

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

**STAFF REPORT**

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

<b>Applicant:</b> City of Del Mar (City)		<b>ISRF Project Type:</b> Economic Expansion Project	<b>ISRF Project Category:</b> Educational, Cultural, and Social
<b>Financing Amount:</b> \$16,161,000	<b>Financing Term:</b> 30 years	<b>Interest Rate<sup>(1)</sup>:</b> 3.24%	
<b>Source of Repayment:</b> General Fund (Fund)		<b>Fund Rating/Date:</b> 1999 General Obligation Bond S&P AAA /August 5, 2009	
<b>Security/Leasehold Interest:</b> Powerhouse Community Center or the Project (Leased Asset)			
<b>Project Name:</b> Del Mar City Hall and Town Hall Construction Project (Project)		<b>Project Location:</b> 1050 Camino Del Mar Del Mar, CA	
<b>Project Description and Sources and Uses of Proceeds:</b> The Project consists of the following: (1) site preparation by demolition of three existing buildings, removal of two modular units, and grading of parcel; (2) construction of a 8,867 square foot City Hall building with 95-space partially below grade parking garage; (3) construction of a 3,153 square foot Town Hall with an attached 952 square foot convertible indoor/outdoor space breezeway; (4) construction of additional open-air parking; and (5) construction of a public plaza with landscaping.			
<b>Use of Financing Proceeds:</b> ISRF Program financing will fund the costs of Construction and Contingency; Machinery and Equipment; associated soft costs including, but not limited to, Engineering, Architectural, Permits, Environmental, and the IBank Origination Fee.			
<b>SOURCES AND USES</b>			
<b>Project Uses</b>	<b>IBank</b>	<b>City</b>	<b>Total</b>
Construction & Contingency	\$13,333,155	\$846,059	\$14,179,214
Machinery and Equipment	\$777,000		\$777,000
Engineering, Design, Architectural, Permits, and Environmental	\$1,889,235	\$1,000,000	\$2,889,235
Origination Fee	\$161,610		\$161,610
<b>Total</b>	<b>\$16,161,000</b>	<b>\$1,846,059</b>	<b>\$18,007,059</b>

(1) As of November 19, 2015

**Credit Considerations:**

Summarized Fund cash flow and debt service analysis for the ISRF Program financing is as follows:

<b>Lease Payment and Fund Balance Analysis Based on General Fund</b>					
For Fiscal Year Ending (FYE) June 30	2011	2012	2013	2014	2015
Net Change in Fund Balance (actual)	\$629,057	\$393,696	(\$1,458,271)	\$895,949	1,460,890
Less Sale of Capital Assets	(\$4,171,104)	(\$18,811)			
Add back transfer to Capital Improvement Project Fund	\$1,691,802	\$593,158	\$702,261	\$1,585,954	1,911,196
Add payoff Union Bank loan	\$3,200,000				
Add payoff of CalPERS Side Fund liability			\$2,350,000		
<b>Total adjusted net change in fund balance</b>	<b>\$1,349,755</b>	<b>\$968,043</b>	<b>\$1,593,990</b>	<b>\$2,481,903</b>	<b>\$3,372,086</b>
Less Payments for New Debt					
Proposed ISRF Lease Payment	\$893,497	\$893,497	\$893,497	\$893,497	\$893,497
Revised Adjusted Net Change in Fund Balance after Payments for New Debt	\$456,258	\$74,546	\$700,493	\$1,588,406	\$2,478,589

The Fund demonstrates historical ability to service its operations and the proposed ISRF Program financing. For further analysis see Credit Analysis section.

**Support for Staff Recommendation:**

1. The Fund demonstrates historical ability to meet its obligations under the proposed ISRF Program financing.
2. The Total Fund Balance is trending upwards.
3. Total Assets, specifically Cash and Investments, are trending upward.
4. The Unassigned Fund Balance is increasing and was \$3,806,755 in FY 2015.
5. At Fiscal Year End (FYE) 2015, the Unassigned Fund Balance is fully covered by Cash and Investments of \$5,771,608.
6. On August 5, 2009, Standard and Poor's (S&P) affirmed its AAA rating for the City's 1999 General Obligation Bonds.
7. The fair market value of the City's proposed Leased Asset is equivalent to the proposed financing amount.

**IBank Staff:**

Jim Rennie and Tom Dear

**Date of Staff Report:**

April 7, 2016

**Date of IBank Board Meeting:**

4/26/2016

**Resolution Number:** No. 16-08

**Staff Recommendation:**

Staff recommends approval of Resolution No.16-08 authorizing financing to the City of Del Mar for the Del Mar City Hall and Town Hall Construction Project. Additionally, Staff recommends the Board authorize the substitution of the Project as the Leased Asset upon the City satisfying the conditions of Resolution No. 16-08 and the financing agreements for such substitution.

