

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)**

**STAFF REPORT**

**INFRASTRUCTURE STATE REVOLVING FUND (ISRF) PROGRAM  
DIRECT FINANCING EXECUTIVE SUMMARY**

| <b>Applicant:</b><br>City of Twentynine Palms<br>(City)   | <b>ISRF Project Type:</b><br>Infrastructure Project | <b>ISRF Project Category Type:</b><br>Power and Communications                       |                    |              |  |  |  |       |                          |       |              |             |  |             |                 |          |  |          |              |                    |            |                    |
|---|---|--|--------------------|--------------|--|--|--|-------|--------------------------|-------|--------------|-------------|--|-------------|-----------------|----------|--|----------|--------------|--------------------|------------|--------------------|
| <b>Amount Requested:</b><br>\$1,300,000 (Financing)   | <b>Financing Term:</b><br>25 years                  | <b>Interest Rate:</b> <sup>1</sup><br>3.17%  |                    |              |  |  |  |       |                          |       |              |             |  |             |                 |          |  |          |              |                    |            |                    |
| <b>Source of Repayment:</b><br>General Fund (Fund)  |   | <b>Fund Rating/Date:</b><br>None   |                    |              |  |  |  |       |                          |       |              |             |  |             |                 |          |  |          |              |                    |            |                    |
| <b>Leasehold Interest:</b> City Hall Building   |   |  |                    |              |  |  |  |       |                          |       |              |             |  |             |                 |          |  |          |              |                    |            |                    |
| <b>Project Name:</b><br>City of Twentynine Palms Infrastructure<br>Improvement Project (Project)  |   | <b>Project Location:</b><br>Various locations within the City of Twentynine<br>Palms |                    |              |  |  |  |       |                          |       |              |             |  |             |                 |          |  |          |              |                    |            |                    |
| <b>Project Description / Source and Use of Proceeds:</b><br>The project consists of energy efficiency upgrades to various City-owned sites including the City Hall, Parks and Recreation, Racquetball courts, Patriotic Hall, Skate Park, Knott Sky Park, Community Center, Senior Center, preschool, theater, and other city owned buildings. The energy efficiency upgrades include lighting, solar panels, Heating Ventilation and Air Conditioning (HVAC), various control systems and supporting structures.   |   |  |                    |              |  |  |  |       |                          |       |              |             |  |             |                 |          |  |          |              |                    |            |                    |
| <b>Use of Financing Proceeds:</b><br>The ISRF Program financing would provide 100% of the funds for the Project, which includes all components necessary to initiate and complete the Project, including, but not limited to, design, architecture, engineering, construction, remediation, equipping, machinery installation, construction contingency (4.6% of project), permitting, entitlement, constructing management, project administration, and general project development activities.  |   |  |                    |              |  |  |  |       |                          |       |              |             |  |             |                 |          |  |          |              |                    |            |                    |
| <table border="1"> <thead> <tr> <th rowspan="2">Project Uses</th> <th colspan="3">Project Sources for City of Twentynine Palms</th> </tr> <tr> <th>IBank</th> <th>City of Twentynine Palms</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Project Uses</td> <td>\$1,287,000</td> <td></td> <td>\$1,287,000</td> </tr> <tr> <td>Origination Fee</td> <td>\$13,000</td> <td></td> <td>\$13,000</td> </tr> <tr> <td align="right"><b>Total</b></td> <td><b>\$1,300,000</b></td> <td><b>\$0</b></td> <td><b>\$1,300,000</b></td> </tr> </tbody> </table> |   |  |                    | Project Uses | Project Sources for City of Twentynine Palms |  |  | IBank | City of Twentynine Palms | Total | Project Uses | \$1,287,000 |  | \$1,287,000 | Origination Fee | \$13,000 |  | \$13,000 | <b>Total</b> | <b>\$1,300,000</b> | <b>\$0</b> | <b>\$1,300,000</b> |
| Project Uses  | Project Sources for City of Twentynine Palms        |  |                    |              |  |  |  |       |                          |       |              |             |  |             |                 |          |  |          |              |                    |            |                    |
|   | IBank   | City of Twentynine Palms   | Total              |              |  |  |  |       |                          |       |              |             |  |             |                 |          |  |          |              |                    |            |                    |
| Project Uses  | \$1,287,000   |  | \$1,287,000        |              |  |  |  |       |                          |       |              |             |  |             |                 |          |  |          |              |                    |            |                    |
| Origination Fee   | \$13,000  |  | \$13,000           |              |  |  |  |       |                          |       |              |             |  |             |                 |          |  |          |              |                    |            |                    |
| <b>Total</b>  | <b>\$1,300,000</b>                                  | <b>\$0</b>   | <b>\$1,300,000</b> |              |  |  |  |       |                          |       |              |             |  |             |                 |          |  |          |              |                    |            |                    |

