

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)
INFRASTRUCTURE STATE REVOLVING FUND PROGRAM (ISRF)**

STAFF REPORT

EXECUTIVE SUMMARY

Applicant: City of Redlands (City)	Amount Requested: \$3,050,000	Term Requested: 20 years	Interest Rate⁽¹⁾: 3.01%	Project Type: <input checked="" type="checkbox"/> Infrastructure Project <input type="checkbox"/> Economic Expansion Project																							
Repayment Source: City of Redlands Solid Waste Enterprise Fund (Fund)			Fund Rating: AA-																								
Repayment/Security: Senior lien on the Solid Waste Enterprise Fund net revenues on parity with 2013A Bonds.																											
Other Covenants: <ol style="list-style-type: none"> Rates and Charges: minimum 1.25 times aggregate annual debt service coverage for all parity obligations. Future Senior Debt: prohibited. Future Parity Debt: allowed if net revenues (adjusted for rate increases and system expansion) provide aggregate debt service coverage of at least 1.25 times maximum annual debt service on all parity debt, inclusive of the then proposed financing. Reserve Account: If future parity debt requires a reserve account, City to fund a reserve account for the subject debt in an amount equal to the reserve requirement of the parity debt. 																											
Project Name: A portion of the City's Pavement Accelerated Repair Implementation Strategy Project as more fully described below (Streets Project)			Project Location: Various streets throughout the City of Redlands																								
Project Description: The Streets Project consists of upgrading, reconstructing, and rehabilitating approximately 40 lane miles of public streets located in the major economic areas of the City.																											
Use of Financing Proceeds: The proposed financing would provide funding for project construction and contingency, and the IBank loan fee.																											
Streets Project Sources and Uses:																											
<table border="1"> <thead> <tr> <th colspan="4">PROJECT SOURCES and USES</th> </tr> <tr> <th rowspan="2">Uses</th> <th colspan="3">Sources</th> </tr> <tr> <th>I-Bank</th> <th>City</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Construction & Contingency</td> <td>\$3,019,500</td> <td>\$0</td> <td>\$3,019,500</td> </tr> <tr> <td>I-Bank Origination Fee</td> <td>\$30,500</td> <td>\$0</td> <td>\$30,500</td> </tr> <tr> <td>Total</td> <td>\$3,050,000</td> <td>\$0</td> <td>\$3,050,000</td> </tr> </tbody> </table>					PROJECT SOURCES and USES				Uses	Sources			I-Bank	City	Total	Construction & Contingency	\$3,019,500	\$0	\$3,019,500	I-Bank Origination Fee	\$30,500	\$0	\$30,500	Total	\$3,050,000	\$0	\$3,050,000
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I-Bank Staff: Ruben Rojas/Steve Grebner/Diane Cummings			Date of Staff Report: 05/08/2014																								
Date of I-Bank Board Meeting: 5/20/2014			Resolution Number: 14-04																								
Staff Recommendation: Staff recommends approval of Resolution No.14-04 authorizing financing to the City of Redlands for the Streets Project.																											

⁽¹⁾As of April 1, 2014

GENERAL CITY OF REDLANDS INFORMATION

The City of Redlands (City) is located in the southwestern portion of the County of San Bernardino, California, approximately 63 miles east of Los Angeles, along Interstate 10 halfway between Los Angeles and Palm Springs. The City currently covers approximately 36 square miles (Exhibit 2 City of Redlands Area Map). As of calendar year 2012, the City has 69,498 residents, a 12% increase over the 2000 Census. The City is one of Southern California's most historic communities and has one of the most highly educated populations of the cities in California.

The City incorporated in 1888 as a General Law city, and operates under a Mayor and City-Council system. Five Council members are chosen at large by the electorate. Members serve four year staggered terms, with elections occurring every two years. The mayor is elected by a majority vote of the Council.

The City's economy is based largely in the service and trade sectors, and light manufacturing. The City is home to a mix of businesses ranging from international headquarters of geographic information systems giants, Environmental Systems Research Institute (ESRI), to the western headquarters of La-Z-Boy, and the University of Redlands. The City offers a good transportation system, including Omnitrans bus system which handles the bus service for the area. The San Bernardino line of the Greater Los Angeles regional transportation system called Metrolink has stops in nearby San Bernardino and development has already begun on rail connections within the City. Numerous airports are located near the City. Redlands Municipal Airport is located on the Northeastern end of the City, LA/Ontario International Airport is approximately 20 miles west of the City, and the San Bernardino International Airport, located in the City of San Bernardino, is on the Northwestern border of the City.

San Bernardino County, together with adjacent County of Riverside, comprises what is known as the Inland Empire. The Inland Empire region is located immediately to the east of the Los Angeles-Orange County metropolitan area and has been one of the fastest growing regions in the United States, a trend that is expected to continue through the next decade.

PROJECT DESCRIPTION

The City of Redlands (City) requests Infrastructure State Revolving Fund Program (ISRF Program) funding to finance a portion of the City's Pavement Accelerated Repair Implementation Strategy (the PARIS Project) , which represents approximately 10% of the PARIS Project. The proposed IBank-financed portion of the PARIS Project is referred to in this report as the Streets Project. Through the PARIS Project, the City plans to upgrade, reconstruct, and rehabilitate approximately 440 lane miles, or a little over 2/3 of all City streets, as prioritized by the City's Pavement Management Program (PMP). Priorities were based on the age of the streets, street condition, use of streets determined by vehicle miles traveled, and proximity to school or health facilities. The street network within the City includes over 292 street miles, or approximately 640 lane

miles of paved streets. The Streets Project will address needed improvements for approximately 40 lane miles as identified in the PARIS Project (See Exhibit 1).

