

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)

STAFF REPORT

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

Applicant: City of Menifee (City)	ISRF Project Type: Infrastructure Projects	ISRF Project Category Type: City Streets																				
Amount Requested: \$6,500,000 (Financing)	Financing Term: 15 years	Interest Rate: ¹ 3.10%																				
Source of Repayment: General Fund (Fund)		Fund Rating/Date: None																				
Leasehold Interest: 1) 6,300 City street poles and lights to be purchased by the City from Southern California Edison (SCE), including fixtures, and all other equipment attached to the poles (Lights), and 2) Menifee Fire Station 5 - Quail Valley (Fire Station). (Together, as Leased Assets).																						
Project Name: Streetlight Purchase and Retrofit Project (Project)		Project Location: Various locations within the City																				
Project Description / Source and Use of Proceeds: The Project consists of the purchase of approximately 6,300 existing high pressure sodium (HPS) lights and street poles from SCE and retrofitting them with energy efficient light-emitting diode (LED) fixtures; collectively (Lights). Use of Financing Proceeds: The ISRF Program Financing would provide funds for the Project including, but not limited to: purchasing, equipping, installation, and administration. A contingency of 5% is, included in the total Project cost and based upon other similar retrofit projects previously conducted by SCE the contingency is sufficient. The City will cover the Project contingency costs, and pay the Origination Fee, as they are not included in the Financing.																						
<table border="1"> <thead> <tr> <th rowspan="2">Project Uses</th> <th colspan="3">Project Sources for City of Menifee</th> </tr> <tr> <th>IBank</th> <th>City of Menifee</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Purchase and Retrofit</td> <td>\$6,500,000</td> <td>\$905,925</td> <td>\$7,405,925</td> </tr> <tr> <td>Origination Fee</td> <td></td> <td>\$65,000</td> <td>\$65,000</td> </tr> <tr> <td align="right">Total</td> <td>\$6,500,000</td> <td>\$970,925</td> <td>\$7,470,925</td> </tr> </tbody> </table>				Project Uses	Project Sources for City of Menifee			IBank	City of Menifee	Total	Purchase and Retrofit	\$6,500,000	\$905,925	\$7,405,925	Origination Fee		\$65,000	\$65,000	Total	\$6,500,000	\$970,925	\$7,470,925
Project Uses	Project Sources for City of Menifee																					
	IBank	City of Menifee	Total																			
Purchase and Retrofit	\$6,500,000	\$905,925	\$7,405,925																			
Origination Fee		\$65,000	\$65,000																			
Total	\$6,500,000	\$970,925	\$7,470,925																			

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
Net Change in Fund Balance	(\$1,750,941)	\$1,033,846	(\$316,095)	\$1,648,317	\$2,694,779
Adjustments Specific to the Transactions					
Annual Maintenance Cost of Street Lights 6,300 x \$18.60	(117,180)	(117,180)	(117,180)	(117,180)	(117,180)
Annual Extraordinary Maintenance 7 poles x \$6,483	(45,381)	(45,381)	(45,381)	(45,381)	(45,381)
Total Adjustments	(162,561)	(162,561)	(162,561)	(162,561)	(162,561)
Adjustments to Excess (Deficiency) of Revenues					
Proposed ISRF Lease Payment *	561,344	561,344	561,344	561,344	561,344
Other MADS General Fund Obligations	0	0	0	0	0
Revised Net Change in Funds Balance with ISRF Lease Payment	(\$2,474,846)	\$309,941	(\$1,040,000)	\$924,412	\$1,970,874

* Calculated at \$6,500,000 at 3.10% interest rate for 15 years.

Analysis of the historical Lease Payment and Fund Balance over the last five years demonstrates the City has the capacity to service the proposed Financing in three of the five years. Annual Maintenance and Extraordinary Maintenance cost associated with the City assuming ownership of the Lights were calculated and included within the analysis. In FY 2013 property taxes underperformed expectations and the City used equity to cover cost. In FY 2015 there was a one-time expenditure of \$1.5M to the Western Riverside Council of Government's (WRCOG) for the Transportation Uniform Mitigation Fee. This was the City's participation fee for the proposed Road and Street Improvement Project with WRCOG, which helped the City secure the Lights purchase and retrofit contracts.