<sup>1</sup> Interest Rate provided on July 2, 2018

**Credit Considerations:**

Lease Payment and Fund Balance analysis for the Financing is summarized as follows:

| <b>Lease Payment and Fund Balance Analysis</b>                     |                      |                  |                    |                  |                  |
|--|----------------------|------------------|--------------------|------------------|------------------|
|  | <b>2013</b>          | <b>2014</b>      | <b>2015</b>        | <b>2016</b>      | <b>2017</b>      |
| Excess (Deficiency) of Revenues Over (Under) Expenditures          | \$1,107,964          | \$560,242        | (\$339,927)        | \$837,160        | \$1,018,103      |
| <b>Adjustments Specific to the Transactions</b>                    |                      |                  |                    |                  |                  |
| Principal  | (\$14,817)           | (\$6,247)        | \$0                | \$0              | \$0              |
| Interest   | (\$418)              | (\$76)           | \$0                | \$0              | \$0              |
| Transfer in  | \$32,000             | \$32,000         | \$24,000           | \$0              | \$10,000         |
| Transfer out   | (\$2,688,140)        | (\$188,610)      | (\$40,549)         | (\$728,669)      | (\$192,000)      |
| Total Adjustments  | (\$2,671,375)        | (\$162,933)      | (\$16,549)         | (\$728,669)      | (\$182,000)      |
| <b>Adjustments to Excess (Deficiency) of Revenues</b>              | <b>(\$1,563,411)</b> | <b>\$397,309</b> | <b>(\$356,476)</b> | <b>\$108,491</b> | <b>\$836,103</b> |
| Proposed ISRF Lease Payment *                                      | \$79,425             | \$79,425         | \$79,425           | \$79,425         | \$79,425         |
| Other MADS General Fund Obligations                                | \$0                  | \$0              | \$0                | \$0              | \$0              |
| <b>Revised Net Change in Funds Balance with ISRF Lease Payment</b> | <b>(\$1,642,836)</b> | <b>\$317,884</b> | <b>(\$435,901)</b> | <b>\$29,066</b>  | <b>\$756,678</b> |

\* Calculated at \$1,300,000 at 3.17% interest rate for 25 years.

Analysis of the historical cash flow over the last five years demonstrates the City has the capacity to service the proposed Financing in three of the five years. The line items of Transfers In and Transfer Out were included as there is consistent annual activity in both line items. The two years that were deficient were due to one-time payments or events. In Fiscal Year (FY) 2015 there was a one-time payment to CalPERS of \$1,000,000 to reduce the City's unfunded pension liability. In FY 2013 there was a transfer of \$2,688,140 to the to the Capital Projects and the Recycling Funds.

**Support for Staff Recommendations:**

1. Lease Payment and Fund Balance analysis demonstrates the City's ability to service the proposed Financing.
2. The City's Unassigned Fund balance is over \$11,305,480, more than eight times the proposed financing.
3. The percentage of the City's Balance Sheet Liabilities as compared to Total Revenue is 4.47%, below the 15% IBank maximum for general fund financings.
4. The City anticipates annual savings of \$85,740 in lower electricity costs resulting from the Project.
5. The weighted useful life of the Project is to be 25 years, which meets the 25 year term of the Financing.

**IBank Staff:**  
Lina Benedict

**Date of Staff Report:**  
November 30, 2018

**Date of IBank Board Meeting:**  
December 18, 2018

**Resolution Number:**  
18-18

**Staff Recommendation:**

Staff recommends approval of Resolution No. 18-18 authorizing ISRF Program Financing in an amount not to exceed \$1,300,000 to the City of Twentynine Palms for the City of Twentynine Palms Infrastructure Improvement Project.

## PROJECT DESCRIPTION

The City of Twentynine Palms (City) Infrastructure Improvement Project (Project) consists of energy efficiency upgrades to various City owned sites including the City Hall, Parks and Recreation, Racquetball courts, Patriotic Hall, Skate Park, Knott Sky Park, Community Center, Senior Center, Preschool, Theater, and other City owned buildings. The City has requested \$1,300,000 Financing to fund the Project.

The Project includes new Wi-Fi based building automation systems for some of these following installations at the selected sites:

- Two High Efficiency Heating Ventilation and Air Conditioning (HVAC) Modernizations
- 11 Interior Light Emitting Diode (LED) Lighting Modernizations
- 15 Exterior LED Lighting Modernizations
- 11 Install/Upgrade Occupancy Sensors
- Sport Court LED Lighting Modernization at Luckie Park
- Two Irrigation Controller Integrations
- Electric Meter Split at Knott's Sky Park
- Plug Load Management at five sites
- Solar Photovoltaic (PV) Systems at two sites

The leased asset for this financing lease transaction will be the City Hall located at 6136 Adobe Road, Twentynine Palms, CA 92277 (Leased Asset). Please refer to the Analysis of the Proposed Leased Asset section of this Staff Report for further details.

