CITY OF GOLETA

Agenda Item A.6
CONSENT CALENDAR
Meeting Date: December 3, 2019

TO: Mayor and Councilmembers

FROM: Luke Rioux, Finance Director

SUBJECT: Financing for Purchase of 130 Cremona Drive and Fund Balance

RECOMMENDATION:

Authorize staff to submit an application to the California Infrastructure and Economic Development Bank in an amount of $10,000,000, for Financing of the City Hall Purchase and Improvements Project, in accordance with Resolution No. 19-55.

BACKGROUND:

On September 17, 2019 the City Council received two staff reports: the FY 18/19 4th Quarter Financial Review – Unaudited (Year-End Report); and Financing for the Purchase of 130 Cremona Drive (Financing Report). The Year-End Report had updated information on the estimated June 30, 2019 unassigned fund balance amount, which has increased significantly to approximately $8.3 million. In the Financing Report, staff provided information on financing with the California Infrastructure Economic Development Bank (IBank) for the purchase of the City Hall building at 130 Cremona Drive and included a resolution that authorized financing up to $10 million. After reviewing both reports, City Council inquired about considering the use of the unassigned fund balance and borrowing less, in addition to evaluating other options the City has.

The purpose of this report is to provide further analysis on the financing amount of 130 Cremona Drive, including potential use of additional unassigned fund balance from the General Fund. This report also summarizes and considers the use of unassigned fund balance for other priorities of the City Council that were identified during the FY 2019/20 and 2020/21 budget adoption process and highlights other future priority funding needs. The report explains staff's recommendation to confirm IBank financing in a not to exceed amount of $10 million.

DISCUSSION:

Staff has prepared an analysis below to evaluate the updated General Fund Balance amounts, City Hall financing options, and a list of priorities such as unfunded retirement liabilities, Capital Improvement Program (CIP) projects with funding sources to be determined, and major maintenance work efforts that will require additional one-time or reoccurring funding. Information on financing alternatives is provided as well.

General Fund Balance Update

Below is a recap of the General Fund Balance as of June 30, 2019 presented in the FY 18/19 Year-End Report and adjusted as of year-end closing, September 30, 2019. The City is undergoing its annual audit and will have finalized numbers by December 2019.

Categories	FY 18/19 Ending Fund Balance	FY 18/19 Adj. Ending Fund Balance	FY 19/20 Est. Ending Fund Balance
Contingency	8,276,632	8,276,632	8,532,205
Public Facilities	830,108	830,108	830,108
Capital Equipment	452,122	624,869	624,869
Compensated Leave	229,861	237,123	237,123
Building Maintenance	-	-	-
Risk Management	195,000	200,000	200,000
OPEB UAL	333,500	333,500	333,500
CalPERS UAL	170,000	170,000	170,000
CIP Project Funding	2,710,509	2,745,358	-
Encumbrances	2,136,666	2,102,961	-
Street Maintenance	-	-	-
Litigation Defense Fund	300,000	300,000	140,000
Sustainability	-	-	292,500
Prepaids and Deposit	116,660	126,660	10,000
Unassigned Fund Balance	8,365,736	8,144,887	7,740,234
Total	**$ 24,116,794**	**$ 24,092,098**	**$ 19,110,539**

For FY 19/20, amounts are adjusted to policy level, including net operating revenues of $918,333 in FY 19/20, carryovers, Council approved appropriations, and recommended FY 19/20 first quarter budget adjustment. The recently adopted budget included setting aside $300,000 for sustainability efforts, of which $7,500 was appropriated, leaving a balance of $292,500. An additional $397,914 was also appropriated since start of FY 19/20, for a total of $405,414. In efforts to provide the most up to date information, staff included the recommended FY 19/20 first quarter budget adjustments (pending City Council approval) of $160,000 from Litigation Defense Fund and $366,159 affecting the Unassigned Fund Balance. The following table summarizes both new adopted appropriations and pending appropriations:

Council Meeting Date	Source	Amount	Description
7/16/2019	Unassigned FB	$180,000	MSA with Rincon Consultants for Open Space Management Services
8/20/2019	Unassigned FB	$ 47,949	NSPS Support to Other Agencies
8/20/2019	Sustainability	$ 7,500	Cost share to update Monterey Bay Community Power Implementation Plan
9/3/2019	Unassigned FB	$ 18,165	City Council Internship Program/Travel Budget
9/17/2019	Unassigned FB	$100,800	New FTE: Mgmt Analyst and Assistant to City Manager, to start 3/1
9/17/2019	Unassigned FB	$ 51,000	Reimbursing SBCAG for ALUCP withheld grant funds from CalTrans
	Total	**$405,414**	
Pending Council Approval - See FY 19/20 First Quarter Financial Review for additional information			
12/3/2019	Litigation	$160,000	Continued litigation matters
12/3/2019	Unassigned FB	$366,159	Various IT, affordable housing consultant, building and safety, maintenance, and CIP funding needed for San Jose Creek Channel Repair
	Total	**$526,159**	

The estimated ending unassigned fund balance for FY 19/20 stands at $7.7 million. This amount has grown over-time due to a combination of higher revenues received than anticipated and various savings experienced, including the net operating revenue anticipated for FY 19/20. The unassigned fund balance is the residual positive net resources of the general fund in excess of what can be properly classified in other categories. These funds are available for one-time costs and are used to address the current unanticipated expenditures and revenue shortfalls throughout the fiscal year, in other words, this balance also acts as a budget stabilizer. This balance is constantly adjusted based on changes to the budget and actual revenue and expenditure activity. The amount needed in unassigned fund balance depends on cash flow and other needs of the City and may change overtime. Staff has found that a healthy balance of these funds is approximately no less than $1 million, in order to address immediate one-time appropriations or function as a one-time revenue stabilizer if expectations were to fall short within the general fund or other special revenue funds. When considering the $1 million as the floor amount, there is approximately $6.7 million of discretionary funding that may be used for City Council priorities needing one-time expenditures, including lowering the financing amount for the City Hall purchase.

It should be noted that cash flow needs can vary depending on activity levels for the fiscal year. For example, certain large-scale projects (Ekwill/Fowler, Train Depot, Fire Station No. 10, San Jose Creek Bridge, including the purchase of 130 Cremona) that rely heavily on grants or special fund reimbursements, will require the City to upfront funds first, before later receiving reimbursement. The cash flow and liquidity needs will need to be confirmed with Finance staff, as cash flow activities are reconciled daily. The unassigned fund balance provides extra cash flow support.

It is good financial practice to use one-time funds for investments in one-time capital, unfunded liabilities, rebuilding reserves, retiring debt early or working capital for investment such that the use of funds results in future efficiencies or other future expenditure savings or increased revenue. It is also good practice, and one which is noted by bond rating agencies, to use excess General Fund only for general purposes and not for the support of enterprise expenditures, which should be fully supported from enterprise revenues. The City currently does not have enterprise funds. Use of one-time funds should not be used for ongoing operating expenses.

City Hall Financing Overview

At the September 17, 2019 City Council meeting, staff provided an analysis of the financing amount needed for 130 Cremona Drive. The different variations analyzed include a range from $10 million to $12 million with the California Infrastructure and Economic Development Bank (IBank) Infrastructure State Revolving Fund (ISRF) Loan Program. It was originally anticipated that $12 million would be needed to finance the project, though after further analysis and adjustments to the purchase and sale agreement, staff recommends financing up to a not to exceed amount of $10 million. The total purchase price of the building is approximately $11.5 million, of which staff has programmed approximately $1.5 million in City funds, leaving a balance of $10 million.
Below is the original table provided to Council, comparing the annual debt service payments at different borrowing amounts, along with the budgetary impacts:

IBank - 3.52%, 30 Years	IBank $10M	IBank $11M	IBank $12M
IBank - ISRF Loan Amount	$ 10,000,000	$ 11,000,000	$ 12,000,000
One-Time Origination Fee	**$ 100,000**	**$ 110,000**	**$ 120,000**
Interest/Admin Cost over 30 years	**$ 6,879,998**	**$ 7,567,998**	**$ 8,255,998**
FY Annual Debt Service	**$ 571,678**	**$ 628,846**	**$ 686,014**
19/20 Budget (City Hall Lease + CAM)	**$ 760,300**	**$ 760,300**	**$ 760,300**
Variance	*$ 188,622*	*$ 131,454*	*$ 74,286*
Estimated Annual Maintenance	**$ 125,000**	**$ 125,000**	**$ 125,000**
Annual Debt + Est Annual Maintenance	**$ 696,678**	**$ 753,846**	**$ 811,014**
Budgetary Impact	$ (63,622)	$ (6,454)	$ 50,714

Financing $10 million will result in annual debt service payments and maintenance costs of $697,000, with an estimated annual savings of approximately $63,000 when compared to the current leasing and maintenance costs of $760,300. For every $1 million change in the total financed, the debt service payment will increase or decrease by $60,000 annually, and overall interest will increase or decrease by $688,000 over the 30 year financing period.

