

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)

STAFF REPORT

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

| | | | |
|---|------------------------------------|---|---|
| Applicant: City of Ukiah (City) | | ISRF Project Type: Infrastructure Project | ISRF Project Category: City Streets |
| Financing Amount: \$4,000,000 (Financing) | Financing Term: 30 years | Interest Rate⁽¹⁾: 3.30% | |
| Source of Repayment: General Fund (Fund) | | Fund Rating/Date: None | |
| Security/Leased Asset: City Hall located at 300 Seminary Avenue, Ukiah, CA 95482 (Leased Asset) | | | |
| Project Name: Redwood Business Park Traffic Improvements and US 101/Talmage Interchange (Project) | | Project Location: Intersection of Airport Park Boulevard and Talmage Road Ukiah, CA 95482 | |

Project Description / Source and Use of Proceeds:
The Project includes, but is not limited to: (1) the improvements and upgrades of a freeway off-ramp, (2) surface street improvements, and (3) traffic control improvements.

Use of Financing Proceeds:
The Financing would fund all components necessary to complete the Project including, but not limited to: construction, construction contingency (11% of the total Financing), equipping, machinery installation, engineering, architectural, design, permitting, entitlements, environmental review, project administration, construction management and general Project development activities. IBank's origination fee will be paid by the City upon the closing of the Financing.

| PROJECT USES | PROJECT SOURCES | | |
|---|--------------------|------------------|--------------------|
| | IBank | City of Ukiah | Total |
| Redwood Business Park Traffic Improvements and US 101/Talmage Interchange Project | \$4,000,000 | \$222,939 | \$4,222,939 |
| Origination Fee | | \$40,000 | \$40,000 |
| Total | \$4,000,000 | \$262,939 | \$4,262,939 |

Source: Financing Application

(1) As of February 8, 2017

Credit Considerations:

Projected lease payment and Fund balance analysis for the Financing is as follows:

| PROJECTED LEASE PAYMENT AND FUND BALANCE ANALYSIS | | | | |
|--|--------------------|------------------|------------------|------------------|
| | 2016 | 2017 | 2018 | 2019 |
| Net Change in Fund Balance | (\$146,893) | \$476,200 | \$826,206 | \$1,166,619 |
| Transaction Adjustments | | | | |
| Less Estimated Costco Revenue | | | (\$378,677) | (\$753,723) |
| Less Sale of Capital Assets | | (\$25,000) | (\$25,000) | (\$25,000) |
| Proposed ISRF Lease Payment | | (\$88,000) | (\$222,465) | (\$222,465) |
| Revised Net Change in Funds Balance with ISRF Lease Payment | (\$146,893) | \$363,200 | \$200,064 | \$165,431 |

The ISRF Lease Payment was calculated based on \$4,000,000 @ 3.30%, 30 year term

The above projections demonstrate the City's ability to service the proposed Financing for the three years projected. Projections are necessary to support the Financing since the City is relying (partially) on a modest 2% increase in revenue from Sales and Use and Property taxes; historically the increase for these revenue streams averages 7%.

Another new revenue source, Measure Y, passed in November 2016, implements a 0.5% increase in sales tax. On January 20, 2017, the Howard Jarvis Taxpayers Association (HJTA) filed a lawsuit seeking to declare the Measure Y sales tax increase invalid. The trial court recently entered judgment in favor of the City following its successful procedural challenge to HJTA's lawsuit. HJTA historically has appealed such decisions and the indications are it will do so here. Since the litigation over the validity of the Measure Y sales tax increase may not be resolved for several years, Measure Y revenues and proposed expenditures based on this revenue stream are not being considered as support for the repayment of the proposed Financing.

Staff made two additional adjustment to the Projected Lease Payment and Fund Balance Analysis: (1) the deduction of the estimated annual revenue for the proposed Costco (staff did not wish to rely on the revenue from a store that is yet to be built) and (2) an adjustment to the line item Sale of Capital Assets (there is no assurance of these sales). The full IBank lease payment will not begin until fiscal year (FY) 2018.

Support for Staff Recommendations:

1. The Fund projections demonstrate the City's ability to meet its obligations under the proposed Financing.
2. Total Revenues and new revenue sources are projected to increase over the next three years.
3. The fair market value of the City's proposed Leased Asset is 113% of the Financing amount.

Extraordinary Covenants:

None

IBank Staff:

Shawn Ali and John Lee

Date of Staff Report:

April 25, 2017

Date of IBank Board Meeting:

May 23, 2017

Resolution Number:

17-11

Staff Recommendation:

Staff recommends approval of Resolution No.17-11 authorizing ISRF Program financing to the City of Ukiah for its Redwood Business Park Traffic Improvements and US 101/Talmage Interchange.

PROJECT DESCRIPTION

Ukiah (City) requests ISRF Program financing (Financing) in the amount of \$4,000,000 to fund the Redwood Business Park Traffic Improvements and US 101/Talmage Interchange (Project). (Exhibit 1)

Project Background

Traffic and pedestrian improvements in the City's Redwood Business Park area have been identified as needed since 1989 to help facilitate both community revitalization and spur economic development activities. Traffic engineers from both the City and Caltrans have designed improvements to the Interchange based on traffic counts and projections of future traffic through the year 2030. The projections are based on traffic studies prepared in connection with planned increased land use intensity near the Project location.