### Useful Life of Improvements

The Financing term of 25 years would be in accordance with IBank standards based upon the weighted average of the project components. The following table indicates the various Asset Types, the Average Useful Life of the Asset, as well as the proposed use of funds.

| Asset Type                        | Average Useful Life of Asset (in Years) | Estimated Cost of Weighted Components | % of Total Cost | Total Weighted Average Useful Life of Assets (in Years) |
|-----------------------------------|---|---------------------------------------|-----------------|---|
| HVAC                              | 15                                      | \$ 90,000                             | 7.00%           |   |
| Solar PV System                   | 30                                      | \$ 910,000                            | 70.00%          |   |
| Plug Load Management              | 15                                      | \$ 50,000                             | 3.85%           |   |
| Electric Meter Split              | 30                                      | \$ 50,000                             | 3.85%           |   |
| LED Lighting Modernization        | 20                                      | \$ 70,000                             | 5.00%           |   |
| Install/Upgrade Occupancy Sensors | 20                                      | \$ 80,000                             | 6.15%           |   |
| Irrigation Controller Integration | 20                                      | \$ 50,000                             | 3.85%           |   |
| <b>Total</b>                      |   | <b>\$ 1,300,000</b>                   | <b>99.69%</b>   | <b>25</b>   |

## **Public Benefits**

California has a major initiative for reducing greenhouse gas (GHG) emissions; this goal is aimed at decreasing the emissions to 1990 levels by 2020 - a reduction of approximately 30%, and then an 80% reduction below 1990 levels by 2050.

The Project will reduce the City's energy consumption and Green House Gas (GHG) emissions resulting in the improvement of the quality of life for City residents.

The City indicates that ninety two (92) full-time equivalent (FTE) construction jobs will be created as a result of this Project helping to improve the economy of the City.

## **Project Benefits**

The Project will modernize various energy and resource-consuming improvements throughout the various Project sites. The Project will result in lessened energy and other resource consumption, ultimately resulting in a cost savings for City residents. As an example, the replacement of the HVAC Equipment and Controls will generate electricity savings and natural gas savings through improved equipment operation and control.

## **CITY OF TWENTYNINE PALMS INFORMATION**

The City is located in the southern Mojave Desert in San Bernardino County. The City's main attraction is The Oasis of Mara, which is maintained by the National Park Service and is visited by approximately 140,000 people annually. The North Entrance and Headquarters of Joshua Tree National Park is located in the City as is the Marine Corps Air Ground Combat Center. The City is renowned for its world class murals and artists, supportive business climate, pristine air, desert and mountain vistas, and beautiful natural surroundings.

The City operates under a Council/Manager form of Government. The City Council is responsible for the adoption of all laws and public policies, and sets goals, designs strategies, adopts budgets and gives direction. The legislative authority of the City resides in the Mayor and the City Council; their power includes all policy-making responsibility for the municipality. The City Manager is charged with the duty of executing the policy decisions of the council under the direct and close supervision of the Council.

The Marine Corps Ground to Air Combat Center (Base) is located in the City with over 900 households residing on the premises. Key industries supporting the City are tourism, agriculture, healthcare, and real estate development. The City's primary businesses are related to hotels, restaurants, tourism offices and city offices.

**CREDIT ANALYSIS**

**Source of Financing Repayment**

|  |   |
|--|---|
| <b>Source of Revenue to Repay Proposed ISRF Program Financing:</b>   | General Fund  |
| <b>Outstanding General Fund Bond and Lease Obligations:</b>  | N/A   |
| <b>Type of Audited Financial Documents Reviewed:</b>   | <input checked="" type="checkbox"/> Comprehensive Annual Financial Reports (CAFR)<br><input type="checkbox"/> Basic Financial Statements (F/S)<br><input type="checkbox"/> Other: _____ |
| <b>Fiscal Year Ends:</b>   | June 30   |
| <b>Audit Fiscal Years Reviewed:</b>  | 2013-2017   |
| <b>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.</b> | <input checked="" type="checkbox"/> Yes<br><input type="checkbox"/> No. [If no, explain]  |
| <b>Adopted Budget(s) Reviewed:</b>   | <input checked="" type="checkbox"/> Yes<br><input type="checkbox"/> No. [If no, explain]  |
| <b>Budget Year(s) Reviewed:</b>  | 2018-2019   |

## Balance Sheet-Governmental-General Fund

The Balance Sheet-Governmental General Fund for the last five fiscal years are as follows:

| GENERAL FUND<br>BALANCE SHEET   |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
|---|---------------------|------------------|---------------------|------------------|---------------------|------------------|---------------------|------------------|---------------------|------------------|
| For Fiscal Year Ending (FYE) June30                                       | 2013                |                  | 2014                |                  | 2015                |                  | 2016                |                  | 2017                |                  |
| Source:   | CAFR                | % <sup>(1)</sup> | CAFR                | % <sup>(1)</sup> | CAFR                | % <sup>(1)</sup> | CAFR                | % <sup>(1)</sup> | CAFR                | % <sup>(1)</sup> |
| <b>Assets</b>   |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
| Cash and Investments  | \$10,546,196        | 919%             | \$11,244,727        | 94.3%            | \$10,779,198        | 94.7%            | \$10,771,418        | 93.7%            | \$12,026,055        | 98.7%            |
| Receivables:  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
| Intergovernmental   | 79,499              | 0.7%             |                     |                  |                     |                  |                     |                  |                     |                  |
| Taxes   | \$352,511           | 3.1%             | \$359,026           | 3.0%             | \$426,678           | 3.7%             | \$590,120           | 5.1%             | \$20,397            | 0.2%             |
| Interest  | 6,358               | 0.1%             | 5,524               | 0.0%             | 6,668               | 0.1%             | 7,226               | 0.1%             |                     |                  |
| Land Held for Sale  | 44,723              | 0.4%             |                     |                  | 93,963              | 0.8%             | 93,963              | 0.8%             | 93,963              | 0.8%             |
| Due From Other Funds  | 440,873             | 3.8%             | 313,696             | 2.6%             | 80,944              | 0.7%             | 32,497              | 0.3%             | 44,179              | 0.4%             |
| <b>Total Assets</b>   | <b>\$11,470,160</b> | <b>100.0%</b>    | <b>\$11,922,973</b> | <b>100.0%</b>    | <b>\$11,387,451</b> | <b>100.0%</b>    | <b>\$11,495,224</b> | <b>100.0%</b>    | <b>\$12,184,594</b> | <b>100.0%</b>    |
| <b>Liabilities and Fund Balances</b>                                      |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
| Account Payables and Accrued Liabilities                                  | 209,804             | 18%              | 207,701             | 17%              | 194,639             | 17%              | 165,297             | 14%              | 311,456             | 2.6%             |
| Deposits  | 9,493               | 0.1%             | 10,957              | 0.1%             | 11,190              | 0.1%             | 5,827               | 0.1%             | 6,790               | 0.1%             |
| Deferred Revenue  | 256,821             | 2.2%             | 298,841             | 2.5%             | 305,956             | 2.7%             | 300,625             | 2.6%             |                     |                  |
| Due to Developers   | 234,359             | 2.0%             | 234,359             | 2.0%             | 60,127              | 0.5%             | 99,445              | 0.9%             | 99,358              | 0.8%             |
| <b>Total Liabilities</b>  | <b>\$710,477</b>    | <b>6.2%</b>      | <b>\$751,858</b>    | <b>6.3%</b>      | <b>\$571,912</b>    | <b>5.0%</b>      | <b>\$571,194</b>    | <b>5.0%</b>      | <b>\$417,604</b>    | <b>3.4%</b>      |
| Deferred Inflows of Resources   |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
| <b>Total Liabilities and Deferred Inflows of Resources</b>                | <b>\$710,477</b>    | <b>6.2%</b>      | <b>\$751,858</b>    | <b>6.3%</b>      | <b>\$571,912</b>    | <b>5.0%</b>      | <b>\$571,194</b>    | <b>5.0%</b>      | <b>\$417,604</b>    | <b>3.4%</b>      |
| <b>Net Position</b>   |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
| Reserved for:   |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
| Nonspendable  |                     |                  |                     |                  |                     |                  | 93,963              |                  | 138,142             |                  |
| Public Safety   | 248,158             |                  | 467,393             | 3.9%             | 467,393             | 4.1%             |                     |                  | 323,368             | 2.7%             |
| Public Works  |                     |                  | 1,366,558           | 115%             | 1,366,558           | 12.0%            |                     |                  |                     |                  |
| Assigned  | \$25,000            | 0.2%             | 50,000              | 0.4%             | 50,000              | 0.4%             | 80,000              | 0.7%             |                     |                  |
| <b>Unassigned</b>   | <b>\$10,486,525</b> | <b>91.4%</b>     | <b>9,287,164</b>    | <b>77.9%</b>     | <b>8,931,588</b>    | <b>78.4%</b>     | <b>10,750,067</b>   | <b>93.5%</b>     | <b>11,305,480</b>   | <b>92.8%</b>     |
| <b>Total Fund Balances</b>  | <b>\$10,759,683</b> | <b>93.8%</b>     | <b>\$11,171,115</b> | <b>93.7%</b>     | <b>\$10,815,539</b> | <b>95.0%</b>     | <b>\$10,924,030</b> | <b>95.0%</b>     | <b>\$11,766,990</b> | <b>96.6%</b>     |
| <b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b> | <b>\$11,470,160</b> | <b>100.0%</b>    | <b>\$11,922,973</b> | <b>100.0%</b>    | <b>\$11,387,451</b> | <b>100.0%</b>    | <b>\$11,495,224</b> | <b>100.0%</b>    | <b>\$12,184,594</b> | <b>100.0%</b>    |

## Statement of Comparative Balance Sheet Analysis

Overall the General Fund's (Fund) Total Assets have increased by 6% during the last five years primarily due to a 14% increase in Cash and Investments line item; this increase is the result of increased Sales and Property Taxes collection.

Taxes decreased by \$569,723 from FY 2016 to FY 2017 due to changes in the payment process of Sales Taxes to the City from the County offices.

Total Liabilities decreased 41% during the five year period reviewed, this was due to reduction in Deferred Revenues and Dues to Developers as the City managed and reduced its liabilities.

The net change in Total Fund Balance shows fluctuations over the last five years due to transfers, mainly to the Capital Project fund and reduction in revenue, due to decrease in construction activities and increase in general government expenditure.

Unassigned Funds increased by 7.6% in the five years reviewed as monies collected from the higher Taxes was transferred to those Funds.

