

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)

STAFF REPORT

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

Applicant: City of Half Moon Bay ("City")		ISRF Project Type: Public Safety Facility
Financing Amount: \$ 3,200,000 ("Financing")	Financing Term: 30 years	Interest Rate: 2.50% ¹
Source of Repayment: General Fund ("Fund") Lease		Existing Debt Rating/Date: N/A
Project Name: City Corporation Yard Acquisition and Modernization Project ("Project")		Project Location: 800 Stone Pine Road, Half Moon Bay, CA 94019 (site of Corporation Yard)

Project Description / Sources and Uses of Proceeds:

Broadly, the Project includes, but is not limited to, the following components:

1. Real property acquisition of Corporation Yard (currently leased by City)
2. Design, entitlement, and retrofit of corporation yard

The second component is further divided into the following: 1) construction of vinyl or steel structures for a workshop and storage of vehicles, equipment and supplies; 2) purchase and installation of a new security gating system; 3) construction of a new paved road with adequate turning radii for large trucks and related parking improvements; 4) construction of utility and accessibility improvements for the existing office facility; 5) construction of new perimeter security fencing and signage.

Use of Financing Proceeds:

The Financing would provide approximately 95% of the funds for property acquisition and construction of the Project. The City will contribute funds to pay for approximately 5% of the Project costs, including IBank's loan origination fee. The table below lists the sources and uses of the Project funds:

Project Uses	Project Sources for City of Half Moon Bay		
	IBank	City of Half Moon Bay	Total
Property Acquisition	\$2,060,000	\$120,000	\$2,180,000
Construction, Contingency and Capitalized Interest	\$1,140,000	\$27,625	\$1,167,625
Origination Fee		\$32,000	\$32,000
Total	\$3,200,000	\$179,625	\$3,379,625

The City has adequate funds to cover the \$179,625 contribution towards the Project in its reserves.

¹ Interest Rate quoted April 2, 2020

Credit Considerations:

Cash flow and debt service analysis for the Financing is summarized as follows:

Lease Payment and Fund Balance Analysis					
For Fiscal Year Ending (FYE)	2015	2016	2017	2018	2019
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$6,426,137	\$7,027,536	\$4,643,564	\$4,312,058	\$4,788,453
Adjustments Specific to the Transactions					
Transfer In	\$250,000	\$288,956	\$288,956	\$444,430	\$486,754
Transfer Out	(16,894,033)	(6,119,605)	(4,614,804)	(5,851,196)	(4,281,395)
Lease and Rent Adjustments	33,000	33,000	33,000	33,000	33,000
Transfer Out Adjustment (non-recurring items)	8,917,500	2,333,000	0	1,387,561	0
Non-recurring Judgement Bond Obligation add-back	1,470,209	690,198	690,198	690,198	691,539
Total Adjustments	(\$6,223,324)	(\$2,774,451)	(\$3,602,650)	(\$3,296,007)	(\$3,070,102)
Adjustments to Excess (Deficiency) of Revenues	\$202,813	\$4,253,085	\$1,040,914	\$1,016,051	\$1,718,351
Proposed ISRF Lease Payment *	161,577	161,577	161,577	161,577	161,577
Other MADS General Fund Obligations	572,685	572,685	572,685	572,685	572,685
Revised Net Change in Funds Balance with ISRF Lease Payment	(\$531,449)	\$3,518,823	\$306,652	\$281,789	\$984,089

* Calculated at \$3,200,000 at 2.50% interest rate for 30 years.

The City's General Fund has adequate funds to meet the debt service requirement of the proposed lease payment in three of the five historical years reviewed.

In Fiscal Year (FY) 2015 the city had higher Transfers Out of almost \$17 million resulting in the negative Fund Balance. The transfers were for capital projects for streets, parks, and to non-major funds for police grants, traffic mitigation and affordable housing fund; and non-recurring cost for Judgement Obligation bonds (since retired) and Land Asset Capital Projects.

Refer to the Lease Payment and Fund Balance Analysis section of this staff report for further details.

Support for Staff Recommendations:

Lease Payment and Fund Balance Analysis demonstrates the City's ability to service the proposed Financing.

1. The City's Unassigned Fund balance as of fiscal year end ("FY") 2019 is over 4 million; more than twenty six times the proposed lease payment.
2. Total debt service obligations of the Fund, inclusive of the proposed Financing, is 4.3% of the total Fund revenue, well below the 15% IBank maximum for general fund financings.
3. The City anticipates annual savings of \$33,000 in costs related to existing corporation yard leasing expenses. In addition, with the improved appropriate storage, the City will also save costs related to fleet maintenance, replacement cost of new vehicles and equipment.
4. The estimated useful life of the Project is 30 years, which meets the term of the Financing.

IBank Staff:

Betty Bian and Lina Benedict

Date of Staff Report:

Nov 30, 2020

Date of IBank Board Meeting:

December 16, 2020

Resolution Number:

20-22

Staff Recommendation: Staff recommends approval of Resolution No. 20-22 authorizing ISRF Program financing to the city of Half Moon Bay for the City Corporation Yard Acquisition and Modernization Project in an amount not to exceed \$3,200,000.