Generally, the Financing funds all components necessary to complete the Project including, but not limited to: construction, construction contingency, equipping, machinery installation, engineering, architecture, design, permitting, entitlement, environmental review, project administration, construction management, and general Project development activities. More specifically, the Project consists of the following components:

- Removing from service the existing US 101 southbound off-ramp to westbound Talmage Road, constructing a new signalized intersection to facilitate vehicle access to both eastbound and westbound Talmage Road, and widening and re-aligning the off-ramp to terminate at the new signalized intersection
- Constructing a westbound lane on Talmage Road between the US 101 overpass and Airport Park Boulevard;
- Constructing an eastbound lane on Talmage Road between Airport Park Boulevard and the Talmage Road/US 101 southbound onramp;
- Replacing the existing traffic signals at the intersection of Talmage Road and Airport Park Boulevard;
- Installing a new traffic signal at the intersection of Airport Park Boulevard and Commerce Avenue;
- Reconstructing approximately 2,400 linear feet, and overlaying approximately 1,700 linear feet, of Airport Park Boulevard;
- Installing storm water quality improvements to meet Low Impact Development requirements;
- Widening Airport Park Boulevard at the Hastings/South State Intersection to allow for a dedicated turn lane; and
- Other components necessary or desirable in connection with a project of this type and that are consistent with the applicable requirements of the IBank Act and the Criteria.

Project Benefits

According to the traffic impact study conducted by the City and Caltrans, the Project will accommodate future traffic and decrease the number of possible collisions, specifically in the intersection of South State Street/Talmage Road that had a collision rate higher than the statewide average rate for the five-year study period.

The Project enhances the roadway circulation that comprises US Hwy. 101 and a major arterial road (Talmage Road-State Route 222) that directly serves local businesses, which will help to facilitate both community revitalization and spur economic development activities.

Public Benefits

The Project will increase traffic circulation, lessen congestion, and reduce accidents at the historically troubled South State Street/Talmage Road intersection. Once the Project is complete, the City's residents will be better able to access local business and travel to and from work without unnecessary delay and the risk of traffic accidents. The public will benefit by spending less non-productive time in congested traffic. In addition, the reduction in accidents will lessen demand for the City emergency medical services and make the City streets safer for all residents.

The City anticipates 30 construction jobs will be generated during the Project construction. The construction jobs will all pay prevailing wages. Additionally, the City expects the Project to attract new businesses to the Project vicinity, which will provide additional permanent jobs for the City's residents.

GENERAL CITY INFORMATION

The City was incorporated in 1876, and is situated in the Yokayo Valley in southern Mendocino County (County). The City encompasses 4.7 square miles, it is the County seat, and it is the largest city within the County. Accessibly located along U.S. Route 101 corridor, the City serves as the metropolitan center for the County and for much of neighboring Lake County.

The latest Census, 2010, states the City's population was 16,075 and the 2015 population estimates show little change. The Greater Ukiah area, which includes adjacent valleys and connecting communities of Redwood Valley, Potter Valley, Calpella, and Talmage, is home to more than 40,000 residents. The Ukiah vicinity is now home to some large production wineries, including Brutocao, Fife, Parducci, Frey, and Bonterra; as well as being known for innovating with organic and sustainable practices.

The City's major employers include; the City of Ukiah, Ukiah City Redevelopment Agency, Ukiah High School, Ukiah Valley Medical Center, Wal-Mart, Food Help Program, Hillside Health Center, Mendocino County Office of Education, Mendocino County Social Service, and Raley's. Of the above mentioned employers, none employ more than 160 people, or 1% of the workforce.

Capital Improvement Plan

The City's Capital Budget fiscal year (FY) 2015-2016 lists the Project as a critical City improvement and identifies IBank's financing as the appropriate funding source. Subsequently, the City Council has approved, by resolution, IBank's financing for the Project. A total of \$5,598,663 in unfunded capital projects, including the Project, are listed within the Capital Budget.

CREDIT ANALYSIS

Source of Repayment

The City proposes its Fund as the source of repayment for the Financing.

| | |
|--|---|
| Source of Revenue to Repay Financing: | General Fund |
| Outstanding Obligations: | None |
| 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: _____ |
| Fiscal Year Ends: | June 30 |
| Audit Fiscal Years Reviewed: | 2012-2016 |
| The auditor's reports for all years indicate that the financial statements present fairly, in all material respects, the financial position of the District, 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. [If no, explain] |
| Adopted Budget(s) Reviewed: | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No. [If no, explain] |
| Budget Year(s) Reviewed: | 2016-2017 |

Comparative Balance Sheet Analysis

Analysis of the Fund's Comparative Balance Sheet for the last five years is as follows:

| COMPARATIVE BALANCE SHEET GENERAL FUND | | | | | | | | | | |
|---|--------------------|------------------|--------------------|------------------|--------------------|------------------|--------------------|------------------|--------------------|------------------|
| For Fiscal Year Ending (FYE) June 30 | 2012 | | 2013 | | 2014 | | 2015 | | 2016 | |
| Source: | CAFR | % ⁽¹⁾ | CAFR | % ⁽¹⁾ | CAFR | % ⁽¹⁾ | CAFR | % ⁽¹⁾ | CAFR | % ⁽¹⁾ |
| Assets | | | | | | | | | | |
| Cash and Investments | \$5,824,291 | 70.5% | \$4,721,456 | 69.3% | \$3,379,224 | 50.9% | \$3,677,677 | 59.5% | \$2,192,367 | 37.4% |
| Receivables | | | | | | | | | | |
| Property Taxes | 206,106 | 2.5% | 928,607 | 13.6% | 126,183 | 1.9% | 1,230,266 | 19.9% | 1,372,646 | 23.4% |
| Accounts (Net) | 1,364,358 | 16.5% | 486,565 | 7.1% | 1,338,573 | 20.1% | 191,543 | 3.1% | 767,031 | 13.1% |
| Interest | 211,315 | 2.6% | 35,187 | 0.5% | 14,432 | 0.2% | 47,203 | 0.8% | 15,623 | 0.3% |
| Intergovernmental Receivable | | | | | | | 24,718 | 0.4% | | |
| Prepayments | 5,167 | 0.1% | 8,798 | 0.1% | 13,498 | 0.2% | 25,748 | 0.4% | 11,437 | 0.2% |
| Grants | 7,332 | 0.1% | | | | | | | | |
| Loans to Employees | 6,522 | 0.1% | 3,348 | 0.0% | 429 | 0.0% | 1,385 | 0.0% | 660 | 0.0% |
| Due from Other Funds | 74,870 | 0.9% | 15,410 | 0.2% | 1,152,912 | 17.4% | 359,286 | 5.8% | 600,156 | 10.2% |
| Advance Due from Other Funds | 559,134 | 6.8% | 618,594 | 9.1% | 618,594 | 9.3% | 618,595 | 10.0% | 899,246 | 15.3% |
| Total Assets | \$8,259,095 | 100.0% | \$6,817,965 | 100.0% | \$6,643,845 | 100.0% | \$6,176,421 | 100.0% | \$5,859,166 | 100.0% |
| Liabilities | | | | | | | | | | |
| Accounts Payable | 295,549 | 3.6% | 496,845 | 7.3% | 499,337 | 7.5% | 433,374 | 7.0% | 275,271 | 4.7% |
| Accrued Salaries and Benefits | 253,637 | 3.1% | 251,578 | 3.7% | 278,078 | 4.2% | 299,038 | 4.8% | 370,894 | 6.3% |
| Accrued Compensation Absences | 647,918 | 7.8% | 674,503 | 9.9% | 659,324 | 9.9% | | | | |
| Deferred Revenues | 197,082 | 2.4% | | | | | | | | |
| Total Liabilities | \$1,394,186 | 16.9% | \$1,422,926 | 20.9% | \$1,436,739 | 21.6% | \$732,412 | 11.9% | \$646,165 | 11.0% |
| Deferred Inflows of Resources | | | | | | | | | | |
| Unavailable Revenue | | | \$121,133 | 1.8% | \$151,004 | 2.3% | \$84,115 | 1.4% | | |
| Total Deferred Inflows of Resources | | | 121,133 | 1.8% | 151,004 | 2.3% | 84,115 | 1.4% | | |
| Fund Equity | | | | | | | | | | |
| Non-Spendable | 559,134 | 6.8% | 619,044 | 9.1% | 619,044 | 9.3% | 645,728 | 10.5% | 911,343 | 15.6% |
| Committed | | | 183,956 | 2.7% | 203,105 | 3.1% | | | | |
| Assigned | 4,851,110 | 58.7% | 89,859 | 1.3% | | | | | 185,443 | 3.2% |
| Unassigned | 1,454,665 | 17.6% | 4,381,047 | 64.3% | 4,233,953 | 63.7% | 4,714,166 | 76.3% | 4,116,215 | 70.3% |
| Total Fund Balances | \$6,864,909 | 83.1% | \$5,273,906 | 77.4% | \$5,056,102 | 76.1% | \$5,359,894 | 86.8% | \$5,213,001 | 89.0% |
| Total Liabilities and Fund Balance | \$8,259,095 | 100.0% | \$6,817,965 | 100.0% | \$6,643,845 | 100.0% | \$6,176,421 | 100.0% | \$5,859,166 | 100.0% |
| Total Liabilities to Total Assets | 0.17 | | 0.21 | | 0.22 | | 0.12 | | 0.11 | |
| Total Fund Balance/Total Liabilities | 4.92 | | 3.71 | | 3.52 | | 7.32 | | 8.07 | |

⁽¹⁾Calculated as a percent of Total Assets.

Review of the Comparative Balance Sheet found a reduction in Total Assets of 29% between FY 2012 and FY 2016, primarily due to a decrease in both Cash and Investments line items. The City increased spending (see the following table) for Public Safety and Public Works between FY 2014 and FY 2016. The increase in spending was not offset by an increase in revenue therefore; cash reserves were depleted to supply the difference.

Property Taxes increased from \$126,183 in 2014 to \$1,230,266 in FY 2015 due to the City reclassifying Property Taxes with the inclusion of vehicle license fees. This reclassification is the cause for the \$1M decrease in Accounts (Net) from FY 2014 to FY 2015.

Due from Other Funds represents the City moving funds from the general fund to several other funds within the City. In FY 2014, transfers represented 15 different City accounts that borrowed from the Fund; the largest and annually consistent transfer went to the City's golf course.

A reporting change was implemented for Accrued Compensation Absences in FY 2015, whereby previously reported amounts at the Fund level were moved to the Citywide Statement of Net Position, on advice of the City's auditors. Any amounts previously reported in this line item that are appropriate for the Fund level are included in Accrued Salaries and Benefits. Total Liabilities decreased 53.7% over the five years reviewed, primarily attributable to this change in the reporting of Accrued Compensation Absences. In FY 2013, Assigned was redirected to the Unassigned line item.