## Comparative Statement of Revenues, Expenditures, and Changes in Fund Balance Analysis

Summary of the Fund's Comparative Statement of Revenues, Expenses, and Changes in Fund Balance for the last five years is as follows:

| GENERAL FUNDS  |                      |                  |                     |                  |                     |                  |                     |                  |                     |                  |
|--|----------------------|------------------|---------------------|------------------|---------------------|------------------|---------------------|------------------|---------------------|------------------|
| STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES |                      |                  |                     |                  |                     |                  |                     |                  |                     |                  |
| For Fiscal Year Ending (FYE) June 30                             | 2013                 | % <sup>(1)</sup> | 2014                | % <sup>(1)</sup> | 2015                | % <sup>(1)</sup> | 2016                | % <sup>(1)</sup> | 2017                | % <sup>(1)</sup> |
| Source:  | CAFR                 |                  | CAFR                |                  | CAFR                |                  | CAFR                |                  | CAFR                |                  |
| <b>% Change Year-over-Year in Total Revenues</b>                 |                      | N/A              |                     | -11.27%          |                     | 3.88%            |                     | 2.32%            |                     | 9.81%            |
| <b>Revenues</b>  |                      |                  |                     |                  |                     |                  |                     |                  |                     |                  |
| Taxes  | \$8,135,022          | 92.5%            | \$7,259,023         | 91.8%            | \$7,458,034         | 90.7%            | \$7,575,288         | 90.0%            | \$7,839,267         | 84.0%            |
| Licenses Permits and Fees  | 230,192              | 2.6%             | 202,197             | 2.6%             | 188,755             | 2.3%             | 206,678             | 2.5%             | 234,946             | 2.5%             |
| Intergovernmentals   | 53,201               | 0.6%             | 50,008              | 0.6%             | 100,000             | 1.2%             | 126,422             | 1.5%             | 695,690             | 7.5%             |
| Changes for Services   | 282,860              | 3.2%             | 305,599             | 3.9%             | 307,738             | 3.7%             | 350,291             | 4.2%             | 443,585             | 4.8%             |
| Fines, Forfeitures and Penalties                                 | 5,449                | 0.1%             | 4,851               | 0.1%             | 3,192               | 0.0%             | 4,318               | 0.1%             | 10,799              | 0.1%             |
| Investment Earnings  | 20,657               | 0.2%             | 22,541              | 0.3%             | 22,942              | 0.3%             | 24,781              | 0.3%             | 61,812              | 0.7%             |
| Other  | 70,146               | 0.8%             | 62,315              | 0.8%             | 145,351             | 1.8%             | 133,588             | 1.6%             | 50,832              | 0.5%             |
| <b>Total Revenues</b>  | <b>\$8,797,527</b>   | <b>100.0%</b>    | <b>\$7,906,534</b>  | <b>100.0%</b>    | <b>\$8,226,012</b>  | <b>100.0%</b>    | <b>\$8,421,366</b>  | <b>100.0%</b>    | <b>\$9,336,931</b>  | <b>100.0%</b>    |
| <b>Expenditures</b>  |                      |                  |                     |                  |                     |                  |                     |                  |                     |                  |
| Current:   |                      |                  |                     |                  |                     |                  |                     |                  |                     |                  |
| General Government   | 1,842,684            | 20.9%            | 1,562,536           | 19.8%            | 2,557,291           | 31.1%            | 1,430,057           | 17.0%            | 1,829,270           | 19.6%            |
| Public Safety  | 3,776,762            | 42.9%            | 3,712,403           | 47.0%            | 3,854,540           | 46.9%            | 4,038,181           | 48.0%            | 4,247,967           | 45.5%            |
| Public Works   | 452,329              | 5.1%             | 20,565              | 0.3%             | 141,430             | 1.7%             | 104,298             | 1.2%             | 52,686              | 0.6%             |
| Community Development  | 535,592              | 6.1%             | 449,000             | 5.7%             | 360,708             | 4.4%             | 370,474             | 4.4%             | 485,400             | 5.2%             |
| Community Services   | 1,066,961            | 12.1%            | 1,595,465           | 20.2%            | 1,651,970           | 20.1%            | \$1,641,196         | 19.5%            | 1,703,505           | 18.2%            |
| <b>Debt Service</b>  |                      |                  |                     |                  |                     |                  |                     |                  |                     |                  |
| Principal  | 14,817               | 0.2%             | 6,247               | 0.1%             |                     |                  |                     |                  |                     |                  |
| Interest   | 418                  | 0.0%             | 76                  | 0.0%             |                     |                  |                     |                  |                     |                  |
| <b>Total Expenditures</b>  | <b>\$7,689,563</b>   | <b>87.4%</b>     | <b>\$7,346,292</b>  | <b>92.9%</b>     | <b>\$8,565,939</b>  | <b>104.1%</b>    | <b>\$7,584,206</b>  | <b>90.1%</b>     | <b>\$8,318,828</b>  | <b>89.1%</b>     |
| <b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b> | <b>\$1,107,964</b>   | <b>12.6%</b>     | <b>\$560,242</b>    | <b>7.1%</b>      | <b>(\$339,927)</b>  | <b>-4.1%</b>     | <b>\$837,160</b>    | <b>9.9%</b>      | <b>\$1,018,103</b>  | <b>10.9%</b>     |
| <b>Other Financing Sources (Uses)</b>                            |                      |                  |                     |                  |                     |                  |                     |                  |                     |                  |
| Transfers in   | 32,000               |                  | 32,000              |                  | 24,000              |                  |                     |                  | 10,000              |                  |
| Transfers out  | (2,688,140)          |                  | (188,610)           |                  | (40,549)            |                  | (728,669)           |                  | (192,000)           |                  |
| Proceeds from sale of Capital Assets                             |                      |                  | 7,800               |                  | 900                 |                  |                     |                  | 6,857               |                  |
| <b>Total Other Financing Sources (Uses)</b>                      | <b>(\$2,656,140)</b> |                  | <b>(\$148,810)</b>  |                  | <b>(\$15,649)</b>   |                  | <b>(\$728,669)</b>  |                  | <b>(\$175,143)</b>  |                  |
| <b>Net Change in Fund Balance</b>                                | <b>(\$1,548,176)</b> |                  | <b>\$411,432</b>    |                  | <b>(\$355,576)</b>  |                  | <b>\$108,491</b>    |                  | <b>\$842,960</b>    |                  |
| <b>Fund Balance, Beginning of Year</b>                           | <b>12,307,859</b>    |                  | <b>\$10,759,683</b> |                  | <b>\$11,171,115</b> |                  | <b>\$10,815,539</b> |                  | <b>\$10,924,030</b> |                  |
| <b>Fund Balance, End of Year</b>                                 | <b>\$10,759,683</b>  |                  | <b>\$11,171,115</b> |                  | <b>\$10,815,539</b> |                  | <b>\$10,924,030</b> |                  | <b>\$11,766,990</b> |                  |

