2012 Public Property Fin. Corp. Lease (Relocation Plan)	\$2,390,000	\$2,390,000	\$ 193,006	23-Mar-32
Proposed ISRF Program Lease - 20 Year Term @ 2.26%	\$1,372,500	\$1,372,500	\$ 89,554	1-Aug-33
Total	\$ 8,802,500	\$ 7,137,500	\$ 955,823	

The City Hall and the Upper Parking lot are the leased assets for the PPFC Lease agreement.

The proposed ISRF Program financing will be a lease-lease back obligation with the General Fund as the source of repayment for the proposed lease with annual payments of approximately \$89,554. The term of the lease will be for 20 years.

Budgeting

Staff reviewed the 2012-2013 General Fund budget (Budget) The Budget reflects Total Revenues of \$12,136,500 and Total Expenditures of \$12,165,068 with a slight reduction in the Fund Balance of only \$28,568. According to the City, the additional revenues derived from Measure O were not included in the Budget.

Staff concludes that Total Revenues and Expenditures are consistent with the City's historical performance. The City anticipates it will increase revenues from the transient occupancy tax by about 2% in the current fiscal year.

Leased Assets

The City proposes to enter into an asset transfer lease with the I-Bank and proposes the City's Public Works Corporation Yard (Corporation Yard) located at 430 Kennedy Drive in the City to be the leased asset (Leased Asset) . The Corporation Yard is zoned as a public facility and consists of approximately 189,000 square feet of gross land area with 57,000 square feet of net usable land area; and 6,612 square feet of wood framed improvements. The primary improvements consist of an industrial building with an office area, mud room, restroom and 15 designated parking spaces.

The following table presents data submitted by the City regarding the Leased Asset valuation:

Estimate of Value of Leased Assets					
Name of Asset	Year Built	Total Square Feet	Type of Construction	Estimate of Value	
Public Works Corporate Yard, 430 Kennedy Drive, Capitola, CA 9510	1970	57,000	Land Parcel reconciled rage of approximately \$10.50 per square feet.	Land	\$600,000
		6,612	Industrial building with a combination of concrete block, wood frame, and sheetrock	Building	\$803,832
Leased Asset Value				Total	\$1,403,832
ISRF Program Financing Amount					\$1,372,500
Value of Leased Asset to Financing Amount					102%

The Corporation Yard land includes non-usable hillside and creek terrain. The net usable Corporation Yard land (Land) is comprised of approximately 57,000 square feet (SF) with all City utilities available. Based on an April 17, 2013, appraisal (Appraisal) by Mays & Associates Real Estate Appraisal and Consulting (M&A), the Land was valued at \$10.50 per square foot, which appears to be consistent with a comparable commercial land sale information obtained by the I-Bank (calculated as 57,000 square feet X \$10.50=\$598,500, rounded to \$600,000).

To estimate a value for the Corporation Yard improvements (Building), the City submitted current replacement cost insurance information from Alliant Insurance Services, Inc. (Alliant) reflecting the Building insured replacement value of \$803,832. Further, staff conducted additional discussions with Alliant staff who confirmed that typical construction costs for a structure in the City similar to the Building would be approximately \$150 per square foot. The total footage of the Building equals 6,612 square feet, which would equate to a building replacement value of \$991,800 (\$150 X 6,612 square feet), which is slightly higher than the City's replacement cost insurance value of \$803,832. If an insurance claim were to arise, Alliant has confirmed to I-Bank staff that the insurer would pay Building replacement cost of only up to the insured value of \$803,832. As such, staff utilized the replacement cost insurance information to estimate the value for the Building.

(Note: While the Appraisal also included a value for the Building, staff did not utilize the Appraisal Building value in the chart above since staff concluded that the Appraisal Building valuation was too conservative and not representative of the current Building value due to the fact that: (i) the comparable sales approach was based upon sales in other cities that took place up to two years earlier; (ii) a cost approach that valued the improvements at just over \$87 per square foot; and, (iii) an income approach with an unusually high capitalization rate of 7%. The City in its application placed more reliance on the Alliant replacement cost insurance valuation for the Building and staff agreed.)

As per the above analysis, staff has concluded that the total combined fair market value of Leased Asset is approximately \$1,403,832, for a ratio of 102% of the proposed ISRF Program financing amount and is within the ISRF Program credit criteria.