The Streets Project consists of the following components:

- Pavement upgrading.
- Reconstruction and rehabilitation of City streets.
- Street improvements that are identified in the City's Pavement Management Program (PMP).
- Street improvements that are identified in the City's Pavement Accelerated Repair Implementation Strategy (PARIS).
- Other components necessary or desirable in connection with an infrastructure project of this type consistent with the applicable requirements of the IBank Act and the Criteria, Priorities and Guidelines for the ISRF Program (ISRF Criteria).

In February 2012, the City's Municipal Utilities and Engineering Department (MUED) completed the PMP report, which is the result of MUED's assessment of the condition of all City streets and guidelines for prioritization of street maintenance work. In developing the PMP, MUED evaluated and rated the physical condition of the City thoroughfares and estimated each street's remaining useful life. MUED used eRoad Pavement technology, an automated pavement evaluation system, to create a database of the current inventory of street conditions, treatment options, and cost estimates for each treatment available. With the use of eRoad, MUED determined that the City streets' average Pavement Condition Index (PCI) had dropped to 53 on a scale of 0-100; 0 being a street needing full reconstruction, and 100 being a new street. An average PCI of 53 is considered poor according to industry standard and in comparison to surrounding cities. The City's objective is to increase the PCI to approximately 80 in five years.

With the above results, MUED further identified a schedule for maintenance and reconstruction of City streets at appropriate time intervals in order to extend the streets' overall life-expectancy in the most efficient and economical manner. The PMP was presented to and adopted by City Council (City Council) on March 6, 2012.

On July 17, 2012, City staff presented the final component of the overall citywide pavement upgrade strategy, the PARIS report, to City Council. The PARIS report provides an engineering perspective of how to control pavement degradation efficiently and at an accelerated pace to stop the rapid degradation rates of the streets. As a result of the referenced studies, the City will improve 440 lane miles within the next five years, rather than the 15 years planned prior to the studies, and at a lower cost, thereby reducing the overall cost of the PARIS Project.

As the final step in the applicable legal process, on December 4, 2012, the City Council adopted Ordinance No. 2787, which increased its solid waste rates and charges, and authorized the use of certain revenues resulting from such increases for payment of PARIS Project costs.

The City proposes to pledge the net system revenues of its Solid Waste Enterprise Fund for the repayment of the proposed financing and to do so on parity with existing bonds issued by the City in 2013 to finance a portion of the PARIS Project. Those bonds are described below under Credit Analysis.

SYSTEM DESCRIPTION

The City owns, operates, and maintains a network of approximately 292 asphalt concrete paved street miles, or 640 lane miles. The City also owns and operates the City's Solid Waste Department (System), which provides automated refuse, recycling, and green waste collection to residential units; commercial bin and recycling services to businesses; roll-off bin service, which can be rented on a weekly basis; a drop-off center; clean-up of illegal dumping; educational activities with schools; and other solid waste education for residents and businesses. The System consists of all properties, structure, and works required for the conveyance and treatment of solid waste. The System is charged an annual assessment for deterioration of City streets caused by the Department's vehicles.

The Council sets bi-monthly System charges, which users are required to pay per Chapter 3.66 of the City's Municipal Code. Residential accounts are picked up once a week; whereas, commercial accounts are generally picked up multiple times per week. Users can pay via cash, check, ACH, or credit card. Service is discontinued if payment is not received 28 days after the due date.

System Capital Improvements. As stated above, the System is charged an annual assessment for deterioration of City streets caused by the Department's vehicles. Since the Streets Project will improve approximately 40 lane miles, or a little over 2/3 the City's total lane miles; the City proposes to use net revenues from the City's Solid Waste Fund (Disposal Fund) to service the debt on the proposed Streets Project.

TKE Engineering, Inc. (TKE) provided the Pavement Deterioration Analysis Report, September 18, 2012, to the City. TKE found that solid waste vehicles account for the highest vehicle loading factor on residential streets and, as such, are a major contributor to residential street deterioration. TKE monetized such deterioration at an annual, citywide cost of \$3.6 million.

The City engaged R3 Consulting Group, Inc. (R3) to determine the rate adjustment necessary to cover the cost of an increased annual Road Impact Fee being assessed on the Department. R3 provided two options: (1) a single rate increase, and (2) a multi-year, stepped increase, to lessen the rate shock and to keep the City's rates in-line with neighboring jurisdictions. The City accepted option 2, which proposed rate increases of 11.01%, 11.49%, and 11.59% effective in FYs 2013, 2014, and 2015, respectively.

City staff issued the required Proposition 218 process notices (Notice) necessary for the Disposal Fund rates increases required to support the PARIS Project. The Notice attributes more than 38% of damage done to City streets each year to solid waste vehicles. The Notice included a proposed schedule of rates and charges. Not having

received written protests against the proposed increases from a majority of parcels subject to the revised schedule of rates and charges, the Council adopted the revised schedule of rates and charges as included in the Notice and issued Ordinance No. 2787 effective February 1, 2013.

NUMBER OF USERS BY CATEGORY				
For Fiscal Year Ending (FYE) June 30,	2010	2011	2012	2013
Residential	18,759	17,082	16,093	17,850
Commercial	1,183	1,153	1,176	1,164
Total	19,942	18,235	18,079	19,014
% change		-8.6%	-0.9%	5.2%

Source: Financing Application

The above table reflects that the number of users is fairly consistent at approximately 19,000; the slight decline in FYs 2011 and 2012 is deemed insignificant. The high proportion of residential customers represents strong diversity in the user base.

