

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)

STAFF REPORT

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

Applicant: The City of La Cañada Flintridge (City)	ISRF Project Type: Economic Expansion	ISRF Project Category Type: Educational, Cultural, Social Facilities																				
Amount Requested: \$4,915,000 (Financing)	Financing Term: 30 years	Interest Rate: ¹ 3.21%																				
Source of Repayment: General Fund (Fund)		Fund Rating/Date: None																				
Leasehold Interest: A Portion of the City's Civic Center building (Leased Asset)																						
Project Name: Civic Center Renovation Project (Project)	Project Location: One Civic Center Drive, La Cañada Flintridge, CA 91011 (Formerly 1 Sport Chalet Drive)																					
Project Description / Source and Use of Proceeds: The Project consists of improvements to renovate and upgrade the portion of the Leased Asset the City intends to occupy, from a retail space to governmental-use office space.																						
Use of Financing Proceeds: The Financing would fund 94% of the Project costs. The City will self-fund all remaining Project costs. The Financing will cover all components necessary to complete the Project, including, but not limited to equipping, machinery installation, design, engineering, construction, demolition, permitting, entitlement, construction management, administration, and general project development activities. IBank's loan origination fee is part of the financed amount. A construction contingency of \$443,878 (9% of total construction cost) is included in the project cost. Based on the City's experience with similar projects a 9% contingency is reasonable.																						
<table border="1"> <thead> <tr> <th rowspan="2">Project Uses</th> <th colspan="3">Project Sources for City of La Cañada Flintridge</th> </tr> <tr> <th>IBank</th> <th>City of La Cañada Flintridge</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Project Uses / Construction (Renovation) Cost</td> <td align="right">\$4,865,850</td> <td align="right">\$288,350</td> <td align="right">\$5,154,200</td> </tr> <tr> <td>Origination Fee</td> <td align="right">\$49,150</td> <td></td> <td align="right">\$49,150</td> </tr> <tr> <td align="right">Total</td> <td align="right">\$4,915,000</td> <td align="right">\$288,350</td> <td align="right">\$5,203,350</td> </tr> </tbody> </table>				Project Uses	Project Sources for City of La Cañada Flintridge			IBank	City of La Cañada Flintridge	Total	Project Uses / Construction (Renovation) Cost	\$4,865,850	\$288,350	\$5,154,200	Origination Fee	\$49,150		\$49,150	Total	\$4,915,000	\$288,350	\$5,203,350
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¹ Interest Rate provided on October 5, 2018

Credit Considerations:

Lease payment and Fund balance analysis for the Financing is summarized as follows:

Lease Payment and Fund Balance Analysis					
	2013	2014	2015	2016	2017
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$682,121	\$3,549,862	\$3,065,500	\$2,900,754	\$1,753,592
Adjustments Specific to the Transactions					
Operating Transfers In	\$189,950	\$182,832	\$384,804	\$209,411	\$130,439
Operating Transfers Out	(\$1,645,500)	(\$1,326,900)	(\$2,604,200)	(\$2,155,225)	(\$6,921,024)
Transfer Out for The New City Hall					\$5,580,000
Total Adjustments	(\$1,455,550)	(\$1,144,068)	(\$2,219,396)	(\$1,945,814)	(\$1,210,585)
Adjustments to Excess (Deficiency) of Revenues	(\$773,429)	\$2,405,794	\$846,104	\$954,940	\$543,007
Proposed ISRF Lease Payment	\$270,757	\$270,757	\$270,757	\$270,757	\$270,757
Other MADs General Fund Obligations	\$0	\$0	\$0	\$0	\$0
Revised Net Change in Funds Balance with ISRF Lease Payment	(\$1,044,186)	\$2,135,037	\$575,347	\$684,183	\$272,250

Calculated at \$4,915,000 at 3.21% interest rate for 30 years.

Analysis of the historical lease payment over the last five years demonstrates the City has the capacity to service the proposed Financing in four out of the five years reviewed. The line items of Operating Transfers In and Transfer Out were included as the City consistently adjusts these funds annually. Fiscal year (FY) 2013 was not able to support the lease payment as the City's tax revenues were still recovering from the recession, which kept property taxes low. The one-time adjustment for the purchase of the Project property in FY 2017 was added back to the cash flow, as it is specific to the transaction and it is a nonrecurring expense.