Stewart Title Company (Title Company) provided preliminary title report (Title Report) for the Leased Asset, and a review of the Title Report finds the property is unencumbered and that the few acceptable exceptions do not material change or adversely impact the value or use of the Leased Asset.

The City completed Comprehensive Environmental Survey for the Leased Asset, and it was disclosed that the Corporation Yard has permits that allow it to store paints, oils, cleaning chemicals, gas and diesel fuel that are customary for this type of site. Staff obtained and reviewed permits and contacted each enforcement agency that included; County Environmental Health Services, Central Fire Protection District and Monterey Bay Unified Air Pollution Control District. No violations currently exist and no outstanding environmental issues were identified.

Compliance with I-Bank Underwriting Criteria

Debt Service Limitation Analysis:

The following chart shows that current and proposed long term Fund obligations do not exceed 15% of total revenues and falls within the ISRF Program Criteria, Priorities, and Guidelines credit criteria:

Total FYE 1012 General Fund Revenues	\$12,896,409
x 15%	<u>0.15</u>
Maximum General Fund Obligations	\$1,934,461
Total Existing General Fund Annual Obligations	\$ 866,269
Proposed Annual ISRF Program Obligation	<u>\$ 89,554</u>
Total General Fund Annual Obligations	\$ 955,823
% General Fund Obligations to Total Program Revenues	7.41%

Essentiality of Leased Assets:

The Leased Asset consists of the Corporation Yard that serves as a service facility for City public works vehicles, fleet services, fueling, and equipment storage and is essential to the City.

Fair Market Value of Leased Assets:

The fair market value of the Leased Asset is estimated at 102% of the requested financing amount and is consistent with the Criteria, Priorities and Guidelines for the ISRF Program.

Repayment Ability:

The sources and diversity of General Fund revenues appears adequate to cover existing expenditures and the proposed ISRF Program lease payment.

LITIGATION, MANAGEMENT AND ENVIRONMENTAL

Litigation/Material Controversy

In its application, the City states that there is currently no outstanding or anticipated litigation or material controversy that would materially affect the Project, the Leased Asset or the ability of the City to repay the proposed ISRF Program lease rental payment.

Project Management

The City’s application indicates that the City Public Works staff has managed multiple projects of similar size and magnitude, including the fact that the Public Works Director has 26 years of experience implementing public infrastructure projects. Over the past decade, the City has completed approximately 50 capital improvement projects totaling expenditures of \$7.8 million. These projects have included a \$1.1 million dollar street improvement project in 2007 and a \$405,000 federally funded American Recovery and Reinvestment Act project in 2010. As such, staff has concluded that the City has sufficient experience to implement and complete the proposed project

California Environmental Quality Act (CEQA)

Project Component	Level Of Required Environmental Clearance	Status Of CEQA Compliance	Filed NOD Received ⁽¹⁾
Lower Parking Lot Development	<input type="checkbox"/> Notice of Exemption <input checked="" type="checkbox"/> Negative Declaration <input type="checkbox"/> Mitigated Neg. Dec. <input type="checkbox"/> Environmental Impact Report (EIR)	<input type="checkbox"/> In Progress Expected date: <input checked="" type="checkbox"/> Adopted/Approved	<input checked="" type="checkbox"/> Yes Filed with County Recorder on: March 29, 2013 <input type="checkbox"/> No Required Prior to First Disbursement

(1) Notice of Determination.