Current System usage and revenues as of April 1, 2014, are as follows:

CURRENT SYSTEM USAGE & REVENUE				
	Annual Usage (Tons)	% Annual Usage	Gross Annual Revenue	% Gross Annual Revenue
Residential	14,979	23%	\$4,500,000	48%
Commercial	50,628	77%	4,300,000	46%
Other	-	-	525,200	6%
Total	65,607	100%	\$9,325,200	100%

Source: Financing Application

The above table reflects that 94% of System Gross Annual Revenue is nearly equally divided between Residential and Commercial users. Other revenues, contributing 6% of System Gross Annual Revenue, are derived from recycling. The table below reflects Historical Rate increases over the past 5 years.

HISTORICAL RATE INCREASES OVER THE PAST FIVE YEARS		
Date Adopted	Date Effective	Percent Increase
7/1/2010	7/1/2010	10.00%
7/1/2010	1/1/2011	10.00%
11/20/2012	2/1/2013	11.01%
11/20/1012	1/1/2014	11.49%
11/20/2012	1/1/2015	11.59%

Source: Financing Application

The above table includes the rate increases approved by the City to pay for the PARIS Project and demonstrates that the System has had, or has scheduled, rate increases totaling approximately 53% between FY 2011 through FY 2015.

Historical, current and projected average monthly user rates of the System per residential unit are as follows:

SOLID WASTE AND RECYCLING SERVICE RATES				
For Fiscal Year Ending (FYE) June 30,	2012	2013	2014	2015
1 cubic yard of refuse	\$7.87	\$8.74	\$9.74	\$10.87
% change		11.05%	11.44%	11.60%
1 cubic yard of compacted refuse	\$11.86	\$13.17	\$14.68	\$16.38
% change		11.05%	11.47%	11.58%

Source: Financing Application

The percent change year-over-year seen in the above table reflects the approved rate increases reported in the previous table.

The following table illustrates the projected average monthly user charge per residential unit for fiscal years (FYs) 2014 through FY 2018.

PROJECTED AVERAGE MONTHLY USER CHARGE PER RESIDENTIAL UNIT					
For Fiscal Year Ending (FYE) June 30,	2014	2015	2016	2017	2018
Residential	28.58	28.58	28.58	28.58	28.58
% change		0%	0%	0%	0%

Source: Financing Application

At this time the City has no further rate increases proposed.

The table below compares the City's current average monthly System user charge per residential unit to nearby systems as of April 1, 2014.

CURRENT AVERAGE MONTHLY SYSTEM USER CHARGE COMPARED TO NEARBY SYSTEMS		
System Name	Location	Average Monthly Residential Rate
City of Rancho Cucamonga	Rancho Cucamonga, CA	21.88
City of Fontana	Fontana, CA	24.14
City of Rialto	Rialto, CA	24.61
City of Pomona	Pomona, CA	26.37
City of Redlands	Redlands, CA	28.58

Source: Financing Application

The table above shows that due to rate increases to pay for the PARIS Project, the City has a higher monthly residential rate than nearby communities.

The top ten current System users are identified in the table below:

TOP 10 SYSTEM USERS as of: April 1, 2014			
	User	% System Revenues	Customer Class (Residential/ Commercial/ Industrial/Other)
1	ESRI	0.97%	Commercial
2	MOUNTAIN VIEW APARTMENTS ASSOC	0.90%	Residential
3	BROOKSIDE PK-1 ASSOC	0.64%	Residential
4	PARKVIEW TERRACE ASSOC LLC	0.60%	Residential
5	FAOF ORANGE VILLAGE SPE LLC	0.51%	Commercial
6	NP REDLANDS LLC	0.51%	Industrial
7	ORANGE GARDEN HOA	0.51%	Residential
8	LUGONIA FOUNTAIN	0.41%	Commercial
9	CAPE DURADO	0.39%	Industrial
10	SALTON TOASTMASTER INC	0.39%	Industrial
	Total	5.84%	

Source: Financing Application

The top ten users represent 5.84% of total System revenues. This complies with IBank underwriting requirements that the top ten ratepayers not exceed 50%, and that no single ratepayer exceed 15% of System revenues.

Public Benefits

According to the Redlands Economic Development Strategy dated September 10, 2008 (Strategy), the investment in the City's decaying infrastructure is identified as one of the strategies needed to achieve its economic development strategy. The PARIS Project will enhance curb appeal for existing businesses that will also benefit from greater ease of access for their customers. Enhanced curb appeal and easier access will also attract new businesses causing the City to become a destination point and bringing an influx in investment to the City.

CREDIT ANALYSIS

Security and Source of Financing Repayment

The City's Solid Waste (also, Disposal) Enterprise Fund (Fund) is used to account for refuse disposal collection operations, projects, debt service costs, and impact fees of the City. The City proposes to pledge the net system revenues of the Fund for the repayment of the proposed financing and to do so on parity with existing bonds issued by the City in 2013 to finance a portion of the PARIS Project as described below.

Source of Revenue to Repay	
Proposed ISRF Program Financing:	City of Redlands Solid Waste Enterprise Fund (Fund)
Applicant Proposed Lien Position:	<input type="checkbox"/> Senior <input type="checkbox"/> Senior Parity <input type="checkbox"/> Subordinate <input type="checkbox"/> Subordinate Parity <input checked="" type="checkbox"/> Other: Parity with Solid Waste Revenue Bonds Series 2013A (2013A Bonds)
List Debt that is Senior to Proposed ISRF Program Financing:	None
List Debt On Parity with Proposed ISRF Program Financing:	Solid Waste Revenue Bonds Series 2013A
List Debt Subordinate to Proposed ISRF Program Financing:	None
Type of Audited Financial Documents Reviewed:	<input checked="" type="checkbox"/> Comprehensive Annual Financial Reports (CAFR) <input type="checkbox"/> Basic Financial Statements (BFS) <input type="checkbox"/> Other: _____
Audit Years Reviewed:	FYs 2011, 2012, 2013
The auditor's reports for all years indicate that the financial statements present fairly, in all material respects, the financial position of the City of Redlands, 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 Years Reviewed:	2013-2014 Adopted
Rate Study Reviewed:	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes: Rate increases adopted by City
Applicant's Fiscal Year:	July 1 through June 30th

The following tables reflect the net position and operations of the Fund over the last three years.