Support for Staff Recommendations:

1. Lease payment and Fund balance analysis demonstrates the Fund's ability to service the proposed Financing in four of the five years reviewed.
2. The Fund's Unassigned fund balance is 104% of the proposed financing.
3. The percent of the Fund's debt service obligations as compared to total revenue is 1.89%, which is below the 15% IBank maximum for general fund financings.
4. The Fund's tax revenue has been growing at an average annual rate of 4.40%.
5. The useful life of the Project is 30 years or more, which meets or exceeds the 30 year term of the Financing.

Special Terms and Conditions:

1. The City will provide proof that the purchase money trust deed encumbering the Leased Asset has been reconveyed prior to any reimbursement disbursement by IBank.
2. IBank Criteria, Priorities and Guidelines (ISRF Criteria), the ISRF Criteria provides that contractors should be pre-qualified using the Model Questionnaire detailed in the ISRF Criteria. The City intends to use its internally-required contractor pre-qualification questionnaire, which substantially meets the intent of the Model Questionnaire. Therefore, the City seeks a waiver of the Criteria.

IBank Staff: Tom Dear	Date of Staff Report: December 7, 2018
Date of IBank Board Meeting: December 18, 2018	Resolution Number: 18-19

Staff Recommendation:
Staff recommends approval of Resolution No. 18-19 authorizing an ISRF Program Financing not to exceed \$4,915,000 to The City of La Cañada Flintridge for the Civic Center Renovation Project

PROJECT DESCRIPTION

On or about February 22, 2017, the City of La Cañada Flintridge (City) purchased the former Sport Chalet headquarters (and the adjacent parcel known as 827 Houseman Street) for \$11.23 million (M). The Sport Chalet property will become the City's future location of its new Civic Center.

The project is called the Civic Center Renovation Project (Project). The City plans to renovate then occupy 73% of the former Sport Chalet building (Building), which is a two-story structure of approximately 27,915 square feet (SF). The City intends to keep the existing footprint, redesign the interior room layout, update lighting and heating, and install modern air systems to maximize energy efficiency. Improvements consist of, but are not limited to, the following:

- Demolishing interior walls
- Constructing new interior walls
- Constructing demising² walls, separating-out leasable space for future tenants on the ground floor
- Upgrading existing restrooms to current accessibility requirements
- Upgrading accessible parking stalls to meet current accessibility requirements
- Installing new heating, ventilation, and air conditioning (HVAC) units

The City completed its due diligence by advertising the bid for the Project to ensure the City created the most comprehensive bidding environment possible. The City held a mandatory pre-bid conference in which 22 individuals attended. The City awarded the construction contact to AMG & Associates Inc. (AMG) in June 2018.

The City passed a reimbursement resolution in February 2017 to address the construction expenditures that will occur prior to financing being obtained. AMG began construction in July 2018 and estimates the Project to be fully completed by March 2019.

The City plans to eventually lease the remaining 27% of the Building, which amounts to approximately 7,537 SF. The Financing will not fund any of the improvements for this portion of the Building. At this time, the City has no tenant identified and the potential rental revenue from this leasable space is not needed (nor considered) in the Lease Payment analysis of the proposed obligation.

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. Some part of the strategy for making these reductions (as outlined in the Scoping Plan per the California Air Resource Board), is the installation of energy-efficient HVAC systems and use of dual pane windows. The Project will include both and so will benefit the public through reduction of GHG and energy conservation. In addition, the City estimates that approximately 39 temporary construction/service jobs will be generated with the renovation.

Project Benefits

The Project will provide the public with a modernized and accessible Civic Center. The Project will include a larger Council Chamber than the one currently in use by the City. The larger chamber will make attending City Council meetings more convenient, thereby increasing the public's ability to

² Boundary that separates one tenant's space from that of the other.

participate in local government activities. The Project will also include conference rooms for public meetings and additional parking for the public.

CITY OF LA CAÑADA FLINTRIDGE INFORMATION

During the Spanish and Mexican eras, the area was known as Rancho La Cañada. Before the City's incorporation in 1976, it consisted of two distinct communities, La Cañada and Flintridge. La Cañada comes from the Spanish word "cañada", meaning canyon or ravine; Flintridge was named after its developer, United States Senator Frank P. Flint (served 1905-1911).

The area of Flintridge comprises the southern part of the City, covering the northern flank of the San Rafael Hills including most areas south of Foothill Blvd. The City is home to the Flintridge Riding Club and Flintridge Preparatory School. The City is often referred to as "La Cañada". The full City name does not have a hyphen to illustrate the unity between the two communities.

The City Council has five members serving four-year overlapping terms. Each year, the council selects one of its members to serve as mayor and another to serve as mayor pro-tem. The Council appoints the City Manager who acts as the Executive Director of the City.