PROJECT DESCRIPTION

The City is requesting a total of \$3,200,000 in ISRF Program financing to (1) purchase the property located at 880 Stone Pine Road, Half Moon Bay, CA 94019 (Exhibit # 1), and (2) construct improvements on the property. The property is currently leased by the City and used as corporation yard. The 20.5 acre property is currently zoned Urban Reserve. The property was appraised at \$2,180,000 by Valbridge Property Advisors in an appraisal report dated October 18, 2019.

The City uses the property to store vehicles, equipment, and supplies. The property also has a recently renovated building that functions as administrative office space for the City's Public Works Department.

Broadly, the Project includes, but is not limited to, the following components:

1. Real property acquisition
2. Design, entitlements, and retrofit of corporation yard

The second component is further divided into the following: 1) construction of vinyl or steel structures for a workshop and storage of vehicles, equipment and supplies; 2) purchase and installation of a new security gating system; 3) construction of a new paved road with adequate turning radii for large trucks and related parking improvements; 4) construction of utility and accessibility improvements for the existing office facility; 5) construction of new perimeter security fencing, and signage.

The following are details of the Project components:

1. Property Acquisition

The City entered into a purchase and sale agreement with the current property owner, the Peninsula Open Space Trust, on March 12th, 2020 with a deposit payment of \$120,000. Acquiring the property will ensure the City has a permanent home for its public works corporation yard and will avoid excess costs and uncertainty associated with leasing space for its public works corporation yard.

To allow for additional negotiations the agreement was extended for a third time and escrow is now set to close December 18, 2020 following the IBank Board meeting. The amended PSA allows the City the option to make an additional deposit of \$25,000 (which would be credited to the purchase price at closing) to further extend the escrow close date to January 15, 2021. The City intends to close the property acquisition with its own funds and then reimburse itself with the financing proceeds.

2. Design, Entitlement, and Retrofit of Existing Corporation Yard

The improvements will enhance current operations and improve security of equipment and materials on-site. The components include:

- Construction of a vinyl or steel structure
The vinyl or steel structure will be used for critical storage of vehicles, equipment, and supplies.
- Purchase and installation of a new security gating system
The City is evaluating options for running fiber optic services to the site to provide improved connectivity to the City server and enable installation of a card reader control system at the site entrance to improve access security and monitoring capabilities.
- A new paved road with adequate turning radii for large trucks
The site is currently accessed from Stone Pine Road and a second entry/ off Highway 92 at the shared entry into Spanish Town will be constructed. Improved parking surfaces are also planned.
- Accessibility improvements for the existing office facility
- New perimeter fencing
The City is planning to construct an 8-foot tall chain-link (vinyl clad) fence with mechanical gate and security cameras. Surface will be either decomposed granite or asphaltic concrete depending on the pricing.

BACKGROUND

The City seeks to acquire their current corporation yard (currently leased) and to improve it with adequate

access, security, and storage for City vehicles and equipment. Currently, vehicles and equipment are stored outside and the resulting exposure to the elements causes weather-related damage, shortens the life of assets, and causes higher fleet maintenance costs.

Acquiring the property will ensure the City has a permanent home for its public works corporation yard and will avoid excess costs and uncertainty associated with leasing space for its public works corporation yard.

The City expects total Project costs to be \$3,379,625. In addition to the proposed \$3,200,000 financing, the City will contribute \$179,625 towards the Project cost. The City's General Fund is the payment source for the proposed ISRF Program lease. Capitalized interest for the construction portion of the Project was included. Construction is expected to be completed by January of 2022.

PUBLIC AND PROJECT BENEFIT

The primary benefit of the Project is to provide the City with long-term facilities to serve the community and avoid interruption of services or relocation costs. Ownership of the property will also provide the City with the flexibility to develop and maintain adequate facilities without leasing restrictions.

The City is also preserving a unique functional asset, a Corporation Yard, in a city with substantial land use restrictions and no ability to expand. The City completed an extensive assessment of lands available and appropriate for the relocation of the yard and identified that there is no other suitable location within the City limits.

The Corporation Yard has and will continue to serve as a depot for City and coast side emergency response trailers and materials. Establishing a permanent facility will provide opportunity to invest in securely storing and managing emergency supplies and equipment in a central, accessible location.

LAND USE RESTRICTIONS

As part of the long-term vision of the Project, the City plans to take several steps to preserve the sensitive habitat and several species that live on and near the property. As part of the long-term master plan, the City desires to designate most of the property as open space, with limited passive public access. An easement will provide public access along the riparian corridor bordering Pilarcitos Creek on the property's southern border. This trail will be linked to others in the area providing safe access as well as opportunities for environmental education. Subsequent habitat restoration and remediation is also planned, including removal of non-native species in the riparian corridor.

The property is currently zoned as Urban Reserve and the use as a Corporation Yard is considered a permitted non-conforming use. The City is actively working to rezone the property for use by the Public Works Department. Proof the City is legally entitled to construct the improvements and use the Project for its intended purpose will be a condition of disbursement for construction funds.

ECONOMIC BENEFITS

The completed Project will provide the City with secure and appropriate storage space for critical vehicles, equipment, and supplies. Presently these are stored outside in the elements. The coastal climate and regular marine fog is tough on equipment and vehicles which results in shorter lifespans, downtime and increased maintenance.

Recently, a vehicle was stolen from the premises. Expensive vehicles, equipment and materials are susceptible to theft and vandalism. The Project will help the City to save a significant amount of fleet maintenance cost caused by outside storage. The City will also save \$33,000 in annual lease payments. The Project will create six temporary jobs during construction period with an estimated wage of \$70 per hour.