Comparative Statement of Net Position Analysis

The comparative historical Statement of Net Position analysis for the Fund for the last three fiscal years is as follows:

CITY OF REDLANDS						
Solid Waste (Disposal) Enterprise Fund						
COMPARATIVE STATEMENT OF NET POSITION						
For Fiscal Year Ending (FYE) June 30,	2011		2012		2013	
Source:	CAFR	% ⁽¹⁾	CAFR	% ⁽¹⁾	CAFR	% ⁽¹⁾
Assets:						
Current:						
Cash & Investments	\$19,314,383	65.6%	\$21,510,633	67.7%	\$17,554,053	60.0%
Receivables:						
Accounts	1,544,222	5.2%	1,497,636	4.7%	1,650,870	5.6%
Prepaid Costs		0.0%		0.0%	35,271	0.1%
Due from Other Governments	19,060	0.1%		0.0%	3,082	0.0%
Total Current Assets	\$20,877,665	70.9%	\$23,008,269	72.5%	\$19,243,276	65.7%
Noncurrent:						
Advances to Other Funds	\$1,386,104	4.7%	\$1,266,302	4.0%	\$1,145,019	3.9%
Capital Assets Net of Accumulated Depreciation	7,183,563	24.4%	7,479,871	23.6%	8,879,650	30.3%
Total Noncurrent Assets	\$8,569,667	29.1%	\$8,746,173	27.5%	\$10,024,669	34.3%
Total Assets	\$29,447,332	100.0%	\$31,754,442	100.0%	\$29,267,945	100.0%
Liabilities and Net Position:						
Liabilities:						
Current:						
Accounts Payable	\$106,579	0.4%	\$668,879	2.1%	\$166,652	0.6%
Accrued Payroll	130,141	0.4%	155,848	0.5%	187,774	0.6%
Deposits Payable	6,164	0.0%	6,164	0.0%		0.0%
Unearned Revenues		0.0%		0.0%	1,738	0.0%
Landfill Closure	12,183	0.0%	420,658	1.3%	273,461	0.9%
Accrued Compensated Absences	155,462	0.5%	128,787	0.4%	177,383	0.6%
Bonds, Notes, and Capital Leases	59,385	0.2%	61,958	0.2%	114,424	0.4%
Total Current Liabilities	\$469,914	1.6%	\$1,442,294	4.5%	\$921,432	3.1%
Noncurrent:						
Accrued Compensated Absences	\$155,462	0.5%	\$128,787	0.4%	\$49,145	0.2%
Net OPEB Obligation	879,856	3.0%	1,186,259	3.7%	1,759,591	6.0%
Landfill Closure	5,881,938	20.0%	5,867,746	18.5%	6,277,446	21.4%
Bonds, Notes, and Capital Leases	176,383	0.6%	114,425	0.4%		0.0%
Total Noncurrent Liabilities	\$7,093,639	24.1%	\$7,297,217	23.0%	\$8,086,182	27.6%
Total Liabilities	\$7,563,553	25.7%	\$8,739,511	27.5%	\$9,007,614	30.8%
Net Position:						
Net Investment in Capital Assets	\$6,947,795	23.6%	\$7,303,488	23.0%	\$8,765,226	29.9%
Unrestricted	14,935,984	50.7%	15,711,443	49.5%	11,495,105	39.3%
Total Net Position	\$21,883,779	74.3%	\$23,014,931	72.5%	\$20,260,331	69.2%
Total Liabilities and Net Position	\$29,447,332	100.0%	\$31,754,442	100.0%	\$29,267,945	100.0%

⁽¹⁾ Percentages calculated on *Total Assets*.

The table above reveals that the System's overall financial position was relatively stable over the three years analyzed. A decline in Cash & Investments in fiscal year (FY) 2013 was offset by an increase in Capital Assets Net of Accumulated Depreciation, which resulted from improvements to the City's solid waste landfill. Total Liabilities increased primarily as a result of increases in Net OPEB Obligation and Landfill Closure. Changes in other categories of note include decreases in Advances to Other Funds, which are monies advanced to the non-major proprietary Cemetery and Aviation Funds to provide funding for capital expenditures. "Advances" as used here represents a long-term loan.

Comparative Revenues, Expenses, and Changes in Net Position Analysis

The comparative historical revenues, expenses, and changes in net position for the Fund for the last three fiscal years are summarized below:

City of Redlands Solid Waste (Disposal) Enterprise Fund COMPARATIVE STATEMENT of REVENUES, EXPENSES, and CHANGES in NET POSITION						
For Fiscal Year Ending (FYE) June 30,	2011		2012		2013	
Source:	CAFR	% ⁽¹⁾	CAFR	% ⁽¹⁾	CAFR	% ⁽¹⁾
% Change Year-to-Year Total Operating Revenues		2.5%		11.5%		-8.2%
Operating Revenues:						
Sales and Service Charges	\$9,998,385	99.6%	\$10,071,032	97.8%	\$10,669,471	92.9%
Miscellaneous (Republic & Recycled Materials)	19,165	0.2%	4,349	0.0%	662,608	5.8%
Impact/Connection Fees	25,204	0.3%	220,140	2.1%	152,090	1.3%
Total Operating Revenues	\$10,042,754	100.0%	\$10,295,521	100.0%	\$11,484,169	100.0%
Operating Expenses:						
Administration and General	\$1,888,645	18.8%	\$2,194,671	21.3%	\$2,765,033	24.1%
Personnel Services	3,055,880	30.4%	2,847,013	27.7%	3,392,073	29.5%
Repairs and Maintenance	2,820,776	28.1%	2,932,758	28.5%	2,944,374	25.6%
Depreciation and Amortization Expense	1,013,209	10.1%	851,366	8.3%	1,103,798	9.6%
Total Operating Expenses	\$8,778,510	87.4%	\$8,825,808	85.7%	\$10,205,278	88.9%
Operating Income (Loss)	\$1,264,244	12.6%	\$1,469,713	14.3%	\$1,278,891	11.1%
Nonoperating Revenues (Expenses)						
Intergovernmental	\$194,060					
Interest Expense	(11,258)		(8,792)		(6,217)	
Interest and Investment Revenue	216,481		242,939		16,987	
Miscellaneous	10,800		6,800			
Grants			37,681			
Gain/(Loss) on disposal of capital assets	13,500		6,582			
Total Nonoperating Revenues (Expenses)	\$423,583		\$285,210		\$10,770	
Income (Loss) Before Transfers and Extraordinary Loss	\$1,687,827		\$1,754,923		\$1,289,661	
Transfers In	\$0		\$0		\$776,857	
Transfers Out	(229,613)		(652,710)		(4,621,121)	
Change in Net Position	\$1,458,214		\$1,102,213		(\$2,554,603)	
Net Position:						
Beginning of Year, as Previously Reported	20,126,901		21,883,779		23,014,931	
Restatements ⁽²⁾	298,664		28,939		(199,997)	
Beginning of Fiscal Year, as Restated					22,814,934	
End of Fiscal Year	\$21,883,779		\$23,014,931		\$20,260,331	

⁽¹⁾ Percentages calculated on *Total Operating Revenues*.

⁽²⁾ Adjustment to reflect consolidation of current fiscal year internal service funds activities related to enterprise funds.

The above table reflects that Total Operating Revenues increased over the three years reviewed. The increases were primarily due to scheduled rate increases as reflected in Sales and Service Charges. Total Operating Expenses increased in the Administrative and General and Personnel Services categories. Personnel Services increased as a result of salaries and benefits increasing with the elimination of staff furloughs. Operating Income remained positive in all three years.

Other activities of note include (1) Transfers In and Transfer Out, representing monies owed to/from the Fund for operations, deficit repayment, debt payment, and general and administration charges; and (2) Restatements, representing adjustments to reflect the consolidation of each respective fiscal year's internal service funds activities related to the Fund. The City annually transfers monies to the General Fund to reimburse the

General Fund for operating activities paid by it on behalf of the Fund. Transfers to the General Fund are reflected in the cash flow analysis below. In FY 2013, in addition to transfers to the General Fund, the Fund transferred \$3,622,150 to the Local Transportation Fund for street improvements under the PARIS Project. Such transfer is not reflected in the cash flow analysis below since these monies will now be used for debt service

The following table illustrates the Service Charge Delinquency Rate for the System.

SERVICE CHARGE DELINQUENCY RATE	
Fiscal Year	Delinquency Rate
2008-09	0.35%
2009-10	0.23%
2010-11	0.35%
2011-12	0.03%
2012-13	0.21%

Source: City's Solid Waste Revenue Bonds, Series 2013A Official Statement

The table above demonstrates that the System has a very low rate of delinquent payments of service charges, again indicating financial stability.

Budget

The City adopts a budget annually as the foundation for its financial planning and control. Activities of the general fund, special revenue funds, debt service funds, capital projects funds, enterprise funds, and internal service funds are included in the budget. Comparison of the Fund's 2011-12 Budget and 2012-13 Budget finds the Fund's actual expenses came in under budget each year.

Cash Flow and Debt Service Analysis

Existing Debt

The Fund has one outstanding debt as outlined below:

Date of Debt:	10/1/2013
Name of Debt:	Solid Waste Revenue Bonds, Series 2013A (2013A Bonds)
Amount of Debt:	\$13,500,000
Issuer/Lender:	Redlands Financing Authority
Security:	Solid Waste Fund Revenues
Rates and Charges Covenant:	1.25
Allows Senior Debt?	<input checked="" type="checkbox"/> Not mentioned <input type="checkbox"/> No <input type="checkbox"/> Yes
Allows Parity Debt?	<input type="checkbox"/> Not mentioned <input type="checkbox"/> No <input checked="" type="checkbox"/> Yes
Allows Subordinate Debt?	<input checked="" type="checkbox"/> Not mentioned <input type="checkbox"/> No <input type="checkbox"/> Yes
Requires Reserve Fund(s) and/or Rate Stabilization Fund To Be Maintained? Amount?	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes Explain:
Requires Reserve Fund for Subsequent Debt?	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes
Has Applicant Ever Had a Payment Default Under This Obligation?	No

Proceeds of the 2013A Bonds were used to finance the initial phase, representing approximately 100 lane miles, of the PARIS Project. The 2013A Bonds are secured by a pledge of revenues consisting primarily of installment payments to be paid by the City to the Redlands Financing Authority pursuant to the 2013 Solid Waste Installment Sale Agreement (ISA) dated October 1, 2013. The City is obligated to make installment sale payments under the ISA solely from Net Solid Waste Revenues. Since the 2013A Bonds were issued after the fiscal year ended June 30, 2013, the 2013A Bonds are not reflected in the audits presented above.