Support for Staff Recommendations:

1. Lease Payment and Fund Balance analysis demonstrates the City's ability to service the proposed Financing.
2. The City's Unassigned Fund balance is 131% of the proposed financing.
3. City debt service as a percentage of Total Revenue is 1.57%, which is below the 15% IBank maximum for general fund financings.
4. The City's tax revenue has been growing at an average annual rate of 4.4% in the five years reviewed.
5. The blended useful life of the Lights is 22 years and the estimated life of the Fire Station is at least 30 years, both exceeding the 15 year loan term.

Special Terms and Conditions:

1. IBank Criteria, Priorities and Guidelines (ISRF Criteria), provides that contractors should be pre-qualified using the Model Questionnaire detailed in the 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 this Criteria.
2. Title Insurance Criteria: Due to the nature of one of the contemplated Leased Assets, the Lights, title insurance is not commercially available for this asset. The Lights will be protected by a UCC-1 filing and appropriate covenants, while the Fire Station will have the required title insurance.

IBank Staff:

Tom Dear

Date of Staff Report:

November 30, 2018

Date of IBank Board Meeting:

December 18, 2018

Resolution Number:

18-21

Staff Recommendation: Staff recommends approval of Resolution No. 18-21 authorizing ISRF Program Financing not to exceed \$6,500,000 to the City of Menifee for the Streetlight Purchase and Retrofit Project.

PROJECT DESCRIPTION

The City of Menifee (City) is requesting \$6,500,000 (Financing) to purchase approximately 6,300 existing high pressure sodium (HPS) lights and street poles from Southern California Edison (SCE) and to retrofit with energy efficient light-emitting diode (LED) fixtures; collectively (Lights). The project is the Streetlight Purchase and Retrofit Project (Project). The City received final approval from the California Public Utilities Commission (CPUC) on August 8, 2018 for the purchase and retrofit and is now ready to complete the transaction and upgrades. All Project Lights will be part of the Leased Assets for the financing.

The City has engaged with Siemens Industry Inc., Intelligent Traffic Systems (Siemens) to install the LED upgrades. The City estimates 1,000 Lights will be converted to LED monthly and the Project will take about six months to complete. Siemens has also been contracted with the City to provide annual and emergency maintenance for the Lights. The Siemens' contract cannot be finalized until the actual purchase of the Lights has been completed. The City understands that any management contract must comply with IBank tax covenants.

The City is completing its final inspection of the Lights; all Lights will be in acceptable condition at the time of transfer. The City will also determine the proper LED wattage for each location to maximize cost savings.

The contract for the Project was ratified by the Western Riverside Council of Governments (WRCOG). WRCOG's purpose is to unify the Western Riverside County to speak with a collective voice. WRCOG's goal is to effect cost saving by reducing duplication of effort and sharing information. It has Representatives from 18 cities (including Menifee), the Riverside County Board of Supervisors, the Eastern and Western Municipal Water Districts, and the Morongo Band of Mission Indians have seats on the WRCOG Executive Committee.

Public Benefits

California has a major initiative for reducing climate change or 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. One part of the strategy for making these reductions (as outlined in the Scoping Plan per the California Air Resource Board) is the conversion of street lights to LED fixtures as retrofitting is an affordable investment. A Citywide retrofit will result in substantial energy cost savings and greater reductions in GHG emissions. The City will save an estimated \$200,000 annually on the cost of powering these Lights and an estimated savings of \$8.2 million (M) over the next 20 years while reducing the amount of energy consumed. The City anticipates approximately four temporary jobs will be created during the installation period as a result of the Project.

Project Benefits

- LED lights can be adjusted to illuminate a specific area unlike current HPS Lights.
- The Project will decrease energy consumption and reduce greenhouse gas emissions and light pollution and light trespass (removing unwanted streetlight illumination).
- The City will be able to address and upgrade Lights that are in need of repair.
- LED fixtures have an expected useful life up to 15 years compared to the maximum life of HPS lights of 10 years.

- The LED ballast can last 10 years or more for the LED lights as compared to HPS lights that require replacement as often as every two years.
- Mitigating the light pollution into the night sky.
- LED lights do not negatively impact human and animal sleep patterns unlike HPS fixtures thus meeting American Medical Association’s recommendation for civic lighting.

CITY OF MENIFEE INFORMATION

The City is located in southwestern Riverside County and is part of the Los Angeles Combined Statistical Area (see Exhibit 1). The City was officially established on October 1, 2008 after the residents of the communities in the Menifee area voted to incorporate to form the City. Prior to incorporation, the City grew during the late 1980s and into the early 1990s as a master-planned community. In recent years there has been a substantial population growth in the City, giving the City recognition as a community with affordable housing. The City has been growing at a fast pace over the last nine years. The City’s estimated population increased 35% from fiscal year (FY) 2009 through FY 2017, with a current population listed at 91,902.