Comparative Statement of Revenues, Expenditures, and Changes in Fund Balances Analysis
 Analysis of the Fund's Comparative Statement of Revenues, Expenditures, and Changes in Fund Balances for the last five years is as follows:

| COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES | | | | | | | | | | |
|---|---------------------|------------------|----------------------|------------------|----------------------|------------------|---------------------|------------------|---------------------|------------------|
| GENERAL FUND | | | | | | | | | | |
| For Fiscal Year Ending (FYE) June 30 | 2012 | % ⁽¹⁾ | 2013 | % ⁽¹⁾ | 2014 | % ⁽¹⁾ | 2015 | % ⁽¹⁾ | 2016 | % ⁽¹⁾ |
| Source: | CAFR | | CAFR | | CAFR | | CAFR | | CAFR | |
| % Change in Total Revenues | | N/A | | 1.80% | | -1.65% | | 8.68% | | 5.42% |
| Revenues | | | | | | | | | | |
| Taxes | | | | | | | | | | |
| Property | \$1,213,479 | 9.2% | \$1,484,934 | 11.0% | \$1,251,189 | 9.5% | \$3,729,370 | 25.7% | \$2,641,247 | 17.2% |
| Sales and Use | 6,465,410 | 48.9% | 6,977,233 | 51.9% | 7,104,666 | 53.7% | 5,976,938 | 41.2% | 7,714,762 | 50.3% |
| Transient Occupancy | 775,547 | 5.9% | 828,000 | 6.2% | 925,191 | 7.0% | 1,061,823 | 7.3% | 1,229,814 | 8.0% |
| Franchise | 567,486 | 4.3% | 569,892 | 4.2% | 591,767 | 4.5% | 1,643,559 | 11.3% | 1,514,800 | 9.9% |
| Business License | 325,674 | 2.5% | 323,565 | 2.4% | 324,240 | 2.4% | 364,491 | 2.5% | 360,732 | 2.4% |
| Property Transfer | 24,770 | 0.2% | 35,716 | 0.3% | 34,379 | 0.3% | 39,684 | 0.3% | 41,791 | 0.3% |
| Licenses and Permits | 434,492 | 3.3% | 272,070 | 2.0% | 283,786 | 2.1% | 186,012 | 1.3% | 341,642 | 2.2% |
| Fines, Forfeitures, and Penalties | 46,960 | 0.4% | 44,805 | 0.3% | 53,999 | 0.4% | 58,692 | 0.4% | 78,589 | 0.5% |
| Interest, Rents and Concessions | | | | | 182,485 | 1.4% | 219,696 | 1.5% | 161,676 | 1.1% |
| Intergovernmental | 1,350,289 | 10.2% | 1,245,224 | 9.3% | 1,252,709 | 9.5% | 183,021 | 1.3% | 165,376 | 1.1% |
| Use of Money and Property | 856,146 | 6.5% | 154,959 | 1.2% | | | | | | |
| Charges for Current Services | 1,146,590 | 8.7% | 1,517,943 | 11.3% | 1,005,530 | 7.6% | 882,761 | 6.1% | 713,948 | 4.7% |
| Miscellaneous | 4,498 | 0.0% | (725) | 0.0% | 225,509 | 1.7% | 147,815 | 1.0% | 360,302 | 2.4% |
| Total Revenues | \$13,211,341 | 100.0% | \$13,453,616 | 100.0% | \$13,235,450 | 100.0% | \$14,493,862 | 100.0% | \$15,324,679 | 100.0% |
| Expenditures | | | | | | | | | | |
| General Government | \$1,817,593 | 13.8% | \$1,985,159 | 14.8% | \$2,676,148 | 20.2% | \$838,891 | 5.8% | \$391,859 | 2.6% |
| Public Safety | 8,660,148 | 65.6% | 9,447,647 | 70.2% | 8,699,716 | 65.7% | 9,753,881 | 67.3% | 10,828,693 | 70.7% |
| Public Works | | | | | 1,141,456 | 8.6% | 2,010,958 | 13.9% | 1,847,237 | 12.1% |
| Housing and Community Development | 67,839 | 0.5% | 648,972 | 4.8% | 480,881 | 3.6% | 202,683 | 1.4% | 147,879 | 1.0% |
| Street and Roads | 1,087,896 | 8.2% | 1,059,401 | 7.9% | | | | | | |
| Parks and Recreation | 1,970,035 | 14.9% | 1,961,691 | 14.6% | 1,907,144 | 14.4% | 1,981,999 | 13.7% | 2,081,416 | 13.6% |
| Debt Service | | | | | | | | | | |
| Interest | 38 | 0.0% | | | | | | | | |
| Capital Outlay | 46,593 | 0.4% | 246,517 | 1.8% | 262,482 | 2.0% | 311,333 | 2.1% | 16,575 | 0.1% |
| Total Expenditures | \$13,650,142 | 103.3% | \$15,349,387 | 114.1% | \$15,167,827 | 114.6% | \$15,099,745 | 104.2% | \$15,313,659 | 99.9% |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (\$438,801) | -3.3% | (\$1,895,771) | -14.1% | (\$1,932,377) | -14.6% | (\$605,883) | -4.2% | \$11,020 | 0.1% |
| Other Financing Sources (Uses) | | | | | | | | | | |
| Transfers In | 1,065,910 | | 1,266,757 | | 1,714,573 | | 712,151 | | 345,445 | |
| Transfers Out | | | (961,989) | | | | (461,800) | | (503,358) | |
| Total Other Financing Sources (Uses) | \$1,065,910 | | \$304,768 | | \$1,714,573 | | \$250,351 | | (\$157,913) | |
| Net Change in Fund Balance | \$627,109 | | (\$1,591,003) | | (\$217,804) | | (\$355,532) | | (\$146,893) | |
| Fund Balance, Beginning of Year | \$6,237,800 | | \$6,864,909 | | \$5,273,906 | | \$5,056,102 | | \$5,359,894 | |
| Prior Year Adjustment | | | | | | | 659,324 | | | |
| Fund Balance, End of Year | \$6,864,909 | | \$5,273,906 | | \$5,056,102 | | \$5,359,894 | | \$5,213,001 | |