The current outstanding and proposed Fund obligations are as follows:

OBLIGATIONS							
Original Financing Amount	Origination Date	Issuer/Lender	Maturity	Interest Rate %	MADS ⁽¹⁾⁽²⁾	Balance as of 04/15/2014	Lien Position/Repayment Pledge
\$13,500,000	10/1/2013	Redlands Financing Authority Solid Waste Revenue Bonds, Series 2013A (2013A Bonds)	9/1/2023	3.0% - 5.0%	1.25	\$13,500,000	Senior lien on net system revenues
\$3,050,000	<i>tbid</i>	<i>I-Bank</i>	<i>tbid</i>	3.01%	1.25	\$0	Senior lien on net system revenues on parity with 2013A Bonds
Total Debt						\$13,500,000	
⁽¹⁾ Maximum Annual Debt Service							
⁽²⁾ Calculated as \$3,050,000 @ 3.01%, 20 year term							

Historical Cash Flow and Debt Service Analysis

Historical Fund cash flow and debt service analysis for the proposed financing is presented below:

City of Redlands-CASH FLOW			
For Fiscal Year Ending (FYE) June 30,	2011	2012	2013
Income (Loss) Before Transfers and Extraordinary Loss	\$1,687,827	\$1,754,923	\$1,289,661
+ Depreciation and Amortization Expense	\$1,013,209	\$851,366	\$1,103,798
+ Interest Expense	\$11,258	\$8,792	\$6,217
- Transfers Out to General Fund	(\$229,613)	(\$652,710)	(\$998,971)
- Gain/(Loss) on disposal of capital assets	(\$13,500)	(\$6,582)	\$0
Cash Available for Debt Service with Connection Fees	\$2,469,181	\$1,955,789	\$1,400,705
- Impact/Connection Fees	(\$25,204)	(\$220,140)	(\$152,090)
Cash Available for Debt Service w/o Connection Fees	\$2,443,977	\$1,735,649	\$1,248,615
Debt Service Calculation			
Senior Debt Service (MADS⁽¹⁾)			
2013A Solid Waste Revenue Bonds	\$1,743,000	\$1,743,000	\$1,743,000
Proposed CIEDB ⁽²⁾	\$212,700	\$212,700	\$212,700
Total Senior MADS	\$1,955,700	\$1,955,700	\$1,955,700
Senior Debt Service Coverage Ratio w Connection Fees	1.26	1.00	0.72
Senior Debt Service Coverage Ratio w/o Connection Fees	1.25	0.89	0.64
⁽¹⁾ Maximum Annual Debt Service			
⁽²⁾ Calculated as \$3,050,000 @ 3.01%, 20 year term			

Historical cash flow analysis finds insufficient cash flow available to service the Fund's existing and proposed debt as reflected in the above table. However, since two more years rate increases are not reflected in the above table, Staff reviewed the City's projections as provided through FY 2019.

Sales and Service Charges as stated in the City's projections did not account for a 10% reduction in the amount of increased revenue resulting from the approved rate increases. Staff reduced Sales and Service Charges by such amount in each FY 2014 and 2015, the two additional years for which rate increases have been approved. No adjustments were made to Operating Expenses, which appeared to be conservatively projected. The reader will note the absence of the Repairs and Maintenance Expense line item in the projections. According to the City, this line item is rolled into the Administration and General line item in the projections. Additionally, Transfers Out are not included in the table below. The following table represents the Fund's projections with staff's adjustments.

IBank Adjusted Projections														
	2013		2014		2015		2016		2017		2018		2019	
%Δ Total Operating Revenues		9.5%		9.2%		0.0%		0.0%		0.0%		0.0%		
Operating Revenues:	%Δ Charges for Services		10.4%		10.4%		0.0%		0.0%		0.0%			
Charges for Services	\$10,006,547	94.9%	\$11,042,225	95.6%	\$12,185,095	96.6%	\$12,185,095	96.6%	\$12,185,095	96.6%	\$12,185,095	96.5%	\$12,185,095	96.5%
Other Operating Revenue/ Recycled Materials	\$418,413	4.0%	\$461,000	4.0%	\$324,800	2.6%	\$329,672	2.6%	\$334,617	2.7%	\$339,636	2.7%	\$344,731	2.7%
Impact Fees	\$121,500	1.2%	\$43,000	0.4%	\$100,000	0.8%	\$100,000	0.8%	\$100,000	0.8%	\$100,000	0.8%	\$100,000	0.8%
Total Operating Revenues	\$10,546,460	100.0%	\$11,546,225	100.0%	\$12,609,895	100.0%	\$12,614,767	100.0%	\$12,619,712	100.0%	\$12,624,731	100.0%	\$12,629,826	100.0%
Services, Supplies, Other Equipment	\$4,663,930	44.2%	\$5,292,848	45.8%	\$5,381,385	42.7%	\$5,489,013	43.5%	\$5,598,793	44.4%	\$5,710,768	45.2%	\$5,824,984	46.1%
Salaries & Benefits	\$3,263,404	30.9%	\$3,136,497	27.2%	\$3,009,590	23.9%	\$3,054,734	24.2%	\$3,100,555	24.6%	\$3,147,063	24.9%	\$3,194,269	25.3%
Vehicle Replacements	\$860,000	8.2%	\$988,000	8.6%	\$1,007,760	8.0%	\$1,027,915	8.1%	\$1,048,474	8.3%	\$1,069,443	8.5%	\$1,090,832	8.6%
Depreciation and Amortization Expense		0.0%		0.0%		0.0%		0.0%		0.0%		0.0%		0.0%
Total System Expenditures	\$8,787,334	83.3%	\$9,417,345	81.6%	\$9,398,735	74.5%	\$9,571,662	75.9%	\$9,747,822	77.2%	\$9,927,274	78.6%	\$10,110,085	80.0%
Net System Revenues	\$1,759,126	15.3%	\$2,128,880	18.5%	\$3,211,160	28.0%	\$3,043,105	26.5%	\$2,871,890	25.0%	\$2,697,457	23.5%	\$2,519,741	21.9%
Nonoperating Revenues (Expenses)														
Investment Income	\$294,631		\$294,631		\$260,576		\$245,196		\$236,852		\$227,700		\$217,699	
Miscellaneous Income	\$153,013		\$17,000		\$17,000		\$17,000		\$17,000		\$17,000		\$17,000	
Total Nonoperating Revenues	\$447,644		\$311,631		\$277,576		\$262,196		\$253,852		\$244,700		\$234,699	
Income (Loss) Before Transfers and Extraordinary Loss	\$2,206,770		\$2,440,511		\$3,488,736		\$3,305,301		\$3,125,742		\$2,942,157		\$2,754,440	

