

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

The City of Goleta (City) is requesting IBank approve a substitution of the Leased Asset under ISRF Financing Lease 21-136 (Financing Lease) dated August 1, 2020. Proceeds of the Financing Lease were used for the purchase of the Goleta City Hall (Leased Asset). The City is requesting IBank substitute the Leased Asset with two separate City owned properties located within the City limits: the Goleta Valley Library and the City's Corporate Yard (Substituted Assets). The City will deliver the required legal opinions and insurance certificates prior to closing of this substitution transaction as required by the Financing Lease.

BACKGROUND

IBank and the City entered into the Financing Lease on August 19, 2020, in the amount of \$10,000,000, which reimbursed the City for the purchase of its current City Hall. The current balance is \$9,073,134.80 and matures August 1, 2050. To date lease payments have been paid as agreed.

The City requests to amend the current Financing Lease to provide leasehold interests in the Substituted Assets instead of the Leased Asset. The City is planning to issue lease revenue bonds ("2024 LRBs") of approximately \$17,515,000 to finance road repairs and a bike path project and wish to designate Goleta City Hall as the leased asset for that transaction. Designating the Goleta City Hall for the 2024 LRBs will provide more favorable terms for the City and avoid potential issues when a remodeling of the Goleta Valley Library begins next year.

With respect to the Substituted Assets, the Goleta Valley Library, located at 500 N. Fairview Avenue, is a 15,000 square foot (sf) facility built in 1972 that was originally constructed and owned by the County of Santa Barbara. When the City of Goleta was incorporated in 2002, it took over ownership of the building. In 2017, the Goleta Valley Library received state designation as a municipal library, and in 2018 the City of Goleta took over management of the library. The City's Corporate Yard, located at 6735 Hollister Avenue, consists of a 4,000 sf pre-fabricated building that functions as an office and garage on 2.3 acres (101,059 sf.).

ANALYSIS OF PROPOSED MODIFICATION

Section 2.06 of the Financing Lease, under the heading Substitution or Release of Leased Asset, requires the City (under Section 2.06 (b)(2)) to certify that the annual fair rental value of the Leased Asset after a Substitution is at least equal to the maximum annual Base Rental Payments and Additional Rental Payments due under the Financing Lease. The annual fair rental value must be determined by the City (as Lessee) on the basis of an appraisal by a member of the American Institute of Real Estate Appraisers or the American Society of Appraisers, or on such other basis approved by IBank (as Lessor) in its reasonable discretion.

In order to determine the value of the Goleta Valley Library, in August 2024 the City commissioned a property valuation from a certified appraiser (Hammock, Arnold, Smith & Company, in Santa Barbara). Based on the cost approach, Hammock estimated the value of the property at \$8,565,000. While the City did not obtain an appraisal for the Corporate Yard, it did obtain from CBIZ Valuation Group, LLC an estimate of insurable value for the building of approximately \$575,000. To determine the site value, the City a cost per square foot of \$22.50, consistent with the Library appraisal, which produced a site value estimate of \$2,276,827 which, in combination with the insurable value, produces an estimate of \$2,848,827 for the entire Corporate Yard property.

Take together, the combined value of the Substituted Assets is as follows:

Goleta Valley Library	\$ 8,565,000
Corporate Yard	\$ 2,848,827
Total value:	\$11,413,827

ISRF 21-136 loan balance: **\$ 9,073,135**

Loan-to-value: 79%

The maximum annual Base Rental Payment and Additional Rental Payment is \$513,054.

It is worth noting that the City is planning a major renovation of the Library of approximately \$5 million, most of which will be funded by a State grant, commencing in spring 2025. The City plans to maintain use and occupancy of the building during construction. The city will also obtain rental interruption insurance for each of the Substituted Assets.

Impact of new bond issue

Preliminary projections for the 30-year bond issue estimate annual debt service of approximately \$1.08 million which, when taken with the annual ISRF payment, would amount to about \$1.6 million. No other financings payable from the General Fund are contemplated for the foreseeable future. (The City is planning to issue a separate bond secured only by its share of Santa Barbara County Measure A sales tax revenue.) The General Fund projections below, from Goleta's FY 23/24 - FY 24/25 two-year budget forecast, show ample capacity to meet these obligations starting in FY 24/25, thanks in part to an increase in transaction and use taxes which went into effect on January 1, 2024.