## PROJECT DESCRIPTION

The City of Del Mar (City) requests ISRF Program financing in the amount of \$16,161,000 to fund the Del Mar City Hall and Town Hall Construction Project (Project). The Project consists of the following: (1) site preparation by demolition of three existing buildings, removal of two modular units, and grading of parcel; (2) construction of a 8,867 square foot City Hall building with 95-space partially below grade parking garage; (3) construction of a 3,153 square foot Town Hall with an 952 square foot convertible indoor/outdoor breezeway; (4) construction of additional open-air parking; and (5) construction of a public plaza with landscaping.

### **Project Background and Need Description**

The existing City Hall is a converted school purchased by the City in the early 1970s to serve as its temporary quarters. The building (Exhibit 1) is a mix of 1920s and 1950s construction. Currently, most of City Hall's functions including City Manager, Administrative Services, Finance and Planning & Community Development departments, and the Sheriff/Park Ranger Office are compressed into a small portion of the administrative building. The building is insufficient to serve the public, since there is a lack of space for meeting rooms and for the planners to lay out building plans or serve more than one customer at a time. The City had to export its building permitting to the neighboring City of Solana Beach as the City has no room to provide this function to its residents and businesses. Based on community workshops and a survey, the community also desired additional public parking spaces. The nearby residential community is impacted by commercial parking and some businesses are unable to expand, because they do not have sufficient parking spaces.

A portion of the building was deemed seismically unfit for occupation and was, for several decades, used only for records storage. In recent years, it has been found unfit even for storage and sits abandoned. Additionally, City Hall is not in compliance with the American with Disabilities Act (ADA); restrooms are outside, are not on the same level as City offices, and require access via stairs or circuitous ramps. Finally, seating in Council Chambers is limited to 49 attendees, insufficient to meet the needs of the public and requires attendees to stand or watch the proceedings in rooms with closed-circuit televisions.

### **Project Components**

The Project site is located on the west side of Camino Del Mar between 10th and 11th Streets. The property currently has five City buildings located on the site.

#### Site Preparation

Two of the existing buildings are modular and will be removed from the property; the remaining three buildings will be razed. The site will then be graded to prepare for construction of the Project.

## City Hall

The City Hall will contain approximately 8,867 square foot (sf) of office space that will house the City's administrative staff including the City Manager, the Departments for Administrative Services, Finance and Planning and Community Development. City Hall will be constructed on top of the parking garage discussed below.

## Town Hall

The Town Hall will provide approximately 4,105 sf of space while utilizing the breezeway in an "indoor" mode to serve the City Council, the Design Review Board, the Planning Commission, and as an Emergency Operations Center when required. The Town Hall will have seating for 150 persons includes an open breezeway that can seat an additional 100 persons for a total seating capacity of 250 persons to provide space for workshops, cultural, and performance activities. The Town Hall will also feature a 300 sf catering kitchen to serve large events.

When completed, the Town Hall will provide the largest single indoor meeting space within the City The Project includes the construction of a covered breezeway that will connect City Hall and the Town Hall (Exhibit 2).

## Parking

The one-level garage and parking area design includes a total of 140 spaces. The parking garage will have 95 covered spaces and 45 spaces in an uncovered outside parking lot. As the City Hall/Town Hall project is being built on a slope, the garage will be partially-at-grade, and partially below grade. Together the garage and the lot will provide parking for approximately 80 cars more than is required for the combined City Hall/Town Hall facility.

## Public Plaza

City Hall and the Town Hall will be complemented with approximately 20,000 sf of public plaza that will offer views of the Pacific Ocean. It is anticipated that the largest section of the plaza could serve as the location of the Del Mar Farmer's Market, which now occupies the City Hall's parking lot on Saturdays. A portion of the plaza is situated above undisturbed soil as to permit the growth of landscaping and trees.

## **Project Benefits**

The Project will be seismically and ADA compliant. City Hall will be large enough to house all staff functions. A combined Planning and Finance counter will permit one-stop service for residents. The City Council Chambers seating capacity will be at least three times larger than its current space.

## **Economic Development Benefits**

The Project will be the first major new construction in the south end of the downtown in decades. The City states that the Project will serve as an anchor for the southern end of

the City's downtown, energizing the area by encouraging foot traffic and increased investment by local businesses. The Project will alleviate the parking constraints, encourage visitors to downtown, and attract business development. The City anticipates 150 new jobs to be created, of which 50 jobs are construction related and 100 jobs are long term employment opportunities based on future business development.

## GENERAL INFORMATION

The City of Del Mar is a coastal city situated between the City of San Diego to the south and the City of Solana Beach to the north within the County of San Diego. The City occupies 1.8 square miles and has a population of 4,238.

Del Mar is a Charter City and was incorporated in 1959. A five-member City Council (Council) governs the City under the Council/Manager form of government. The Council is elected at large and members have staggered four-year terms. The position of Mayor rotates among the members annually.

The City is primarily a residential community. It is common for current homes to be replaced with larger and more elaborate homes, increasing the tax base. However, redevelopment and revitalization opportunities exist in the City's commercial areas.