GENERAL CITY INFORMATION

The City is a coastal city in San Mateo County incorporated in 1959 and is located approximately 25 miles south of San Francisco. The City's population was 11,324 as of the 2010 census. The City is an agricultural, fishing, and tourism destination that contains several state parks and beaches. There are 13 hotels and inns across the City, with more than 200,000 guests that generate over \$80 million in tourism income for the community each year.

The City is governed by a five member City Council, which has been elected at-large on a staggered basis, to 4-year terms. The Mayor and Vice Mayor are ceremonial positions, which rotate annually among and selected by the elected councilmembers. Beginning in November 2020, the City is moving to District Elections. The City will be divided into 4 districts, elected to four year staggered terms, by district. The Mayor will be elected at-large to a 4-year term, beginning November 2022.

The City continues to benefit from the economic growth throughout San Mateo County, Silicon Valley, and the Bay Area. In FY 2018-19, the City experienced its eleventh straight year of economic growth, led by consumer spending and tourism.

CREDIT ANALYSIS

Source of Financing and Security

Source of Revenue to Repay Proposed ISRF Financing:	General Fund
Outstanding Obligations:	N/A
Type of Audited Financial Documents Reviewed:	<input checked="" type="checkbox"/> Comprehensive Annual Financial Reports ("CAFR") <input type="checkbox"/> Basic Financial Statements <input type="checkbox"/> Other: _____
Fiscal Year Ends:	June 30
Audit Fiscal Years Reviewed:	2015-2019
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:	FY 2020 and 2021

Comparative Statement of Net Position

The City's Comparative Statement of Net Position for the last five fiscal years is as follows:

GENERAL FUND CITY OF HALF MOON BAY GENERAL FUNDS BALANCE SHEET											
For Fiscal Year Ending (FYE) June30	2015		2016		2017		2018		2019		
Source:	CAFR	% ⁽¹⁾	CAFR	% ⁽¹⁾	CAFR	% ⁽¹⁾	CAFR	% ⁽¹⁾	CAFR	% ⁽¹⁾	
Assets											
Cash and Investments	\$8,755,276	86.4%	\$8,205,077	70.5%	\$10,001,946	83.7%	\$9,210,883	82.1%	\$10,108,931	83.5%	
Receivable											
Accounts Net	1,361,256	13.4%	2,763,186	23.7%	1,914,475	16.0%	1,958,059	17.4%	1,941,792	16.0%	
Interest	16,522	0.2%	21,537	0.2%	33,437	0.3%	55,429	0.5%	55,830	0.5%	
Due from other funds			648,807	5.6%					1,340	0.0%	
Total Assets	\$10,133,054	100.0%	\$11,638,607	100.0%	\$11,949,858	100.0%	\$11,224,371	100.0%	\$12,107,893	100.0%	
Total Assets and Deferred Outflows of Resources	\$10,133,054	100.0%	\$11,638,607	100.0%	\$11,949,858	100.0%	\$11,224,371	100.0%	\$12,107,893	100.0%	
Liabilities											
Accounts Payable	\$419,795	4.1%	\$770,220	6.6%	\$508,178	4.3%			\$526,517	4.3%	
Accrued Liabilities	44,504	0.4%	33,815	0.3%	34,834	0.3%	142,564	1.3%	235,036	1.9%	
Due to Other Funds							344,678	3.1%			
Deposits Payable	126,198	1.2%	95,128	0.8%	349,686	2.9%			390,076	3.2%	
Total Liabilities	\$590,497	5.8%	\$899,163	7.7%	\$892,698	7.5%	\$487,242	4.3%	\$1,151,629	9.5%	
Total Liabilities and Deferred Inflows of Resources	\$590,497	5.8%	\$899,163	7.7%	\$892,698	7.5%	\$487,242	4.3%	\$1,151,629	9.5%	
Fund Balances											
Committed	\$3,012,735	29.7%	\$2,909,550	25.0%	\$5,070,257	42.4%	\$5,070,257	45.2%	\$6,646,354	54.9%	
Assigned	2,312,840	22.8%	1,878,355	16.1%							
Unassigned	4,216,982	41.6%	5,951,539	51.1%	5,986,903	50.1%	4,892,195	43.6%	4,309,910	35.6%	
Total Fund Balances	\$9,542,557	94.2%	\$10,739,444	92.3%	\$11,057,160	92.5%	\$9,962,452	88.8%	\$10,956,264	90.5%	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$10,133,054	100.0%	\$11,638,607	100.0%	\$11,949,858	100.0%	\$10,449,694	93.1%	\$12,107,893	100.0%	
⁽¹⁾ Calculated as a percent of Total Assets.											

Total Assets increased 19.48% to \$12 million in the period reviewed primarily due to steady increases in all categories of tax revenue, which reflects the healthy growth of local economy.

Total liabilities to total assets were within 11% in the period reviewed. The City had outstanding long-term obligations of \$10.9 million in judgement obligation bond debt (Series B). The City strategically retired this bond in August 2019, two decades earlier than originally scheduled.