<sup>(1)</sup> Calculated as a percent of Total Revenues

The City lists seven sources of revenue; The City's largest source of revenue is Taxes (Property Tax and Sales Tax), which accounted for 84% of all revenues in 2017.

During fiscal year (FY) 2013, the Net Change Fund balance decreased by \$1,548,176. The decrease was due to the transfer of \$2,460,000 to the Capital Projects Fund (to be used for capital purchases or capital projects) and \$228,000 to the Recycling Fund. In addition, the Fund's expenditures were \$1,107,964 less than it took in as revenue.

Total Revenues have shown steady growth of 6.1% over the five years reviewed, with the exception in FY 2014, when revenues were down due to a decrease in Tax revenues and construction permits. Growth in revenues in the subsequent years is due to an increase in Intergovernmental revenues which increased by 450% or \$569,268 and Taxes. Taxes were up 3% or \$263,979 due to an increase in construction as indicated by increase in construction permits.

Other revenue sources include, Fines, Forfeitures and Penalties, and Investment Earnings all showed growth over the five year period reviewed.

The City's major expenditure is Public Safety which is almost 45.6% of all expenditures, followed by General Government at 19.6% of all expenditures.

In FY 2015 the City made a one-time payment to CalPERS of \$1,000,000 to reduce the City's unfunded pension liability which resulted in the Excess (Deficiency) of Revenues Over (Under Expenditures of (\$339,927) that year.

In FY 2017 Total Expenditures increased by 10%, with the largest being the General Government expenses rising by 27.9% or \$399,213. Public safety, the City's largest cost, increased by 12.4% over the five year period reviewed, this was due increased contract costs with the County of San Bernardino Sheriff's Department.

The transfer of funds from the General Fund to the Capital Projects and the Total Non-Major Governmental Fund is to assist with capital improvement projects. Transfer Outs are discretionary and occur for planned projects.

Fund Balance, End of Year FY 2017 was \$11,766,990, a 9.3% growth over the years reviewed, due to the activities discussed above.



## Lease Payment and Fund Balance Analysis:

| Lease Payment and Fund Balance Analysis                            |                      |                  |                    |                  |                  |
|--|----------------------|------------------|--------------------|------------------|------------------|
|  | 2013                 | 2014             | 2015               | 2016             | 2017             |
| Excess (Deficiency) of Revenues Over (Under) Expenditures          | \$1,107,964          | \$560,242        | (\$339,927)        | \$837,160        | \$1,018,103      |
| <b>Adjustments Specific to the Transactions</b>                    |                      |                  |                    |                  |                  |
| Principal  | (\$14,817)           | (\$6,247)        | \$0                | \$0              | \$0              |
| Interest   | (\$418)              | (\$76)           | \$0                | \$0              | \$0              |
| Transfer in  | \$32,000             | \$32,000         | \$24,000           | \$0              | \$10,000         |
| Transfer out   | (\$2,688,140)        | (\$188,610)      | (\$40,549)         | (\$728,669)      | (\$192,000)      |
| Total Adjustments  | (\$2,671,375)        | (\$162,933)      | (\$16,549)         | (\$728,669)      | (\$182,000)      |
| <b>Adjustments to Excess (Deficiency) of Revenues</b>              | <b>(\$1,563,411)</b> | <b>\$397,309</b> | <b>(\$356,476)</b> | <b>\$108,491</b> | <b>\$836,103</b> |
| Proposed ISRF Lease Payment *                                      | \$79,425             | \$79,425         | \$79,425           | \$79,425         | \$79,425         |
| Other MADS General Fund Obligations                                | \$0                  | \$0              | \$0                | \$0              | \$0              |
| <b>Revised Net Change in Funds Balance with ISRF Lease Payment</b> | <b>(\$1,642,836)</b> | <b>\$317,884</b> | <b>(\$435,901)</b> | <b>\$29,066</b>  | <b>\$756,678</b> |

\* Calculated at \$1,300,000 at 3.17% interest rate for 25 years.