The 22<sup>nd</sup> District Agricultural Association (22<sup>nd</sup> DAA) and the Del Mar Fairgrounds have a significant presence in the City and encompass 20% of the City's land area. The Fairgrounds is a 370-acre property that is the site of the annual San Diego County Fair and is managed by a Board of Directors appointed by the Governor.

Tourism is the leading industry in the City. Such attractions include the Del Mar Race Track, the San Diego County Fair, and the Del Mar Antique Show. The top ten non-government employers include five restaurants, two resorts, the Del Mar Fairgrounds, and the Del Mar Thoroughbred Club. Over the last ten years, Tourism provided average tax revenues of 18% of the City's total General Fund revenues.

The following table lists the City of Del Mar's Top Ten Employers.

<b>Top Ten Employers</b>		
<b>Employer</b>	<b>No. of Employees</b>	<b>% of Employees in City</b>
L'Auberge Del Mar Resort Spa	250	8.33%
Del Mar Fairgrounds	180	6.00%
Del Mar Thoroughbred Club	115	3.83%
Jake's Del Mar	110	3.67%
Brigantine Seafood Restaurant	100	3.33%
Il Fornaio	100	3.33%
Re/Max Moonlight Beach Inc.	100	3.33%
Pacifica Del Mar	65	2.17%
Poseidon Restaurant	50	1.67%
Hotel Indigo	40	1.33%
	<b>1,110</b>	<b>36.99%</b>
Source: 2015 Comprehensive Annual Financial Report		

## CREDIT ANALYSIS

### Source of Financing Repayment

The following table summarizes the source of repayment for the proposed ISRF Program financing, the current outstanding obligations of the repayment source, and the documents reviewed and analyzed for the recommendation.

<b>Source of Revenue to Repay Proposed ISRF Program Financing:</b>	General Fund
<b>Outstanding General Fund and Lease Obligations:</b>	None
<b>Type of Audited Financial Documents Reviewed:</b>	<input checked="" type="checkbox"/> Comprehensive Annual Financial Reports (CAFR) <input type="checkbox"/> Basic Financial Statements (F/S) <input type="checkbox"/> Other: _____
<b>Audit Fiscal Years Reviewed:</b> <b>Fiscal Year Ends:</b>	2011-2015 June 30
<b>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.</b>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No. [If no, explain]
<b>Adopted Budget(s) Reviewed:</b>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No. [If no, explain]
<b>Budget Year(s) Reviewed:</b>	2011-2017

## General Fund Comparative Balance Sheet Analysis

The Comparative Balance Sheet for the last five fiscal years is as follows:

General Fund Comparative Balance Sheet										
For Fiscal Year Ending (FYE) June 30	2011		2012		2013		2014		2015	
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	\$4,902,102	85.3%	\$4,231,930	73.6%	\$4,702,460	84.4%	\$5,823,772	81.9%	\$5,771,608	75.2%
<b>Receivables</b>										
Taxes	553,967	9.6%	607,743	10.6%	675,764	12.1%	667,710	9.4%	683,169	8.9%
Accrued interest	7,140	0.1%	3,584	0.1%	2,402	0.0%	4,028	0.1%	4,233	0.1%
Accounts, net	111,089	1.9%	56,854	1.0%	74,506	1.3%	510,621	7.2%	123,501	1.6%
Due from other agencies	39,464	0.7%	188,145	3.3%	22,789	0.4%	25,907	0.4%	61,786	0.8%
Due from other funds	132,849	2.3%	133,270	2.3%	91,886	1.6%	75,194	1.1%	1,029,712	13.4%
Prepaid items			525,151	9.1%						
<b>Total Assets</b>	<b>\$5,746,611</b>	<b>100.0%</b>	<b>\$5,746,677</b>	<b>100.0%</b>	<b>\$5,569,807</b>	<b>100.0%</b>	<b>\$7,107,232</b>	<b>100.0%</b>	<b>\$7,674,009</b>	<b>100.0%</b>
<b>Liabilities</b>										
Accounts payable and accrued liabilities	1,100,860	19.2%	806,658	14.0%	841,094	15.1%	1,489,041	21.0%	1,039,891	13.6%
Deposits payable	627,362	10.9%	553,039	9.6%	598,913	10.8%	592,442	8.3%	520,274	6.8%
Due to other agencies			6,237	0.1%	6,236	0.1%	6,236	0.1%	6,236	0.1%
Unearned revenue	32,047	0.6%	765	0.0%	1,067	0.0%	1,067	0.0%	1,067	0.0%
Advance from other funds					1,200,790	21.6%	1,200,790	16.9%	827,995	10.8%
<b>Total Liabilities</b>	<b>\$1,760,269</b>	<b>30.6%</b>	<b>\$1,366,699</b>	<b>23.8%</b>	<b>\$2,648,100</b>	<b>47.5%</b>	<b>\$3,289,576</b>	<b>46.3%</b>	<b>\$2,395,463</b>	<b>31.2%</b>
<b>Fund Balances</b>										
Nonspendable			525,151	9.1%						
Assigned	1,681,273	29.3%	1,470,192	25.6%	1,475,704	26.5%	1,471,791	20.7%	1,471,791	19.2%
Unassigned	2,305,009	40.1%	2,384,635	41.5%	1,446,003	26.0%	2,345,865	33.0%	3,806,755	49.6%
<b>Total Fund Balances</b>	<b>\$3,986,282</b>	<b>69.4%</b>	<b>\$4,379,978</b>	<b>76.2%</b>	<b>\$2,921,707</b>	<b>52.5%</b>	<b>\$3,817,656</b>	<b>53.7%</b>	<b>\$5,278,546</b>	<b>68.8%</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$5,746,551</b>	<b>100.0%</b>	<b>\$5,746,677</b>	<b>100.0%</b>	<b>\$5,569,807</b>	<b>100.0%</b>	<b>\$7,107,232</b>	<b>100.0%</b>	<b>\$7,674,009</b>	<b>100.0%</b>
<b>Total Liabilities to Total Assets</b>	<b>0.31</b>		<b>0.24</b>		<b>0.48</b>		<b>0.46</b>		<b>0.31</b>	
<b>Total Fund Balance/Total Liabilities</b>	<b>2.26</b>		<b>3.20</b>		<b>1.10</b>		<b>1.16</b>		<b>2.20</b>	