⁽¹⁾Calculated as a percent of Total Revenues

Review of the Fund's Comparative Statement of Revenues, Expenditures, and Changes in Fund Balances shows the Fund Balance, End of Year for the last four years has been stable. The increase in Total Revenues was primarily due to increases in the following line items: Transient Occupancy Tax and Franchise Tax, which have increased over the last five years by; 59% and 167%, respectively.

Property Tax decreased in FY 2016. As the housing market continued to recover modestly in Ukiah, receipts came in higher in the year prior. The City states this was due to a combination of factors, including retroactive Prop 8 (1978) assessment adjustments due to an increase in request to reassessed values of housing. Proposition 8, a constitutional amendment to Article XIII A, allows a temporary reduction in assessed value when real property suffers a decline in value.

The increase in Sales and Use Tax is 19% for the last five years; every year increased with the exception of FY 2015. Nearly every revenue stream has seen substantial increases for FYs 2015 to 2016 due to general up-tick in the economy. Transient Occupancy has seen a larger increase the last two FYs, as local fires caused an increase in the local lodging industry. Franchise Tax revenue for FY's 2012-2014

remained relatively consistent, and in FY 2015 it increased 178% to \$1,643,559. This was the result of a reporting change. Formerly, certain franchise fees charged to the City's electric utility were recognized as transfers into the general fund. Beginning in FY 2015 these occurrences were classified as franchise revenue. In FY 2014, Streets and Roads were redirected to be part of Public Works.

Review of Total Expenditures indicates it remained relatively constant for FYs 2013-2016, increasing by only 1.7% in the last FY and 12% over the last five-year period. This compares favorably to Total Revenues, which increased 16% in the same period. The increase in Total Expenditures was due to the increase in Public Safety spending, which indicated there was a \$1,074,812 increase or 11% in FY 2016 over the prior year and a 25% growth for the five years reviewed. This change is primarily attributed to negotiated salaries and benefit raises in public protection and increases in public works due to costs related to social services' contracted programs in 2015.

Comparative Projections of Revenues, Expenditures, and Changes in Fund Balances Analysis
 Analysis of the Fund's Comparative Projections of Revenues, Expenditures, and Changes in Fund Balances for three years is as follows:

| ACTUAL | | | COMPARATIVE PROJECTIONS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES | | | | | |
|--|---------------------|------------------|--|------------------|---------------------|------------------|---------------------|------------------|
| | 2016 | % ⁽¹⁾ | 2017 | % ⁽¹⁾ | 2018 | % ⁽¹⁾ | 2019 | % ⁽¹⁾ |
| % Change Year-over-Year in Total Revenues | | | | 4.38% | | 14.97% | | 4.61% |
| Revenues | | | | | | | | |
| Taxes | | | | | | | | |
| Property | \$ 2,641,247 | 17.2% | \$2,777,348 | 17.3% | \$2,812,065 | 14.9% | \$2,847,216 | 14.4% |
| Sales and Use | 7,714,762 | 50.3% | 7,781,312 | 48.6% | 7,919,055 | 42.0% | 8,113,644 | 41.1% |
| Transaction and Use - Measure Y | | | 656,259 | 4.1% | 2,703,785 | 14.3% | 2,784,899 | 14.1% |
| Costco Property | | | | | 3,677 | 0.0% | 3,723 | 0.0% |
| Costco Sales and Use | | | | | 375,000 | 2.0% | 750,000 | 3.8% |
| Costco Transaction and Use Measure Y | | | | | 125,000 | 0.7% | 250,000 | 1.3% |
| Transient Occupancy | 1,229,814 | 8.0% | 1,232,048 | 7.7% | 1,269,009 | 6.7% | 1,307,080 | 6.6% |
| Franchise | 1,514,800 | 9.9% | 1,577,612 | 9.8% | 1,601,276 | 8.5% | 1,625,295 | 8.2% |
| Business License | 360,732 | 2.4% | 361,244 | 2.3% | 364,856 | 1.9% | 368,505 | 1.9% |
| Property Transfer | 41,791 | 0.3% | 39,060 | 0.2% | \$39,548 | 0.2% | \$40,043 | 0.2% |
| Licenses and Permits | 341,642 | 2.2% | 284,000 | 1.8% | 286,840 | 1.5% | 289,708 | 1.5% |
| Fines, Forfeitures, and Penalties | 78,589 | 0.5% | 59,696 | 0.4% | 60,293 | 0.3% | 60,896 | 0.3% |
| Interest, Rents and Concessions | 161,676 | 1.1% | 194,400 | 1.2% | 195,372 | 1.0% | 196,349 | 1.0% |
| Intergovernmental | 165,376 | 1.1% | 154,756 | 1.0% | 157,851 | 0.8% | 161,008 | 0.8% |
| Charges for Current Services | 713,948 | 4.7% | 815,150 | 5.1% | 839,605 | 4.5% | 864,793 | 4.4% |
| Miscellaneous | 360,302 | 2.4% | 93,400 | 0.6% | 94,334 | 0.5% | 95,277 | 0.5% |
| Total Revenues | \$15,324,679 | 100.0% | \$16,026,285 | 100.0% | \$18,847,567 | 100.0% | \$19,758,435 | 100.0% |
| Expenditures | | | | | | | | |
| General Government | \$391,859 | 2.6% | \$461,943 | 2.9% | \$475,801 | 2.5% | \$490,075 | 2.5% |
| Public Safety | 10,828,693 | 70.7% | 10,859,985 | 67.8% | 11,185,785 | 59.3% | 11,521,358 | 58.3% |
| Housing and Community Development | 147,879 | 1.0% | 806,775 | 5.0% | 830,978 | 4.4% | 855,908 | 4.3% |
| Parks and Recreation | 2,081,416 | 13.6% | 2,192,888 | 13.7% | 2,258,675 | 12.0% | 2,326,435 | 11.8% |
| Economic Development | | | 244,328 | 1.5% | 251,658 | 1.3% | 259,208 | 1.3% |
| Public Works | 1,847,237 | 12.1% | 1,210,343 | 7.6% | 3,246,653 | 17.2% | 3,344,053 | 16.9% |
| Capital Outlay | 16,575 | 0.1% | | | | | | |
| Total Expenditures | \$15,313,659 | 99.9% | \$15,776,262 | 98.4% | \$18,249,550 | 96.8% | \$18,797,036 | 95.1% |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | \$11,020 | 0.1% | \$250,023 | 1.6% | \$598,017 | 3.2% | \$961,399 | 4.9% |
| Other Financing Sources (Uses) | | | | | | | | |
| Transfers In | 345,445 | | 672,625 | | 679,351 | | 686,145 | |
| Transfers Out | (503,358) | | (471,448) | | (476,162) | | (480,924) | |
| Sale of Capital Assets | | | 25,000 | | 25,000 | | 25,000 | |
| Total Other Financing Sources (Uses) | (157,913) | | \$226,177 | | \$228,189 | | \$205,221 | |
| Net Change in Fund Balance | (146,893) | | \$476,200 | | \$826,206 | | \$1,166,619 | |
| Fund Balance, Beginning of Year | \$5,359,894 | | \$5,229,304 | | \$5,705,504 | | \$6,531,709 | |
| Prior Year Adjustment | | | | | | | | |
| Fund Balance, End of Year | 5,213,001 | | \$5,705,504 | | \$6,531,709 | | \$7,698,329 | |

Review of the Fund's above projections, provided by the City, found the information consistent with past years and Staff deemed them appropriate. There are four new line items in the projections; these show the anticipated revenues of both Measure Y and the proposed Costco.

Measure Y, passed in November 2016 implements a 0.5% increase in sales tax. On January 20, 2017, the Howard Jarvis Taxpayers Association (HJTA) filed a lawsuit seeking to declare Measure Y invalid. After filing a procedural motion, the City obtained a judgment dismissing HJTA's lawsuit. However, HJTA historically has appealed similar judgments and if it does so here, it could take several years for this dispute to ultimately resolve. In the meantime, the City is collecting Measure Y sales tax, but holding the collections in escrow pending the ultimate conclusion of the HJTA's lawsuit. The projected revenues from Measure Y will not be available if HJTA's lawsuit is ultimately successful, and in any event are expected to be expended fully on various City expenses. Therefore Measure Y funds are not being considered as a source of revenue for this transaction.

The Costco Sales and Use Tax revenue for both FY 2018 and FY 2019 represents the amount the City anticipates receiving on the estimated \$85 million in annual sales.

Per the City, the line item, Housing and Community Development, is understated in FY 2016; an expenditure of \$724,173 was inadvertently reported within the Public Works figure. The balance of the projected Revenues and Expenditures was increased modestly from the previous year. The Transfers In is recurring gas tax revenue from the Highway Users Tax Account (HUTA), which is being transferred to the General Fund to augment road work conducted.

The City states it took a conservative approach to Property Taxes and Sales and Use Tax. The following are relevant assumptions made by the City in the projections:

- Projected Property Taxes have a 1.25% growth factor.
- Transient Occupancy Tax (TOT) projected at 3% growth based on increasing travelers and tourists. The City is a regional economic hub and a resting point for travelers headed north and is a destination by itself for its burgeoning wine industry.
- Projected 0.5% to 3% growth in income from Franchise, Business License Fees, Property Transfer Fees, License and Permit Fees, Increased Fines, Forfeitures and Penalties Etc.
- All expenses shown have a 3% annual increase. Transfers Out has been ascribed a 1% growth factor.