Analysis of the historical cash flow over the last five years demonstrates the City has the capacity to service the proposed Financing. The line items, Transfers In and Transfer Out, have been added to Total Adjustments, as they are recurring transactions.

The City projects that Revenues will increase over the FY 2018, as Property Tax collections will rise because of the increase in property valuations.

The percentage of debt service to the Fund's Total Revenue is 0.85%, below the 15% IBank standard. As mentioned earlier in FY 2013, the Net Change in Fund Balance decreased by \$1,548,176. The decrease was due to the transfer of \$2,460,000 to the Capital Projects Fund and \$228,000 to the Recycling Fund.

In FY 2015 the City made a one-time payment to CalPERS of \$1,000,000 to reduce the City's unfunded pension liability which resulted in the Excess (Deficiency) of Revenues Over (Under Expenditures of (\$339,927) that year. This resulted in the Revised Net Change in Funds Balance with ISRF Lease Payment of (\$435,901). When an adjustment is made for the \$1,000,000 payment, the balance with ISRF lease payment is positive at \$564,099 in 2015.

## Budget

The City adopts an annual appropriated budget for its General Fund. The table below illustrates that actual revenues exceeded the City's expectations in four of the five years. This was due to the City receiving more Transient Occupancy Tax (TOT) charges for services, miscellaneous revenue and recreation revenue than was projected.

| Revenues Budget |             |             |             |                                     |
|-----------------|-------------|-------------|-------------|-------------------------------------|
| Year            | Orginal     | Final       | Actual      | Difference between Final and Actual |
| 2013            | \$8,106,000 | \$8,106,000 | \$8,797,527 | \$691,527                           |
| 2014            | \$8,002,000 | \$8,020,000 | \$7,906,534 | (\$113,466)                         |
| 2015            | \$7,727,000 | \$7,727,000 | \$8,226,012 | \$499,012                           |
| 2016            | \$7,868,500 | \$7,868,500 | \$8,421,366 | \$552,866                           |
| 2017            | \$8,251,143 | \$8,251,143 | \$9,336,931 | \$1,085,788                         |

The City exercises budgetary control at the departmental level. Department heads are authorized to make transfers between budgeted line items within their respective departments. The budget document authorizes the City Manager to reduce, augment, or realign the budget of each fund or to transfer revenues and expenditures for the purpose of determining a balanced budget.

The table below indicates the City controls spending by deferring some expenditure decisions towards the end of the fiscal year. This ensures the City is fully informed and has met other immediate obligations prior to proceeding with special projects.

| <b>Expenses Budget</b> |                |             |               |  |
|------------------------|----------------|-------------|---------------|--|
| <b>Year</b>            | <b>Orginal</b> | <b>Fnal</b> | <b>Actual</b> | <b>Difference between Final and Actual</b> |
| <b>2013</b>            | \$7,948,450    | \$7,948,450 | \$7,689,563   | \$258,887                                  |
| <b>2014</b>            | \$7,681,860    | \$7,771,710 | \$7,346,292   | \$425,418                                  |
| <b>2015</b>            | \$8,117,700    | \$9,117,650 | \$8,565,939   | \$551,711                                  |
| <b>2016</b>            | \$7,913,100    | \$7,759,050 | \$7,584,206   | \$174,844                                  |
| <b>2017</b>            | \$8,466,090    | \$8,466,090 | \$8,318,828   | \$147,262                                  |

### **Pension Plan**

The City participates in the California Public Employees Retirement System (CalPERS), a pension available to all qualified employees. Per CalPERS, as of June 30, 2017, the City’s funded ratio in the Miscellaneous Plan was at 78.4% with a plan’s share of accrued unfunded liability of \$3,000,506. As June 30, 2017, the City’s funded ratio in the California Public Employee Pension Reform Act (PEPRA) Miscellaneous Plan was at 94.7% with a plan’s share of accrued unfunded liability of \$6,087.

### **Analysis of the Proposed Leased Asset**

The City proposes to finance the Project under a lease/lease-back financing agreement. To determine the value of the security IBank used the 2018 property insurance assessment. This valuation is deemed appropriate and acceptable to IBank.

The City proposes the subject of the lease to be the City Hall (Leased Asset) located at 6136 Adobe Road, City of Twentynine Palms, CA 92277. The Project will not effect the use and occupancy of the Leased Asset. The table below shows the Value-to-Lease ratio of the asset.