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

The General Fund Comparative Balance Sheet Analysis reflects that Total Assets of the General Fund grew by 33.5% over the five years analyzed and that Cash and Investments grew by 17.7% primarily due to an increase in revenues given the improving economy during the period analyzed. Cash and Investments grew in FY 2014 by 23.8% as compared to FY 2013 due to a combination of increased revenues and a decrease in operating expenses.

Receivables were relatively stable with the exception a few one-time items. In FY 2014, Accounts, Net increased from \$74,000 to \$510,000 primarily due to an insurance claim of \$375,000. In FY 2012, Due From Other Agencies increased by \$148,000 mainly because an insurance reimbursement check arrived on July 5, 2012 (FY 2013). In FY 2015, Due from Other Funds increased by \$954,000. This was primarily due to a reimbursement, which was owed from San Diego County Association of Governments for the City's Roadway and Sidewalk Project. The payment was received on July 2, 2015. The City also shows a one-time Prepaid item in FY 2012 for the City's fire truck purchase, which was not delivered until the next fiscal year (October 2013).

Total Liabilities increased by 36.1% over the five years analyzed, primarily as the result of an inter-fund loan between the Water Fund to the City's General Fund as reported in Advances from other funds. The inter-fund loan and other fund transfers were used to pay off the City's CalPERS Side Fund liability. By borrowing internally the City expects to save \$1.1 million in interest expense, which will in turn be used to repay the inter-fund loan. The City made its first payment on the inter-fund loan in FY 2015 as is evidenced by the reduction in Advances from Other funds in the above table. Two other items of note are in the line item Accounts Payable and Accrued Liabilities in FY 2014. The increase is another insurance settlement check that did not get issued until July 25, 2015. Also, the Unassigned balance increased in FY 2015 from FY 2014 due to a combination of increased revenues and a reduction of the liabilities.