Obligations Payable from the Fund

The City has no other financing obligations against the Fund. Total debt service obligations (inclusive of the IBank's loan) of the Fund are less than 15% of the Fund's Total Revenue as shown below.

| OBLIGATIONS | | | | | |
|-------------------------------|-------------|---------------|---------------------|---------------------|----------|
| Debt Issue | Date Issued | Amount Issued | Outstanding Balance | MADS ⁽¹⁾ | Maturity |
| Proposed IBank ISRF Financing | | | \$4,000,000 | \$222,465 | 2047 |

(1) Maximum Annual Debt Service (Occurs in FY 2019)

| | |
|----------------------------------|---------------------|
| 2016 Total Revenue | \$15,324,679 |
| 15% of 2016 Total Revenue | \$2,298,702 |
| Total Annual Payments | \$222,465 |
| % of 2016 Total Revenue | 1.45% |

Ability to Budget Proposed Payment

The table below reflects that the Fund has sufficient capacity to support the Financing. The City demonstrates the ability to budget the proposed ISRF Lease payments in all years projected.

| PROJECTED LEASE PAYMENT AND FUND BALANCE ANALYSIS | | | | |
|--|--------------------|------------------|------------------|------------------|
| | 2016 | 2017 | 2018 | 2019 |
| Net Change in Fund Balance | (\$146,893) | \$476,200 | \$826,206 | \$1,166,619 |
| Transaction Adjustments | | | | |
| Less Measure Y Revenues | | (\$656,259) | (\$2,828,785) | (\$3,034,899) |
| Add Measure Y Funded Road Expenditures | | \$656,259 | \$2,828,785 | \$3,034,899 |
| Less Estimated Costco Revenue | | | (\$378,677) | (\$753,723) |
| Less Sale of Capital Assets | | (\$25,000) | (\$25,000) | (\$25,000) |
| Proposed ISRF Lease Payment | | (\$88,000) | (\$222,465) | (\$222,465) |
| Revised Net Change in Funds Balance with ISRF Lease Payment | (\$146,893) | \$363,200 | \$200,064 | \$165,431 |

The ISRF Lease Payment was calculated based on \$4,000,000 @ 3.30%, 30 year term

The above projections demonstrate the City's ability to service the proposed Financing for the three years projected. Projections are necessary to support the Financing since the City is relying (partially) on a modest 2% increase in revenue from Sales and Use and Property taxes; historically the average increase for these revenue streams is 7%.

The above table also shows adjustments to (the previously mentioned) Measure Y estimated revenues and the proposed Measure Y Funded Road expenditures as well as the estimated revenue (Property and the Sales and Use Tax) from the proposed Costco. There is an additional adjustment made to the line item Sale of Capital Assets, since there is no assurance the City will benefit from a future sale. The full IBank lease payment will not begin until FY 2018.

Budget

The City adopts a budget annually as the foundation for its financial planning and control. A review of the City's budgeting process finds the City conservatively budgets Total Revenues and Expenditures. Four of the five years reviewed found the actual Revenues exceeded budgeted Revenues. Actual Expenditures were less than the budgeted amounts for three of five years reviewed. The Budget analysis indicates the City shows competency when managing its revenues and expenditures as supported by the dollar amount of the differences. The percentage of Difference Between Final and Actual show a high of 6% of the actual amount down to the low of less than 1%.

| REVENUES BUDGET | | | | |
|-----------------|--------------|--------------|--------------|-------------------------------------|
| Year | Orginal | Final | Actual | Difference Between Final and Actual |
| 2012 | \$11,936,536 | \$12,448,536 | \$13,211,341 | \$762,805 |
| 2013 | \$12,754,283 | \$13,534,605 | \$13,453,616 | (\$80,989) |
| 2014 | \$13,220,555 | \$13,220,555 | \$13,235,450 | \$14,895 |
| 2015 | \$14,205,056 | \$14,205,056 | \$14,493,862 | \$288,806 |
| 2016 | \$15,249,652 | \$15,237,707 | \$15,324,679 | \$86,972 |

Source: CAFR FYs 2012-2016

| EXPENDITURES BUDGET | | | | |
|----------------------------|-----------------|--------------|---------------|--|
| Year | Original | Final | Actual | Difference Between Final and Actual |
| 2012 | \$12,933,693 | \$13,935,312 | \$13,650,142 | (\$285,170) |
| 2013 | \$14,841,904 | \$15,308,272 | \$15,349,387 | \$41,115 |
| 2014 | \$15,373,449 | \$15,887,423 | \$15,167,827 | (\$719,596) |
| 2015 | \$15,339,634 | \$15,374,656 | \$15,099,745 | (\$274,911) |
| 2016 | \$14,709,483 | \$14,921,602 | \$15,313,659 | \$392,057 |

Source: CAFR FYs 2012-2016

Pension Plan

All qualified permanent and probationary employees are eligible to participate in the City's separate Miscellaneous Plans, agent multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Public Works Department employees participate in two Miscellaneous Plans: (i) a 2.7% at 55 Plan (the "Classic Plan") for employees hired prior to January 1, 2013 and (ii) a 2.0% at 67 Plan (the "PEPRA Plan") for employees hired on or after January 1, 2013 who were not previously CalPERS members.

As of the most recent CalPERS actuarial valuations dated June 30, 2015 the Miscellaneous, Safety Fire, Safety Police, and PEPRA Safety Police plans have a funded ratio of 64.1%, 75.2%, 73.6% and 94.7%, respectively. The City states it is following CalPERS requirements and strategy for addressing unfunded pension liabilities, and has contributed 100% of its annual required contribution to its pension plan each of the last five years reviewed. Other Post-Employment Benefits (OPEB) is not offered to participants.