The top ten employers for the City are listed in the below table. There is no single business within the City that employs greater than 0.50% of the City's population, which demonstrates a diversity in employers within the City and eliminates any employer concentration concerns.

Top Ten Employers		
Employer	No. of Employees	% of Employees in the City
Ralph's Grocery Co.	100	0.49%
Ross Dress for Less	100	0.49%
Sprouts Farmers Market	88	0.43%
Dibeck Realtors GMAC	86	0.42%
Allen Lund Company Inc.	83	0.41%
Trader Joe's	78	0.38%
T J Max	77	0.38%
Gelson's Market	73	0.36%
Los Gringos Locos LLC	56	0.27%
Hill Street Café	49	0.24%
Total	790	3.87%
Population Estimate of La Cañada Flintridge	20,413	as of 2017

CREDIT ANALYSIS

Source of Financing Repayment

Source of Revenue to Repay Proposed ISRF Program Financing:	General Fund
Outstanding General Fund Bond and Lease 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:	2013-2017
The auditor's reports for all years indicate that the financial statements present fairly, in all material respects, the financial position of the City, and that the results of its operations and the cash flows are in conformity with generally accepted accounting principles.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No. [If no, explain]
Adopted Budget(s) Reviewed:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No. [If no, explain]
Budget Year(s) Reviewed:	2018-2019

Comparative Balance Sheet Analysis

Summary of the Fund's Comparative Balance Sheet for the fiscal years 2013-2017 is as follows:

GENERAL FUND										
BALANCE SHEET-GOVERNMENTAL FUNDS										
For Fiscal Year Ending (FYE) June30	2013		2014		2015		2016		2017	
Source:	CAFR	% ⁽¹⁾	CAFR	% ⁽¹⁾	CAFR	% ⁽¹⁾	CAFR	% ⁽¹⁾	CAFR	% ⁽¹⁾
Assets										
Cash and Investments	\$14,222,069	82.0%	\$17,078,594	85.6%	\$18,273,566	87.7%	\$19,323,131	86.7%	\$14,861,789	85.4%
Receivables:										
Accounts	713,747	4.1%	716,601	3.6%	694,045	3.3%	1,246,947	5.6%	920,587	5.3%
Interest	\$157,024	0.9%	\$132,031	0.7%	\$139,160	0.7%	\$99,353	0.4%	\$106,103	0.6%
Loans Receivable	346,435	2.0%	327,011	1.6%	194,238	0.9%	174,814	0.8%	155,391	0.9%
Due from Other Funds	293,535	1.7%	143,729	0.7%	76,307	0.4%	79,172	0.4%	115,572	0.7%
Advance to Other Funds	1,617,895	9.3%	1,530,655	7.7%	1,437,307	6.9%	1,337,426	6.0%	1,231,818	7.1%
Prepaid Items	1,141	0.0%	22,710	0.1%	29,042	0.1%	19,698	0.1%	21,143	0.1%
Total Assets	\$17,351,846	100.0%	\$19,951,331	100.0%	\$20,843,665	100.0%	\$22,280,541	100.0%	\$17,412,403	100.0%
Liabilities and Fund Balances										
Accounts Payable	1,566,527	9.0%	1,524,697	7.6%	1,517,540	7.3%	1,632,647	7.3%	1,982,881	11.4%
Deposits Payable	1,663,908	9.6%	1,897,537	9.5%	1,991,489	9.6%	2,237,231	10.0%	2,181,023	12.5%
Unearned Revenue	224,674	1.3%	85,040	0.4%	79,795	0.4%	105,251	0.5%	110,081	0.6%
Total Liabilities	\$3,455,109	19.9%	\$3,507,274	17.6%	\$3,588,824	17.2%	\$3,975,129	17.8%	\$4,273,985	24.5%
Deferred Inflows of Resources					\$106,206	0.5%	\$200,383	0.9%	\$70,382	0.4%
Total Deferred Inflows of Resources			\$141,526		\$106,206		\$200,383	0.9%	\$70,382	0.4%
Total Liabilities and Deferred Inflows of Resources					3,695,030	17.7%	4,175,512	18.7%	4,344,367	24.9%
Fund Balance										
Prepays	1,141	0.0%	22,710	0.1%	29,042	0.1%	19,698	0.1%	21,143	0.1%
Advance to Other Funds	1,617,895	9.3%	1,530,655	7.7%	1,437,307	6.9%	1,337,426	6.0%	1,231,818	7.1%
Loans	346,435	2.0%	327,011	1.6%	194,238	0.9%	174,814	0.8%	155,391	0.9%
Committed										
Property Acquisition									5,580,000	32.0%
Assigned										
Tree Fund	110,575	0.6%	120,555	0.6%	82,725	0.4%	131,772	0.6%	137,124	0.8%
DAE Expense ⁽²⁾			1,734	0.0%	2,300	0.0%	4,244	0.0%	5,419	0.0%
Potential SR-710 Expenses ⁽³⁾			500,000	2.5%	500,000	2.4%	500,000	2.2%	500,000	2.9%
Other Post Employment Benefits	191,000		260,050	1.3%	332,300	1.6%	408,350	1.8%	466,925	2.7%
Unassigned	11,629,691	67.0%	13,539,816	67.9%	14,570,723	69.9%	15,528,725	69.7%	4,970,216	28.5%
Total Fund Balances	\$13,896,737	80.1%	\$16,302,531	81.7%	\$17,148,635	82.3%	\$18,105,029	81.3%	\$13,068,036	75.1%
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$17,351,846	100.0%	\$19,809,805	100.0%	\$20,843,665	100.0%	\$22,280,541	100.0%	\$17,412,403	100.0%
Total Liabilities to Total Assets	0.20		0.18		0.17		0.18		0.25	
Total Fund Balance/Total Liabilities	4.02		4.65		4.78		4.55		3.06	