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

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

General Fund										
Comparative Statement of Revenues, Expenditures, and Changes in Fund Balances										
For Fiscal Year Ending (FYE) June 30	2011	% <sup>(1)</sup>	2012	% <sup>(1)</sup>	2013	% <sup>(1)</sup>	2014	% <sup>(1)</sup>	2015	% <sup>(1)</sup>
Source:	CAFR		CAFR		CAFR		CAFR		CAFR	
% Change Year-over-Year in Total Revenues		7.16%		2.99%		3.73%		5.11%		10.87%
<b>Revenues</b>										
Taxes	\$8,187,046	73.2%	\$8,500,119	73.7%	\$8,902,500	74.3%	\$9,445,745	74.8%	\$10,259,000	72.4%
Licenses, fees and permits	684,499	6.1%	567,382	4.9%	616,630	5.1%	831,364	6.6%	971,417	6.9%
Intergovernmental	81,135	0.7%	79,800	0.7%	106,506	0.9%	108,614	0.9%	229,903	1.6%
Charges for services	1,091,028	9.7%	1,098,148	9.5%	1,190,559	9.9%	1,296,138	10.3%	1,447,608	10.2%
Fines and forfeitures	891,019	8.0%	815,617	7.1%	669,665	5.6%	586,367	4.6%	633,259	4.5%
Use of money and property	106,943	1.0%	73,840	0.6%	144,197	1.2%	181,128	1.4%	218,934	1.5%
Contributions	431	0.0%	5,000	0.0%	36,921	0.3%	5,228	0.0%		
Other	149,672	1.3%	396,751	3.4%	316,585	2.6%	173,712	1.4%	408,244	2.9%
<b>Total Revenues</b>	<b>\$11,191,773</b>	<b>100.0%</b>	<b>\$11,536,657</b>	<b>100.0%</b>	<b>\$11,983,563</b>	<b>100.0%</b>	<b>\$12,628,296</b>	<b>100.0%</b>	<b>\$14,168,365</b>	<b>100.0%</b>
<b>Expenditures</b>										
<b>Current</b>										
General government	4,040,310	36.1%	4,731,431	41.0%	5,786,805	48.3%	4,175,996	33.1%	4,335,246	30.6%
Public safety	4,862,319	43.4%	5,100,244	44.2%	6,123,864	51.1%	5,194,208	41.1%	5,439,103	38.4%
Public works	138,319	1.2%	137,038	1.2%	251,545	2.1%	170,703	1.4%	154,863	1.1%
<b>Debt Service</b>										
Interest									12,159	
<b>Total Expenditures</b>	<b>\$9,040,948</b>	<b>80.8%</b>	<b>\$9,968,713</b>	<b>86.4%</b>	<b>\$12,162,214</b>	<b>101.5%</b>	<b>\$9,540,907</b>	<b>75.6%</b>	<b>\$9,941,371</b>	<b>70.2%</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>\$2,150,825</b>	<b>19.2%</b>	<b>\$1,567,944</b>	<b>13.6%</b>	<b>(\$178,651)</b>	<b>-1.5%</b>	<b>\$3,087,389</b>	<b>24.4%</b>	<b>\$4,226,994</b>	<b>29.8%</b>
<b>Other Financing Sources (Uses)</b>										
Transfers In					300,000					
Transfers Out	(5,692,872)		(1,193,059)		(1,579,620)		(2,191,440)		(2,766,104)	
Sale of capital assets	4,171,104		18,811							
<b>Total Other Financing Sources (Uses)</b>	<b>(\$1,521,768)</b>		<b>(\$1,174,248)</b>		<b>(\$1,279,620)</b>		<b>(\$2,191,440)</b>		<b>(\$2,766,104)</b>	
<b>Net Change in Fund Balance</b>	<b>\$629,057</b>		<b>\$393,696</b>		<b>(\$1,458,271)</b>		<b>\$895,949</b>		<b>\$1,460,890</b>	
<b>Fund Balance, Beginning of Year</b>	<b>3,357,225</b>		<b>3,986,282</b>		<b>4,379,978</b>		<b>2,921,707</b>		<b>3,817,656</b>	
<b>Fund Balance, End of Year</b>	<b>\$3,986,282</b>		<b>\$4,379,978</b>		<b>\$2,921,707</b>		<b>\$3,817,656</b>		<b>\$5,278,546</b>	

Analysis of the City's Comparative Statement of Revenues, Expenditures and Changes in Fund Balance illustrates that Total Revenues increased by 26.6% during the five years reviewed. The largest source of revenue is Taxes representing 72.4% of Total Revenues. Taxes consist of property tax, sales tax, and transient occupancy tax that increased 25.3% over the same period. In addition, property assessed values increased 17%, and the hotel occupancy rate increased from 64% in 2011 to 70% in FY 2015.

The next two largest sources of revenues are Charges for Services at 10.2% of Total Revenue, and Licenses, Fees and Permits at 6.9%. Over the past five years, Charges for Services increased 32.7% due to an increase in planning and building activity, and Licenses, Fees, and Permits increased by 41.9% due growing parking revenue from increased tourism. However, as a percentage of Total Revenue, both categories have been relatively consistent over the same time period. The City states that Other Revenue includes miscellaneous General Fund revenue and may fluctuate from year to year based on specific activities.

Total Expenditures increased 10% from FY 2011 to FY 2015. Changes were noted within each year, and include expenditures such as the City paying off the CalPERS Side Fund liability in FY 2013, but the year-to-year changes were modest. The two largest categories for expenditures are General Government and Public Safety. General Government expenditures increased by 7.3% over the past five years, or 1.46% annually, while total Public Safety expenditures increased by 11.9%, or 2.38% annually.

The spreadsheet above reflects that each year the City transfers General Fund monies to other funds to address periodic shortfalls in those funds. For instance, the City transferred money to the Open Space Fund when revenues collected from Facility Use Permits did not cover the costs of maintaining open space and to its Capital Improvement Project Fund to help pay for current and future capital improvement projects. Although Transfers Out have recurred annually, the amounts and categories vary depending on the circumstances and there is no obligation for continuing transfers.

In FY 2013, the City transferred \$300,000 from its Internal Service fund to the General Fund to help pay off the CalPERS Side Fund liability. This is the only Transfer In to the General Fund during the period analyzed.

The spreadsheet above reflects the Sale of Capital Asset in FY 2011. This one-time transaction in the amount of \$4,171,104 resulted from the sale of a City-owned lot. The proceeds from the sale were divided and transferred to the Open Space Fund to pay off a loan with Union Bank, and to the Capital Improvement Project Fund to partially pay for the construction the City's 17<sup>th</sup> Street Beach Safety Center.

Overall, Fund Balance, Year End increased 32.4% from FY 2011 through FY 2015, primarily as a result of positive Net Change in Fund Balance year-to-year. The one exception was in FY 2013, when the City paid off its CalPERS Side Fund liability.