Beginning in 2010, the City has four districts (councilmembers) plus a mayor to represent the people of Menifee. These five representative are elected to a maximum of two four-year terms. The terms are staggered therefore not every seat is vacated at the same time.

The top ten employers for the City are listed in the table below. There is no single business within the City that employs greater than 2.61% of the City’s population, creating a diverse workforce and no employment concentration concerns within the City.

Top Ten Employers		
Employer	No. of Employees	% of Employees in the City
Menifee Union School District	2,400	2.61%
Mt. San Jacinto College Distict	2,100	2.29%
Romoland Elementary School District	411	0.45%
Menifee Valley Medical Center	360	0.39%
Southern California Edison	345	0.38%
Sodexo	315	0.34%
Target Corporation	280	0.30%
CAR Enterprises	260	0.28%
Perris Union School District	220	0.24%
United Parcel Service	211	0.23%
Total	6902	7.51%
Populaiton Estimate of the City of Menifee	91,902	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:	NA
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

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

CITY OF MENIFEE GENERAL FUND BALANCE SHEET										
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	\$9,764,665	71.7%	\$10,385,519	62.9%	\$11,118,090	67.7%	\$13,900,542	64.9%	\$12,531,606	57.5%
Receivables:										
Accounts, Grants and Taxes	1,931,584	14.2%	2,226,223	13.5%	2,190,682	13.3%	3,414,916	15.9%	3,630,990	16.7%
Accrued Interest	\$5,763	0.0%	\$5,521	0.0%	\$8,111	0.0%	\$64,445	0.3%	\$28,395	0.1%
Prepaid Items									64,540	0.3%
Other Current Assets										
Due from Other Governments	11,531	0.1%			944	0.0%			1,242	0.0%
Due from Other Funds	956,547	7.0%	2,928,749	17.7%	1,748,868	10.7%	1,880,909	8.8%	3,334,315	15.3%
Cash and Investments with Fiscal Agents	943,487	6.9%	973,772	5.9%	1,344,018	8.2%	2,157,016	10.1%	2,186,468	10.0%
Capital Assets, Net:										
Total Assets and Deferred Outflows of Resources	\$13,613,577	100.0%	\$16,519,784	100.0%	\$16,410,713	100.0%	\$21,419,191	100.0%	\$21,777,556	100.0%
Liabilities and Fund Balances										
Accounts Payable	4,407,468	32.4%	5,212,521	31.6%	5,668,944	34.5%	8,780,501	41.0%	6,060,341	27.8%
Accrued Liabilities	152,138	1%	200,019	1.2%	249,411	1.5%	239,218	1.1%	140,907	0.6%
Deposits Payable	1,363,976	10.0%	2,337,671	14.2%	2,200,740	13.4%	2,476,742	11.6%	2,958,799	13.6%
Total Liabilities	\$5,923,582	43.5%	\$7,750,211	46.9%	\$8,119,095	49.5%	\$11,496,461	53.7%	\$9,160,047	42.1%
Deferred Inflows of Resources										
Unavailable Revenues	133,333	1.0%	179,065	1.1%	17,205	0.1%				
Total Deferred Inflows of Resources	\$133,333	1.0%	\$179,065	1.1%	\$17,205	0.1%				
Total Liabilities and Deferred Inflows of Resources	\$6,056,915	44.5%	\$7,929,276	48.0%	\$8,136,300	49.6%	\$11,496,461	53.7%	\$9,160,047	42.1%
Net Position										
Nonspendable										
Prepaid Items									64,540	0.3%
Due From Other Funds							1,880,909	8.8%		
Long-Term Receivables					2,173,477	13.2%				
Committed To:										
Emergency Contingency	6,296,700	46.3%	6,296,700	38.1%	6,296,700	38.4%	6,296,700	29.4%	3,293,729	15.1%
City Hall	250,000	1.8%	250,000	1.5%	250,000	1.5%	250,000	1.2%	250,000	1.1%
Assigned To:										
Fire Safety	43,429	0.3%	25,836	0.2%	25,836	0.2%	43,500	0.2%	89,730	0.4%
General Operations							168,000	0.8%	357,160	1.6%
Insurance	15,000	0.1%	15,000	0.1%	15,000	0.1%	15,000	0.1%	15,000	0.1%
Unassigned	951,533	7.0%	2,002,972	12.1%	(486,600)	-3.0%	1,268,621	5.9%	8,547,350	39.2%
Total Fund Balances	\$7,556,662	55.5%	\$8,590,508	52.0%	\$8,274,413	50.4%	\$9,922,730	46.3%	\$12,617,509	57.9%
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$13,613,577	100.0%	\$16,519,784	100.0%	\$16,410,713	100.0%	\$21,419,191	100.0%	\$21,777,556	100.0%
Total Liabilities to Total Assets	0.44		0.47		0.49		0.54		0.42	
Total Fund Balance/Total Liabilities	1.28		1.11		1.02		0.86		1.38	