⁽¹⁾ Calculated as a percent of Total Assets.

⁽²⁾ State Disability Access and Education

⁽³⁾ Potetion State Road 710 Expenditure

Statement of Comparative Balance Sheet Analysis

The balance of line item Cash and Investments for fiscal years (FY) 2017 and FY 2013 is very close. This line item increased by approximately \$5 million, between FYs 2014 and 2016, decreasing by the same amount in FY 2017. This fluctuation was due to the planned accumulation of funds through FY 2016. This was followed by a disbursement in FY 2017 for the purchase of the property for the Project. The identical observation is made for Total Assets.

Accounts Receivable increased by \$555,921 in FY 2016 as compared to FY 2015. The City stated this was due to receiving \$342,415 from the sales tax triple flip final payment³, a larger amount than previously received for the City's second quarter sales tax receivable.

³ California State Board of Equalization Special Notice Dated November 2015 states the fourth quarter 2015 (calendar year) allocation period will reflect the last "triple flip" quarter percent reduction from the one percent (1%) known as the Bradley-Burns local tax.

Total Liabilities remained consistent between FYs 2013 through 2015, it grew by \$386,305 in FY 2016, and an additional \$298,856 in FY 2017, representing a 23.7% increase in the five years reviewed. The increase was primarily due to upsurges in Accounts Payable due to activity related to the purchase of the subject property and the planning of the renovation of the subject property.

Deferred Inflows of Resources balance first appeared in FY 2014. It is a direct result of the change in Governmental Accounting Standards Board (GASB) Statement No. 65 requiring the removal of unearned revenue from the Governmental Funds Balance Sheet liabilities and adding it to Deferred Inflows of Resources. This change was effective for periods after December 15, 2012. The City had various unavailable revenues relating to investment accrued interest income on bonds, sales tax receivable, and intergovernmental receivables that populated this line item.

The Fund Balance, Prepays, increased in FY 2014 and stayed consistent thereafter. The City paid for several new technology-related annual contracts in FY 2014. The City also stated that prior to FY 2014, the Fund held the majority of its payments until July for the new fiscal year's expenditure. Beginning in FY 2014, the City also began to prepay expenses for its annual summer music festival in the Park. As a result, the prepaid expenditures related to each FY stayed relatively stable thereafter.

Unassigned funds decreased in FY 2017 by approximately \$10M. This was due to the purchase of the Project's property; \$5.58M of this is listed in the line item of Property Acquisition and the other fund named Total Nonmajor Governmental Funds (not reviewed for this analysis) has the new debt of \$5M. The City will not show this as an asset until it is placed in use.

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 Balances for the five years 2013-2017 is as follows:

CITY OF LA CAÑADA FLINTRIDGE GENERAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUNDS BALANCES										
For Fiscal Year Ending (FYE) June30	2013	% ⁽¹⁾	2014	% ⁽¹⁾	2015	% ⁽¹⁾	2016	% ⁽¹⁾	2017	% ⁽¹⁾
Source:	CAFR		CAFR		CAFR		CAFR		CAFR	
% Change Year-over-Year in Total Revenues		N/A		15.2%		0.8%		3.1%		-1.4%
Revenues										
Taxes	\$9,406,776	78.8%	\$9,887,058	70.2%	\$10,492,066	73.9%	\$10,777,438	73.5%	\$11,164,604	77.3%
Fines, Foreitures and Penalties	127,012	1.1%	150,511	1.1%	132,432	0.9%	92,943	0.6%	69,593	0.5%
From Other Agencies	109,287	0.9%	997,133	7.1%	284,193	2.0%	27,793	0.2%	41,651	0.3%
Charges for Service	2,399,445	20.1%	2,813,166	20.0%	3,008,845	21.2%	3,147,132	21.5%	3,182,503	22.0%
Use of Money and Property	(129,317)	-1.1%	110,346	0.8%	79,034	0.6%	387,844	2.6%	(76,745)	-0.5%
Other Revenue	24,689	0.2%	126,068	0.9%	204,712	1.4%	224,483	1.5%	68,585	0.5%
Total Revenues	\$11,937,892	100.0%	\$14,084,282	100.0%	\$14,201,282	100.0%	\$14,657,633	100.0%	\$14,450,191	100.0%
Expenditures										
General Government	4,963,199	41.6%	2,124,153	15.1%	4,505,532	31.7%	4,970,335	33.9%	5,689,992	39.4%
Public Safety	2,764,154	23.2%	2,883,501	20.5%	2,952,267	20.8%	3,059,724	20.9%	3,235,659	22.4%
Community Development	617,924	5.2%	2,465,201	17.5%	657,590	4.6%	635,681	4.3%	669,223	4.6%
Public Works	2,827,360	23.7%	2,857,170	20.3%	2,945,011	20.7%	3,006,399	20.5%	2,992,734	20.7%
Capital Outlay	83,134	0.7%	204,395	1.5%	75,382	0.5%	84,740	0.6%	108,991	0.8%
Total Expenditures	\$11,255,771	94.3%	\$10,534,420	74.8%	\$11,135,782	78.4%	\$11,756,879	80.2%	\$12,696,599	87.9%
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$682,121	5.7%	\$3,549,862	25.2%	\$3,065,500	21.6%	\$2,900,754	19.8%	\$1,753,592	12.1%
Other Financing Sources (Uses)										
Operating Transfers In	189,950		182,832		384,804		209,411		130,439	
Operating Transfers Out	(1,645,500)		(1,326,900)		(2,604,200)		(2,155,225)		(6,921,024)	
Sale of Capital Assets										
Total Other Financing Sources (Uses)	(\$1,455,550)		(\$1,144,068)		(\$2,219,396)		(\$1,945,814)		(\$6,790,585)	
Net Change in Fund Balance	(\$773,429)		\$2,405,794		\$846,104		\$954,940		(\$5,036,993)	
Fund Balance, Beginning of Year	14,670,166		\$13,896,737		\$16,302,531		\$17,150,089		\$18,105,029	
Prior Year Adjustment					1,454					
Fund Balance, End of Year	\$13,896,737		\$16,302,531		\$17,150,089		\$18,105,029		\$13,068,036	

⁽¹⁾ Calculated as a percent of Total Revenues

The City lists six sources of revenue, the largest being Taxes (property and sales), generating approximately 75% of all revenue received. The Taxes line item increased annually with a 19% improvement over the five years reviewed. The Charge for Services line item, second largest revenue source, also increased and improved 33% over the five years reviewed. Charges for Service includes a variety of revenue types – including 10 different fees for various permits and services. The increase to all revenues streams is based on a general improvement in the economy, which results in an increase in property values and spending activity.

The line item, Use of Money and Property, listed negative figures in FYs 2013 and 2017. The City stated the negative figures for both years were due to fair market value loss recorded within the City's investment portfolio.

The activity for Other Revenue is based on consumer activity and funds received from public works reimbursements, lighting reimbursements, and lease revenues. Included in Other Revenue, is claim settlement reimbursement, interest for state mandated cost, parking permits, hanger charges, and other minor City reimbursements.

Total Revenue increased year over year through FY 2016. FY 2017 showed a 1.4% decline in this line item, which is primarily attributable to the above mentioned recorded loss in the City's investment portfolio, as well as a decline in Other Revenue.

The City's five expenditure categories in FY 2017 were greater than these line items' balances in FY 2013. General Government is the highest value line item and it had an unusually low balance in FY 2014 compared to its other four FYs. The City stated the Planning Department inadvertently placed the Lanterman House and Lanterman Auditorium expenditures within the Community Development line item instead of General Government expenditure line item in FY 2014. Conversely, the Community Development line item had the corresponding increase in FY 2014. Beginning in FY 2015 the Lanterman House expenses were correctly categorized and these two line items reverted to their normal growth patterns.

