

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)
INFRASTRUCTURE STATE REVOLVING FUND PROGRAM (ISRF)**

STAFF REPORT

EXECUTIVE SUMMARY

Applicant: City of Santa Cruz (City)	Amount Requested: \$14,130,000	Term Requested: 10 years	Interest Rate⁽¹⁾: 1.73%	Project Type: <input checked="" type="checkbox"/> Infrastructure Project <input type="checkbox"/> Economic Expansion Project
Repayment Source: General Fund			Rating: 2007 Lease Revenue Bonds, AA	
Repayment/Security: Repayment will be made from the City's General Fund. The requested financing will be secured by a Financing Lease (Financing Lease) between the IBank and the City. The Financing Lease will provide the IBank with a leasehold interest on the City's Civic Center (Leased Asset), as security.				
Other Covenants: <ol style="list-style-type: none"> 1. City to budget and appropriate funds sufficient to make annual lease payments. 2. 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. 3. City to procure CLTA or ALTA title insurance policy. 4. City to restrict against future encumbrances of the Leased Asset. 5. City to maintain a general fund reserve account that provides a two-month operating reserve. 				
Project Name: A Portion of the City-wide Road Improvements Project (Roads Project)			Project Location: Various roads within the City (Attachment 1)	
Project Description: The Roads Project consists of pavement reconstruction, overlay, cape and slurry seal, and asphalt grinding of City arterial and collector roads. See Attachment 1 of this Staff Report for a list of targeted roads and a map.				
Use of Financing Proceeds: The proceeds of the Financing Lease will be used to fund the reconstruction and rehabilitation of City roads.				
Roads Project Sources and Uses:				
	Project Uses		Project Sources	
		IBank	City	Total
	Construction & Contingency	\$13,988,700	\$5,769,087	\$19,757,787
	Origination Fee	\$141,300		\$141,300
	Total	\$14,130,000	\$5,769,087	\$19,899,087
IBank Staff: Tad Thomas and Diane Cummings			Date of Staff Report: 10/15/2014	
Date of IBank Board Meeting: November 18, 2014			Resolution Number: 14-16	
Staff Recommendation: Staff recommends approval of Resolution No. 14-16 authorizing financing to the City of Santa Cruz for A Portion of the City-wide Road Improvements Project.				

⁽¹⁾As of August 11, 2014

EXECUTIVE SUMMARY OF PROJECT AND CREDIT

The City of Santa Cruz (City) requests a Financing Lease (Financing Lease) in the amount of \$14,130,000 to fund a Portion of the City-wide Road Improvements Project (Roads Project). The Roads Project consists of pavement reconstruction, overlay, cape and slurry seal, and asphalt grinding of more than 1,020 City arterial and collector road segments at various locations throughout the City. Some planned improvements are maintenance, while others are capital improvements. The Financing Lease will provide funding only for capital improvements. Attachment 1 identifies capital improvements totaling approximately \$19.8 million of which the Financing Lease will fund \$14.1M. Construction of curb ramps, sidewalks, and gutters may also be required as well as construction to make adjustments to grade. The Roads Project may also include the installation of pavement markings, traffic detectors, and improvements to comply with the Americans with Disabilities Act.

The City used a 2013-14 Pavement Management Program Update Report (Report) to identify and prioritize roads needing rehabilitation. The Report estimated the cost to rehabilitation of City roads in their present condition, as well as the cost of rehabilitation if work is delayed. The Report concludes it is less costly to rehabilitate roads in a fair condition than delaying rehabilitation of such work until the roads fall into a poor or very poor condition.

The City's General Fund (General Fund) will be used as the repayment source for the City's obligations under the Financing Lease under a lease-lease back financing structure. The City has identified the Civic Auditorium (Leased Asset) as the subject of the Financing Lease.

Security:	Leasehold interest on the Leased Asset
Financing Lease Amount:	\$14,130,000
Term:	10 years
Interest Rate:	1.73%
IBank Fee:	\$141,300

The historical balances and activities of the General Fund indicate an ability to make financing payments as demonstrated in the following table:

City of Santa Cruz					
Lease Payment and Fund Balance Analysis					
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Net Change in Fund Balance (Actual)	(5,134,288)	\$3,073,903	\$1,068,491	\$4,673,690	\$4,523,273
Add back Bond Issuance Costs (One time event)			\$1,141,628	\$0	\$0
Add back forgiven advance to Golf Enterprise (One time event)			\$2,400,000	\$0	\$0
Revised Net Change in Fund Balance	(5,134,288)	\$3,073,903	\$4,610,119	\$4,673,690	\$4,523,273
Proposed ISRF Lease Payments	\$1,581,994	\$1,581,994	\$1,581,994	\$1,581,994	\$1,581,994
Revised Net Change in Fund Balance with ISRF Payment	(6,716,282)	\$1,491,909	\$3,028,125	\$3,091,696	\$2,941,279

The proposed Leased Asset is identified in the following table:

Valuation of Leased Asset								
Name of Asset	Address	APN	Year Built	Building Size (sf)*	Type of Construction	Improvement Replacement Value	Apportioned Land Value	Estimate of Value
Civic Auditorium	307 Church Street	005-071-06	1939	34,739	Class B (concrete)	\$13,399,584	\$2,635,995	\$16,035,579
Lease Value								\$14,130,000
Value-to-lease								1.13

*Square Feet (sf)

RECOMMENDATION

Staff recommends Board approval of the \$14,130,000 Financing Lease request by the City of Santa Cruz for the following reasons:

1. Delaying road improvements will increase the eventual cost of rehabilitations to the City.
2. The General Fund demonstrates the ability to make payments on the proposed Financing Lease.
 - a. General Fund in the form of all taxes received is trending upward.
 - b. Total Assets, significantly Cash and Investments, are trending upward.
 - c. Total Liabilities are relatively flat.
 - d. Unassigned Fund Balance is increasing.
 - e. Unassigned Fund Balance is fully covered by Cash and Investments.
3. On August 5, 2014, Fitch Ratings affirmed the following Santa Cruz Public Financing.
4. Authority, CA bond ratings:
 - a. 2007 lease revenue bonds at 'AA'.
 - b. Implied general obligation (GO) bond rating at AA+.
 - c. The Rating Outlook Stable.
 - d. Fitch Ratings noted the City's sound financial operations, the City's emphasis on expenditure control, its mature and diverse economic and tax base, and a sound debt profile.
5. The Leased Asset proposed as subject of the lease provide 113% lien coverage.

PROJECT DESCRIPTION

The City of Santa Cruz (City) requests a Financing Lease (Financing Lease) in the amount of \$14,130,000 to fund a Portion of the City-wide Road Improvements Project (Roads Project). The Roads Project consists of pavement reconstruction, overlay, cape and slurry seal, and asphalt grinding of more than 1,020 City arterial and collector road segments at various locations throughout the City. Some planned improvements are maintenance, while others are capital improvements. The Financing Lease will provide funding only for capital improvements. Attachment 1 identifies capital improvements totaling approximately \$19.8 million of which the Financing Lease will fund \$14.1 million. The final list of road segments to be improved and financed will be determined prior to entry into the Financing Lease. Construction of curb ramps, sidewalks, and gutters may also be required as well as construction to make adjustments to grade. The Roads Project may also include the installation of pavement markings, traffic detectors, and improvements to comply with the Americans with Disabilities Act.

Background

The City uses a pavement management program database named “StreetSaver” to monitor road conditions and help identify which roads require rehabilitation or reconstruction. In 2013, the City engaged NCE, a consulting and engineering services firm that specializes in the design and construction of infrastructure, to assess existing road conditions and to update StreetSaver. Through site surveys performed throughout the City, NCE evaluated approximately 135.3 miles of pavement network, equating to 1,020 road segments. NCE compiled its findings in its draft *2013-14 Pavement Management Program Update Report* (Report), which was provided to the City.

The Report helped the City assess the overall condition of the road network and to consider options to improve the current network pavement condition index (PCI). PCI is a pavement management system developed by the US Army Corps of Engineers in the 1970’s; a rating methodology still widely used by transportation civil engineers. The PCI system is used to classify several pavement distress types and assigns a PCI based upon the density (area affected) and severity of the observed distress. The PCI scale ranges between 100 and 0. A PCI of 100 represents a pavement completely free of distress. A PCI of 0 corresponds to a pavement that has failed completely and can no longer be driven safely at the designed speed. The following table provides a condition rating for each PCI range according to severity:

Pavement Condition Rating (PCR)	Pavement Condition Index (PCI)
Good	86-100
Satisfactory	71-85
Fair	56-70
Poor	41-55
Very Poor	26-40
Serious / Failed	0-25

The Report reflects that NCE calculated an average PCI of 62 for the City’s entire road network, indicating that the City’s roads are in “Fair” condition. The Report continues, “... if no

further funding were allocated to pavements, the network would reach “Very Poor/Failed condition in approximately 17 years.” Twenty-eight percent of the entire network is rated “Poor”, “Very Poor”, and “Failed”; and 30% of the entire network is rated “Fair”. The Report further explains that it costs much less to rehabilitate roads in good condition than to rehabilitate roads that have failed. Significant delays in rehabilitation have been shown to result in “Failed” roads and costs 30 times greater than would have been incurred if the roads had been rehabilitated while still in “Fair” to “Good” condition.

Using StreetSaver’s budget module, NCE was able to develop multiple scenarios for road improvements by altering the PCI, deferred maintenance, and average remaining service life of the many network roads. City staff and the City Council then prioritized the roads needing rehabilitation and the following road network budget was developed.

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
PCI Untreated	62	59	57	55	53	51	49	47	45	43	
PCI Treated	74	73	74	74	75	74	74	74	73	73	
Needs (\$millions)	26.7	7.0	7.9	7.2	7.4	3.7	4.6	2.7	6.3	6.1	79.6

NCE identified \$26.7 million in road improvements needed in 2014, and an additional \$52.9 million in road improvements needed through 2023. NCE states in the Report that if the City follows the recommended strategy, the condition of the road network will increase to a PCI of 73 by 2023; but if not adopted, the average condition of the road network PCI would decline to 43 in 10 years.

The requested Financing Lease will provide funding in the amount of \$14,130,000 to be used for pavement rehabilitation needed by the City and identified through the process described above. The City plans to use other sources of funding, such as State Gas Tax and Federal Transportation Grants, to pay for remaining improvements.

Public Benefits of the Roads Project

The Roads Project is needed to implement a cost-effective funding and rehabilitation strategy to correct deficiencies. The City will realize several benefits from the Roads Project including improved safety for vehicle and pedestrian traffic, improved transportation avenues for the public and commerce, increased citizen satisfaction with the condition of the road network as evidenced by a decline in citizen complaints, and a reduction in long-term road rehabilitation costs.