⁽¹⁾ Calculated as a percent of Total Assets.

Statement of Comparative Balance Sheet Analysis

The line item, Cash and Investments increased 28% over the five years reviewed, during which, the City's tax base also increased. Accounts, Grants and Taxes grew by \$2M in the same periods reviewed. Some of the various grants received were for Public Safety, Parks and Recreation, and numerous Capital Outlay projects. Including, Newport Road Widening, Safe Routes to Schools, and the Meniffee Road "Missing Link" projects.

Total Assets and Deferred Outflow of Resources, increased by \$8.1M for the five years reviewed, except for FY 2015, when there was a small decline based on unusually high amount in, Due from Other Funds, in the previous FY, as there was a single expenditure of \$1.5M to the Western Riverside Council of Government's (WRCOG) for the Transportation Uniform Mitigation Fee (TUMF) program. WRCOG is designed to ensure new development (builders) pay their fair share for the increase travel capacity by developing new roads and expanding existing roadways with the Western Riverside area.

The fee paid to WRCOG is listed as a contribution fee and the funds are to be used solely for road improvement projects, which includes street lights.

The City has three Liabilities and Fund Balance line items. The Accounts Payable line item, increased from FY 2013 through FY 2016, with a decline in FY 2017. This is indicative of the City's spending activity, which is consistent with its rapid population growth. The City recently completed several road projects, as reflected in Accounts Payable and the corresponding Capital Improvement Plan (CIP) line items.

The City shows strong cash management as indicated in the Accrued Liabilities line item. In FY 2017, this line item decreased to its lowest amount in the five years reviewed. Overall, it had little movement adjusting by about, +/- \$50,000 annually.

The Deposits Payable line item increased by \$1.6M during the five years reviewed, with the exception of FY 2015, showing a lower amount than the year before. Which is consistent with higher development activity within the City.

Overall, Total Liabilities increased by 54.6% in the five years reviewed. FY 2016, in particular, showed the highest increase. This was primarily due to higher development activity within the City, which resulted in significantly higher Accounts Payable figures as the City processed its billing as expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Unassigned funds grew nearly \$8M in the same periods reviewed, the growth in this fund indicates the City is receiving more revenue than its expenditures. The City also reduced the Emergency Contingency (EC) line item by \$3M, as a way to access funds to meet its current needs. The decision to reduce the EC funds was based on a combination of the City's Fund Balance Flow Assumption and the increased balance in the Unassigned fund. This led the City to decrease its EC and still met its internal guidelines for specific Fund balances.

The Total Fund Balance increased every year except for FY 2015. This decline is due to the before mentioned payment to WRCOG. The Funds were listed as a Due to Other Funds in FY 2014. The actual cash transfer took place in FY 2015. This transfer decreased the Unassigned Fund balance to a deficit of (\$486,600). Unassigned Funds was brought back to a positive balance in FY 2016.