Analysis of the Proposed Leased Asset

The City proposes the subject of the lease to be an essential asset identified as the City Hall (Leased Asset) located at 300 Seminary Avenue, Ukiah. (Exhibit 2) The table below shows the Value-to-Lease ratio of the Leased Asset.

| ESTIMATED VALUE OF LEASED ASSET | | | | |
|---|-------------------|------------------------------------|-----------------------------|--------------------------|
| Name of Asset | Year Built | Building Size (square feet) | Type of Construction | Estimate of Value |
| City Hall, 300 Seminary Avenue, Ukiah, CA 95482 | 1986 | 21,695 | Wood & Masonary | \$4,500,000 |
| Total Value | | | | \$4,500,000 |
| Loan Amount | | | | \$4,000,000 |
| Value-to-lease | | | | 113% |

The City Hall is an office building for the City that houses key City executive departments; including Administration, Police, Fire, Planning and Building, Public Works, Electrical, and Parks and Recreation. The City Hall is approximately 21,695 square feet; it is a wooden frame building with stucco exterior and tile roofing. An estimate of the fair market value of the Leased Asset was based on a Broker Opinion of Value prepared on November 2, 2016, by W Real Estate of Ukiah, CA. The valuation method is deemed acceptable to IBank.

Staff received and reviewed preliminary title reports for the Leased Asset, and found the property is unencumbered, with title exceptions that are customary, reasonable, and acceptable to IBank. The useful life of the Leased Asset is at least 40 years from the date of the Staff Report, and therefore exceeds the term of the Financing.

RISK FACTORS

1. The City is not prohibited from incurring additional obligations payable from the Fund.
2. IBank will take a leasehold interest on the Leased Asset and not a lien on the Fund.
3. Under State law governing the proposed financing structure, 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 City's use of the Leased Asset.
4. Under State law governing the Financing structure, acceleration in the event of default by the City is prohibited. Thus, in the event of payment default, IBank must annually pursue a remedy of compelling past due lease payments.
5. Projections are part of the factor that enables the loan to cash flow.

MITIGATING FACTORS

1. The City would covenant against permitting additional encumbrances against the Leased Asset.
2. The City would covenant to annually budget and appropriate Lease payments.
3. Lease payments may be made from any General Fund revenue providing a broad source of funds and greater flexibility to the City to meet the required Lease obligations.
4. The City would covenant to procure rental interruption insurance for the Leased Asset so that in the event of 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.
5. Projections are based on conservative estimates from the sales tax revenue.

Compliance with IBank Underwriting Criteria

- The total General Fund obligation (inclusive of the Financing) is less than 15% of the City's Total Revenues for FY 2016.
- 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 exceeds the 30 year term financing.

Interest Rate Setting Demographics

The interest rate for the proposed Lease was set based upon the following statistics obtained from the 2016 Monthly Labor Force Data for Cities and Census Designated Places (CDP) Annual Average 2016 or the ISRF program cost of funds.

| | |
|--------------------------------|---|
| Unemployment Rate | The City's unemployment rate was 7.9%, which is 25% higher than the State's rate of 6.3% |
| Median Household Income | The City's median household income was \$39,634, which is 64% of the State's median house income of \$61,818. |

STAFF RECOMMENDATIONS

Staff recommends approval of Resolution No.17-11 authorizing the Financing to the City of Ukiah for its Redwood Business Park Traffic Improvements and US 101/Talmage Interchange project.

1. **Applicant/Borrower:** City of Ukiah
2. **Project:** Redwood Business Park Traffic Improvements and US 101/Talmage Interchange
3. **Amount of Financing:** \$4,000,000
4. **Maturity:** Thirty (30) years
5. **Repayment/Security:** General Fund Lease provides IBank with a leasehold interest on the City's City Hall, 300 Seminary Avenue, Ukiah, CA.
6. **Interest Rate:** 3.30%
7. **Fees:** Origination fee of 1.00% of the Financing amount; (\$40,000) for the City, and an annual fee of 0.30% of the outstanding principal balance.
8. **Not an Unconditional Commitment:** The IBank's resolution shall not be construed as an unconditional commitment to finance the Project, but rather IBank's approval pursuant to the Resolution is conditioned upon entry by IBank and the City into a Financing agreement, in form and substance satisfactory to IBank.
9. **Limited Time:** The Board's approval expires 180 days from the date of its adoption. Thus, the City and IBank must enter into the Financing agreement no later than 180 days from such date. Once the approval has expired, there can be no assurances that IBank would be able to provide the Financing to the City or consider extending the approval period.
10. **Special Disbursement Condition:** IBank will not disburse funds until the City has obtained all permits and approvals necessary to commence construction of the Project, including approval of the Project environmental impact report.
11. **Financing Agreement Covenants:** The financing agreement will require, among other things, that the City will covenant to:
 - 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 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 11% 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 240 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.

Exhibit 1(a) – Project Site Location

Location of new interchange; intersections of Talmage Road & Airport Park Boulevard



Source: Google Earth

Exhibit 1(b) – Project Site Location

Location of new interchange; intersections of Talmage Road & Airport Park Boulevard



Source: Google Earth

Exhibit 2 – Leased Asset

City Hall (Leased Asset) located at 300 Seminary Avenue, Ukiah, CA



Source: City of Ukiah FY 2016 CAFR