SCORING CRITERIA FOR PRIORITIZING PROJECTS

POINT CATEGORY	ANALYSIS	MAX PTS	PTS
Project Impact			
Job Creation/Retention	The City's application indicated that the City is currently unable to develop a new hotel in the Village without providing additional parking. If the Project is completed and offsite parking is made available, the City can accommodate a new 40-70 room hotel in the Village. The potential employment of the hotel would range between 0.8 staff per room to 1.2 staff per room depending on the quality of the Hotel. Based on World Tourist Organization's recommended staffing levels, a 3 Star or 4 Star hotels requires between 32 to 84 employees that would be employed in the Village. No Study or letters were available to document the projected employment levels created by the Project.	30	0
Economic Base Employers	N/A.	10	0
Community Employment Development Plan	N/A.	10	0
Quality of Life/Community Amenities	The Project is specifically identified in the Strategy mention in the Project Description section. The Strategy found that the lack of parking in the city impacted the City's ability to expand business opportunities in the Village area in order to mitigate the downturn in businesses and the changing retail environment. The 2008 Study also identified the shortage of available City parking supply given the then current needs of businesses and other negative environmental impacts due to the lack of parking. As such, the Project will meet the parking needs of the City for and improve the quality of life of both tourists and residents frequenting businesses in the Village	30	30
Community Economic Need			
Unemployment Rate	The City's 2012 unemployment rate was 6.3%, compared to the State's 2012 unemployment rate of 10.5%.	20	0
Median Family Income	According to the Census American Community Survey's figures 2007-11 (5-year) dated December 6, 2012, the City's median family income was \$65,625 or 93% of the State's comparable median family income of \$70,231	15	0
Change in Labor Force Employment	The City's 2012 change in labor force employment rate grew 1.64% from the prior year, as compared with the State's 2012 change in labor force employment growth rate of 1.99%.	10	0
Poverty Rate	According to the Census American Community Survey's figures for 2007-11 (5-year) data published on December 6, 2012, the City's poverty rate was 10.4% or 28% less than the State's comparable Census poverty rate of 14.4%.	10	0

Land Use, Environmental Protection and Approved Housing Element			
Land Use	The Project will renew and maintain existing urban areas.	20	20
Environmental Protection	The 2008 Study indicated that the lack of parking spaces caused vehicles to unnecessarily circulate around the Village multiple times attempting to find a parking space, and that the traffic congestion creates excessive exhaust fumes and becomes a health hazard to local residents and visitors. The Project is also designed to be a low impact development using porous pavements to treat and detain runoff reducing water quality impacts to the adjacent Noble Gulch Creek. The additional parking will reduce traffic (cars roaming) on city streets, provide better traffic circulation, and reduce carbon monoxide gas emissions from car congestion.	10	10
Housing Element	The City has a Housing and Community Development approved housing element.	10	10
Leverage			
Leverage	The City is contributing \$2,390,000 towards the Project, and the ratio of City funding to the I-Bank financing is calculated at \$2,390,000 to \$1,372,500 for a leverage rate of 1.74:1	15	15
Readiness			
Readiness	The City estimates Project construction to commence July 15, 2013.	10	10
TOTAL		200	95

STAFF RECOMMENDATIONS

Staff recommends approval of Resolution No. 13-07 authorizing financing not to exceed \$1,372,500 to the City of Capitola for the Project subject to the following conditions:

1. **Applicant/Lessee:** City of Capitola.
2. **Project:** Pacific Cove Parking Lot Project.
3. **Amount of Financing:** Not to exceed \$1,372,500.
4. **Funding Availability:** I-Bank's financing commitment is subject to the availability of funds from either, or a combination of, proceeds of a revenue bond issue or I-Bank equity funds. The Lessee shall execute the I-Bank financing agreement within 210 days of I-Bank Board approval date, or the commitment of funds may be cancelled by the I-Bank.
5. **Lease Term:** Not to exceed 20 years.
6. **Repayment:** Lease payments from the General Fund of the Applicant or any other legally available source of funds available to the Applicant.
7. **Security:** Leasehold interest in property owned by the Applicant that is the Public Works Corporation Yard located at 430 Kennedy Drive, Capitola (Leased Asset).
8. **Interest Rate:** 67% of Thompson's Municipal Market Data Index for an "A" rated tax-exempt security with a weighted average life similar to the I-Bank financing based on the rates of June 3, 2013.
9. **Fees:** Financing origination fee of 0.85% of the financing amount, and an annual fee of 0.30% of the outstanding principal balance.
10. **Type of Financing Agreement:** General Fund Lease Agreement between the Applicant and the I-Bank.
11. **Financing Agreement Covenants:** The following are some of the covenants required to be contained in the Lease Agreement:
 - a. The Lessee shall, during the use of the property, covenant to budget and appropriate the lease payment, and to use its best efforts to maintain sufficient General Fund revenues to provide moneys to fund all necessary and appropriate General Fund operations.
 - b. The Lessee shall be authorized to prepay all or a portion of the outstanding principal balance of its lease payments according to the following: 102% of the outstanding principal balance if the prepayment date is on or after ten years, but less than eleven years, from the effective date of the Agreement, or 100% of the outstanding principal amount of the I-Bank bonds to which the Lessee's lease payments are pledged to repay and scheduled to be called for redemption as a result of the prepayment plus accrued interest on the bonds to be redeemed as of the date scheduled for redemption (Redemption Amount), whichever is greater; 101% of the outstanding principal balance if the prepayment date is on or after eleven years, but less than twelve years, from the effective date of the Agreement or the Redemption Amount, whichever is greater; or without premium if the prepayment date is twelve years or more from the effective date of the Agreement or the Redemption Amount, whichever is greater. The Lessee may on any date provide for a legal defeasance of the principal amount outstanding and any additional payment then due.