Given the higher than anticipated unassigned fund balance amount, City Council could choose to appropriate additional funds towards the purchase of the property to lower the overall annual debt service payments and interest cost over the 30-year period. The decrease will depend on the amount. The table below describes the fiscal impacts if the City were to utilize financing in the range of $7 to $9 million, with further discussion on alternative funding amount options.

IBank - 3.52%, 30 Years	IBank $7M	IBank $8M	IBank $9M
IBank - ISRF Loan Amount	**$ 7,000,000**	**$ 8,000,000**	**$ 9,000,000**
One-Time Origination Fee	**$ 70,000**	**$ 80,000**	**$ 90,000**
Interest/Admin Cost over 30 years	**$ 4,815,998**	**$ 5,503,998**	**$ 6,191,998**
Total Financing Cost	**$ 4,885,998**	**$ 5,583,998**	**$ 6,281,998**
Total Finance Cost Difference from $10M (over 30 years)	**$ (2,094,000)**	**$ (1,396,000)**	**$ (698,000)**
FY Annual Debt Service	**$ 400,175**	**$ 457,343**	**$ 514,511**
19/20 Budget (City Hall Lease + CAM)	**$ 760,300**	**$ 760,300**	**$ 760,300**
Variance	*$ 360,125*	*$ 302,957*	*$ 245,789*
Estimated Annual Maintenance	**$ 125,000**	**$ 125,000**	**$ 125,000**
Annual Debt + Est Annual Maintenance	**$ 525,175**	**$ 582,343**	**$ 639,511**
Annual Budgetary Impact	$ (235,125)	$ (177,957)	$ (120,789)
Annual Difference from from $10M	$ (171,504)	$ (114,336)	$ (57,168)

Note: This analysis above, does not consider interest earnings that the City could achieve by holding and investing the cash it does not spend. A detailed worksheet of the financing amount for City Hall is provided as Attachment 1.

The lower the financing amount, the higher the overall savings experienced. The table above includes the annual budgetary differences when compared to financing $10 million. Below is an overview of the alternative financing amounts at $10 million and less.

<u>Option 1: Finance $10 million</u>

While the City can finance the entire total purchase price of the building of $11.5 million, financing up to $10 million is recommended, as it is the amount needed to complete the purchase price, without having to appropriate additional funding. Due to the low-interest rate financing with IBank, this amount would result in the least change to the City's overall budget and keep the annual amounts below of what is currently programmed for the rent payments. This approach reflects Council direction that staff received in closed session on January 15, 2019. At the City Council meeting on April 16, 2019, and during the adopted budget process, financing up to $12 million was anticipated, which included the total purchase price and estimated elevator installation cost of $350,000.

The pros with this approach are as follows: Low and stable semi-annual payments with IBank ISRF Program; No additional budget appropriation and maintains financial flexibility and liquidity to fund other City priorities; Annual savings of approximately $60,000.

The cons with this approach are: Costs are higher when compared to lower financing amounts; Liquidity loss of $1.5 million, as compared to higher financing, as the entire project is considered a great candidate that is eligible for IBank ISRF Program, so IBank is willing to finance the entire purchase price plus elevator costs if installed within three years; Restrictions on use of additional space acquired, as it can only be used for governmental purposes.

If utilizing Option 1, staff recommends also setting aside approximately $350,000 from the General Fund for future elevator installation.

Option 2: Financing $9 or $8 million, plus Unassigned Fund Balance

Financing at either of these amounts will require additional appropriation of unassigned fund balance of either $1 or $2 million from the unassigned fund balance of $6.7 million.

The pros with this approach are as follows: Lower cost of financing; Interest savings over a 30-year period; Increase in net operating revenue by approximately $60,000 to $120,000, assuming all other things being equal. The net operating revenue increase is the result of the annual expenditure savings for financing a lower amount.

The cons with this approach are: Forgone interest earnings on the additional $1 or $ 2 million; Less liquidity, as total one-time funding of $2.5 or $3.5 million will be made toward the purchase; Less flexibility on use of unassigned fund balance for other unfunded priorities; Restrictions on use of additional space acquired.

Option 3: Finance $7 million, plus Unassigned Fund Balance

This option will require an additional appropriation of $3 million from the unassigned fund balance of $7.2 million, resulting in a balance of $4.2 million available for other unfunded priorities. It will result in annual budgetary savings of $235,125 or $2,094,000 in interest savings over a 30 year period.

The pros with this approach are as follows: The lowest financing option staff recommends; Net operating revenue will increase by $235,125 annually (assuming status quo budget), and increased total interest savings; City may also have additional flexibility with use of the building, but will require further analysis; Due to current occupied space of 66% of the building, the City can execute a site lease with the financing lease agreement, specifying the tax exempt financing applied only to the current space occupied by the City Hall staff, and fund the additional square feet of office space with the City's current programmed funding and additional funds of $3 million for total City funding of approximately $4.5 million; Choosing Option 3 will allow the City to have open options on the additional space being acquired, including private activity; The City could lease this space temporarily and potentially recoup costs in the long run.

The cons with this approach are: Foregone interest earnings; Less liquidity, as one-time funding of $4.5 million will be made towards the purchase, resulting in $3.7 million available for unfunded priorities; Additional ongoing costs may be incurred as the City would be operating as a property manager, which will result in increased staff workload, and additional staff needed; Market rental risk and vacancies issues.

Option 4: Finance $7 million, plus hybrid internal fund borrowing

If Council is interested in pursuing the $7 million financing option to allow a variety of options for the use of the additional space, and maintain the flexibility of the $6.7 million in unassigned fund balance, the City can explore structuring a loan from the Contingency Reserve or other special revenue fund balances (internal service fund loans). The City's contingency reserve policy is set at 33% of the General Fund ongoing expenditures.

Within the policy, up to one-third of the contingency reserve balance ($2.8 million) may be used to finance capital acquisitions so long as the loan is repaid within five years. This results in average annual payback amount of $560,000. Since the financing amount for $7 million is anticipated to result in an increase of $235,125 of annual net operating revenue, an additional $324,875 will be needed for payback. If the City chose to lease the space out over the next five years, and depending on the lease revenue received, this payback amount may be further reduced. The City is currently undergoing a space needs analysis, and will have a firm idea of how much space we will need and how much we can lease once the analysis is completed.

The pros with this approach are as follows: Increase flexibility on use of the building, possible revenue generation; Lower annual debt service payments and interest savings; maintain flexibility with Unassigned Fund Balance to address other priority needs.

The cons with this approach are: Forgone interest earnings; Less liquidity available for other funding priorities; Additional costs for personnel and increase staff workload; Increased market risk; five-year payback to contingency reserve lowering the net operating revenue.

<u>Option 5: Defer action and provide direction to staff</u>

Council may defer action and provide direction to staff to evaluate different variation of funds to complete the purchase, decide on the amount after completion of the space needs analysis, or evaluate other financing options. Other financing options may result in higher interest costs and issuance costs, such as issuing certificates of participations, utilizing other conduit bond issuers, or bank financing. Deferring action until after the space needs analysis will result in further delays for reimbursements, increase the risk for reimbursement and may affect the liquidity needs of the city. On September 18, 2019, the City Council adopted a resolution that allows the City to obtain tax-exempt financing within eighteen months of the expenditure date. The IBank is recommended due to its overall low cost of financing made available to public agencies in comparison to other options and the project being eligible due to the type of use, including the amount under the threshold of $25 million. A summary of capital funding mechanisms and their characteristics is provided as Attachment 5 for reference.

Financing Amount Options Summary

The following list summarizes the financing options described above:

1. Approve financing of $10 million
2. Approve financing of $8 million or $9 million, and appropriate an additional $2 million or $1 million from General Fund Unassigned Fund Balance.
3. Approve financing of $7 million and appropriate an additional $3 million from General Fund Unassigned Fund Balance
4. Approve financing of $7 million and explore use of loan structure from Contingency Reserves
5. Defer action and provide direction to staff

Should Council decide to appropriate additional funds from the unassigned fund balance of $6.7 million to supplement the financing amount for City Hall, other City Council priorities, such as unfunded liabilities, projects and settlement payments should be considered and evaluated. The next section of this report is an overview of the City's unfunded retirement liabilities (pension and OPEB), the California Department of Finance (DOF) settlement agreement payment, CIP projects with funding sources to be determined, and other priority items that may need additional one-time or ongoing funding.

Other City Council Priorities – Unfunded Liabilities

Unfunded Liabilities:

The following table is a list of the City's unfunded liabilities. Unfunded liabilities are as of recent actuarial reports and repayment schedules and total $9.5 million. Funding is currently set aside for both pension unfunded accrued liabilities and OPEB liabilities in the General Fund. The City annually appropriates an annual payment amount of approximately $776,000 related to the DOF settlement agreement, and annually appropriates liability payments for CalPERS UAL and expenditures directly related to retiree OPEB healthcare costs.