The City had both Operating Transfers In and Operating Transfers Out in all five years reviewed. The Transfers In annually averaged approximately \$220,000, while the Transfers Out four-year annual average was nearly \$1.9M (the average would be skewed by the \$6.9M entry in FY 2017, increasing the average to \$2.9M, therefore a five-year average was not considered). The Transfers Out funds were reassigned to the City Capital Projects Fund (CCPF) annually. The CCPF is used for financial resources used for the acquisition or construction of major capital facilities. In FY 2017, a large portion of the Transfer Out was reassigned to Total Nonmajor Governmental Funds for the acquisition of Civic Center property (Project).

FY 2017 Fund Balance was about \$828,000 less than FY 2013 Balance. The City increased the value of the Fund Balance to its high of over \$18M by FY 2016. In FY 2017, the City used about \$5.6M towards the purchase of the Project.

Historical Ability to Budget Proposed Payment:

Lease Payment and Fund Balance Analysis					
	2013	2014	2015	2016	2017
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$682,121	\$3,549,862	\$3,065,500	\$2,900,754	\$1,753,592
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Revised Net Change in Funds Balance with ISRF Lease Payment	(\$1,044,186)	\$2,135,037	\$575,347	\$684,183	\$272,250

Calculated at \$4,915,000 at 3.21% interest rate for 30 years.

Analysis of the Lease Payment and Fund Balance, over the five years reviewed, demonstrates the City has the capacity to service the proposed Financing in four of the five years reviewed. The line items of Operating Transfers In and Transfer Out were included as the City consistently adjusts funds annually. FY 2013 was not able to support the proposed lease payment as the City's tax revenues were still recovering from the recession, which kept property taxes low. The single one-time adjustment of Purchase of the Building was added back to the cash flow as it is specific to the transaction and it is nonrecurring.

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 all five years.

Revenues Budget				
Year	Orginal	Final	Actual	Difference between Final and Actual
2013	\$11,853,250	\$11,913,000	\$11,937,892	\$24,892
2014	\$11,996,425	\$12,301,800	\$14,084,282	\$1,782,482
2015	\$12,144,000	\$12,270,675	\$14,201,282	\$1,930,607
2016	\$13,204,950	\$13,356,600	\$14,657,633	\$1,301,033
2017	\$17,707,100	\$13,807,400	\$14,450,191	\$642,791

The table below indicates the City adjusted its spending when updated revenue figures become available. This ensures the City is able to meet it current obligations prior to proceeding with special projects.

Expenses Budget				
Year	Orginal	Final	Actual	Difference between Final and Actual
2013	\$11,199,075	\$11,883,825	\$11,255,771	(\$628,054)
2014	\$11,383,375	\$11,393,775	\$10,534,420	(\$859,355)
2015	\$11,687,525	\$11,470,000	\$11,135,782	(\$334,218)
2016	\$11,982,950	\$12,059,100	\$11,756,879	(\$302,221)
2017	\$13,273,725	\$13,343,375	\$12,696,599	(\$646,776)

Pension Plan

The City participates in CalPERS and has a net pension liability of \$2,746,460 as of June 30, 2017. In the past three years, the City has voluntarily increased its contributions of the plan's proportionate share of the net pension liability. The City Funded Ratio for the last two FYs (2016 and 2017) is 76.1% and improved to 78% in FY 2017. The City has made or exceeded its minimum contribution to CalPERS in the last three years.

Analysis of the Proposed Leased Asset

The Building is two stories and is approximately 27,915 SF in size. The City will occupy all of the 2nd floor and about 66% of the first floor. In total, the City will occupy approximately 73% of the Building and plans to lease the remaining 27% to a third party. The City proposes to finance the Project under a lease/lease-back financing agreement. The Leased Asset under the lease/lease-back financing will be second floor of the Building (approximately 13,957 SF) that will be used exclusively for the City's governmental operations. To determine the Leased Asset value, IBank used the recent purchase price, the price per SF, and compared the Building to other commercial properties for sale within the City. This valuation method is deemed appropriate and acceptable to IBank.

The useful and economic life of the Building is greater than 50 years. The table below reflects 100% of the Building's value as well as the value of only the second floor that will be leased to IBank as part of the lease lease-back transaction. The Leased Asset is acceptable as it has sufficient value and is deemed an essential asset to the City and the public.