Unassigned fund balances ranged between \$4.2M to \$5.9M showing that the Fund had discretionary monies saved. The City's reliance on Transient Occupancy Tax (TOT) led the City Council to create a "Reserve for Economic Uncertainty" in 2019, prior to the COVID-19 crisis. The purpose of this reserve is to smooth out effects of a dramatic economic downturn that would have a direct negative impact on the City's primary revenue sources (i.e. TOT and Property Tax and Sales Tax). The Fund now has reserves consisting of operating contingency reserve of 30% of the Fund annual expenditures and an economic uncertainty reserve of 20% of the Fund's annual expenditures. The total reserve amount is \$7.3 M at the end of June 2020 per staff conversations with the City. The Draft FY 2020 Comprehensive Annual Financial Statement is pending.

In summary, the City continuously benefited from the economic growth in the historical five years reviewed. The City managed its fiscal sustainability in a very conservative manner; all the precautionary actions including early retirement of the judgement obligation bond, establishment of economic uncertainty reserve and pension stabilization fund helped the City to well position itself to tackle with the challenges caused by COVID-19. Please refer the COVID-19 Pandemic Impact, and Projections section of this staff report for Impact and analysis of the pandemic.

Comparative Statement of Revenues, Expenses, and Changes in Net Position

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

CITY OF HALF MOON BAY GENERAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE										
For Fiscal Year Ending (FYE) June30	2015	% ⁽¹⁾	2016	% ⁽¹⁾	2017	% ⁽¹⁾	2018	% ⁽¹⁾	2019	% ⁽¹⁾
Source:	CAFR		CAFR		CAFR		CAFR		CAFR	
% Change Year-over-Year in Total Revenues		N/A		6.52%		-4.96%		8.72%		3.00%
Revenues										
Taxes	\$12,999,238	88.0%	\$13,929,278	88.1%	\$12,586,257	83.6%	\$13,638,171	82.7%	\$14,448,702	84.9%
License and Permits	394,931	2.7%	379,749	2.4%	444,388	3.0%	370,269	2.2%	377,873	2.2%
Fines and Forfeitures	83,812	0.6%	102,202	0.6%	79,132	0.5%	171,873	1.0%	189,415	1.1%
Charges for services	758,138	5.1%	800,825	5.1%	689,476	4.6%	1,248,836	7.6%	1,160,506	6.8%
Investment Income	50,787	0.3%	26,193	0.2%	96,563	0.6%	153,020	0.9%	250,030	1.5%
Rents and Leases	92,515	0.6%	20,000	0.1%	10,080	0.1%	87,536	0.5%	75,603	0.4%
Intergovernmental Revenues	65	0.0%	161,280	1.0%	140,287	0.9%	135,054	0.8%	(40,876)	-0.2%
Miscellaneous	398,164	2.7%	389,276	2.5%	1,015,003	6.7%	694,989	4.2%	549,094	3.2%
Total Revenues	\$14,777,650	100.0%	\$15,808,803	100.0%	\$15,061,186	100.0%	\$16,499,748	100.0%	\$17,010,347	100.0%
Expenditures										
General Government	\$1,587,733	10.7%	\$1,690,418	10.7%	\$2,004,506	13.3%	\$2,473,012	15.0%	\$2,320,879	13.6%
General Administration	946,395	6.4%	1,083,666	6.9%	1,124,839	7.5%	1,495,557	9.1%	1,124,476	6.6%
Public Safety	3,056,253	20.7%	3,059,791	19.4%	3,523,297	23.4%	3,634,872	22.0%	3,671,277	21.6%
Public works	1,567,442	10.6%	915,419	5.8%	1,281,835	8.5%	1,449,071	8.8%	1,723,687	10.1%
Recreation Services	105,735	0.7%	139,560	0.9%	129,165	0.9%	644,962	3.9%	695,266	4.1%
Planning	1,087,940	7.4%	1,892,413	12.0%	2,353,980	15.6%	2,490,216	15.1%	2,686,309	15.8%
Total Expenditures	\$8,351,513	56.5%	\$8,781,267	55.5%	\$10,417,622	69.2%	\$12,187,690	73.9%	\$12,221,894	71.8%
Excess (Deficiency) of Revenues Over (Under)	\$6,426,137	43.5%	\$7,027,536	44.5%	\$4,643,564	30.8%	\$4,312,058	26.1%	\$4,788,453	28.2%
Other Financing Sources (Uses)										
Transfers In	\$250,000		\$288,956		\$288,956		\$444,430		\$486,754	
Transfers Out	(16,894,033)		(6,119,605)		(4,614,804)		(5,851,196)		(4,281,395)	
Total Other Financing Sources (Uses)	(\$16,644,033)		(\$5,830,649)		(\$4,325,848)		(\$5,406,766)		(\$3,794,641)	
Net Change in Fund Balance	(\$10,217,896)		\$1,196,887		\$317,716		(\$1,094,708)		\$993,812	
Fund Balance, Beginning of Year	\$19,760,453		\$9,542,557		\$10,739,444		\$11,057,160		\$9,962,452	
Fund Balance, End of Year	\$9,542,557		\$10,739,444		\$11,057,160		\$9,962,452		\$10,956,264	

The City's three primary revenue sources are the Transient Occupancy Tax (TOT) (39%), Property Tax (19%), and Sales Tax (16%), which comprise 74% of total General Fund Revenue. Total revenue of the Fund increased 15% from FY 2015 through 2019 primarily due to stable growth in tax revenue.