Unfunded Liabilities	Est. Amount	Current Funding	Adj. Est. Amount	Other Potential Sources
Unfunded Liabilities:				
CalPERS Unfunded Accrued Liability	$ 3,471,435	$ 333,500	$ 3,137,935	N/A
OPEB Unfunded Accrued Liability	$ 1,827,335	$ 170,000	$ 1,657,335	N/A
Settlement Agreement RDA - DOF	$ 4,655,646	$ -	$ 4,655,646	N/A
Total	**$ 9,954,416**	**$ 503,500**	**$ 9,450,916**	

Options and Strategies to Address Unfunded Liabilities:
The following section identifies some of the options the City can pursue to address its current unfunded liabilities. This section is informational only, and any proposed action will require further analysis.

Unfunded Liabilities – CalPERS Unfunded Accrued Liability (UAL)

In general, paying down the City's retirement liability will generate additional long-term savings and may result in ongoing budgetary savings, as the unfunded accrued liability payment may go away. A further analysis on funding strategies is recommended before paying down the UAL, which staff is currently developing with the City's CalPERS actuary.

The UAL represents the difference between the funds needed to pay future benefits and the market value of assets in the pool. As of the latest June 30, 2018 valuation, the City's total pension UAL was $3,217,394 and the plan's funded ratio was 80.7%. The funded ratio is one indicator of the plan's health. Like all cities, Goleta will experience increased pension costs in the future years. The following chart summarizes the City's current and projected employer contributions for the next six years for classic members.

Fiscal Year	19/20	20/21	21/22	22/23	23/24	24/25	25/26
Normal Cost %	10.22%	11.03%	11.00%	11.00%	11.00%	11.00%	11.00%
UAL Payment	$ 167,823	$ 204,228	$ 246,000	$ 282,000	$ 303,000	$ 324,000	$ 333,000

The City currently makes annual lump sum prepayments of the UAL in July every year resulting in average annual cost savings of approximately $6,000. While there are a variety of strategies to implement with paying down the UAL, the following table compares five options: Status quo; Paying off the UAL completely; Changing the amortization schedule to either 15 or 10 years; Making an additional payment.

Options	Pros	Cons	Estimated Savings
Status Quo	Maintain liquidity and flexibility by preserving local control of cash assets	Highest costs, ongoing liability, future budget challenges as costs rises. Total interest of $3,801,325 over 30 years.	N/A
Pay Off Completely	Elimination of UAL. Greatest interest savings experienced.	Reduced flexibility to allocate resources. Future market risk. CalPERS would not return or credit the City's plan for excess amounts paid	$3,801,325
15 Year Amortization	Fast elimination of UAL.	Higher annual payment over 15 years. Not flexible, City must commit. Average cost increase of	$834,967
10 Year Amortization	Faster elimination of UAL. Higher savings.	Higher annual payments over 10 years.	$1,702,033
Additional Payment	Reduction in UAL depends on amount. Flexible and discretionary.	Applied against outstanding unfunded liabilities only. Future assets in excess of liabilities will not be refunded	Varies (requires further analysis)

Actual savings are subject to further analysis and discussion with CalPERS actuary.

Paying off UAL balance in one lump sum may result in the greatest overall interest savings, followed by adopting the shortest amortization schedule. One-time additional discretionary payments can also be made, though savings will depend on amount and how it's applied. Additionally, a hybrid strategy can be developed, such as making an additional discretionary payment and adopting a shorter amortization schedule. Based on CalPERS actuarial assumptions, to achieve greatest savings, the best option would be to pay off UAL completely. The largest risk of completely paying off the unfunded liability is if the rate of return on CalPERS investments performs better than expected. It is in this instance CalPERS will not return excess funds the City paid or credit it toward the liability. Additionally, volatility of annual returns is also a major concern for lump sum payments as it would be without paying down the UAL. Once a plan's funded status is 100% or greater, the employer continues to pay the normal cost only. As mentioned, there are a variety of other ways to plan for the future costs increases, and address volatility, some of which are as follows:

- Set aside additional funds to current reserve amount for the expected cost increases to help soften the cost increases in future years.
- Place funds in pension trusts, and use funds to phase in future cost increases

While these strategies are good practice, they do not result in paying down or reducing the unfunded liability directly or recognizing an asset when CalPERS sets contribution rates. These strategies are best used as stabilization tool after UAL is paid down. Setting funds aside will allow the City to gradually build up funds to address the future cost increase. After the UAL has been paid down completely, staff recommends utilizing the trust option as a stabilization fund tool and develop a funding policy. Doing so will help the City achieve control of long-term costs and volatility.

<u>Unfunded Liabilities – OPEB Unfunded Accrued Liability</u>

The City offers a retirement health insurance program for employees that retire from the City. A person who retired from the City past the age of 50 with five-years of membership with CalPERS is eligible to receive the benefit. The City currently processes retiree healthcare payments on a "pay-as-you-go" basis. In Fiscal Year 19/20, the City's annual contribution for retiree healthcare is anticipated to be $21,300. The OPEB's unfunded accrued liability amount based on its 6/30/18 valuation is $1.8 million. The City currently has $333,500 set aside for this effort but will eventually move funds over to a Section 115 Trust once established. A Request for Proposal (RFP) was released on September 13, 2019 for establishing, administering, and management services of a Section 115 Trust. The deadline for proposal submissions was October 14, 2019. After evaluation of proposals, staff will review its findings with the Finance Committee. A Section 115 Trust would increase the benefit security for plan participants and ultimately reduce the City's benefit liability.

<u>Unfunded Liabilities – DOF Settlement</u>

The City's net operating revenue is currently limited by the DOF settlement payment agreement, which requires annual appropriation of $776,000 through FY 2025/26. Paying off the $4.6 million will result in the $776,000 being available as part of net operating revenue on an ongoing basis and one-time revenues of $233,000 back to the City. Below is a current snapshot of the projected General Fund forecast through FY 2025/26.

Categories	FY 2019/20 Revised	FY 2020/21 Revised	FY 2021/22 Projected	FY 2022/23 Projected	FY 2023/24 Projected	FY 2024/25 Projected	FY 2025/26 Projected
Revenues	$ 28,355,500	$ 28,800,738	$ 29,154,042	$ 29,516,131	$ 29,887,255	$ 30,245,902	$ 30,608,852
Expenditures	$ 26,767,567	$ 27,865,606	$ 27,775,132	$ 28,346,154	$ 28,928,597	$ 29,536,098	$ 30,156,356
DOF Settlement	$ 776,000	$ 776,000	$ 776,000	$ 776,000	$ 776,000	$ 776,000	$ -
Net Operating Revenues	**$ 811,933**	**$ 159,132**	**$ 602,910**	**$ 393,977**	**$ 182,657**	**$ (66,196)**	**$ 452,496**
Beginning Fund Balance	**$ 24,116,794**	**$ 19,754,109**	**$ 19,913,241**	**$ 20,516,151**	**$ 20,910,128**	**$ 21,092,785**	**$ 21,026,589**
Contingency Reserve	$ 8,532,205	$ 9,063,650	$ 9,165,793	$ 9,354,231	$ 9,546,437	$ 9,746,912	$ 9,951,598
Other Reserve Categories	$ 2,998,102	$ 3,023,962	$ 3,078,032	$ 3,135,395	$ 3,196,252	$ 3,260,815	$ 3,329,309
Unassigned Fund Balance	$ 8,223,802	$ 7,825,630	$ 8,272,326	$ 8,420,502	$ 8,350,096	$ 8,018,862	$ 8,198,179
Ending Fund Balance	**$ 19,754,109**	**$ 19,913,241**	**$ 20,516,151**	**$ 20,910,128**	**$ 21,092,785**	**$ 21,026,589**	**$ 21,479,085**

Below is a revised forecast with paying off the $4.6 million DOF settlement.