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

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

CITY OF MENIFEE GENERAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND 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		17.12%		6.49%		12.63%		10.28%
Revenues										
Taxes	\$16,572,032	76.1%	\$18,227,583	69.4%	\$20,275,656	72.2%	\$21,802,377	67.8%	\$24,036,026	67.1%
Licenses and Permits	2,627,988	12.1%	6,330,389	24.1%	5,463,643	19.5%	6,832,170	21.3%	8,061,714	22.5%
Intergovernmental	2,023,022	9.3%	1,003,805	3.8%	1,088,871	3.9%	1,150,509	3.6%	1,160,229	3.2%
Charges for Services	98,707	0.5%	167,830	0.6%	658,972	2.3%	1,630,272	5.1%	1,761,513	4.9%
Use of Money and Property	16,133	0.1%	39,607	0.2%	45,371	0.2%	101,376	0.3%	60,521	0.2%
Fines and Forfeitures	407,637	1.9%	447,996	1.7%	502,613	1.8%	553,986	1.7%	655,544	1.8%
Miscellaneous	23,185	0.1%	48,677	0.2%	54,509	0.2%	77,778	0.2%	95,359	0.3%
Total Revenues	\$21,768,704	100.0%	\$26,265,887	100.0%	\$28,089,635	100.0%	\$32,148,468	100.0%	\$35,830,906	100.0%
Expenditures										
Current:										
General Government	2,660,945	12.2%	2,786,570	10.6%	3,444,001	12.3%	3,975,759	12.4%	4,698,962	13.1%
Public Safety	15,553,977	71.5%	16,650,813	63.4%	18,636,462	66.3%	20,000,283	62.2%	20,700,370	57.8%
Community Development	2,500,826	11.5%	3,126,267	11.9%	2,838,474	10.1%	3,154,443	9.8%	3,643,590	10.2%
Parks and Recreation	684,333	3.1%	447,344	1.7%	738,494	2.6%	770,053	2.4%	822,646	2.3%
Engineering and Public Works	1,490,649	6.8%	2,154,663	8.2%	2,656,107	9.5%	2,532,173	7.9%	3,378,499	9.4%
Capital Outlay	422,520	1.9%	367,264	1.4%	60,021	0.2%			32,387	0.1%
Total Expenditures	\$23,313,250	107.1%	\$25,532,921	97.2%	\$28,373,559	101.0%	\$30,432,711	94.7%	\$33,276,454	92.9%
Excess (Deficiency) of Revenues Over (Under) Expenditures	(\$1,544,546)	-7.1%	\$732,966	2.8%	(\$283,924)	-1.0%	\$1,715,757	5.3%	\$2,554,452	7.1%
Other Financing Sources (Uses)										
Transfer Ins	196,320		300,880		115,040				140,327	
Transfer Outs	(402,715)				(147,211)		(67,440)			
Net Change in Fund Balance	(\$1,750,941)		\$1,033,846		(\$316,095)		\$1,648,317		\$2,694,779	
Fund Balance, Beginning of Year	\$9,307,603		\$7,556,662		\$8,590,508		\$8,274,413		\$9,922,730	
Prior Year Adjustment										
Fund Balance, End of Year	\$7,556,662		\$8,590,508		\$8,274,413		\$9,922,730		\$12,617,509	

⁽¹⁾ Calculated as a percent of Total Revenues

The City lists seven sources of revenue, the largest being Taxes (property and sales), which accounts for approximately 70% of all revenue. The Taxes line item increased by 45% over the five years reviewed. The Licenses and Permits line item, second largest revenue source, also increased in the five years reviewed, with a balance increase of \$5.5M. The increase in these two revenue streams is consistent with the recent rapid growth of the City.

All other revenue sources, with the exception of Intergovernmental, increased throughout the five years reviewed. The increases are consistent for a growing community that is experiencing an increasing tax-base of new homes and businesses. As shown, Intergovernmental highest balance was in FY 2013. The balance decreased in FY 2014, but increased again in the following three years.

Total Revenue increased by 65% in five years reviewed, for a total of \$14M. This is primarily due to the growing tax base of the City.

The City has six expenditure categories, five of the six grew over the five years reviewed. Capital Outlay was the only expenditure that showed a decline, with zero amount posting in FY 2016 and a nominal posting in FY 2017. As previously referenced, in the Statement of Comparative Balance Sheet Analysis, the City experienced a lull in its infrastructure development, this lack of activity is reflected in the Capital Outlay line item.

Overall, Total Expenditures grew 46% from FY 2013 through FY 2017, the growth in expenditures is also related to the City's population increase and the need to expand City services. The increase in Total Expenditures is less than the growth in Total Revenues in the reviewed periods, demonstrating the City's control on its spending.

The City had both Operating Transfers In and Operating Transfers Out, in all five years reviewed. The Transfers In annually averaged approximately \$150,000, while the Transfers Out annually averaged approximately \$1.2M. These transactions are an internal City adjustment between funds; typically the activities, both Transfers In and Transfers Out, are adjustments with the Non-Major Government Funds for support of infrastructure spending.

Net Change in Fund Balance increased three out of the four most recent years reviewed. The two years that showed deficits, were FYs 2013 and 2015. This was due to the City's overestimating property tax revenue and spending some of its equity on various services such as Public Safety. FY 2015 deficit is due to the one-time payment of \$1.5M to WRCOG.