## Obligations of the General Fund and Percentage of Total Revenues

The table below summarizes the Current and Proposed Obligations of the General Fund:

Current and Proposed Obligations of General Fund						
Debt Issues	Underlying Rating (at issuance)	Date Issued	Amount Issued	Outstanding Balance	Maximum Annual Debt Service (MADS)	Maturity
Proposed IBank Debt	Not Rated	TBD	\$16,161,000	\$16,161,000	\$893,497	8/12/2046
<b>Total</b>			<b>\$16,161,000</b>	<b>\$16,161,000</b>	<b>\$893,497</b>	

<b>2015 Total Revenue</b>	\$14,168,365.00
<b>15% of 2015 Total Revenue</b>	\$2,125,254.75
<b>Total Annual Payments</b>	\$893,497
<b>Total Annual payments as a % of 2015 Total Revenue</b>	6.31%

The City has no other obligations. The annual payment for the proposed IBank financing does not exceed 15% of the Fund's 2015 Total Revenues.

## Historical Ability to Budget Proposed Payment

The table below reflects that the Fund can support the proposed debt.

Lease Payment and Fund Balance Analysis Based on General Fund					
For Fiscal Year Ending (FYE) June 30	2011	2012	2013	2014	2015
Net Change in Fund Balance (actual)	\$629,057	\$393,696	(\$1,458,271)	\$895,949	1,460,890
Less Sale of Capital Assets	(\$4,171,104)	(\$18,811)			
Add back transfer to Capital Improvement Project Fund	\$1,691,802	\$593,158	\$702,261	\$1,585,954	1,911,196
Add payoff Union Bank loan	\$3,200,000				
Add payoff of CalPERS Side Fund liability			\$2,350,000		
<b>Total adjusted net change in fund balance</b>	<b>\$1,349,755</b>	<b>\$968,043</b>	<b>\$1,593,990</b>	<b>\$2,481,903</b>	<b>\$3,372,086</b>
Less Payments for New Debt					
Proposed ISRF Lease Payment	\$893,497	\$893,497	\$893,497	\$893,497	\$893,497
Revised Adjusted Net Change in Fund Balance after Payments for New Debt	\$456,258	\$74,546	\$700,493	\$1,588,406	\$2,478,589

The table above reflects that the City has had sufficient Net Changes in Fund Balance (adjusted as discussed below) to meet the rental payment for the proposed ISRF Program financing.

Adjustments to the Net Change in Fund Balance were made as follows:

- Less Sale of Capital Assets- this revenue is nonrecurring, therefore, cannot be relied upon for repayment.
- Add back transfers to Capital Improvement Project Fund—the City states that such funds would be available for payment of the proposed ISRF Program financing if needed.
- Add back payoff of Union Bank loan—one-time event.
- Add back of payoff of CalPERS Side Fund liability—one time event.

The Total Adjusted Net Change in Fund Balance after Payments for New Debt is positive in all five years. The ISRF Program financing will be the only debt of the General Fund and is 6.3% of Total General Fund Revenues.

### Pension Plan

The City contributes to the California Public Employees Retirement System (CalPERS). The City makes its annual contributions based upon the actuarially determined rate provided by CalPERS. In 2013, the City paid off its unfunded liability to CalPERS. The City anticipates the difference between projected and actual earnings on the plan investments to be almost \$2.2 million. According to the 2015 CAFR, the City plans to pay off this difference over the next four fiscal years.

### Budget

The City adopts a two-year budget as the foundation for its financial planning and control. According to the City's CAFRs, the City's policy is to complete a budget that is balanced and has a minimum contingency reserve of 10% of Annual Operating Expenditures in the General Fund, which can be seen in the Unassigned balance. A review of the City's budgeting process finds the City conservatively budgets total revenues.

City of Del Mar General Fund Revenues Budget				
Year	Orginal	Final	Actual	Difference between Final Budget and Actual
2011	\$10,329,128	\$10,424,575	\$11,189,555	\$764,980
2012	\$10,525,594	\$11,011,445	\$11,536,657	\$525,212
2013	\$10,851,020	\$11,038,135	\$11,983,563	\$945,428
2014	\$11,430,560	\$11,861,548	\$12,628,296	\$766,748
2015	\$12,151,460	\$12,611,460	\$14,168,365	\$1,556,905

In all years, Budgeted vs. Actual Expenditures were less than Final Expenditures demonstrating the City's focus on cost control.