Name of Asset	Year Built	Building Size Square Feet (SF)	Approximate Price Per SF	Estimate of Value Based on Purchase Price, and SF (not including renovation cost)	Square Footage Needed for Security	Value of Security
New City Hall Building	2002	27,915	\$376.39	\$10,506,927	13,957	\$5,253,275
Proposed Lease Amount						\$4,915,000
Value-to-lease						107%

Staff reviewed the preliminary report (Prelim) for the Leased Asset. The Prelim reflects a fee simple title held by the City. The Prelim reflects standard encumbrances for property taxes, supplemental taxes, water rights, and easements for utility purposes. All exceptions are customary, reasonable, and acceptable to IBank.

Staff completed a rental analysis for commercial properties in the City's region and found the average contract monthly lease price is \$3.00 per SF. IBank adjusted the price per SF downward for the special use of the building, the high maintenance cost, the age, and condition of the Leased Asset. Based on these adjustments, IBank has identified the annual economic rental value range as \$316,545 as the low and \$386,888 as the high, which is consistent to the annual IBank lease payment for the Leased Asset.

Risk Assessment

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

1. This is a leasehold interest on a 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 annually pursue a remedy of compelling past due lease payments or seek an unlawful detainer remedy to gain possession of, and re-let, the Leased Asset.

Mitigation Factors

1. The Borrower will procure title insurance on IBank's behalf and will covenant against permitting additional encumbrances against the Leased Asset.
2. The Borrower will covenant to annually budget and appropriate lease payments.
3. Lease payments from the General Fund provide a broad source of funds and greater flexibility to the Borrower to meet the required lease obligations.
4. The Borrower will covenant to procure rental interruption insurance for each of 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.

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 City has made one requested for an exception to the ISRF Criteria.

The City requests a waiver of the Criteria provision that contractors be pre-qualified using the Model Questionnaire detailed in the Criteria. The City used its internally-required contractor pre-qualification questionnaire, which substantially meets the intent of the Model Questionnaire. Therefore, the City seeks a waiver of the Criteria.

- The total debt service obligations (inclusive of the Financing) of the Fund is less than 15% of total Fund revenue for FY 2017.
- The Leased Asset is a portion of the City's Civic Center building, 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.

STAFF RECOMMENDATION

Staff recommends approval of Resolution No. 18-19 authorizing ISRF Program financing to the City of La Cañada Flintridge Economic Expansion Project as follows:

1. **Applicant/Borrower:** City of La Cañada Flintridge
2. **Project:** Civic Center Renovation Project
3. **Amount of ISRF Program Lease:** \$4,915,000
4. **Maturity:** Not to exceed 30 years
5. **Repayment/Leased Asset:** General Fund Lease provides IBank with a leasehold interest on a portion of the City's new Civic Center building (Leased Asset).
6. **Interest Rate:** 3.21%
7. **Fees:** The City to finance the origination fee of 1.00%, \$49,150, upon loan closing, and pay 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 and its counsel.
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 of the City:
 - 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. Budget and appropriate funds sufficient to make annual Lease payments.
 - c. Procure and maintain rental interruption insurance for a period of at least six months beyond the time needed to reconstruct the Leased Asset.
 - d. Procure an ALTA title insurance policy.
 - e. Not encumber further the Leased Asset.
 - f. Provide to IBank within 180 days of the end of each fiscal year a copy of the City's 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 –Area Map of the City of La Cañada Flintridge