Total expenditure increased 46% from FY 2015 through FY 2019. Expenditures increased by 18.6% in FY 2017 and 16.9% in FY 2018 primarily due to the library construction capital project and cost associated with increased public safety presence from the sheriff's office.

The Judgement Obligation Bond was paid off in August 2019. This action eliminates an annual debt service payment of \$590,000 and returns a one-time \$400,000 reserve to the Fund.

The City used to budget a discretionary annual transfer of \$100,000 from Fund to the Retirement Stabilization Fund. With the impact of COVID-19, there is no transfer budgeted for FY 2020-21. Instead, the City will pay the annual Unfunded Accrued Liability payment from the Pension Stabilization Fund in FY 2020-21.

No additional income is expected from the corporation yard but there may be additional repayment resources to support the corporation yard such as the sewer fund. The additional sources will result from the increased capacity for the corporation yard to support leasing parking and storage availability for sewer system vehicles and equipment, which will potentially permit additional funding from the sewer fund.

As a result of the changes discussed above, the City's Fund Balance (End of Year) over the five-year period increased by \$1,413,707 or 14.8%. The Fund's Balance were impacted by two significant issues: investment into capital projects and retirement of Judgement Obligation Bond.

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	MADS Principal & Interest	General Fund Portion Outstanding Balance (\$)	Maturity
An advance of fund to city by county for construction of Half Moon Bay library project	Not Rated	3/15/16	\$6,000,000	\$5,154,169	\$572,685	\$572,685	6/30/29
Proposed Lease			\$3,200,000		\$161,577	\$3,200,000	2051
Total:			\$9,200,000	\$5,154,169	\$734,262	\$3,772,685	
City of Half Moon Bay Total Revenue \$17,010,347 15% of City of Half Moon Bay Total Revenue \$2,551,552 Total Annual Pmts. Incl. proposed lease payment \$734,262 % of City of Half Moon Bay Total FY 2019 Revenue 4.32%							

The only debt currently carried by the City is an interest free loan from the San Mateo County that currently has an outstanding of \$5,154,169. The City entered into the loan agreement with the County in FY 2017 to partially finance the construction of the new library. The loan has a 10-year term and is payable in equal installment of \$572,000 per year. Due to the economic challenges caused by Covid-19, the County agreed to provide a one-year forbearance to the City on condition the City will make a "double payment" in FY 2022.

Total debt service obligations, inclusive of the proposed Financing, is 4.3% of the total Fund revenue; well below the 15% IBank maximum for general fund financings.

Lease Payment and Fund Balance Analysis

Lease Payment and Fund Balance Analysis					
For Fiscal Year Ending (FYE)	2015	2016	2017	2018	2019
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$6,426,137	\$7,027,536	\$4,643,564	\$4,312,058	\$4,788,453
Adjustments Specific to the Transactions					
Transfer In	\$250,000	\$288,956	\$288,956	\$444,430	\$486,754
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* Calculated at \$3,200,000 at 2.50% interest rate for 30 years.

The City's General Fund has adequate funds to cover the proposed lease payment in four of the five years reviewed. In FY 2015 the city had higher Transfers Out of almost \$17 million resulting in the negative Fund Balance. The transfers were for capital projects for streets, parks, and to non-major funds for police grants, traffic mitigation and affordable housing fund; and non-recurring cost for Judgement Obligation bonds (since retired) and Land Asset Capital Projects.

FY 2015, 2016 and 2018 showed high Transfer Out from the Fund. These transfers were primarily related to capital improvements projects (CIP). Major transfer out adjustments are as follows:

- FY 2015 - \$8,917,500 was for acquisition of properties that were discretionary, and \$1,470,209 judgment obligation bond that has since been retired.
- FY 2016 - \$2,333,000 to fund the library, a one-time expense that was discretionary and \$690,198 judgment obligation bond.

- FY 2017 - \$690,198 judgment obligation bond
- FY 2018 - \$1,387,561 was transferred out to fund capital improvement projects budgeted in the City's CIP. The projects were in the areas of drainage, parks, and purchase/upgrade of equipment. The City has an annual CIP budget every year and transfers out from the General Fund for these projects. The projects are discretionary and approved annually by the City Council.

The City paid \$33,000 annually to lease the subject corporation yard. This expense is added back to cash flow, as it is a non-recurring expense. There are no additional costs to be incurred with the purchase of the property because the City is not subject to property taxes and the cost to maintain the property was historically the city's responsibility and will be an ongoing expense.

The city will plan to budget only expenses that can be covered by the fund and will ensure that the lease payment is approved in the budget by the city council going forward.

COVID-19 Pandemic Impact

The City's General Fund revenue has been largely impacted by the COVID-19 pandemic and the resulting shutdown of hotels which brought to a halt the collection of TOT. As stated earlier, 39% of the City's revenues are TOT. This created a \$3.1 million budget shortfall in FY 2019-20. Even though it is difficult to determine the exact duration and extent of the impact, the City has conservatively projected hotels to only be at 24% of capacity over the duration of next year. Along with projections of other revenue sources, the City is projecting total Fund revenue of \$12.8 million for FY 2020-21, which is a 26.6% decrease from the FY 2019-20 Budget.