Five-Year Forecast - Summary of Net Operating Revenues

General Fund - Net Operating Revenue	FY 23/24 Projected	FY 24/25 Projected	FY 25/26 Projected	FY 26/27 Projected	FY 27/28 Projected
Operating Revenues	\$ 42,113,909	\$ 48,410,809	\$ 49,839,340	\$ 51,259,940	\$ 52,759,570
Operating Expenditures	\$ 41,638,598	\$ 45,946,380	\$ 47,246,632	\$ 48,507,046	\$ 49,801,524
Net Operating Revenues	475,311	2,464,429	2,592,708	2,752,894	2,958,046
YoY \$ Change	\$ 21,576,696	\$ 1,989,118	\$ 128,279	\$ 160,186	\$ 205,152
YoY % Change	-102.25%	418.49%	5.21%	6.18%	7.45%

Since the closing of the ISRF financing, the City's financial performance has been strong. From FY 20/21 to FY 22/23 the General Fund net position has grown from \$17.3M to \$39.5M, with cash balances growing from \$28M to \$39M. Over the same period, General Fund revenues increased 23% from \$31M to \$38.3M accompanied by expenditures that increased from \$24.5M to \$38.2M, an increase of nearly 50%. Though expenditures outpaced revenues, the increase was due to restored service levels following the pandemic and increasing staff positions to address backlog and deficiencies. Compared to pre-pandemic levels, FY 22/23 expenditures increased just over 1% above FY 2020 levels. As noted above, the approved tax increase is projected generate larger surpluses beginning in FY 24/25. The City's fiscal policies require at least 33% of the total ongoing operating budget be maintained as a Contingency Reserve.

The lease revenue bond issue is not yet rated, and Goleta does not have an existing credit rating.

Additional requirements for leased asset substitution

Section 2.06 (b) has additional requirements to complete the requested substitution:

1. An opinion of legal counsel, in a form and content satisfactory to the Lessor in its reasonable discretion, to the effect that the Financing Lease and Site Lease amendment documenting the

Substitution or Release have been duly authorized, executed and delivered by the Lessee and constitute the valid and binding obligations of the Lessee enforceable in accordance with their terms;

2. In the event of a Substitution, a policy of title insurance in form and content acceptable to the Lessor in its reasonable discretion covering the Substituted Property in an amount at least equal to the proportionate share of the Base Rental Payments and Additional Rental Payments represented by the Substitution, insuring the Lessor's interest in the Substituted Property, with a level of coverage comparable to that provided for the Leased Asset, subject to Permitted Encumbrances;
3. In the event of a Substitution, an opinion of legal counsel of the Lessee, or endorsement by a title company, each in a form and content acceptable to the Lessor, to the effect that the exceptions, if any, contained in the title insurance policy referred to in (4) above do not interfere with the beneficial use and occupancy of the Substituted Property described in such policy by the Lessee for the purposes of leasing or using the Substituted Property;
4. An Opinion of Counsel, nationally recognized as having expertise in the exemption of interest from gross income under the Code, that the Substitution or Release does not cause the interest with respect to any Proceeds Bonds that were the source of part or all of the Facility Funds, or any Secured Bonds, to be includable in gross income of the Owners thereof for federal income tax purposes;
5. A Certificate of the Lessee stating that the Lessee has complied with the covenants contained in subsections (1) and (2) of Section 6.03(a) with respect to the Substituted Property; and
6. Evidence that the Lessee has delivered to the Lessor copies of the certificates and appraisal described in subsections (1) and (2).

These requirements will be met by the City subsequent to IBank board approval. Amended Financing and Site Leases will be drafted, executed, and recorded. The title company will issue a title insurance policies on the Substituted Assets, and legal counsel will provide legal opinions. IBank shall charge \$20,000 for extraordinary expenses related to the modifications of the Financing Lease and Site Lease as requested by the City.

Compliance with the ISRF Revenue Bonds 2014 Indenture

This modification has no impact on the 2014 Indenture.

APPROVAL AUTHORIZATION

The request for substitution of a Leased Asset securing an ISRF loan must be approved by the IBank Board. The Board's delegation of authority to the Executive Director under Resolution 21- 11 does not apply to "any change in the security pledged to repay the ISRF Program Loan", therefore Board approval is required to authorize this substitution.

STAFF RECOMMENDATION

Staff recommends approval of Resolution 24-22 authorizing the release of the Leased Asset, to be replaced with the Substituted Assets.