City of Del Mar General Fund Expenditures Budget				
Year	Orginal	Final	Actual	Difference between Final Budget and Actual
2011	\$9,062,504	\$9,379,721	\$9,040,948	(\$338,773)
2012	\$9,812,510	\$10,824,807	\$9,968,713	(\$856,094)
2013	\$9,696,712	\$12,686,169	\$12,162,214	(\$523,955)
2014	\$9,584,550	\$9,861,909	\$9,540,907	(\$321,002)
2015	\$10,156,774	\$10,567,289	\$9,941,371	(\$625,918)

## Analysis of the Proposed Leased Asset

Until the Project is complete, the Powerhouse Community Center (Powerhouse) located at 1658 Coast Blvd., Del Mar will be the subject of the lease. Powerhouse is an unencumbered asset owned by the City that was originally purchased along with the surrounding park in 1983. The renovated Powerhouse had its grand opening on December 4, 1999 and received the San Diego Architectural Foundation's 2000 Orchid Award for Historic Preservation. Due to the uniqueness of the property and difficulty identifying reasonable comparable properties, a conservative approach was used to determine the value. The land value was estimated based on recent sales within a few blocks of the proposed asset. In addition, the insured value of the improvements was used as the value for the structure. This valuation method is deemed acceptable to IBank. The Valuation of the Proposed Leased Asset for the City of Del Mar reflects sufficient value with a Value-to-Lease of 120%.

The table below reflects the Value-to-Lease ratio of the asset.

Valuation of Proposed Leased Asset for the City of Del Mar							
Name of Asset	Address	Year Built	Building Size (square feet)	Type of Construction	Structure value	Land Value	Estimate of Value
Powerhouse Community Center	1658 Coast Blvd., Del Mar, CA APN - 299-230-25	1928	5,000	Stucco, wood, & masonry	\$1,875,000	\$17,537,576	\$19,412,576
<b>Leased Asset Value</b>							<b>\$16,161,000</b>
<b>Value-to-lease</b>							<b>120%</b>

Staff received and reviewed a preliminary title report (Prelim) for the Leased Asset. The Prelim reported a Site Lease between LaSalle National Bank and the City of Del Mar. The City states that the financing related to the Site Lease was paid off in March 2009 and that it is working with the title company to have the item released. Conveyance of the existing Site Lease will be required as a condition of the proposed ISRF Program financing prior to execution of the ISRF Financing Lease and Site Lease. All other exceptions are customary, reasonable, and acceptable to IBank. The City stated that the useful remaining life of the Leased Asset is greater than the term of the loan.

Powerhouse is an essential asset to the community and, at this time, is the only asset that has sufficient value for the financing. Powerhouse will be pledged during the construction period. Upon Project completion, the Del Mar City Hall and Town Hall may be substituted as the Leased Asset in place of Powerhouse upon satisfaction of certain conditions.

The conditions to the substitution of the Del Mar City Hall and Town Hall (the Project) as the Leased Asset in place of Powerhouse, include receipt by IBank of (1) an appraisal or other independent method of valuation acceptable to IBank demonstrating that the valuation of the Project reflects sufficient value with a Value-to-Lease of at least 106%, (2) a CLTA or ALTA title insurance policy, acceptable to IBank for the Project, (3) certification from the City that no default or event of default has occurred and is continuing under the financing agreements and there is no litigation or dispute filed or pending with respect to the Project, and (4) an opinion

of counsel to IBank that the substitution of the Project for the Powerhouse as the Leased Asset will not jeopardize the tax exempt status of IBank’s outstanding ISRF Bonds.

For purposes of determining a value for the Project under the lease-lease back financing model, IBank identifies the value of the improvements and not the land owned by the City. The source of repayment for the transaction is the City of Del Mar’s General Fund. Consequently, Staff can simply rely on the construction costs of the Project as the fair value of the asset. As identified in the table below, the Value of Improvements is sufficient to be substituted as the Leased Asset.

<b>Valuation of Proposed Substituted Leased Asset</b>					
<b>Name of Asset</b>	<b>Address</b>	<b>Year Built</b>	<b>Total square feet</b>	<b>Value of Improvements</b>	<b>Estimate of Value</b>
City Hall and Town Hall	1050 Camino del Mar, Del Mar	new	12,450	\$17,068,449	\$17,068,449
<b>Leased Asset Value</b>					\$16,161,000
<b>Value-to-lease</b>					<b>106%</b>

Staff requests the Board to authorize the substitution of the Project for the Powerhouse as the Leased Asset upon satisfaction by the City of all required conditions of the Board and the financing agreements for such substitution.

**Risk Assessment**

Primary risks of the proposed Financing structure are as follows:

1. The Borrower is not prohibited from incurring additional obligations payable from the General Fund.
2. Under State law governing the proposed Financing structure, the Borrower is prohibited from making Lease payments on the Leased Asset while it does not have use and occupancy of the Leased Asset.
3. The security is a leasehold interest on the Leased Asset and not a lien on the General Fund.
4. 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 Borrower’s use of the Leased Asset.
5. Under State law governing the proposed financing structure, 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.

## Mitigating Factors

1. The Borrower will covenant against permitting additional encumbrances against the Leased Asset.
2. The Borrower will covenant to annually budget and appropriate lease payments for the proposed ISRF Program financing.
3. Lease payments may be made from any General Fund revenue providing 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 the Leased Asset so that in the event of abatement, such insurance must cover abated lease payments for a period of at least six months beyond the period required to rebuild the Leased Assets.