The City’s insurance assessment estimates the remaining useful and economic life of the building is greater than 50 years. The table below reflects 100% of the building’s value is to be used as security. The building is an acceptable asset in its current condition and it is an essential asset to the City and the public.

| <b>Name of Asset</b>               | <b>Year Built</b> | <b>Building Size in Square Feet (SF)</b> | <b>Construction</b> | <b>Approximate Price per SF</b> | <b>Estimate of Value</b> |
|------------------------------------|-------------------|--|---------------------|---------------------------------|--------------------------|
| City of Twentynine Palms City Hall | 1959              | 7,150                                    | Concrete Block      | \$237                           | \$1,698,018              |
| <b>Total Value</b>                 |                   |  |                     |                                 | <b>\$1,698,018</b>       |
| <b>Lease Amount</b>                |                   |  |                     |                                 | <b>\$1,300,000</b>       |
| <b>Value-to-Lease</b>              |                   |  |                     |                                 | <b>130.62%</b>           |
| <b>125% of Lease Amount</b>        |                   |  |                     |                                 | <b>\$ 1,625,000</b>      |

The table above shows the estimated value of the Leased Asset. Staff received and reviewed a Preliminary Report (Prelim) for the Leased Asset. The Prelim reflects a fee simple title held by the City. The Title reflects standard encumbrances for property taxes, supplemental taxes, water rights, and easements for utility purposes. All exceptions are customary, reasonable, and acceptable to IBank.

## **Risk Assessment**

Primary risks of the proposed ISRF Program financing are as follows:

1. The security is a leasehold interest on Leased Asset and not a lien on the General Fund or any other Governmental Fund.
2. Under State law governing the proposed ISRF Program financing, lease payments to IBank (designed to match debt service) are subject to abatement, with the amount of abatement proportionate to the extent and disruption, of the Borrower's use of the Leased Asset.
3. Under State law governing the proposed ISRF Program financing, acceleration in the event of default by the Borrower is prohibited. Thus, in the event of payment default, IBank must either annually pursue a remedy of compelling past due lease payments or institute an unlawful detainer action to obtain possession of the Leased Asset for purposes of re-letting.

## **Mitigation Factors**

1. The Borrower will covenant to annually budget and appropriate lease payments.
2. The Borrower will covenant to procure rental interruption insurance for the Leased Asset in the event of loss of use (abatement), such insurance would cover abated lease payments for a period of at least six months beyond the period required to rebuild the Leased Asset.
3. The Borrower will obtain title insurance in favor of IBank and will covenant against permitting additional encumbrances against the Leased Asset.
4. Lease payments from the General Fund provide a broad source of funds and greater flexibility to the Borrower to meet the required Lease obligations.

### **Compliance with IBank Criteria, Priorities, and Guidelines**

The application and the proposed financing are in accordance with the IBank Criteria, Priorities and Guidelines (ISRF Criteria).

- The total General Fund obligation (inclusive of the Financing) is less than 15% of the City's Total Revenues for FY 2017.
- The Leased Asset is the City Hall, and is acceptable to IBank.
- The source and the diversity of the Fund appear to adequately cover existing expenditures, financing obligations, and the proposed IBank Lease payments.
- The useful life of the Project is over 25 years which is acceptable per IBank Guidelines.

## STAFF RECOMMENDATION

Staff recommends approval of Resolution No. 18-18 authorizing ISRF Program financing to the City of Twentynine Palms for the Infrastructure Improvement Project as follows:

1. Applicant/Borrower: City of Twentynine Palms
2. Project: City of Twentynine Palms Infrastructure Improvement Project
3. Amount of ISRF Program financing: \$1,300,000
4. Maturity: Not to exceed 25 years
5. Repayment/Leased Asset: General Fund Lease provides IBank with a leasehold interest on City Hall (Leased Asset).
6. Interest Rate: 3.17%
7. Fees: The City to finance the origination fee of 1.00%, \$13,000 upon loan closing, and an annual fee of 0.30% of the outstanding balance.
8. Not an Unconditional Commitment: IBank's resolution shall not be construed as unconditional commitment to finance the Project, but rather IBank's approval pursuant to the resolution is conditioned upon entry by IBank and the Borrower into an ISRF Program financing agreement(s), in form and substance satisfactory to IBank.
9. Limited Time: The Board's approval expires 120 days from the date of its adoption. Thus, the City and IBank must enter into the ISRF Program financing agreement(s) no later than 120 days from such date. Once the approval has expired, there can be no assurances that IBank will be able to provide the ISRF Program financing or consider extending the approval period.
10. ISRF Program Financing Agreement Covenants: Aside from usual and customary terms and conditions for this type of ISRF Program financing, Staff recommends IBank's ISRF Program financing agreement(s) includes without limitation, the following additional conditions and covenants:
  - a. Comply with all applicable requirements of ISRF Program Criteria, as well as all applicable laws, regulations and permitting requirements associated with public works projects.
  - b. Enter into a fixed-price construction contract; obtain payment and performance bonds, each in the amount of the fixed priced construction contract for the Project set aside construction contingency funds equal to 4.6% of the Financing amount; and obtain builder's risk, property, liability, and worker's compensation insurance.
  - c. Budget and appropriate funds sufficient to make annual Lease payments.
  - d. Procure and maintain rental interruption insurance for a period of at least six months beyond the time needed to reconstruct the Leased Asset.
  - e. Procure an ALTA title insurance policy.
  - f. Not encumber further the Leased Asset.
  - g. Provide to IBank within 180 days of the end of each fiscal year a copy of its audited financial statements, together with an annual certificate demonstrating compliance with the foregoing covenants, as well as other information as IBank may request from time to time.
  - h. City to provide IBank with satisfactory evidence that it has obtained commercially reasonable equipment and labor warranties and those installers demonstrate the ability to fulfill warranty obligations.

Exhibit 1 - City Hall Building (Leased Asset)



Source – City Manager