However, ten years of steady growth in tax revenue, moderate increases in expenditures and services, and the City Council's foresight to maintain healthy reserves is allowing the City to handle the financial challenges caused by the pandemic. The City was proactive after the 2008 financial crisis and put reserves in place for future disasters or contingency. In early 2019, the City Council decided to create a "Reserve for Economic Uncertainty", which is an additional reserve to an existing operating contingency reserve. With this, even prior to the COVID-19 pandemic, the Fund has maintained the following:

- Operating Contingency Reserve of 30% of annual expenditures (\$5.14M)
- Economic Uncertainty Reserve of target 20% of annual expenditure (\$2.16M)

The City plans to use these reserves in the coming years when shortfalls are projected through FY 2023. Total projected shortfall in Fund Balance is estimated at \$5.6 million before the City's main revenue sources would recover enough to generate a surplus. NOTE: these figures do not include any state or federal aid that the City may receive to handle the pandemic crisis.

In response to the financial impacts of COVID-19, the City has taken proactive to expenditures:

- Terminated five positions in April 2020 and kept one position unfilled.
- 10% furlough for executive staff and managers. City management is in negotiations with local union for their members to also take a 10% furlough.
- Services have been scaled back in all departments.
- Transferred back to the Fund about \$1.86 million in funds that were initially transferred out for capital projects. These projects have since been put on hold.

PROJECTIONS

The City provided projections on the Comparative Statement of Revenues, Expenses, and Changes in Net Position for the Fund projections through FY 2023.

Based on projections provided by the City, the Fund's TOT revenue will return to within 95% of pre-COVID numbers in FY 2021-22 after seeing a 65% reduction in FY 2020-21. The Fund's Sales Tax revenue will have a 25% decrease in FY 2020-21 and a rebound to normal levels in future years. Property Tax revenue is projected to remain the same level in FY 2020-21, a 5% decrease in FY 2021-22 and 2% increase after in

FY 2022-23. Total Fund's expenditures are projected using known future pension costs and a 2-3% increase assumption per year.

The Fund is projected to have shortfalls from FY 2021 to FY 2023 and return to surplus in FY 2023-24. A TOT tax ballot (Measure U) was approved in November 2020. This will increase this tax revenue from 12% to 14% starting July 1, 2021 and to 15% on July 1, 2022. This is expected to generate an estimated \$1.5 million per year. Once the vaccine for COVID 19 is readily available to all, people who have been restricted and in lockdown are expected to travel more and the TOT revenue is expected to increase to significantly high levels within the first year. Most travelers/ tourists visiting the city tend to arrive by road from within California. Also city representatives state that The TOT income has already started to pick up in September, October and December 2020, there have been higher than expected visitors that have come to the city on day trips via road.

The projected shortfalls are to be met with the following:

1. Operating Contingency Reserve currently \$5.14M as of FYE 2019.
2. Economic Uncertainly Reserve currently \$2.16M as of FYE 2019.

The return to normal economic activity over coming years will further enable the city to add to the reserve funds and build reserves up.

Analysis of the Proposed Leased Asset

The City proposes to finance the Project under a lease/lease-back financing agreement. The leased asset is the subject 20.5 acre corporation yard located at 800 Stone Pine Road, Half Moon Bay, CA 94019 and all future improvements on the leased asset. The seller is Peninsula Open Space Trust, a California nonprofit public benefit corporation. To determine the value of the leased asset, staff researched value of comparable properties.

A 6.5 acre property (unimproved land, commercial zoning) less than a mile from the subject property located at Highways 1 and 92 is offered for sale at \$303,846 per acre. By simply applying this price per acre to the leased asset, the leased asset would be valued at \$6,228,843. Further, the leased asset includes improvements, which would increase the value of the leased asset over that of comparable bare land. However, staff has determined that the price per acre for a 6.5 acre of commercial-zoned property should not be applied to a restrictively-zoned (urban reserve) 20.5 acre property. Generally speaking, as land increases in size its price per unit area decreases. Also, urban reserve zoning is very restrictive and so carries a much lower fair market value than does commercially-zoned land. Staff determined that the increase in value caused by the modest existing and future improvements on the leased asset are far outweighed by the decrease in value caused by the restrictive zoning. Staff therefore applied a 40% reduction factor to the comparable property. This resulted in a market value determination of the leased asset of \$3,737,395 (40% reduction of \$303,846/acre, multiplied by 20.5 acres), or 1.17X of the Financing.

Further, Staff discounted completely for valuation purposes the current annual rent the Borrower pays for the leased asset. Per city staff, the \$33,000 current annual lease payments are well below the market rate. The Borrower's staff relates the current owner is a nonprofit organization willing to lease the property for municipal use at a steep discount.

The proposed Financing of \$3,200,000 is considered appropriate in relation to the estimated fair market value

of the as-completed leased asset. The property is an acceptable asset and is an essential asset to the City and the public.

Risk Factors

1. The security is a leasehold interest on Leased Asset and not a lien on the Fund or any other governmental fund.
2. Under State law governing the proposed ISRF Program financing, lease payments to IBank (designed to match debt service) are subject to abatement, with the amount of abatement proportionate to the extent and disruption, of the Borrower's use of the Leased Asset.
3. Under State law governing the proposed ISRF Program financing, acceleration in the event of default by the Borrower is prohibited. Thus, in the event of payment default, IBank must either annually pursue a remedy of compelling past due lease payments or institute an unlawful detainer action to obtain possession of the Leased Asset for purposes of re-letting.
4. The city projects a General Fund Shortfall through FY 2022-23 due to loss of TOT revenue due to the pandemic, with expectations that there will be a return to prior fund balances in 2023-24.