Projected Cash Flow and Debt Service Analysis

The following table demonstrates that the Fund projects sufficient cash flow to service the existing and proposed debt through FY 2019 as well as to meet the additional bonds test of 1.25:1 as required by the 2013A Bonds.

City of Redlands-CASH FLOW		IBank Adjusted Projections					
For Fiscal Year Ending (FYE) June 30,	2013	2014	2015	2016	2017	2018	2019
Income (Loss) Before Transfers and Extraordinary Loss	\$2,206,770	\$2,440,511	\$3,488,736	\$3,305,301	\$3,125,742	\$2,942,157	\$2,754,440
+ Depreciation and Amortization Expense	\$0	\$0	\$0	\$0	\$0	\$0	\$0
+ Interest Expense	\$0	\$0	\$0	\$0	\$0	\$0	\$0
- Gain/(Loss) on disposal of capital assets	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<i>Cash Available for Debt Service with Connection Fees</i>	\$2,206,770	\$2,440,511	\$3,488,736	\$3,305,301	\$3,125,742	\$2,942,157	\$2,754,440
- Impact/Connection Fees	(\$121,500)	(\$43,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)
<i>Cash Available for Debt Service w/o Connection Fees</i>	\$2,085,270	\$2,397,511	\$3,388,736	\$3,205,301	\$3,025,742	\$2,842,157	\$2,654,440
Debt Service Calculation							
Senior Debt Service (MADS⁽¹⁾)							
2013A Solid Waste Revenue Bonds	\$1,743,000	\$1,743,000	\$1,743,000	\$1,743,000	\$1,743,000	\$1,743,000	\$1,743,000
Proposed CIEDB ⁽²⁾	\$212,700	\$212,700	\$212,700	\$212,700	\$212,700	\$212,700	\$212,700
Total Senior MADS	\$1,955,700	\$1,955,700	\$1,955,700	\$1,955,700	\$1,955,700	\$1,955,700	\$1,955,700
<i>Senior Debt Service Coverage Ratio w Connection Fees</i>	1.13	1.25	1.78	1.69	1.60	1.50	1.41
<i>Senior Debt Service Coverage Ratio w/o Connection Fees</i>	1.07	1.23	1.73	1.64	1.55	1.45	1.36
⁽¹⁾ Maximum Annual Debt Service							
⁽²⁾ Calculated as \$3,050,000 @ 3.01%, 20 year term							

Compliance with I-Bank Underwriting Criteria

- I-Bank financing is proposed to be a Parity lien on System net revenues. Revenues derived from the top ten System ratepayers do not exceed 50% of annual System revenues.
- Revenues derived from any single ratepayer do not exceed 15% of the System revenues.
- The City of Redlands has the power to establish and enact rates and charges without the approval of any other governing body.

Interest Rate Setting Demographics

The interest rate for the proposed ISRF loan was set based upon the following statistics obtained from the 2008-2012 American Community Survey (5-year estimate).

Unemployment Rate	The City's unemployment rate was 8.8%, which is 77.2% of the State's rate of 11.4%.
Median Household Income	The City's median household income was \$68,015, which was 110.4% of the State's median household income of \$61,632.

PRIOR IBANK EXPERIENCE

Prior IBank Experience. Loan number B05-071, in the original amount of \$1,985,000. The City has an outstanding IBank General Fund Lease (Lease) that originated in FY 2006 with a 30-year term, and was used to finance the construction of eight regulation soccer fields, an 1800 square foot snack bar and restroom building, the installation of field lighting, landscaping and irrigation. In addition IBank funds were used to complete design, architectural and engineering services, other site improvements, and the IBank origination fee.