The City's Fund Balance increased by \$3.3M over the five years reviewed. This growth is again attributed to the increase in City's tax base and control on spending.

Statement of Lease Payment and Fund Balance:

Lease Payment and Fund Balance Analysis					
	2013	2014	2015	2016	2017
Net Change in Fund Balance	(\$1,750,941)	\$1,033,846	(\$316,095)	\$1,648,317	\$2,694,779
Adjustments Specific to the Transactions					
Annual Maintenance Cost of Street Lights 6,300 x \$18.60	(117,180)	(117,180)	(117,180)	(117,180)	(117,180)
Annual Extraordinary Maintenance 7 poles x \$6,483	(45,381)	(45,381)	(45,381)	(45,381)	(45,381)
Total Adjustments	(162,561)	(162,561)	(162,561)	(162,561)	(162,561)
Adjustments to Excess (Deficiency) of Revenues					
Proposed ISRF Lease Payment *	561,344	561,344	561,344	561,344	561,344
Other MADS General Fund Obligations	0	0	0	0	0
Revised Net Change in Funds Balance with ISRF Lease Payment	(\$2,474,846)	\$309,941	(\$1,040,000)	\$924,412	\$1,970,874

* Calculated at \$6,500,000 at 3.10% interest rate for 15 years.

Analysis of the historical cash flow over the last five years demonstrates the City has the capacity to service the proposed Financing in three of the years reviewed. Annual Maintenance and Extraordinary Maintenance cost were calculated and included within the cash flow, as the City will now be responsible for the yearly maintenance of the Lights. In FY 2013 property taxes underperformed expectations and the City used equity to cover cost rather than decreasing City services. In FY 2015 there was a one-time expenditure of \$1.5M to the WRCOG for the Transportation Uniform Mitigation Fee.

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 four of the last five years. FY 2013 was the single year that underperformed its budget. According to the City property taxes unexpectedly declined by 4.13% comparing to previous year's value.

Revenues Budget				
Year	Orginal	Final	Actual	Difference between Final and Actual
2013	\$23,383,616	\$23,005,688	\$21,768,704	(\$1,236,984)
2014	\$22,633,060	\$25,738,560	\$26,265,887	\$527,327
2015	\$27,598,244	\$26,868,318	\$28,089,635	\$1,221,317
2016	\$29,091,057	\$30,678,166	\$32,148,468	\$1,470,302
2017	\$29,799,159	\$29,939,159	\$35,830,906	\$5,891,747

The table below indicates the City controls spending by deferring some spending decisions towards the end of the fiscal year; this ensures the City is fully informed and has met other immediate obligations prior to proceeding with projects. FY 2015 is the only year where actual expenditures were greater than planned. It appears the City's Original Budget values were much closer to the Final Budget. The combined line items of General Government and Public Safety exceeded the plan by nearly \$1M, while Community Development and Capital Outlay performed better than planned, helping to offset the total expenses.

Expenses Budget				
Year	Orginal	Final	Actual	Difference between Final and Actual
2013	\$24,069,207	\$26,074,595	\$23,313,250	(\$2,761,345)
2014	\$23,758,887	\$26,352,201	\$25,532,921	(\$819,280)
2015	\$27,857,988	\$28,064,171	\$28,373,559	\$309,388
2016	\$29,166,057	\$31,089,200	\$30,432,711	(\$656,489)
2017	\$32,214,119	\$34,874,940	\$33,276,454	(\$1,598,486)

Pension Plan

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (Plan) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all other).

The City's Plan Funded Status has improved, as compared to FY 2016; it improved from 87.4% to 90.6% in FY in 2017. The dollar amount of the Unfunded Accrued Liability (UAL) went from \$530,154 in 2016 to \$489,889 in 2017. The decreased UAL is the result of an increase in the employer contributions to the Plan.

Operating Lease

On October 1, 2008, the City entered into a five-year operating lease for City Hall, which expired on March 31, 2014. On April 1, 2014 the City exercised a five-year extension which will expire on March 31, 2019. The lease agreement calls for an annual rent increase based on the Cost of Living Index established by the bureau of Labor Statistics. Lease payments consisted of \$13,161 per month for the period July 2014 through March 2015 and adjusted to \$13,538 for CIP for the period April 2015 through June 2015. The total lease payments for the year were \$159,066. This expense is included in the line item of General Government.