Categories	FY 2019/20 Revised	FY 2020/21 Revised	FY 2021/22 Projected	FY 2022/23 Projected	FY 2023/24 Projected	FY 2024/25 Projected	FY 2025/26 Projected
Revenues	$ 28,588,500	$ 28,800,738	$ 29,154,042	$ 29,516,131	$ 29,887,255	$ 30,245,902	$ 30,608,852
Expenditures	$ 26,767,567	$ 27,865,606	$ 27,775,132	$ 28,346,154	$ 28,928,597	$ 29,536,098	$ 30,156,356
DOF Settlement	$ 4,655,646						
Use of Fund Balance	$ 4,655,646						
Net Operating Revenues	**$ 1,820,933**	**$ 935,132**	**$ 1,378,910**	**$ 1,169,977**	**$ 958,657**	**$ 709,804**	**$ 452,496**
Beginning Fund Balance	**$ 25,007,842**	**$ 15,098,463**	**$ 16,033,596**	**$ 17,412,505**	**$ 18,582,482**	**$ 19,541,139**	**$ 20,250,943**
Contingency Reserve	$ 8,532,205	$ 9,063,650	$ 9,165,793	$ 9,354,231	$ 9,546,437	$ 9,746,912	$ 9,951,598
Other Reserve Categories	$ 2,998,102	$ 3,023,962	$ 3,078,032	$ 3,135,395	$ 3,196,252	$ 3,260,815	$ 3,329,309
Unassigned Fund Balance	*$ 8,223,802*	*$ 3,945,984*	*$ 5,168,680*	*$ 6,092,856*	*$ 6,798,450*	*$ 7,243,216*	*$ 7,422,533*
Use of Unassigned Fund Balance	*$ (4,655,646)*						
Adj Unassigned Fund Balance	**$ 3,568,156**	**$ 3,945,984**	**$ 5,168,680**	**$ 6,092,856**	**$ 6,798,450**	**$ 7,243,216**	**$ 7,422,533**
Ending Fund Balance	**$ 15,098,463**	**$ 16,033,596**	**$ 17,412,505**	**$ 18,582,482**	**$ 19,541,139**	**$ 20,250,943**	**$ 20,703,439**

As seen in the table above, the net operating revenue significantly increases year to year through FY 2024/25. The net operating revenue increases the City's debt capacity if financing is needed to complete projects, expands the ability to take on increased costs and new ongoing personnel and programs, and would offset any ongoing reductions in revenues. Any unused net operating revenue grows the overall fund balance. After allocating the reserve funding categories, the excess funds may result in increases to the unassigned fund balance.

Other City Council Priorities – Capital Improvement Program Projects

Capital Improvement Program Projects:

In total, there are 62 projects included in the Five Year CIP Budget. The following table is a list of the City's CIP projects identified in the recent budget with estimated amounts that have funding sources to be determined. The amounts are reflective of the five-year budgeted amounts, totaling approximately $34.5 million. To see the amounts allocated over each fiscal year, see Attachment 2. These estimates and funding sources are updated annually during the budget process and subject to change as more information is known and other funding sources may become available. Depending on grants, future development impact fee revenues, or the type of project or liability, other funding sources may be available. Included in the list a column identifying other potential funding sources, though will require further analysis.

Staff met internally on October 24, 2019 to discuss future projects. The summary notes on those projects are provided in the table below. Public Works will be reviewing and reprioritizing its priority list of critical projects. Projects will be evaluated from a safety and maintenance perspective, and discussed at a future workshop. Additionally staff will be bringing back to the Finance Committee and Council to formally adopt a Capital Planning and Budgeting Policy as recommended by the Government Finance Officers Association (GFOA). The current list below should be for review only and is listed by project number, in no order of priority.

See CIP Projects table on next page.

CIP Projects (Next Five Years)	Est. Amount	Current Funding	Adj. Est. Amount	Other Potential Sources
9001-Hollister Avenue Complete Streets Corridor Plan	$ 1,509,600	$ -	$ 1,509,600	*Grants, DIF, IBank*
9006-San Jose Creek Bike Path - Southern Extent	$ 2,998,320	$ -	$ 2,998,320	*Grants, DIF, IBank*
9007-San Jose Creek Bike Path - Middle Extent	$ 3,422,840	$ -	$ 3,422,840	*Grants, DIF, IBank*
9009-San Jose Creek Improvements and Fish Passage	$ 379,300	$ -	$ 379,300	TBD
9025-Fire Station No. 10	$ 4,275,176	$ -	$ 4,275,176	*DIF, IBank*
9053-Cathedral Oaks Crib Wall Interim Repair Project	$ 6,692,436	$ -	$ 6,692,436	TBD
9064-Reclaimed Water Service to Evergreen Park	$ 306,300	$ -	$ 306,300	*DIF, IBank*
9065-Reclaimed Water Service to Bella Vista Park	$ 226,900	$ -	$ 226,900	*DIF, IBank*
9067-Goleta Community Center Upgrade	$ 725,293	$ -	$ 725,293	*Grants, IBank, Revenue Bond*
9069-Miscellaneous Facilities Improvements	$ 743,650	$ -	$ 743,650	*TBD*
9077-Recreation Center/Gymnasium	$ 1,938,585	$ -	$ 1,938,585	*DIF, IBank, Revenue Bond*
9078-Rancho La Patera Improvements	$ 2,981,650	$ -	$ 2,981,650	*DIF, IBank*
9081-Covington Drainage System Improvements	$ 3,683,350	$ -	$ 3,683,350	*IBank*
9083-Traffic Signal Upgrades	$ 114,775	$ -	$ 114,775	*IBank*
9085-Goleta Storm Drain Master Plan	$ 520,600	$ -	$ 520,600	*TBD*
9086-Vision Zero Plan	$ 283,650	$ -	$ 283,650	*TBD*
9096-Orange Avenue Parking Lot	$ 294,135	$ -	$ 294,135	*DIF, IBank*
9097-Fairview Corridor Study (Fowler Road to Calle Real)	$ 361,250	$ -	$ 361,250	*DIF, Measure A*
9100-Hollister Avenue/Fairview Avenue Roundabout (Intersection Improvements)	$ 555,550	$ -	$ 555,550	*DIF, IBank*
9101-City Hall Purchase & Improvements	$ 350,000	$ -	$ 350,000	*DIF, IBank*
TBD-02-Citywide School Zones Signage & Striping Evaluation	$ 242,500	$ -	$ 242,500	*Measure A*
TBD-03-Citywide Evaluation of Existing Traffic Signals	$ 242,500	$ -	$ 242,500	*Measure A*
TBD-04-Ellwood Beach Drive Drainage Infrastructure Replacement	$ 226,725	$ -	$ 226,725	*TBD*
TBD-05-Phelps Ditch Flood Control Channel Trash Control Structure	$ 667,050	$ -	$ 667,050	*TBD*
TBD-06-Old Town South Fairview Avenue, High Flow Trash Capture Devices	$ 320,800	$ -	$ 320,800	*TBD*
TBD-08-Ward Drive Sidewalk Infill	$ 388,006	$ -	$ 388,006	*TBD*
Total	**$ 34,450,941**	**$ -**	**$ 34,450,941**	

Notes: The following are revised estimates that are not reflective in the CIP budget:

Goleta Community Center Upgrade (ADA, Parking Lot, Seismic Updates) -$1.5 million – from previous study, cost estimates subject to increase, at this time estimating $6-$8 million; US 101 Overcrossing is anticipated to costs between $20-$30 million; Cathedral Oaks Dip -$100,000; Fairview/Stow Canyon Traffic Signal; $800,000, San Jose Creek Multi-Purpose Path; $5 million; Hollister Avenue Bridget Match $2 million; and San Jose Creek Annual Cleanout -$200,000 (ongoing maintenance)

In summary, total CIP project budget funding sources to be identified are $10.1 million over the next two years or $34.45 million over the next five years, if the CIP projects stay on their current project delivery time frames (does not include revised estimates). CIP project budgets are updated annually through the budget adoption process.

Options and Strategies to Address CIP Projects:

<u>CIP Project Budgets</u>

In the current fiscal year approximately $1.9 million of CIP project budgets were identified as funding to be determined, and in FY 20/21 that figure is estimated to be $7.8 million, if project timing and revenue sources remain unchanged. Additional details can be found in Attachment 2 and in the adopted CIP budget available on the website. Each project will need to be further evaluated, and confirmation made if no alternative funding source is available. Depending on the type of project, grants and alternative financing options may be available. Staff has included a preliminary analysis of other financing sources in the table above. For example, staff has reached out to IBank and they have indicated Fire Station No. 10 would be an appropriate project to finance if additional funding is needed in the future. More analysis on this option is need, but preliminary discussions have begun.

Additionally, Public Works will be reprioritizing its project list, from a critical safety and maintenance need perspective, and will be discussed at a future workshop. Finance staff will also be developing and implementing recommended best practices from the GFOA as they relate to capital budgeting and multi-year planning.

Other Priority Funding Needs:

The following table is a list of other City priority funding needs and is not complete. The list provides information of other priorities such as pavement maintenance and other unanticipated costs the City may experience in the future related to ongoing programs or projects that should be considered before taking on new work efforts. Actual funding needs will require additional analysis, and will be dependent on the activity. The list is separated in two sections, identified as one-time and ongoing. “One-time” uses of funds do not create ongoing annual budget expenses for the City. Such expenditures are for projects or programs that are completed within the fiscal year. While there may be some future maintenance costs for some of these items, such costs are relatively minor when measured against the General Fund as a whole. “Ongoing” uses of funds, on the other hand, demand continuing expenditures in future years. The most obvious example is the addition of a new employee. Salary, benefits, and support costs, such as training and equipment, will affect every future budget for as long as the new position remains in the budget. Because there are future cost increases to which the City may be committed, extreme care needs to be exercised so that current year commitments do not overwhelm future year resources. While most of the projects funded by the General Fund will not create new expenditure commitments, some of the projects funded from other sources will have that effect—particularly new parks (as compared to improvement of existing parks) and new public buildings. On the other hand, many projects, especially street maintenance and park rehabilitation projects, should help control future costs by minimizing the need for emergency repairs.