GENERAL CITY OF SANTA CRUZ INFORMATION

The City was settled in 1769 and incorporated in 1866. It received its first charter in 1876. Located on the northern edge of Monterey Bay, approximately 74 miles south of San Francisco and 30 miles from San Jose, the City today occupies approximately 12 square miles and has a population of 63,440 persons per the U.S. Census Bureau. The City is the county seat for the County of Santa Cruz and home to the University of California, Santa Cruz.

The City adopted its current charter in 1948. This charter established a Council-Manager form of government. Policy-making and legislative authority are vested in a seven member governing council consisting of the mayor and six council members. The City Council is

responsible, among other things, for passing ordinances, adopting the budget, approving nominees to commissions, and hiring the City Manager, City Clerk, and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments. The council is elected on a non-partisan basis. Council members serve four-year staggered terms, with either three or four council members elected every two years. The mayor is selected by a majority of the City Council and serves a one-year term. The mayor and council members are elected at large and all are subject to two term limits.

The City provides a broad range of services including police and fire protection, construction and road improvements, parks, flood control and other infrastructure, a wharf facility, recreational and cultural activities including a performing arts center and human services programs. It also operates municipal utilities for water, wastewater, and storm water, refuse collection, recycling and landfill disposal in addition to self-supporting enterprise operations for parking and a golf course. The water utility provides water service beyond the municipal boundaries and has a total service population of approximately 90,000. Until most recently, the City had a number of community development activities within the Santa Cruz Redevelopment Agency that has since been eliminated.

CREDIT ANALYSIS

Source of Repayment

The City proposes to use its General Fund (General Fund) as the repayment source for the proposed Financing Lease. The City has identified the Civic Auditorium (Leased Asset) as the subject of the Financing Lease.

Analysis of the Proposed Leased Asset

The following table lists data on the Leased Asset:

Valuation of Leased Asset								
Name of Asset	Address	APN	Year Built	Building Size (sf)*	Type of Construction	Improvement Replacement Value	Apportioned Land Value	Estimate of Value
Civic Auditorium	307 Church Street	005-071-06	1939	34,739	Class B (concrete)	\$13,399,584	\$2,635,995	\$16,035,579
Lease Value								\$14,130,000
Value-to-lease								113%

The table above reflects the land value and replacement cost (Valuation) of the improvement proposed to be the subject of the lease. As demonstrated in the above table, the proposed asset provides 113% coverage for the proposed Financing Lease.

The City submitted a completed Comprehensive Environmental Survey (CES) for the proposed Leased Asset. Staff’s review of the CES found no potential environmental hazards on the proposed leased asset. Staff also received and reviewed a preliminary title report (Prelim) for the Leased Asset. The Prelim reflects fee simple title to the property held by the City; all exceptions are customary, reasonable, and acceptable to IBank.

Risk Assessment

Primary risks with this financing structure are as follows:

1. City is not prohibited from incurring additional obligations payable from the General Fund.
2. Security is a leasehold interest on the Leased Asset and not a lien on the General Fund.
3. Rental Payments to the IBank (designed to match debt service) are subject to abatement (with amount of abatement being proportionate to the extent of the interference) so long as there is substantial interference with the City's use or availability for use of any portion of the Leased Asset.
4. Acceleration in the event of default by the City is prohibited. Thus, in the event of payment default, IBank must annually pursue a remedy of compelling past due Lease Financing payments.

Mitigating factors:

1. The City must include all obligations in its annual budget.
2. Although the security is a leasehold interest, the City will covenant to annually budget the required Lease Financing payments from all General Fund revenues providing a broad source of funds and greater flexibility to the City to meet the required Lease Financing obligations.
3. The City will covenant to procure rental interruption insurance for the Leased Asset so that in the event of abatement, such insurance would cover abated rental payments for a period of at least six months beyond the period required to rebuild the Leased Asset.

Comparative Balance Sheets

Staff's spread of the City's General Fund Balance Sheets for the past five fiscal years is presented below:

City of Santa Cruz Balance Sheet										
For Fiscal Year Ending (FYE) June 30,	2009		2010		2011		2012		2013	
Cash and investments	10,733,823	43.5%	14,508,479	53.3%	18,126,982	64.3%	22,619,633	67.0%	22,906,339	59.5%
Interest receivable	44,543	0.2%	41,702	0.2%	48,714	0.2%	47,021	0.1%	42,388	0.1%
Taxes receivable	3,338,221	13.5%	3,895,106	14.3%	5,152,967	18.3%	5,868,116	17.4%	5,783,239	15.0%
Accounts receivable-net	2,098,619	8.5%	1,247,367	4.6%	987,101	3.5%	1,223,541	3.6%	1,233,307	3.2%
Due from other governments	187,444	0.8%	362,093	1.3%	184,458	0.7%	506,041	1.5%	49,961	0.1%
Due from other funds	1,118,537	4.5%	1,329,543	4.9%	467,291	1.7%	288,066	0.9%	1,424,270	3.7%
Prepaid items	59,716	0.2%	32,928	0.1%	49,911	0.2%	63,852	0.2%	34,072	0.1%
Deposits	70,233	0.3%	70,304	0.3%	70,374	0.2%	70,430	0.2%	70,449	0.2%
Notes receivable-net	178,372	0.7%	178,357	0.7%	179,842	0.6%	183,427	0.5%	4,077,715	10.6%
Loans receivable-net	430,150	1.7%	391,140	1.4%	350,179	1.2%	307,170	0.9%	302,011	0.8%
Advances to other funds	6,426,080	26.0%	5,179,219	19.0%	2,586,450	9.2%	2,586,450	7.7%	2,586,450	6.7%
Total Assets	\$24,685,738	100.0%	\$27,236,238	100.0%	\$28,204,269	100.0%	\$33,763,747	100.0%	\$38,510,201	100.0%
Liabilities and Fund Balance										
Liabilities										
Accounts payable and other current liabilities	3,916,015	15.9%	\$3,384,440	12.4%	\$2,071,528	7.3%	\$2,784,143	8.2%	2,934,475	7.6%
Intergovernmental payable		0.0%	\$25,106							
Deferred revenue/Unavailable revenue	89,836	0.4%	93,403	0.3%	366,910	1.3%	483,883	1.4%	529,282	1.4%
Unearned revenue	32,850	0.1%	32,850	0.1%	32,850	0.1%	32,850	0.1%	28,014	0.1%
Deposits payable	122,376	0.5%	101,875	0.4%	201,126	0.7%	257,326	0.8%	289,612	0.8%
Total Liabilities	4,161,077	16.9%	3,637,674	13.3%	\$2,672,414	9.5%	\$3,558,202	10.5%	\$3,781,383	9.8%
Fund Balance										
Non-spendable:										
Encumbrances			\$699,668	2.6%						
Interfund advances	816,939	3.3%						\$2,586,450	6.7%	
Noncurrent receivables and advances	6,950,467	28.2%	5,655,314	20.8%	3,059,354	10.8%	3,073,463	9.1%	\$4,207,379	10.9%
Prepaid items	59,716	0.2%	32,928	0.1%	49,911	0.2%	63,852	0.2%	\$34,072	0.1%
Restricted:										
General Plan Update	811,080	3.3%	\$734,973							
Hardship grants	300,142	1.2%	303,782	1.1%	306,299	1.1%	274,091	0.8%	269,242	0.7%
Committed/Unreserved designated	4,709,120	19.1%	6,240,772	22.9%	6,219,767	22.1%	5,652,554	16.7%	1,663,978	4.3%
Assigned		0.0%		0.0%	2,861,159	10.1%	3,154,526	9.3%	3,978,567	10.3%
Unassigned/Unreserved, undesignated	6,877,197	27.9%	9,931,127	36.5%	13,035,365	46.2%	17,987,059	53.3%	21,989,130	57.1%
Total Fund Balance	20,524,661	83.1%	23,598,564	81.4%	25,531,855	90.5%	30,205,545	89.5%	34,728,818	90.2%
Total Liabilities and Fund Balance	\$24,685,738	100.0%	\$27,236,238	94.6%	\$28,204,269	100.0%	\$33,763,747	100.0%	\$38,510,201	100.0%
Total Liabilities to Total Assets	0.17		0.13		0.09		0.11		0.10	
Total Fund Balance to Total Assets	0.83		0.87		0.91		0.89		0.90	
Total Fund Balance/Total Liabilities	4.93		6.49		9.55		8.49		9.18	

The spread of the Comparative Balance Sheet above reflects growth in Total Assets year-over-year for total growth of 56% between FYs 2009 and 2013. Growth in the five years analyzed occurred primarily in Cash and Investments, 113.4%; Due from Other Funds 27.3%; and Notes Receivable (Net), 2,186%. Notes Receivable increased substantially due to a \$4.1 million loan provided to the Warriors Sports franchise to construct a new sports facility in downtown Santa Cruz in FY 2013. The Warrior's loan accrues interest at 3% per annum and matures September 17, 2019. The Warriors have paid down the note in the amount of \$272,250, leaving a balance in the amount of \$3,801,751.

Total Liabilities declined by 9.1% and remained relatively flat as a percentage of Total Assets. Liabilities are centered in Accounts Payable and Other Current Liabilities, which represent approximately 8% of Total Assets.

As a result of the changes discussed above, the Total Fund Balance grew 69.2% over the five years analyzed, with Total Fund Balance at 90% of the Total Assets in FY 2013. Over the past three years, Committed Funds declined as the City fulfilled its contractual obligations. Unassigned Fund balance experienced the largest growth increasing 219.7% between FY

2009 and FY 2013. The FY 2013 Unassigned Fund balance of \$21.9 million is 31.3% of the total General Fund expenditures in the same year. Such funds are available to address current and proposed expenditures.

Comparative Statement of Revenues, Expenditures, and Changes in Fund Balances

Staff's spread of the City's Statement of Revenues, Expenditures, and Changes in Fund Balances for the past five fiscal years follows:

City of Santa Cruz											
Statement of Revenues, Expenditures and Changes in Fund Balances											
For Fiscal Year Ending (FYE) June 30,	2009		2010		2011		2012		2013		
Source:	CAFR		CAFR		CAFR		CAFR		CAFR		
Revenues											
Taxes	\$45,830,628	61.7%	\$44,230,855	58.9%	\$47,258,855	60.7%	\$49,513,758	68.9%	\$54,713,203	71.6%	
Licenses and permits	648,785	0.9%	540,411	0.7%	585,203	0.8%	676,571	0.9%	886,624	1.2%	
Intergovernmental	580,477	0.8%	1,363,794	1.8%	1,690,519	2.2%	1,880,388	2.6%	493,617	0.6%	
Charges for services	21,574,770	29.0%	21,044,223	28.0%	20,856,471	26.8%	12,403,522	17.3%	13,569,748	17.8%	
Fines and forfeitures	2,243,843	3.0%	2,321,756	3.1%	2,094,246	2.7%	1,892,336	2.6%	1,818,773	2.4%	
Use of money and property	2,772,858	3.7%	4,853,186	6.5%	4,950,464	6.4%	5,084,755	7.1%	4,541,253	5.9%	
Other revenues	646,573	0.9%	698,525	0.9%	477,169	0.6%	377,081	0.5%	340,839	0.4%	
Total Revenues	74,297,934	100%	75,052,750	100%	\$77,912,927	100%	\$71,828,411	100%	\$76,364,057	100%	
Expenditures											
General government	14568766	19.6%	13,765,834	18.3%	13,562,217	17.4%	14,468,366	20.1%	15,453,481	20.2%	
Public safety	36325172	48.9%	33,801,383	45.0%	55,764,374	71.6%	32,681,088	45.5%	33,888,273	44.4%	
Parks and recreation	9906360	13.3%	8,309,864	11.1%	8,046,410	10.3%	8,739,970	12.2%	9,575,209	12.5%	
Library	10193470	13.7%	8,912,467	11.9%	8,906,153	11.4%	1,394,751	1.9%	1,394,751	1.8%	
Public Works	4793841	6.5%	4,115,520	5.5%	4,213,213	5.4%	4,439,345	6.2%	4,853,939	6.4%	
Community and economic development	1099546	1.5%	1,306,196	1.7%	1,328,773	1.7%	76,051	0.1%	1,250,399	1.6%	
Social services	1713831	2.3%	1,111,827	1.5%	1,134,352	1.5%	1,027,172	1.4%	1,323,278	1.7%	
Capital outlay	403562	0.5%	437,516	0.6%	422,984	0.5%	468,157	0.7%	0	0.0%	
Debt service											
Principal	151302	0.2%	156,781	0.2%	860,839	1.1%	1,522,541	2.1%	1,490,677	2.0%	
Interest and fiscal charges	34915	0.0%	88,308	0.1%	527,072	0.7%	1,083,053	1.5%	1,032,648	1.4%	
Bond issuance costs		0.0%	0	0.0%	1,141,628	1.5%	0	0.0%	0	0.0%	
Total Expenditures	\$79,190,765	106.6%	\$72,005,696	95.9%	\$95,908,015	123.1%	\$65,900,494	91.7%	\$70,262,655	92.0%	
Excess (Deficiency) / Revenues Over (Under) Expenditures	(\$4,892,831)		3,047,054	4.1%	(\$17,995,088)	-23.1%	\$5,927,917	8.3%	\$6,101,402	8.0%	
Other Financing Sources (Uses)											
Proceeds from asset disposition	18,845		372,514		15,000		13,486		235,695		
Capital contributions	(25,628)										
Proceeds from the issuance of bonds			0		24,150,000		0		0		
Interagency transfers out			0		(359,723)		0		0		
Transfers in	125362		83,297		43,668		88,356		105,249		
Transfers out	(360,036)		(428,962)		(4,785,366)		(1,356,069)		(1,919,073)		
Total Other Financing Sources (Uses)	(241,457)		26,849		19,063,579		(1,254,227)		(1,578,129)		
Net Change in Fund Balance	(5,134,288)		3,073,903		1,068,491		4,673,690		4,523,273		
Fund Balance, Beginning of Year	25,658,949		20,524,661		23,598,564		25,531,855		30,205,545		
Prior Year Adjustment			0		864,800		0		0		
Fund Balance, Beginning of Year, restated			0		24,463,364		0		0		
Fund Balance, End of Year	\$20,524,661		\$23,598,564		\$25,531,855		\$30,205,545		\$34,728,818		

The spread of the City's General Fund Statement of Revenues, Expenditures and Changes in Fund Balances for FYs 2009 through 2013 shows that Total Revenues fluctuated over the five year period, declining in FY 2012 by 7.8%, but recovering by 6.3% in FY 2013. Total Revenues in the amount of \$76,364,057 were available for use for City services in FY 2013.

Taxes represent the largest source of revenue to the City. Taxes include property taxes, sales and use taxes, franchise taxes, transient taxes, utility taxes, and miscellaneous taxes. Tax revenues increased four out of the five years analyzed for a total increase in tax revenues of

\$8,882,575, or 19.4%, between FY 2009 and FY 2013. The greatest growth in tax revenue occurred in FY 2013 when \$5,199,445 was received from a combination of property tax revenues of \$2,292,265, sales and use tax revenues of \$1,087,089, and transient occupancy tax increase of \$1,639,305 with an additional \$180,786 from others revenue sources.

The largest decline in Total Revenues occurred in FY 2012 in Charges for Services. In FY 2012, the City had a reduction of revenues received for personnel services it provided for library operations and to the Santa Cruz Redevelopment Agency (RDA). Through FY 2011, the City had reported charges for services for performing as the administrative agency for the County-wide library and all related operations of the library within the General Fund, as reported in the City's 2011 CAFR in the "Library" category. Subsequently, the charges for services and library system operating costs were reclassified in the CAFR as Agency Fund transactions. Through a Joint Exercise of Powers Agreement between the City of Santa Cruz, the County of Santa Cruz, and the Cities of Capitola and Scotts Valley (Library JPA), the City was reimbursed for such services and reported the reimbursements in Charges for Services.

The City had also provided personnel services to the Santa Cruz Redevelopment Agency (RDA). With the dissolution of the RDA's, the City no longer has this revenue source.