- c. An agreement by the Lessee to indemnify the I-Bank and its directors, officers and employees from any liability arising from the Lease Agreement or from construction or operation of the Project.

12. Conditions Precedent to Agreement Execution:

- a. Receipt of an opinion of legal counsel to the Lessee that the Lessee has the legal authority to enter into the I-Bank Lease Agreement, that there is no litigation currently pending or anticipated that will have a material adverse effect on the Lessee's ability to make lease payments, and that the Lease Agreement and other financing agreements are legal, binding and enforceable agreements of the Lessee.
- b. Execution by the Lessee of a Facility Lease Agreement, Site Lease and Tax Certificate consistent with the terms contained herein.
- c. Title of the Leased Assets acceptable to I-Bank.

13. Conditions Precedent to Initial Disbursement: The following are some of the conditions, which will be required precedent to the initial disbursement of I-Bank funds:

- a. Evidence of adequate insurance against liability and damage or destruction of the Leased Asset in such amounts and against such risks as are usually covered for similar properties, and use and occupancy insurance and rental interruption insurance for the Leased Assets with the I-Bank named as the additional insured or loss payee, as appropriate.
- b. Evidence of CLTA title insurance.

14. Conditions Precedent to Initial Construction Disbursement: The following are some of the conditions, which will be required precedent to the initial construction disbursement of I-Bank funds:

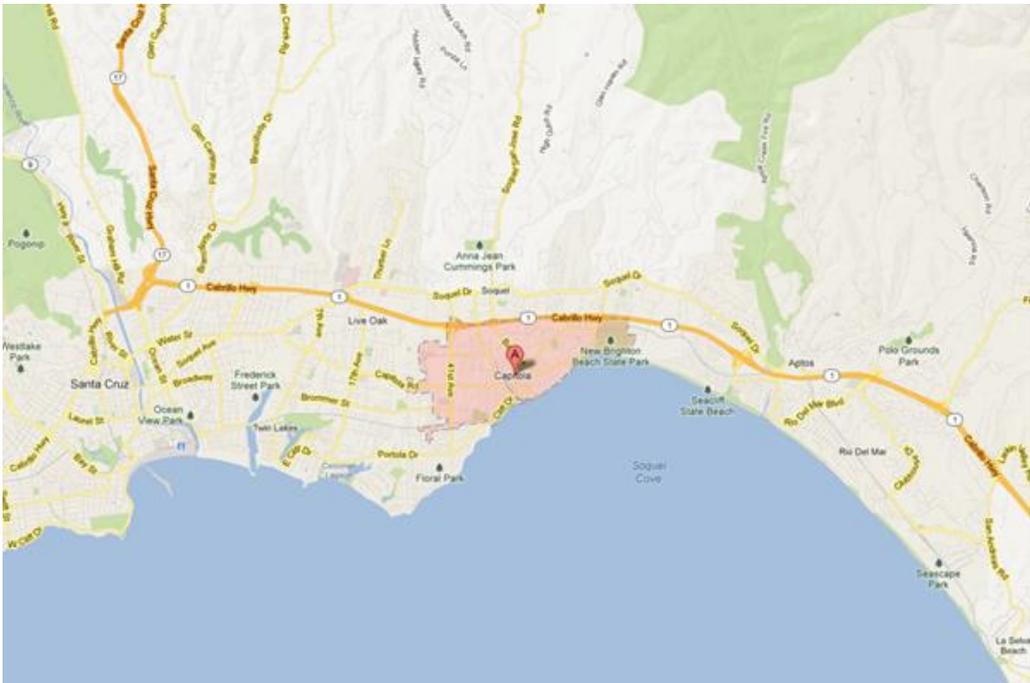
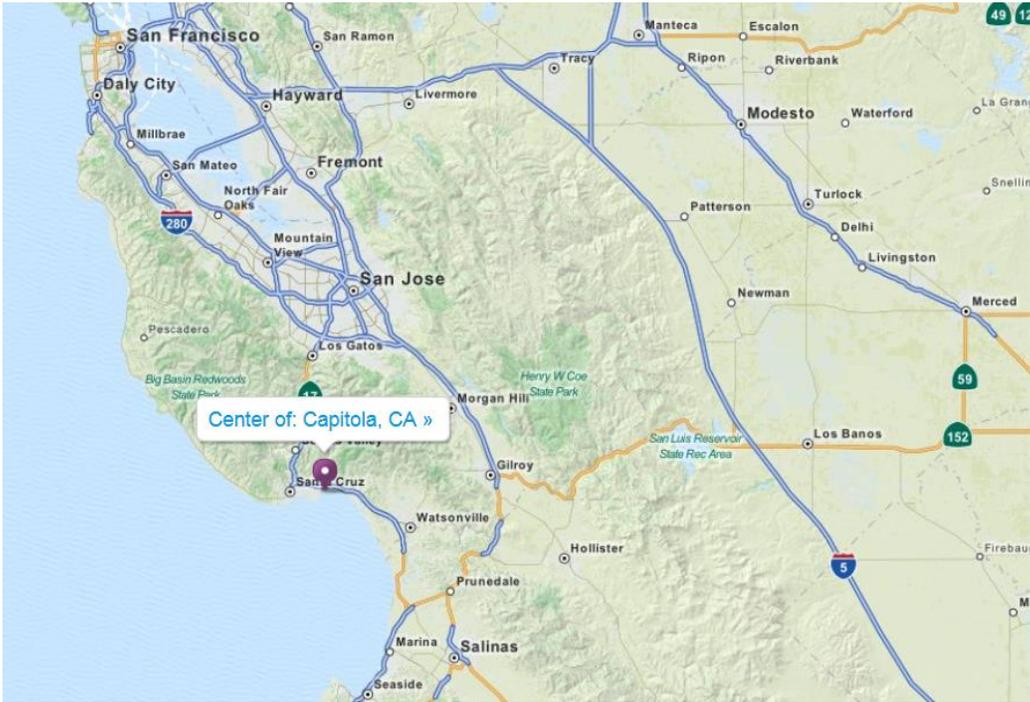
- a. Certifications by the Lessee that all required permits have been obtained for the construction of the Project and/or confirmation that no permits are required.
- b. A written statement by, Lessee's Attorney, or other designated person that:
 - i All construction contracts necessary for the construction of the Project have been awarded pursuant to applicable competitive bidding requirements and the Lessee's procedures normally required for similar construction projects.
 - ii Project costs for the applicable Project component are consistent with the Sources and Uses listed in the staff report presented at the time of adoption of the resolution.
 - iii All prime contracts require appropriate builder's risk insurance and name the Lessee as additional insured and loss payee, require the contractor to maintain liability insurance and name the Lessee as an additional insured, and include performance and payment bond provisions and name the Lessee as additional payee.
 - iv All construction contracts and subcontracts require payment of prevailing wage rates and compliance with Chapter 1 (commencing with Section 1720) of Part 7 of Division 2 of the California Labor Code.
 - v All construction contracts require payment of worker's compensation insurance by contractors and subcontractors.
 - vi All construction contracts include nondiscrimination provisions.