Other Priority Funding Needs:	Est. Amount	Notes
One-Time: *(Funding for one-time projects should be funded by one-time revenue sources.)*		
Other Improvement Needs after City Hall Purchase	TBD	*Includes entire building, possible improvements based on space needs analysis, and use of additional space.*
Future Write-Offs	TBD	*Varies year to year. Funds should be set aside to address possibility of write-offs. Anticipated $175,000.*
Future Property Acquisitions	TBD	*Current balance is $830,108. Ongoing costs may occur, depends on project.*
Sustainability Efforts	TBD	*Current balance is $292,500. Possible ongoing funding efforts to be considered.*
Ranger House	TBD	*Needs further analysis.*
Other CIP Projects with funding to be determined, such as Hollister Complete Streets implementation	TBD	*Current five-year CIP budget identifies $34.1 million. Other priority projects in future years, or new critical projects may arise*
Parks Master Plan Implementation	TBD	*Needs further analysis. Costs associated with future one-time projects identified. Constructed projects or new programs may result in ongoing maintenance and operating expenditures. IT Strategic Plan Implementation has approximately $400k set-aside.*
Bike/Ped Master Plan Implementation	TBD	
ADA related improvements	TBD	
IT Strategic Plan Implementation (approx. $400k set-aside)	TBD	
Other study implementations	TBD	
Ongoing: *(Funding for ongoing expenditures will need a dedicated source of revenue. A measure of City's capacity for ongoing expenditures is the net operation revenue)*		
Other ongoing expenses with new space acquired	TBD	*Depends on use of additional space after acquisition of building. Such costs increases may be experienced: utilities, new personnel, office equipment and software licensing, etc.*
Affordable Housing Functions	TBD	*Needs further analysis. Proposal of adding a Senior Housing Analyst to the Planning Department is being drafted for Council consideration*
Computer Equipment Replacement Reserve	TBD	*Best practice calls for replacement of computers every three years. Funding should be set aside to match schedule of implementation. Needs further analysis. City currently annually budgets this during the budget process.*
Future Personnel (Public Works Phase 1)	TBD	*Council received personnel updates - phase 1 during recent budget adoption. Future personnel needs to address workloads and department responsibilities. Needs further cost analysis.*
Additional Pavement Budget to help maintain PCI Levels and backlog of Pavement Rehabilitation Needs	TBD	*To maintain current PCI of 63 over the next 5 years, it would be average cost of $6.9 million. To get to the multi-tier City goal average PCI of 67, it would be an average of $8.4 million a year. Total funds available for FY 19/20 and FY 20/21 (not including carryovers) is $2.5 million. General Fund is budgeting approximately $710,000 directly for pavement rehabilitation. An additional $6 million would be needed on an ongoing basis. Needs further analysis.*
Backlog of concrete repair	TBD	*Needs further analysis. The City currently annually appropriates funding.*

Backlog of public tree maintenance	TBD	*Needs further analysis. The City currently annually appropriates funding.*
New ongoing maintenance as result of capital project completion or plan document implementation	TBD	*Maintenance costs varies. Ongoing efforts to develop a system to capture estimates of future ongoing maintenance impacts.*
Sustainability maintenance	TBD	*Needs further analysis. Dependent upon future sustainability infrastructure.*
Increased funding for Library	TBD	*Library DIF funds estimated to be depleted by next fiscal year. Supports book acquisitions. General Fund or special revenue funds - fund balance (if available) will need to support. Any changes or increase in programs or personnel, will need additional funding to support ongoing costs.*
New programs or personnel	TBD	*Depends on program and personnel. Funding needed to support ongoing personnel, office equipment, and other related costs. Needs further analysis.*

While the information in this report overall may not be complete, it highlights the City's current unfunded liabilities, projects with funding sources to be determined and other funding priority needs to be considered in the future. The City addresses these priorities through its two-year strategic plan, annual work programs, two-year operating budget, and five-year CIP budget. If an unanticipated event happens or additional expenditures are needed during the fiscal year, the City maintains prudent reserve balances to address these one-time issues.

In addition to this report, staff has provided attachments with information on other capital financing mechanisms, along with a copy of the City's debt management policy and reserve policies for reference.

FINANCE AND AUDIT STANDING COMMITTEE REVIEW:

The Finance and Audit Standing Committee met to review the report on Financing for Purchase of 130 Cremona Drive and Fund Balance on October 31, 2019 and recommended financing $10,000,000 with the IBank for the purchase of 130 Cremona Drive.

FISCAL IMPACTS:

Financing for Purchase of 130 Cremona Drive

The fiscal impact will depend on Council's action on the finalized financing amount for 130 Cremona Drive as described in this report. The City Council has the option to finance the entire purchase amount or reducing its financing down to no lower than available unassigned fund balance. Staff's analysis provides information on reducing the financing amount down from $10 million to $7 million, in which $7 million will result in highest overall savings on borrowing costs in the long term and flexibility with potential vacant space. Depending on amount of additional funding is utilized from the unassigned fund balance, it will affect the flexibility and availability of funds for use with other competing priorities.

The recommended financing of $10,000,000 will result in low and stable semi-annual payments with IBank ISRF Program and no additional budget appropriation. It will maintain financial flexibility and liquidity to fund other City priorities, and result annual savings of approximately $60,000.

Fund Balance

While the City has many competing priorities, staff recommends consider allocating funding in paying off the DOF settlement payment first, then allocating funding towards unfunded liabilities. Staff also recommends setting aside funding for CIP after further analysis by Public Works. Staff will need to confirm if no other funding is available for priority CIP projects, and depending on the amount needed or type of project if it is more appropriate to utilize other financing options.

Paying off the DOF settlement will have the greatest impact on the City's net operating revenues, as describe in the discussion section of this report. Should the City take on any new programs or projects the City's net operating revenue will continue to be impacted. Additional ongoing revenue sources will need to be made available to support future ongoing and increased costs, which may include exploring revenue enhancements, such as tax measures. The adopted FY 19-21 Strategic Plan included a strategic objective to explore possible tax measure options to support the future sustainably of the City's budget, and was included as part of the City Manager's Office and Finance Department's work programs. On November 4th, 2019, staff released a Request for Proposals (RFP) for soliciting professional polling and public opinion research services, along with an RFP for strategic communication services to assist with exploring this option.

ALTERNATIVES:

City Council may direct staff to continue looking into other financing options, which may result in higher costs or choose a different variation of funds to complete the purchase. If Council chooses not to utilize IBank, staff will evaluate other options that may be available. In doing so, may result in further delays for reimbursement and risk of losing the option of reimbursement from tax-exempt financing. Any alternatives causing further delays will result in temporary borrowing from the City's General Fund and pooled cash, until financing is established.

Reviewed By:	**Legal Review By:**	**Approved By:**
Kristine Schmidt Assistant City Manager	Michael Jenkins City Attorney	Michelle Greene City Manager

ATTACHMENTS:

1. City Hall Financing Amount Analysis
2. 5-Year CIP Budget Schedule (Funding Sources To Be Determined)
3. Capital Funding Mechanisms and Characteristics
4. Fund Balance and Reserve Policies
5. Debt Management Policy
6. Draft – Bond Amortization Schedule

ATTACHMENT 1:

City Hall Financing Amount Analysis

City Hall Financing Cost Comparison Estimate

	FY 19/20	Future Costs	Total
130 Cremona Drive Acquisition	$ 11,476,700		$ 11,476,700
Estimated Escrow/Closing Fees	$ 4,600		
Elevator (Estimated)	$ -	$ 350,000	$ 350,000
Prof. Services/Due Dillegence	$ 68,000		$ 68,000
IBank Origination 1% Fee	*$ 100,000*		*$ 100,000*
Total	**$ 11,649,300**	**$ 350,000**	**$ 11,999,300**