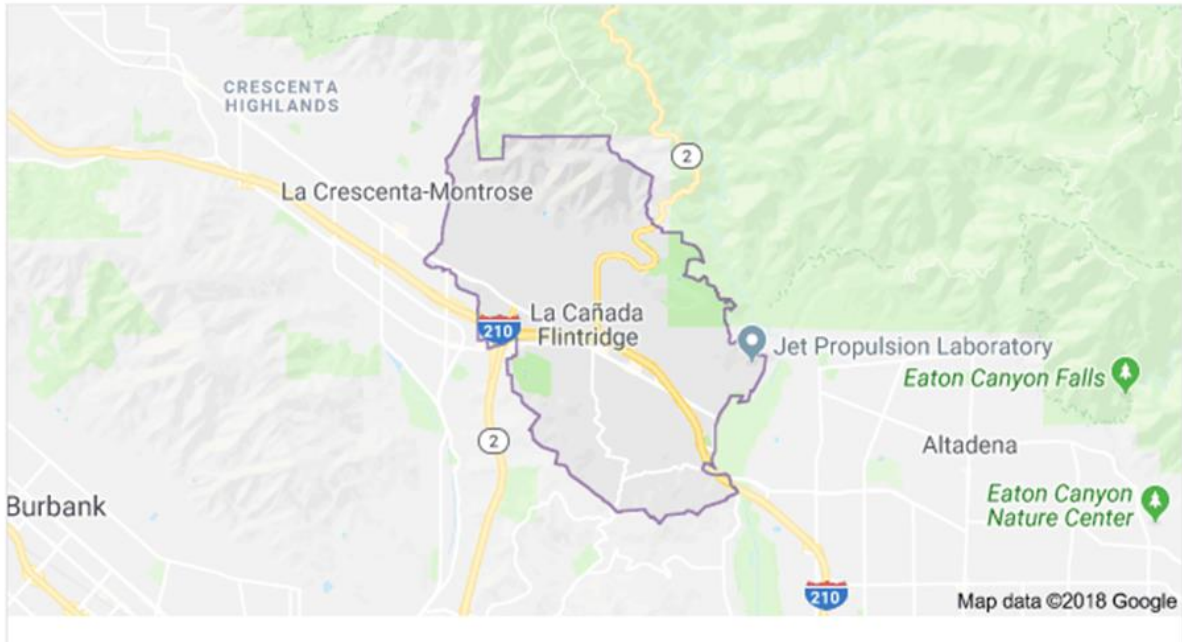


Exhibit 2 –Civic Center Renovation Project Building

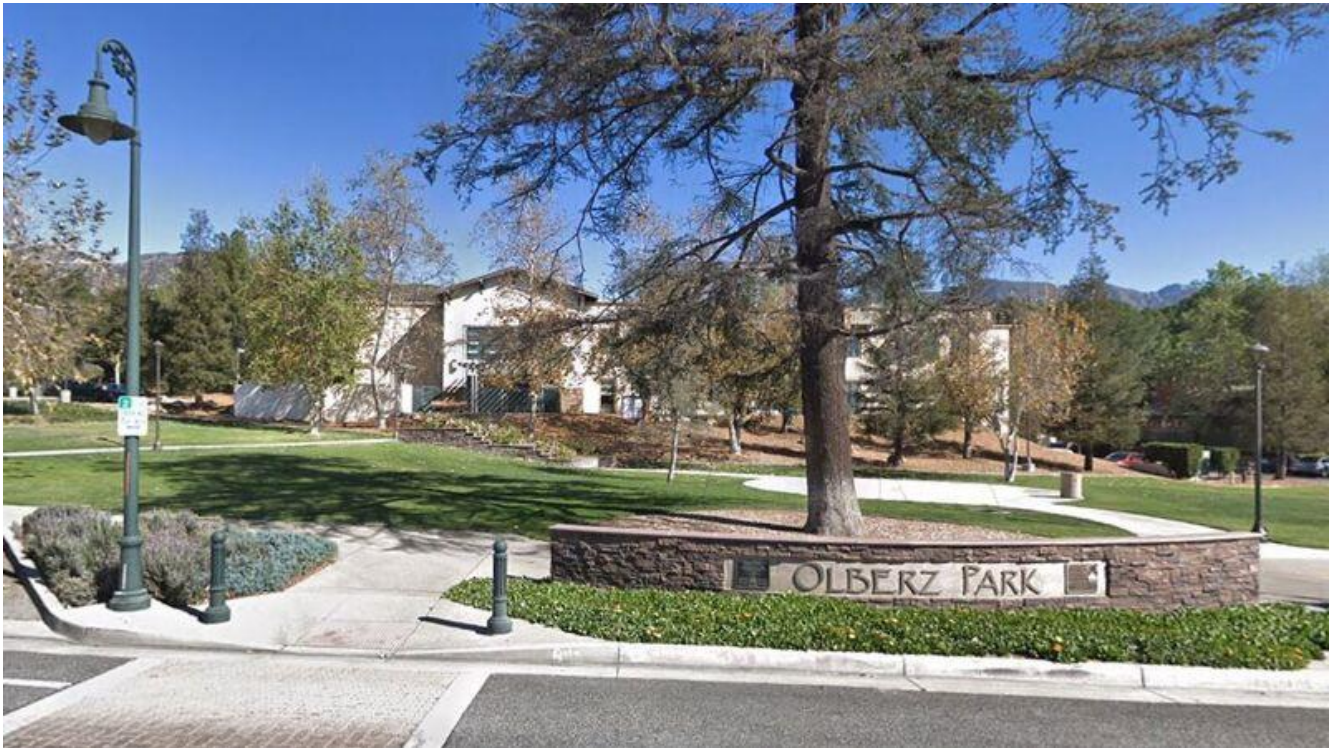


Exhibit 3 – 1 Civic Center Drive and 827 Houseman Street



New City Hall

827 Houseman Street