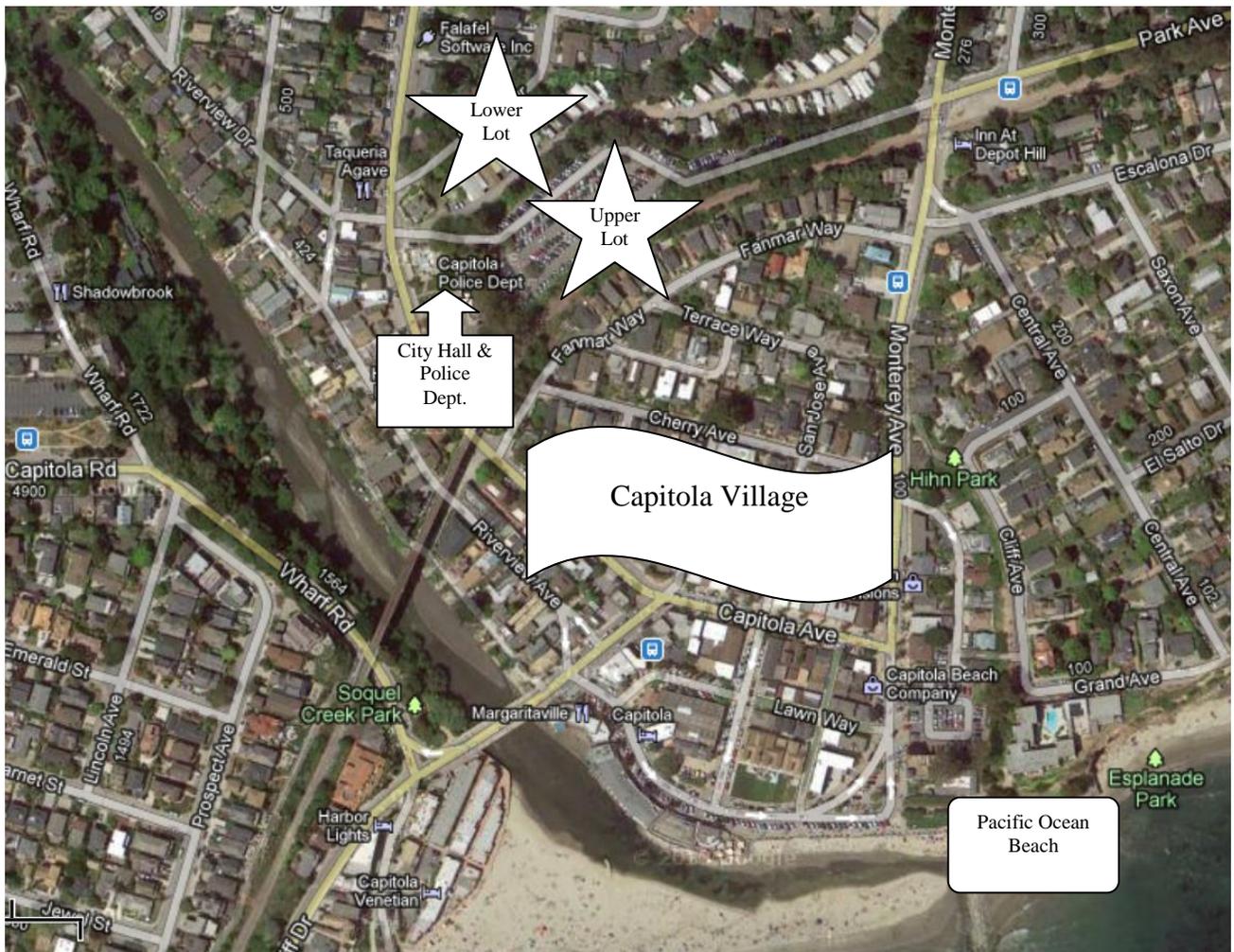
- 15. Conditions Precedent to Final Disbursement:** The following are some of the conditions precedent to final disbursement of I-Bank funds:
- a. Recorded Project Notice of Completion.
 - b. Lien waivers for the Project, or passage of the applicable statutory time periods for filing preliminary lien notices and any subsequent stop notices.
 - c. Certification that the Project has been completed in accordance with the approved plans and specifications, and that the completed Project is consistent with the definition of Project in this staff report and is acceptable to the I-Bank.
 - d. Project operating permits.

16. Financial and Other Reporting Requirements:

- a. Audited annual Lessee financial statements, due to I-Bank within 210 days of fiscal year end, or such other time that is acceptable to I-Bank.
- b. Adopted annual budget of Lessee due to the I-Bank within 60 days of June 30 of each fiscal year.
- c. Other information as I-Bank may request from time to time.

Exhibit 1—Project Location





Lower Parking Lot