IBank - 3.52%, 30 Years	IBank $7M	IBank $8M	IBank $9M	Staff Report Recomm. IBank $10M	IBank $11M	IBank $12M
IBank - ISRF Loan Amount	**$ 7,000,000**	**$ 8,000,000**	**$ 9,000,000**	**$ 10,000,000**	**$ 11,000,000**	**$ 12,000,000**
One-Time Origination Fee	**$ 70,000**	**$ 80,000**	**$ 90,000**	**$ 100,000**	**$ 110,000**	**$ 120,000**
Interest/Admin Cost over 30 years	**$ 4,815,998**	**$ 5,503,998**	**$ 6,191,998**	**$ 6,879,998**	**$ 7,567,998**	**$ 8,255,998**
Total Financing Cost	**$ 4,885,998**	**$ 5,583,998**	**$ 6,281,998**	**$ 6,979,998**	**$ 7,677,998**	**$ 8,375,998**
Total Finance Cost Difference from $10M (over 30 years)	**$ (2,094,000)**	**$ (1,396,000)**	**$ (698,000)**	**$ -**	**$ 698,000**	**$ 1,396,000**
FY Annual Debt Service	**$ 400,175**	**$ 457,343**	**$ 514,511**	**$ 571,678**	**$ 628,846**	**$ 686,014**
19/20 Budget (City Hall Lease + CAM)	**$ 760,300**	**$ 760,300**	**$ 760,300**	**$ 760,300**	**$ 760,300**	**$ 760,300**
Variance	*$ 360,125*	*$ 302,957*	*$ 245,789*	*$ 188,622*	*$ 131,454*	*$ 74,286*
Estimated Annual Maintenance	**$ 125,000**	**$ 125,000**	**$ 125,000**	**$ 125,000**	**$ 125,000**	**$ 125,000**
Annual Debt + Est Annual Maintenance	**$ 525,175**	**$ 582,343**	**$ 639,511**	**$ 696,678**	**$ 753,846**	**$ 811,014**
Annual Budgetary Impact	$ (235,125)	$ (177,957)	$ (120,789)	$ (63,622)	$ (6,454)	$ 50,714
Annual Difference from from $10M	$ (171,504)	$ (114,336)	$ (57,168)	$ -	$ 57,168	$ 114,336
General Fund (GF) Unassigned Fund Balance:						
Additional GF Unassigned Fund Balance	***$ 3,000,000***	***$ 2,000,000***	***$ 1,000,000***	***$ -***	***$ (663,706)***	***$ (663,706)***
Est. GF Unassigned Fund Balance	*$ 8,200,000*	*$ 8,200,000*	*$ 8,200,000*	*$ 8,200,000*	*$ 8,200,000*	*$ 8,200,000*
Adjusted GF Unassigned Fund Balance	***$ 5,200,000***	***$ 6,200,000***	***$ 7,200,000***	***$ 8,200,000***	***$ 8,863,706***	***$ 8,863,706***
Forgone Interest Earnings (on additional GF Unassigned Fund Balance):						
Over 30 years (assumes 2%)	$ 1,800,000	$ 1,200,000	$ 600,000	$ -	$ -	$ -
Annually (assumes 2%)	$ 60,000	$ 40,000	$ 20,000	$ -	$ -	$ -
Adjusted Annual Budgetary Impact (savings - net foregone interest)	**$ (179,828)**	**$ (141,516)**	**$ (103,205)**	**$ (63,622)**	**$ (6,454)**	**$ 50,714**
Annual Difference from $10M	$ (116,206)	$ (77,895)	$ (39,584)	$ -	$ 57,168	$ 114,336
Payback period to replenish Additional GF Contribution (amount based on adj. savings)	16.68	14.13	9.69	0.00		

Other Considerations:						
Est. Budget Impacts over 10 years	*$ (2,351,251)*	*$ (1,779,572)*	*$ (1,207,894)*	*$ (636,216)*	*$ (64,537)*	*$ 507,140*
Est. Budget Impacts over 30 years	*$ (7,053,753)*	*$ (5,338,717)*	*$ (3,623,682)*	*$ (1,908,647)*	*$ (193,611)*	*$ 1,521,420*

ATTACHMENT 2:

5-Year CIP Budget Schedule (Funding Sources To Be Determined)

FY 2019/20 and 2020/21 CIP List (Funding Sources To Be Determined)	FY 2019/20 Proposed	FY 2020/21 Proposed	Total Proposed Two Years	FY 2021/22 Projected	FY 2022/23 Projected	FY 2023/24 Projected	Total All Years
9001-Hollister Avenue Complete Streets Corridor Plan	-	-	**-**	-	924,250	585,350	**1,509,600**
9006-San Jose Creek Bike Path - Southern Extent	-	-	**-**	2,998,320	-	-	**2,998,320**
9007-San Jose Creek Bike Path - Middle Extent	12,000	1,076,560	**1,088,560**	2,334,280	-	-	**3,422,840**
9009-San Jose Creek Improvements and Fish Passage	379,300	-	**379,300**	-	-	-	**379,300**
9012-Armitos Avenue Bridge	-	-	**-**	-	-	-	**-**
9025-Fire Station No. 10	-	1,108,491	**1,108,491**	3,166,685	-	-	**4,275,176**
9039-Hollister Class I Bike Path	-	-	**-**	-	-	-	**-**
9053-Cathedral Oaks Crib Wall Interim Repair Project	405,886	769,250	**1,175,136**	5,517,300	-	-	**6,692,436**
9061-Cathedral Oaks Class I Multi-Use Path	-	-	**-**	-	-	-	**-**
9064-Reclaimed Water Service to Evergreen Park	-	-	**-**	306,300	-	-	**306,300**
9065-Reclaimed Water Service to Bella Vista Park	-	-	**-**	226,900	-	-	**226,900**
9067-Goleta Community Center Upgrade	523,297	201,996	**725,293**	-	-	-	**725,293**
9069-Miscellaneous Facilities Improvements	-	392,650	**392,650**	351,000	-	-	**743,650**
9077-Recreation Center/Gymnasium	-	-	**-**	-	1,938,585	-	**1,938,585**
9078-Rancho La Patera Improvements	-	2,981,650	**2,981,650**	-	-	-	**2,981,650**
9081-Covington Drainage System Improvements	-	-	**-**	1,616,950	2,066,400	-	**3,683,350**
9083-Traffic Signal Upgrades	114,775	-	**114,775**	-	-	-	**114,775**
9085-Goleta Storm Drain Master Plan	200,000	200,000	**400,000**	120,600	-	-	**520,600**
9086-Vision Zero Plan	-	145,300	**145,300**	138,350	-	-	**283,650**
9096-Orange Avenue Parking Lot	-	294,135	**294,135**	-	-	-	**294,135**
9097-Fairview Corridor Study (Fowler Road to Calle Real)	-	361,250	**361,250**	-	-	-	**361,250**
9100-Hollister Avenue/Fairview Avenue Roundabout (Intersection Improvements)	-	-	**-**	-	-	555,550	**555,550**
9101-City Hall Purchase & Improvements	-	-	**-**	350,000	-	-	**350,000**
TBD-01-Storke Road Corridor Study	-	-	**-**	-	-	-	**-**
TBD-02-Citywide School Zones Signage & Striping Evaluation	130,050	112,450	**242,500**	-	-	-	**242,500**
TBD-03-Citywide Evaluation of Existing Traffic Signals	127,200	115,300	**242,500**	-	-	-	**242,500**
TBD-04-Ellwood Beach Drive Drainage Infrastructure Replacement	-	43,175	**43,175**	183,550	-	-	**226,725**
TBD-05-Phelps Ditch Flood Control Channel Trash Control Structure	-	37,250	**37,250**	629,800	-	-	**667,050**
TBD-06-Old Town South Fairview Avenue, High Flow Trash Capture Devices	-	37,250	**37,250**	283,550	-	-	**320,800**
TBD-07-Winchester II Park	-	-	**-**	-	-	-	**-**
TBD-08-Ward Drive Sidewalk Infill	-	-	**-**	159,140	228,866	-	**388,006**
Total Cost	**1,892,508**	**7,876,707**	**9,769,215**	**18,382,725**	**5,158,101**	**1,140,900**	**34,450,941**

ATTACHMENT 3:

Capital Funding Mechanisms and Characteristics

Capital Funding Mechanisms and their Characteristics				
Funding Mechanism	**Types of Projects**	**Advantages**	**Disadvantages**	**Cost Estimates***
Pay as You Go (Paygo)	-Assets with short useful lives, or where most of benefit is achieved early -Assets for which matching local funds are required -Assets that are not expensive to acquire relative to the total paygo program	-Saves interest and other issuance costs -Preserves financial flexibility -Protects borrowing capacity -Enhances perception of credit quality	-Generates insufficient funding for capital -May discourage intergenerational equity -Creates an uneven flow of expenditures -Loss of liquidity/flexibility	-No cost of issuance -Depending on type of purchase, condition of property, and market conditions, can repay back by temporary leasing property -Forgone interest
Debt Financing	-Assets with long useful lives -Projects that are expensive to acquire or that exceed the capacity of Paygo	-Permits governments to acquire assets as needed -Promotes intergenerational equity -Smoothes out capital expenditures	-Add financial and administrative costs of procuring capital assets -Limits flexibility by committing revenues for life of the bond issue -May require voter approval	-GO Bonds require voter approval -Higher issuance costs can be supported by bond and will be lowest borrowing cost to City but higher on tax payers -3% to 6% interest
Lease Purchase/ Certificates of Participation	-Projects that are expensive to acquire or that exceed the capacity of the Paygo program. -Use frequently for purchase of equipment, buildings (e.g., jails, officie buildings), and real property	-Permits governments to acquire assets as needed -No voter approval needed	-Higher interest costs relative to issuing debt. -Requires general fund net operating revenue commitment -IBank is a variation of COP, and may be cheaper to issue -Additional administration	-4% to 6% interest -Higher issuance costs, can be complex (~$175K - $600K) -Higher the financing, cheaper the issuance
Grants	-Assets qualifiying for grant assistance (e.g., transportation projects).	-Expands size of capital program with little or no cost to local taxpayers	-Limited amount of unrestricted grants; grant availability may not coincide with priorities of municipality -Added administrative of compliance costs	-Extra admin/staff time -Possible matching requirement
Development Impact Fees/Exactions	-Projects benefiting new developments such as water, sewer, and transportation facilities	-Initial capital outlay can be funded at no cost to existing taxpayers	-Local government must address ongoing maintenance or replacement costs -May be politically unpopular	-Extra admin/staff time -May generate ongoing maintenace cost, support by General Fund
Revolving Loan Programs/ State Bond Banks (I Bank)	-Projects benefiting new developments , such as water, sewer, and transportation facilities	-May lower financing costs -Can reimburse City upto 36 months for qualified project expenses	-Loan availability may not coincide with priorities of municipality -Added administrative of reporting costs -May not be available when needed, or may impose burdesome requirements -$25 million cap per project (I-Bank)	-3.5% to 5% interest -One time issurance fee of 1% of financing amount (IBank)
Public/Private Partnerships	-Projects appropriate for franchising agreements, service contracts, or joint development	-Lowers government capital and/or operating costs	-Added staff time required to negotiate transaction, coordinate activities	-Extra staff time
Private Contributions	-Facilities adjacted to private properties	-Lowers government capital and/or operating costs	Added staff time required to identify contributors and coordinate activities	-Extra staff time
Inter-fund Loans	-Assets with short useful lives, or where most of benefit is achieved early -Assets for which matching local funds are required -Assets that are not expensive to acquire relative to the total paygo program -Projects that can be phased with reasonable annual expenditures	-Saves interest and other issuance costs -Preserves financial flexibility -Protects borrowing capacity -Enhances perception of credit quality	-Generates insufficient funding for capital -May discourage intergenerational equity -Creates an uneven flow of expenditures -Watch cash flow timing	- LAIF Rate, currently at 1.51% (essentially paying your self back) -No cost of issuance

Capital Funding Mechanisms and their Characteristics				
Funding Mechanism	**Types of Projects**	**Advantages**	**Disadvantages**	**Cost Estimates***
Bank Loans (Line of Credit, Interest Only Loans)	-Assets with short useful lives -Assets for which matching local funds are required -Assets that are not expensive to acquire relative to the total paygo program	-Provides cash flow flexibility -Process for execution is simpler than bond issue -Immediate access to funds -Not subject to voter approval	-Private loan financing is usually more expensive and less transparent -Covenants -May require downpayment or similar commitment of funds	-Fixed and variable rates -Will vary depending on structure -Fixed Rate 2 years based on 2 YR CMT+2.47% or 3.86% as of 10/4/2019 -Fixed Rate 30 years 4.51% -Variable Rate based on 1 month LIBOR+200bps or 4.01% as of 10/4/2019

** All cost estimates are ball-park figures and subject to change, depending on market environment and a variety of other factors. Estimates were based on current market rates and different terms. Does not account for future maintenance and operations. Any financing options pursued should be made in accordance to the debt management policy and further analyzed.*

ATTACHMENT 4:

Fund Balance and Reserve Policies

CITY OF GOLETA

Fund Balance Policy – GASB 54

PURPOSE
The policy is in place to provide a measure of protection for the City against unforeseen circumstances and to comply with GASB Statement No. 54. No other policy or procedure supersedes the authority and provisions of this policy.

The Fund Balance Policy establishes the procedures for reporting unrestricted fund balance in the City's financial statements. The policy also authorizes and directs the Finance Director to prepare financial reports which accurately categorize fund balance as per Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

PROCEDURES
Fund balance is essentially the difference between the assets and liabilities reported in a governmental fund. There are five separate components of fund balance, each of which identifies the extent to which the City is bound to honor constraints on the specific purpose for which amounts can be spent.

- Nonspendable fund balance *(inherently nonspendable)*
- Restricted fund balance *(externally enforceable limitations on use)*
- Committed fund balance *(self –imposed limitations on use)*
- Assigned fund balance *(limitation resulting from intended use)*
- Unassigned fund balance *(residual net resources)*

The first two components listed above are addressed in this policy due to the nature of their restrictions. Examples of nonspendable fund balance are inventory and land assets. Restricted fund balance is either imposed by law or constrained by grantors, contributors, or laws or regulators of other governments. Examples of these are all special funds, endowments, trust, etc.

This policy is focused on financial reporting of unrestricted fund balance, or the last three components listed above. These three components are further defined below.

Committed Fund Balance

The City Council, as the City's highest level of decision-making authority, may commit fund balance for specific purpose pursuant to constraints imposed by formal actions taken, such as an ordinance or resolution. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use through the same type of formal action taken to establish the commitment. City Council action to commit fund balance needs to occur within the fiscal reporting period; however the amount can be determined subsequently.

The City of Goleta has identified the following examples of reserves that fall within the classification of Committed Fund Balance:

- General Fund Contingency
- Compensated Leave
- Capital Equipment
- Building Maintenance
- Risk Management Reserve
- City Hall Acquisition
- Litigation

Encumbrances which are the obligation of funds via contract, agreement, purchase order or other legally binding means are another example of Committed Fund Balance.

Assigned Fund Balance

Amounts that are constrained by the City's *intent* to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance.

This policy hereby delegates the authority to assign amounts to be used for specific purposes to the Finance Director for the purpose of reporting these amounts in the annual financial statements. A couple examples of Assigned Fund Balance would be Continuing Appropriations/Carry-Overs and Debt Service.

Unassigned Fund Balance

These are residual positive net resources of the general fund in excess of what can properly be classified in one of other four categories. An example would be the City's Unassigned Reserve, which was setup to account for the General Fund balances beyond the funding levels of the other reserves.

Overall Fund Balance Classification

It is the City's accounting policy to charge expenses to restricted funds first, when both restricted and unrestricted fund balances are available for use. Similarly, when an expenditure is incurred in which amounts of the unrestricted classification of fund balance could be used, the City considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

CITY OF GOLETA

Contingency Reserve Policy

PURPOSE
The purpose of this policy is to establish general guidelines for the establishment, maintenance and use of a contingency reserve. This reserve will generate investment income, provide a margin of safety and stability to protect the City from exposure to catastrophic events and economic impacts and provide flexibility to pursue emergent opportunities.

POLICY
The Contingency Reserve Policy requires that a minimum balance of 33% of allocated General Fund ongoing expenditures be maintained in any given year. The contingency reserve balance should be reported annually with fund transfers to be made annually prior to the closing of the fiscal year.

INTENDED USES FOR RESERVE

- Interruptions in cash inflows

  Examples include the State holding back on or altering tax disbursements, loss of sales tax receipts of a one time nature, or a significant economic slowdown. If the cash inflow interruption is of an ongoing nature, reserve use is limited to a consecutive two-year period, not to exceed 40% of the beginning reserve balance.

- Emergencies

  In the event of an emergency or disaster such as earthquakes, fires, floods or other such emergencies, the entire balance may be used to temporarily fund recovery costs. It is understood that all aide assistance options will be sought to fund recovery efforts or reimbursement of the Contingency Reserve for fronting of recovery costs.

- Capital Acquisitions

  Up to one-third of the Contingency Reserve balance may be used to finance capital acquisitions, as long as a repayment plan is approved. The repayment plan must be financially feasible based on the City's adopted Long-Term Financial Forecast. Alternative financing options shall be presented for consideration along with the use of the Contingency Reserve.

- Emergent Opportunities

  Up to one-third of the Contingency Reserve balance may be used to finance opportunities that directly benefit the City in a variety of ways. These include, yet are not limited to, creating, enhancing, or preserving revenue streams, or otherwise strengthening the City's financial performance.

OTHER CRITERIA FOR USE

A majority vote from the City Council is required to determine that it is necessary to use the Contingency Reserve for any of the uses listed above.

With the exception of the emergency scenario, the reserve contingency balance allocated for other intended uses shall not exceed 50% of the required balance in any given year.

REPLENISHMENT PLAN

Unless a repayment plan is pre-established at the time reserves are allocated, Staff shall bring for Council consideration a replenishment plan, within 60-days of allocation from the reserve. It would be Council's expectation that every effort would be made to replenish the reserve as soon as it is financially feasible and practical to do so.

If the reserve cannot be replenished by the next annual budget, a repayment plan not to exceed five years should be approved by council by a majority vote.