Analysis of the Proposed Leased Assets

The City proposes to finance the Project under a lease/lease-back financing agreement. The Leased Assets under the lease/lease-back financing will be 1) the Lights and 2) the Menifee Fire Station 5 - Quail Valley (Fire Station).

To determine the value of the Lights, IBank used the ratified purchase price of the Lights to establish the current value.

The Fire Station is approximately 2,200 square feet (SF). Based upon comparable commercial properties within the City a minimum SF price was determined to be approximately \$369.00. The table below identifies the value of the Leased Assets, which includes the Lights and the Fire Station.

Name of Asset	Year Built	Building Size Square Feet (SF)	Approximate Price Per SF	Estimate of Value	Square Footage Needed for Security	Value of Security
Menifee Fire Station 5 - Quail Valley Fire Station	2013	2,200	\$360.00	\$792,000	2,200	\$792,000
6,300 Streetlights				\$6,148,873		\$6,148,873
Total of all Leased Assets						\$6,940,873
Lease Amount						\$6,500,000
Value-to-Lease						107%

Staff has not yet reviewed a Preliminary Report (Prelim) for the Fire Station. The City states the Fire Station property is a fee simple title held by the City. The City expects the Prelim will reflect the standard encumbrances for property taxes, supplemental taxes, water rights, and easements for utility purposes; these exceptions are all customary, reasonable, and acceptable to IBank. Approval of the Prelim will be a condition of the financing prior to closing.

Risk Assessment

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

1. This is a leasehold interest on Leased Assets 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 Assets.
3. In the event of payment default, IBank must either pursue annually damages equal to past due lease payments, or pursue an unlawful detainer remedy, regain possession of the Leased Assets, and re-let them.

Mitigation Factors:

1. The Borrower will covenant against permitting additional encumbrances against the Leased Assets.
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 Assets 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 Assets.
5. Title insurance is not commercially available for the Lights. IBank will protect the priority of its interest in this Leased Asset by filing a UCC-1 Financing Statement. The Borrower will obtain a title insurance policy on IBank's behalf for IBank's leasehold interest in the Fire Station.

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 two requests for exceptions to the ISRF Criteria.

1. The Contractor Criteria: The request to waive the provision that provides contractors should be pre-qualified using the Model Questionnaire detailed in the 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.

2. Title Insurance Criteria: Due to the nature of one of the contemplated Leased Assets, the Lights, title insurance is not commercially available for this asset. The priority of IBank's leasehold interest in the Lights will be protected by filing a UCC – 1 Financing Statement, while the Fire Station will have the required title insurance.
 - The total General Fund obligation (inclusive of the Financing) is less than 15% of the City's Total Revenues for FY 2017.
 - The Leased Assets consist of 1) the Lights, and 2) Fire Station, 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 15 year term financing.

STAFF RECOMMENDATION

Staff recommends approval of Resolution No. 18-21 authorizing ISRF Program financing to the City of Menifee (City) for the Streetlight Purchase and Retrofit Project (Project) as follows:

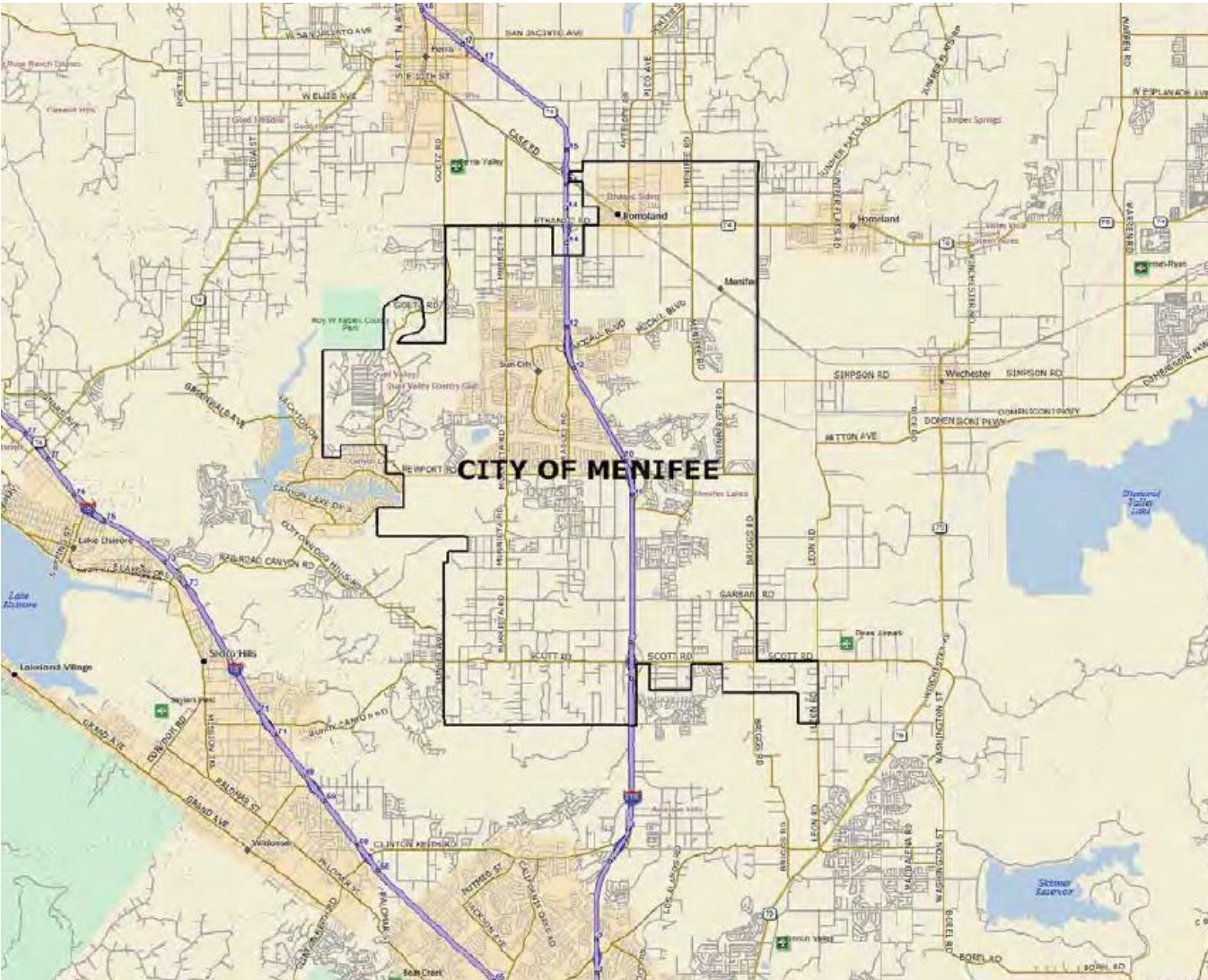
1. **Applicant/Borrower:** City of Menifee
2. **Project:** Streetlight Purchase and Retrofit Project
3. **Amount of ISRF Program Lease:** \$6,500,000
4. **Maturity:** Not to exceed 15 years
5. **Repayment/Leased Assets:** General Fund Lease provides IBank with a leasehold interest on 1) all City street lights related to this transaction and purchased from SCE, including light poles, fixtures, and all other equipment attached to the poles and 2) the Menifee Fire Station 5 - Quail Valley (Leased Assets).
6. **Interest Rate:** 3.10%
7. **Fees:** The City to pay the origination fee of 1.00%, \$65,000 upon loan closing, and an annual fee of 0.30% of the outstanding balance.
8. **Not an Unconditional Commitment:** IBank's resolution shall not be construed as 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 an ISRF Program financing agreement(s), in form and substance satisfactory to IBank.
9. **Limited Time:** The Board's approval expires 120 days from the date of its adoption. Thus, the City and IBank must enter into the ISRF Program financing agreement(s) no later than 120 days from such date. Once the approval has expired, there can be no assurances that IBank will be able to provide the ISRF Program financing or consider extending the approval period.
10. **ISRF Program Financing Agreement Covenants:** Aside from usual and customary terms and conditions for this type of ISRF Program financing, Staff recommends IBank's ISRF Program financing agreement(s) include 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 Assets.
 - d. Not encumber further the Leased Assets.
 - e. Provide to IBank, within 180 days of the end of each fiscal year, a copy of its audited financial statements, together with an annual certificate demonstrating compliance with the foregoing covenants, as well as other information as IBank may request from time to time.
 - f. City to provide IBank with satisfactory evidence that it has obtained commercially reasonable equipment and labor warranties and those installers demonstrate the ability to fulfill warranty obligations.

Exhibit 1 –Location of Menifee



Source: Google Maps

Exhibit 2 – City of Menifee City Limits



Source: Google Maps

Exhibit 3 – Quail Valley Fire Station



Source: CalFire's Website