Review of Total Expenditures in the above spread finds Total Expenditures in FY 2011 out of line with all other years. Total Expenditures in FY 2011 include a payment of \$24.2 million for the City's Police and Fire pension obligations the City had accrued to the California Public Employees Retirement System (CalPERS). To pay off the CalPERS obligation, the City issued \$24.2 of Pension Obligation Bonds (POB) in December 2010. The offset to this expenditure is reported under Other Financing Sources (Uses) Proceeds from the Issuance of Bonds further in the FY 2011 spread. Given this financing, the spread also reflects a onetime charge in FY 2011 for Bond Issuance Costs associated with the issuance of the POB, and an increase in Debt Service in FYs 2012 and 2013 resulting from the issuance of the POB.

Transfers Out in FY 2011 were also greater than in any of the other year with the City transferring \$2 million to the Capital Improvements Fund, \$2.4 million in a previous long-term advance to the Golf Course Enterprise Fund being forgiven, and the transfer of \$428,763 to Non-major Governmental Funds. Annual Transfers Out continue to be made to the Capital Improvements Fund, Non-major Governmental Funds, and to the Golf Enterprise Fund.

The Net Change in Fund Balance was positive in each year reviewed with the exception of FY 2009, which experienced a negative change of \$5,134,288. The negative change was due to a decrease in investment earnings of only \$1 million dollars and an increase in expenditures for Public Safety and Community and Economic Development activities of \$5.4 million.

The City reported a Prior Year Adjustment in FY 2011 in the amount of \$864,800 was required to reflect an additional month of accruals of Sales Tax Revenue owed to the City.

Historical Ability to Budget Proposed Payment

The table below reflects the General Fund's ability to budget the payment for the proposed financing following the adjustments discussed above:

City of Santa Cruz					
Lease Payment and Fund Balance Analysis					
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Net Change in Fund Balance (Actual)	(5,134,288)	\$3,073,903	\$1,068,491	\$4,673,690	\$4,523,273
Add back Bond Issuance Costs (One time event)			\$1,141,628	\$0	\$0
Add back forgiven advance to Golf Enterprise (One time event)			\$2,400,000	\$0	\$0
Revised Net Change in Fund Balance	(5,134,288)	\$3,073,903	\$4,610,119	\$4,673,690	\$4,523,273
Proposed ISRF Lease Payments	\$1,581,994	\$1,581,994	\$1,581,994	\$1,581,994	\$1,581,994
Revised Net Change in Fund Balance with ISRF Payment	(6,716,282)	\$1,491,909	\$3,028,125	\$3,091,696	\$2,941,279

The City's General Fund, adjusted as discussed above, demonstrates the ability to budget the proposed Financing Lease payment from operations in all years except FY 2009. However, review of the FY 2009 General Fund Balance Sheet finds Unassigned Fund Balance in the amount of \$6.8 million, funds that would have been available if needed to meet the lease payment obligation.

Budget

The City adopts a budget annually as the foundation for its financial planning and control. Staff's review of the Annual Budget for FY 2015 finds the City estimates \$81,926,027 in General Fund revenues against \$83,708,216 for expenditures, creating a need for the City to draw on its General Fund Balance in the amount of \$1,782,189. The City projects a similar need through FY 2018. The City states that the budget includes 100% staffing assumptions, and does not factor in vacancies. The City further states that its estimated budget gap for the current year is less than \$500,000. In its 2015 Budget, the City notes positive trends in sales, property, and hotel taxes and states that it expects to solve this imbalance on an annual basis through, general fund revenue growth. Given the positive trend and improving economy, the City is able to meet IBank's covenant to budget and appropriate amount sufficient for ISRF annual rental payments. The City also established a general fund reserve account that provides a two-month operating reserve available to offset significant revenue declines. In the FY 2015 budget, the City budgeted the operating reserve at \$14,552,331.

Existing Obligations Payable from General Fund

The following table lists the current obligations payable from the City's General Fund:

General Fund Obligations						
Debt Issues	Underlying Rating (at issuance)	Date Issued	Amount Issued	Outstanding Balance	Annual Payment	Maturity
Lease Agreement (Homeless Day Center)	none	6/1/2002	\$765,000	\$344,427	\$52,179	1/1/2021
2007 Lease Revenue Bonds (Public Library and Water Department Project)	(S&P) AA- (Fitch) AA-	12/1/2007	\$6,880,000	\$6,055,000	\$425,963	6/30/2037
2010 Refunding Lease Revenue Bonds	(S&P) AA-	5/1/2010	\$5,430,000	\$4,445,000	\$423,541	5/1/2028
2010 Refunding Lease Revenue Bonds, Series B	(S&P) AA-	10/1/2010	\$3,810,000	\$3,245,000	\$264,203	4/1/2031
2010 Pension Obligation Bonds	(S&P) AA-	6/1/2011	\$24,150,000	\$18,860,000	\$2,639,935	6/1/2022
Pacific Gas & Electric	none	11/15/2011	\$250,000	\$209,496	\$25,000	10/15/2016
2012 Lease Revenue Bonds, Series A (Santa Cruz Regional 9-1-1) ⁽¹⁾	none	6/15/2012	\$3,965,000	\$3,720,000	\$64,964	6/15/2034
Lease and Sublease Agreement (Refunding 2004 Certificates of Participation)	none	10/30/2012	\$2,960,536	\$2,720,331	\$117,327	5/1/2029
Proposed IBank ISRF Financing ⁽²⁾				\$14,130,000	\$1,581,994	
Total Annual Payments					\$5,595,104.87	

Source: Debt documents, 2013 CAFR, 2015 Budget.