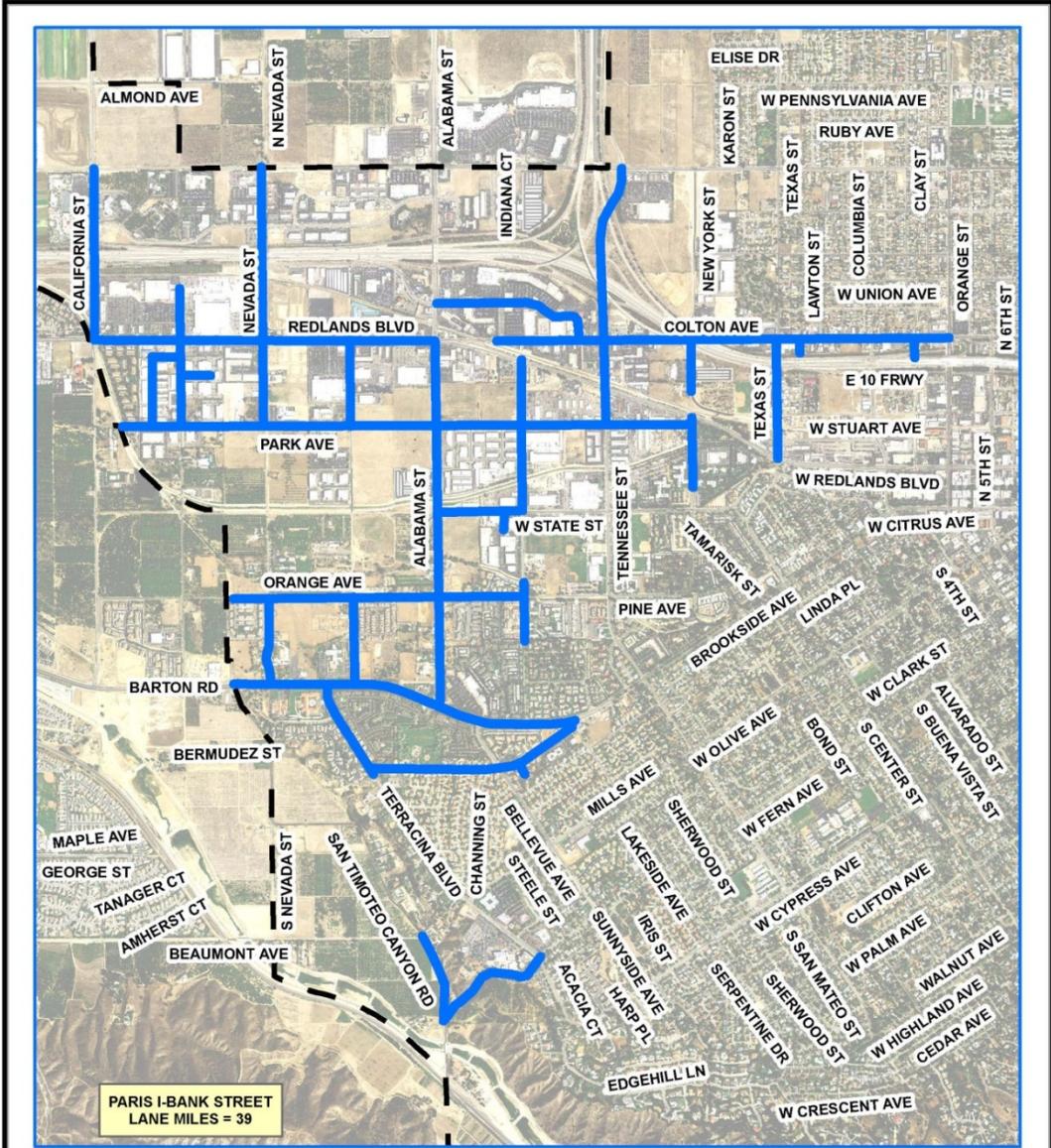
The City has had no delinquent payments under the Lease and has had no events of default. The Lease has been paid as agreed.

STAFF RECOMMENDATIONS

Staff recommends approval of Resolution No. 14-04 authorizing financing to the City of Redlands for the Streets Project as follows:

1. **Applicant/Borrower:** City of Redlands 14-04
2. **Project:** City of Redlands Streets Project
3. **Amount of Financing:** \$3,050,000
4. **Maturity:** Not to exceed 20 years.
5. **Repayment/Security:** Lien on the Solid Waste Enterprise Fund net revenues on parity with 2013A Bonds.
6. **Interest Rate:** 3.01%
7. **Fees:** Financing origination fee of 1.00% of the I-Bank financing and an annual fee of 0.30% of the outstanding principal balance.
8. **Reserve Account:** If future parity debt is issued requiring a reserve account, City to fund a reserve account for the subject debt in an amount equal to the reserve requirement of the parity debt.
9. **Not an Unconditional Commitment:** If approved by the Board, the I-Bank's resolution shall not be construed as an unconditional commitment to finance the Streets Project, but rather IBank approval pursuant to the Resolution is conditioned upon entry by the IBank and the City into a financing agreement, in form and substance satisfactory to the I-Bank and its counsel.
10. **Limited Time:** If approved by the Board, the Board's approval expires 180 days from the date of its adoption. Thus, the Borrower and the I-Bank must execute a financing agreement no later than 180 days from such date. Once the approval has expired, there can be no assurances that the I-Bank will be able to grant the loan to the Borrower or consider extending the approval period.
11. **Financing Agreement Covenants:** The Financing Agreement shall include, among other things, the following covenants:
 - a. Rates and charges shall be maintained sufficient to ensure 1.25 times aggregate annual debt service ratio for all parity obligations.
 - b. Solid Waste Fund net revenues may be pledged on a parity basis with the ISRF Program financing for future financing if net revenues (adjusted for rate increases and system expansion) will provide future aggregate debt service coverage of 1.25 times maximum annual debt service on all parity debt, inclusive of the proposed financing.
 - c. Issuance of future debt senior to the subject debt is prohibited.
 - d. Borrower compliance with all applicable laws, regulations and permitting requirements associated with public works projects.
 - e. Annual Borrower audited financial statements, due to the I-Bank within 240 days of fiscal year end as well as other information as the I-Bank may request from time to time.
 - f. Annual Borrower certifications demonstrating compliance with foregoing covenants as well as other terms and conditions of financing agreement.

EXHIBIT 1 Project Location Map



————— STREET SEGMENTS TO BE RESURFACED

PARIS I-BANK RESURFACING PROJECT LOCATION MAP

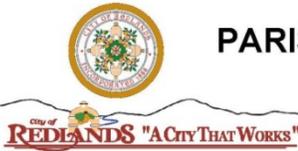


EXHIBIT 2
City of Redlands Area Map