## Compliance with IBank Underwriting Criteria

The application and the proposed financing are in compliance with the Credit Underwriting Guidelines and Procedures as stated in Exhibit A of the Criteria as follows:

- **Application Eligibility:** The City of Del Mar is an eligible applicant under the Criteria.
- **Project Eligibility:** The Project is an eligible “Economic Expansion Project” under the Criteria.
- **Limitation of Total Obligations:** The total General Fund obligation (inclusive of the proposed IBank Financing) is less than 15% of the City’s General Fund Total Revenue.
- **Leased Assets:** The Leased Asset, the City’s Powerhouse Community Center and the Project, upon satisfaction of the conditions for substitution, are acceptable to IBank.
- **Repayment Ability:** The source and the diversity of the General Fund appears to adequately cover existing expenditures and the proposed IBank Lease payments.

The Borrower will covenant to the following in accordance with the Criteria:

1. Annually budget and appropriate funds sufficient to make annual lease payments.
2. Enter into a fixed-price construction contract.
3. Obtain payment and performance bonds, builder’s risk insurance, and liability and worker’s compensation insurance.
4. Procure and maintain rental interruption insurance for a period of at least six months beyond the time needed to reconstruct the Leased Asset.
5. Procure a CLTA or ALTA title insurance policy.
6. Covenant against permitting additional future encumbrances of the Leased Asset.

### **Interest Rate Setting Demographics**

The interest rate for the proposed ISRF Program financing was based upon the following statistics obtained from the 2009-2013 American Community Survey (5-year estimates) or cost of funds.

<b>Unemployment Rate</b>	The City's unemployment rate was 1.0%, which is 87.0% of the State's rate of 11.5%.
<b>Median Household Income</b>	The City's median household income was \$107,457 which is 175.8% of the State's median household income of \$61,094.

### **Prior IBank Experience and Compliance with Existing Agreements**

The City has an outstanding ISRF Program financing dated October 1, 2015, with a current principal balance of \$3,535,354. The interest rate is 2.17% with a term of 20 years. The City has had no events of default on the existing loan.

The loan is secured by the Net Revenues of the Wastewater Enterprise Fund, and since it is not part of the General Fund this debt is not considered in the above cash flow analysis. The City has not requested a loan disbursement at this time and it appears the project is on schedule.



## STAFF RECOMMENDATION

Staff recommends approval of Resolution No.16-08 authorizing financing to the City of Del Mar for the Del Mar City Hall and Town Hall Construction Project.

1. **Applicant / Borrower:** City of Del Mar
2. **Project:** Del Mar City Hall and Town Hall Construction Project
3. **Amount of Financing:** \$16,161,000
4. **Maturity:** Not to exceed 30 years
5. **Repayment/Security:** General Fund lease provides IBank with an initial leasehold interest on the City's Powerhouse Community Center (Leased Asset). The Town Hall and City Hall may be substituted as the Leased Asset for this loan once the Project is completed; provided that IBank receives the following as conditions to such substitution:
  - (i) an appraisal or other independent method of valuation acceptable to IBank demonstrating that the valuation of the Project reflects sufficient value with a Value-to-Lease of at least 106%,
  - (ii) a CLTA or ALTA title insurance policy, acceptable to IBank for the Project,
  - (iii) certification from the City that no default or event of default has occurred and is continuing under the financing agreements and there is no litigation or dispute filed or pending with respect to the Project, and
  - (iv) an opinion of counsel to IBank that the substitution of the Project for the Powerhouse as the Leased Asset will not jeopardize the tax exempt status of IBank's outstanding ISRF Bonds,and the proposed substitution of the Project for the Powerhouse Community Center as the Leased Asset is in compliance with the terms of the financing agreements.
6. **Interest Rate:** 3.24%
7. **Fees:** Origination fee of 1.00% of the Financing amount, \$16,161,000, 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 unconditional commitment to finance the Project, but rather IBank's approval pursuant to the resolution conditioned upon entry by IBank and the Borrower 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 will be able to provide the financing or consider extending the approval period.
10. **Financing Agreement Covenants:** Aside from usual and customary terms and conditions for this type of financing, Staff recommends IBank's financing agreement includes, without limitation, the following additional conditions and covenants:
  - a. Leased Asset must not be the subject of any litigation or material controversy.
  - b. City to enter a fixed-price construction contract. The contractor must obtain payment and performance bonds, builder's risk insurance, and liability and worker's compensation insurance.
  - c. City to procure CLTA or ALTA title insurance policy.
  - d. City to procure and maintain rental interruption insurance for a period of at least six months beyond the time needed to reconstruct the Leased Asset.

- e. City to budget and appropriate funds sufficient to make annual lease payments.
- f. City to covenant against future encumbrances against the Leased Asset.
- g. City to provide to IBank annually within 240 days of the end of each of City's 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**  
**Existing City Hall**



**EXHIBIT 2**  
**Rendering of Project**



**EXHIBIT 3**  
**Exterior Photo of the Powerhouse Community Center**