Mitigating Factors

1. The Borrower will covenant to annually budget and appropriate lease payments.
2. The Borrower will covenant to procure rental interruption insurance for the Leased Asset in the event of loss of use (abatement), such insurance would cover abated lease payments for a period of at least six months beyond the period required to rebuild the Leased Asset.
3. The Borrower will obtain title insurance in favor of IBank and will covenant against permitting additional encumbrances against the Leased Asset.
4. Lease payments from the Fund provide a broad source of funds and greater flexibility to the Borrower to meet the required Lease obligations.
5. The General Fund projected shortfall (including coverage of the subject lease payment) will be covered by the city's reserves in the Operating Contingency Reserve account and the Operating Uncertainty Reserve account. Further, as stated earlier, the TOT revenue collection has already started to recover at the time of the writing of this report as most travelers and tourists who pay TOT are now arriving at the city via road at a time of lockdowns due to the pandemic. The main attraction is the beautiful coastline of Half Moon Bay. With the return to prior levels of TOT the city will replenish its reserve accounts to help with any future disasters or emergencies.

Compliance with IBank Criteria, Priorities, and Guidelines

The application and the proposed financing are in accordance with IBank Criteria, Priorities and Guidelines (ISRF Criteria).

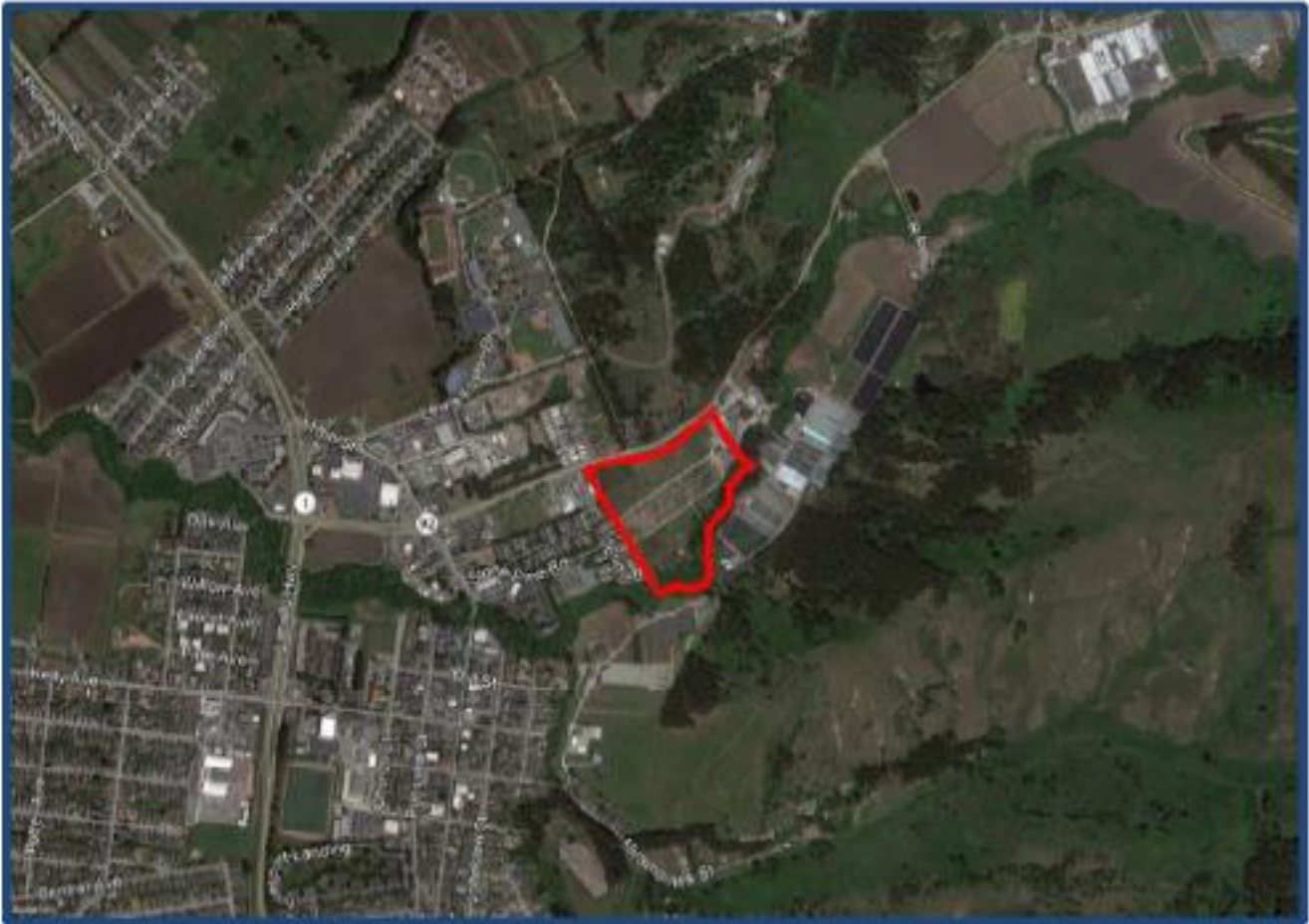
- The total Fund obligation (inclusive of the Financing) is less than 15% of the City's Total Revenues for FY 2018
- The Leased Asset is the Corporation Yard and is acceptable to IBank
- The Fund adequately covers existing expenditures, financing obligations, and the proposed IBank Lease payments
- The useful life of the Project is over 30 years (as determined by the appraisal) and meets guidelines for the term of this Financing