⁽¹⁾ Annual Payment = 22.86% of Total Annual Payment due on Bonds as per the Official Statement.

⁽²⁾ ISRF Program lease payment calculated at \$14,130,000, 1.73%, 10 years.

2013 Total Revenues	\$76,364,057
15% of 2013 Total Revenues	\$11,454,609
Total Annual Payments	\$5,595,104.87
% of 2013 Total Revenues	7.3%

The total General Fund obligations (inclusive of the proposed Financing Lease) are less than 15% of the City's General Fund Total Revenue.

The above table includes the underlying ratings given to the various debt issues at the time of issuance. On August 5, 2014, Fitch Ratings affirmed the following Santa Cruz Public Financing Authority, CA bond ratings:

- 2007 lease revenue bonds at 'AA'.
- Implied general obligation (GO) bond rating at AA+.

Fitch Ratings noted that the rating outlook is stable based upon the City’s sound financial operations, the City’s emphasis on expenditure control, its mature and diverse economic and tax base, and a sound debt profile.

Compliance with IBank Underwriting Criteria

This application and the proposed Lease Financing is in compliance with the Credit Underwriting Guidelines and Procedures as stated in Exhibit A of the Criteria as follows:

- **Applicant Eligibility:** The City of Santa Cruz is an eligible applicant under the Criteria.
- **Project Eligibility:** The Project is an eligible “Infrastructure Project” under the Criteria and is classified as A Portion of the City-wide Road Improvements Project.
- **Limitation on 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 Asset:** The Leased Asset is the City Civic Auditorium that is acceptable to the IBank.
- **Repayment Ability:** The source and diversity of General Fund appears adequate to cover existing expenditures, financing obligations, and the proposed IBank lease payments.

Through the Financing Lease, the City will covenant to the following in accordance with the Criteria:

- To budget and appropriate funds sufficient to make annual lease payments.
- To procure and maintain rental interruption insurance for a period of at least six months beyond the time needed to reconstruct the Leased Asset.
- To procure CLTA or ALTA title insurance policy.

In addition to the covenants required by the Criteria, Staff is recommending the following City covenants:

- To not permit future encumbrances of the Leased Asset.
- To maintain a general fund reserve account that provides a minimum two-month operating reserve.

Interest Rate Setting Demographics

The interest rate for the proposed Financing Lease was set based upon the following statistics obtained from the 2010-2012 American Community Survey (3-year estimates).

Unemployment Rate	The City’s unemployment rate was 7.7%, which is 64% of the State’s rate of 12.1%.
Median Household Income	The City’s median household income was \$62,755, which was 102.21% of the State’s median household income of \$61,400.

STAFF RECOMMENDATION

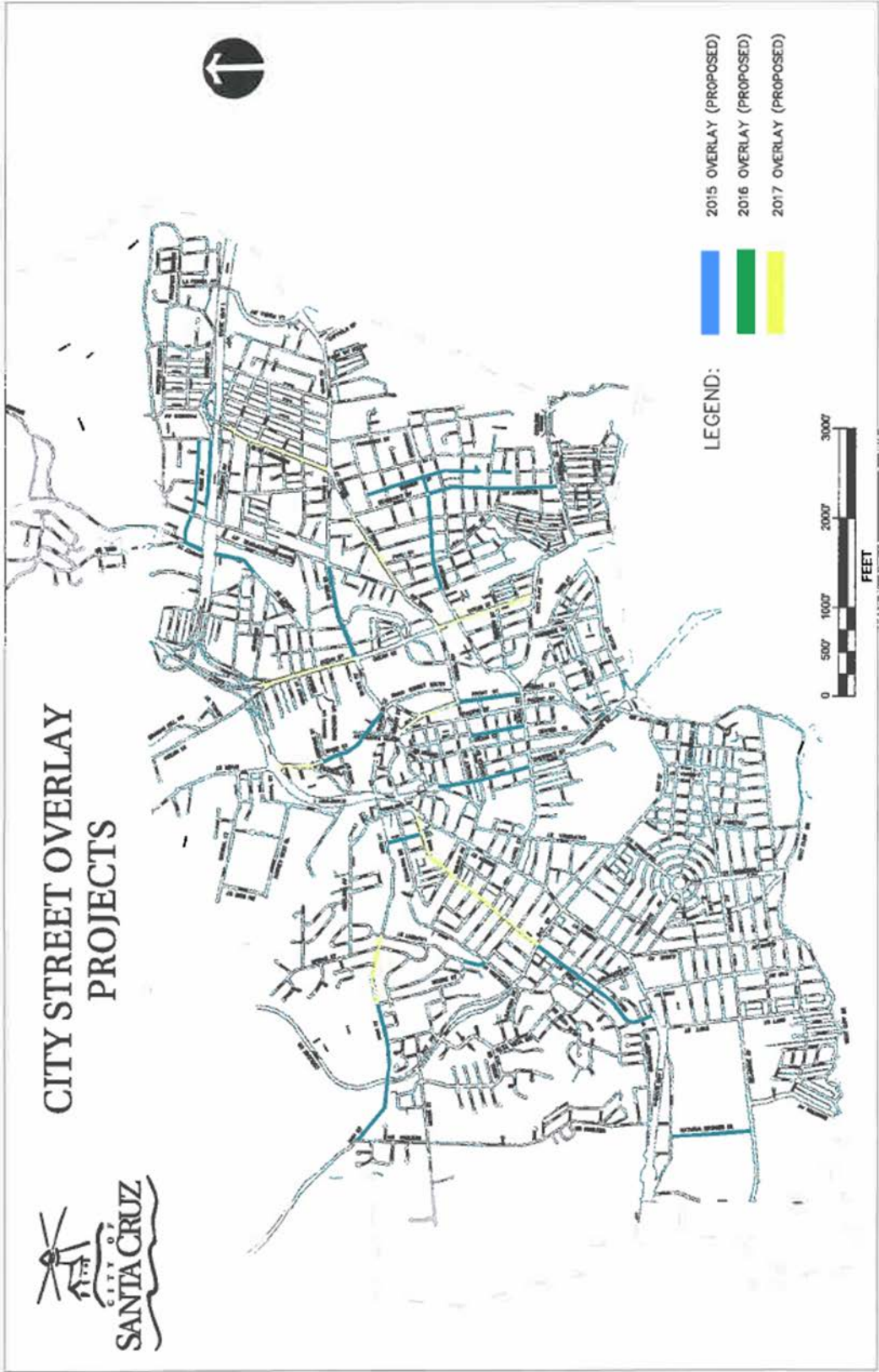
Staff recommends adoption of Resolution No. 14-16 authorizing financing to the City of Santa Cruz for funding a Portion of the City-wide Road Improvements Project as follows:

1. **Applicant/Borrower:** City of Santa Cruz (City)
2. **Project:** A Portion of the City-wide Road Improvements Project (Project)
3. **Amount of Financing:** Total amount of financing \$14,130,000
4. **Maturity:** Not to exceed 10 years
5. **Repayment/Security:** Financing Lease (Financing Lease) provides IBank with a leasehold interest on the City's Civic Center (Leased Asset) as security. Lease payments will be made from the City's General Fund.
6. **Interest Rate:** 1.73%
7. **Fees:** Financing origination fee of 1.00% of the IBank financing and an annual fee of 0.30% of the outstanding principal balance.
8. **Not an Unconditional Commitment:** If approved by the Board, the IBank's resolution shall not be construed as an unconditional commitment to finance the Project, but rather IBank approval pursuant to the Resolution is conditioned upon entry by IBank and the City into a financing agreement, in form and substance satisfactory to IBank and its counsel.
9. **Limited Time:** If approved by the Board, the Board's approval expires 180 days from the date of its adoption. Thus, the Borrower and the IBank must execute a financing agreement no later than 180 days from such date. Once the approval has expired, there can be no assurances that the IBank will be able to grant the Financing Lease to the Borrower 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 that IBank's financing agreement, include, without limitation, the following additional conditions and covenants:
 - a. Borrower to 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. City to budget and appropriate funds sufficient to make annual lease payments.
 - c. 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.
 - d. City to procure CLTA or ALTA title insurance policy.
 - e. City to covenant against future encumbrances of the Leased Asset.
 - f. City to covenant to maintain a general fund reserve account that provides a minimum two-month operating reserve.
 - g. Borrower to provide to IBank within 240 days of the end of each fiscal year a copy of its audited financial statements, together with an annual certificate demonstrating compliance with the foregoing covenants, as well as other information as IBank may request from time to time.

Attachment 1

PROPOSED STREETS FOR PAVEMENT REHABILITATION										
FISCAL YEAR	STREET	FROM	TO	AREA (S.F.)	COST	YEARLY TOTAL	Project Total			
							Includes 10% Design and 5% Inspection			
2015	Summer	Gault	Deadend	105081	\$ 893,188.50					
	Broadway	Ocean View	Summer	113720	\$ 966,620.00					
	Laurent	Escalona	Moore	12144	\$ 103,224.00					
	Storey	High	King	34357	\$ 292,034.50					
	Natural Bridges Dr	Mission	Delaware	78892	\$ 670,582.00					
	Chestnut	Locust	Laurel	105162	\$ 893,877.00					
	Cedar	Lincoln	Laurel	81356	\$ 691,526.00					
	High	Western	Moore	112536	\$ 956,556.00					
	Rooney	Elk	Gilbert	43020	\$ 365,670.00	\$ 5,833,278.00	\$ 6,708,269.70			
	2016	King	Bay	Mission	103129	\$ 876,596.50				
		Seabright	Broadway	Murray	117819	\$ 1,001,461.50				
		Water	Ocean	Branciforte	170050	\$ 1,445,425.00				
		Goss	Elk	Market	71140	\$ 604,690.00				
		Market	Goss	Avalon	47680	\$ 405,280.00				
Front		Soquel	Laurel	67022	\$ 569,687.00					
River		Water	Josephine	67533	\$ 574,030.50	\$ 5,477,170.50	\$ 6,298,746.08			
Ocean		Hwy 17	Water	143684	\$ 1,221,314.00					
Ocean		Soquel	E Cliff	93348	\$ 793,458.00					
Soquel		Banciforte	Seabright	118002	\$ 1,003,017.00					
2017	King (Mission Hill)	Mission	Bay	153279	\$ 1,302,871.50					
	Front	Water	Soquel	74007	\$ 629,059.50					
	River	Hwy 1	Josephine	51308	\$ 436,118.00					
	High	Moore	Laurent	56988	\$ 484,398.00	\$ 5,870,236.00	\$ 6,750,771.40			
			CIR with thin overlay (per s.f.)	\$ 8.50						
			Thin overlay with fabric (per s.f.)	\$ 5.70						
									\$ 19,757,787.18	
									FY 2015 - 17 Overlay Total	
									\$ 19,757,787.18	

Attachment 1
(Continued)



Attachment 1
(Continued)