STAFF RECOMMENDATION

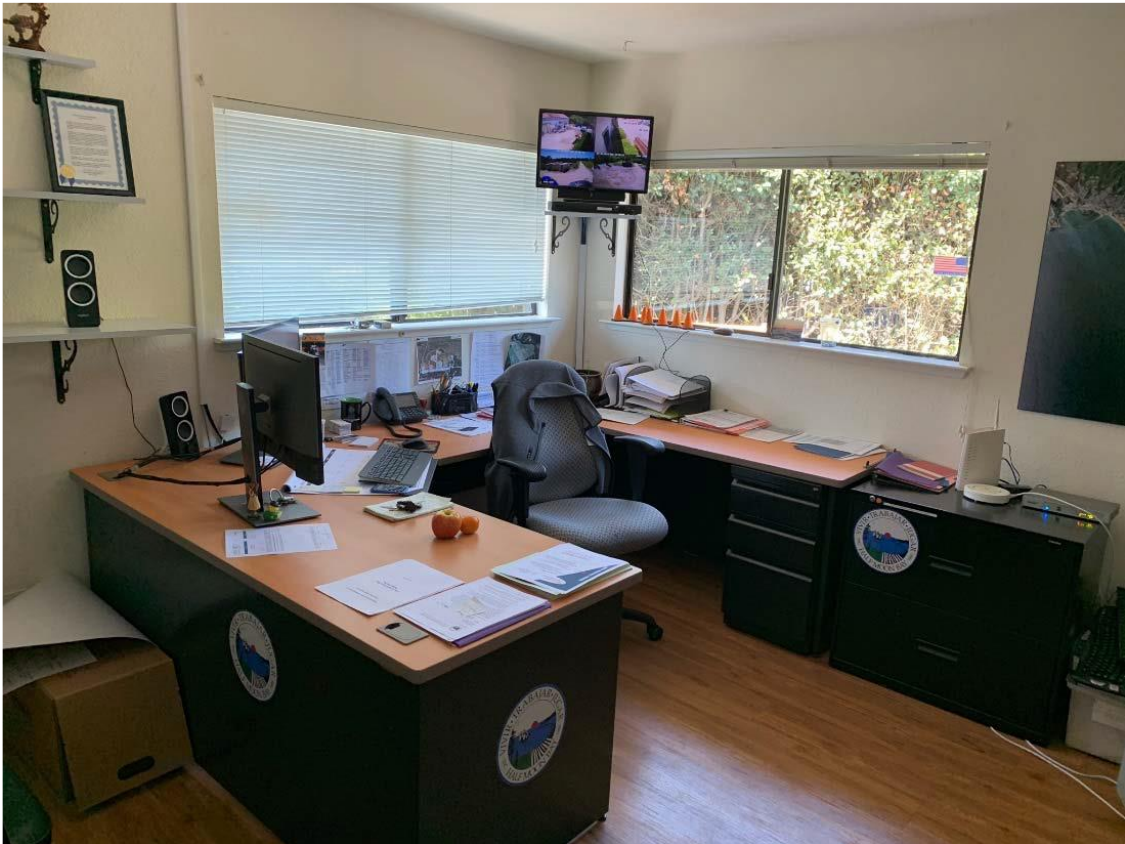
Staff recommends approval of Resolution No. 20-22 authorizing ISRF Program financing to the City of Half Moon Bay for City Corporation Yard Acquisition and Modernization Project as follows:

1. Applicant/Borrower: City of Half Moon Bay
2. Project: Corporation Yard Acquisition and Modernization Project
3. Amount of ISRF Program financing: \$3,200,000
4. Maturity: Not to exceed 30 years
5. Repayment/Leased Asset: General Fund Lease provides IBank with a leasehold interest on Corporation Yard (Leased Asset).
6. Interest Rate: 2.5%
7. Fees: The City to pay the origination fee of 1.00%, \$32,000 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 unconditional commitment to finance the Project, but rather IBank's approval pursuant to the resolution is conditioned upon entry by IBank and the Borrower into an ISRF Program financing agreement(s), in form and substance satisfactory to IBank.
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 ISRF Program financing agreement(s) 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 ISRF Program financing or consider extending the approval period.
10. ISRF Program Financing Agreement Covenants: Aside from usual and customary terms and conditions for this type of ISRF Program financing, Staff recommends IBank's ISRF Program financing agreement(s) includes without limitation, the following additional conditions and covenants:
 - a. Comply with all applicable requirements of ISRF Program Criteria.
 - b. Budget and appropriate funds sufficient to make annual Lease payments.
 - c. Procure an ALTA title insurance policy.
 - d. Not encumber further the Leased Asset.
 - 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. Evidence satisfactory to IBank of the Borrower's entitlement and authorization to construct the Project improvements and use the Project for its intended purpose as a condition of disbursement.

AERIAL VIEW (Exhibit 1)



Office Space





Exterior View of Storage Structure