Goleta Reserve Policies

CURRENT RESERVES:

Compensated leave: Compensated leave is paid accrued time and is a liability that needs to be accounted for on the City's books. The liability occurs when employees carry over their balance of leave time. These individual balances increase in value as salaries are adjusted for cost of living, step increases and promotions. The addition of new employees may also impact the value of the compensated leave balance at year-end. Employees can cash out some unused accrued leave times at separation from city employment. Setting aside funds mitigates the impact of cash out payments on annual operating budgets.

The current policy requires funding of 50% of outstanding leave balances at the end of each fiscal year.

Capital Equipment Reserve: It was previously established that funds be set aside for the replacement of vehicles and equipment. In order to ensure availability of funds to replace each piece of equipment at the end of its useful life, the funding level is determined by the replacement cost for each piece of vehicle/equipment, less the value of useful life remaining. For example, if a 5-year life vehicle has been in service 3-years at a replacement cost of $25,000, the reserve level for that equipment at the end of the 3rd year would be $15,000. Known future equipment or vehicles additions are to be included in determining the funding level using a similar funding methodology. A vehicle replacement and acquisition schedule is updated annually. Based on that schedule, the reserve would be funded in the same manner to ensure full funding is available on the anticipated replacement/acquisition dates.

Building Maintenance Reserve: This reserve fund was set aside to fund major repairs to the City's buildings and facilities, i.e. roof repairs to the library and the Stow House, tennis court repairs, etc. Previous allocations to this fund were made in amounts varying from $50K to $100K with a contribution of $50,000 budgeted for FY 2012/13, bring the expected balance for June 30, 2013 to $100,000. A comprehensive facilities needs study has been completed and recommends annual contributions to the reserve of $100,000 per year.

Risk Management Reserve: While the Risk Management Reserve was setup specifically to reflect environmental clean-up costs at the Comstock homes site, on June 3, 2008 it was subsequently established as a permanent reserve for future insurance liability exposure needs. Replenishment will be done with annual contributions of $25,000 until a maximum fund balance of $200,000 is reached. A contribution of

$25,000 is budgeted for FY 2013 which will bring the June 30, 2013 ending balance to $68,290.

City Hall Acquisition Reserve: Established February 19, 2008 to accumulate funds dedicated for the purpose of acquiring a city-owned City Hall facility. It has a current balance of $500,000 with no predetermined funding schedule or future funding plan.

Litigation Defense Reserve: Established to earmark funds for potential legal costs incurred in the defense of City related to specific litigation cases. The City Council establishes the level of funding based on updates on potential exposure from the City Attorney. The anticipated ending balance as of June 30, 2013 is $250,000.

Street Maintenance Reserve: Established to earmark funds for the continual maintenance of City streets. The policy calls for an ongoing, annual figure of $500,000 of General Fund monies be devoted to street maintenance beyond the current GF funding level of the Streets Maintenance program, which in FY 2012/13 was $165,791.

Unassigned Reserve: This reserve was set up to account for General Fund balances beyond the funding levels of the other reserves and is used at the conclusion of the fiscal year to place excess funds until otherwise allocated by the Council. The fund has a current balance of $923,568 and is expected to reach $1,827,077 by June 30, 2013.

Contingency Reserve: See separate policy adopted in May 2011.

ATTACHMENT 5:

Debt Management Policy

Debt Management Policy

(Revised on April 20, 2018)

Executive Summary of Debt Management Policy

I. Goals and Objectives. In implementing a formal debt management policy, the City's goal is to maintain long-term financial flexibility while ensuring that the City's capital needs are aligned with goals and supported by sound financial management.

II. Approach to Debt Management. The City's approach to its financings is to ensure continued market access at the lowest cost of borrowing. As such, the Debt Policy designates affordability or capacity targets which are established by the rating agencies (Moody's Investor Service, Standard & Poor's, and Fitch). Debt capacity is defined as annual debt service payments as a percentage of operating expenditures and debt service payments. The debt capacity ratio will be calculated each year. Below are the debt capacity ranges:

- Low debt capacity — <5%
- Moderate debt capacity — 5% - 15%
- High debt capacity — >15%

A separate Debt Affordability Study will be presented when new debt is being considered.

III. Debt Administration. The Finance Department is responsible for the City's debt administration activities. Internal control procedures are designed to ensure that the proceeds of any debt issuance are directed to the intended use. When issuing debt, the City will comply with all applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds. The City will maintain compliance with all federal and state laws and reporting requirements.

IV. Standards for Use of Debt Financing. Debt financing will be utilized when public policy, equity and economic efficiency favor debt over pay-as-you-go financing.

- Debt will be used to finance long-term capital projects, and the respective maturities will not exceed the respective projects' useful lives.
- The City will seek to use the most economical financing alternative.
- The City will ensure good record-keeping and compliance with all debt covenants and State and Federal laws.

V. **Financing Criteria.** Whether issuing long- or short-term debt, the City will determine the most appropriate structure, the mode (fixed or variable), and the possible use of synthetic fixed or floating rate debt. These decisions will be made within the context of already existing obligations.

VI. **Terms and Conditions of Bonds**. In the issuance of its bonds, the City shall carefully consider and evaluate the term of the financing, use of capitalized interest, call provisions, original issue discount and the use of deep discount bonds.

VII. **Credit Enhancement**. The use of credit enhancement is to be considered on a case-by-case basis and will be purchased only when debt service savings can clearly be demonstrated.

VIII. **Refinancing Outstanding Debt**. A minimum savings threshold of 3% or $200,000 in present value savings is utilized except when there are legal reasons for defeasance.

IX. **Methods of Issuance**. The preferred sale method (negotiated or competitive) will be determined for each issuance of bonds. General Obligation Bonds and Tax and Revenue Anticipation Notes will be issued on a competitive basis.

X. **Underwriter Selection**. Both senior managers and co-managers will be selected on the basis of firm and staff qualifications, and experience with structures similar to the proposed issuance. Selling groups may be considered for certain transactions. All parties are subject to post-evaluation of performance.

XI. **Market Relationships**. The City will actively manage its relationships with the various rating agencies and analysts through frequent and open communication. The City will maintain compliance with Rule 15c2-12 by the timely filing of its annual financial statements and other financial and operating data for the benefit of its bondholders. The City will also ensure compliance with regulations set forth in Government Code Section 8855 and comply with all annual reporting requirements to the California Debt and Investment Advisory Commission.

XII. **Consultants**. An RFP or an RFQ will be used to determine the selection and appointment of Consultants, such as financial advisors. The selection of the firm(s) shall be based upon firm and staff qualifications, and experience with debt structures similar to what is being proposed. Consultants will be required to provide complete disclosure regarding any agreements with other financing team members and outside parties.

Debt Management Policy

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CITY OF GOLETA

Debt Management Policy

I. Introduction

So as to maintain the highest quality debt management program possible, the City of Goleta ("City") has adopted the guidelines and policies set forth in this document, referred to hereafter as the "Debt Management Policy." The Debt Management Policy is intended to guide decisions related to debt supported by the City's general fund and any other related entities. Debt issuance for related entities should be evaluated on an individual basis as well as within the context of the City's general debt management program. The Debt Management Policy is not applicable to intra-City borrowing.

Goals and Objectives

The Debt Management Policy formally establishes parameters for issuing debt and managing a debt portfolio which encompass the City's specific capital improvement needs, its ability to repay financial obligations, and the existing legal, economic, financial and debt market conditions. The policies outlined in the Debt Management Policy ensure that adequate financial resources are available to support the City's long-term capital needs and align with the City's goals. Specifically, the policies outlined in this document are intended to assist the City in the following:

A. Evaluating critical debt issuance options

B. Promoting sound financial management and that the issuance of debt is consistent with policy goals and objectives and the capital plan or budget of the City

C. Provide accurate and timely information on financial conditions

D. Maintaining appropriate capital assets for present and future needs

E. Protecting and enhancing the City's credit rating

F. Ensuring the legal use of City bonding authority through an effective system of financial security and internal controls to ensure that debt proceeds will be directed to the intended use in accordance with all applicable statutory and policy requirements

G. Promoting cooperation and coordination with other public entities and the private sector in the financing and delivery of services

H. Ensuring compliance with all applicable federal and state laws

II. Approach to Debt Management

The City is committed to long-term financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration in a manner that protects the public interest. The City intends to issue debt for the purposes stated in this Policy and to implement policy decisions incorporated in the City's annual operations budget.

In managing its debt, the City's greatest priorities are to:

- Achieve the lowest cost of capital
- Ensure high credit quality
- Assure access to credit markets, and
- Preserve financial flexibility

A. **Relationship of Debt to Capital Plan and Budget**. The City is committed to long-term capital planning. The City intends to issue debt for the purposes stated in this Policy and to implement policy decisions incorporated in the City's capital budget and capital plan (the "Capital Plan"). The City will integrate its debt issuances with the goals of its Capital Plan by timing the issuance of debt to ensure that projects are available when needed in furtherance of the City's public purposes. The City shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund.

B. **Capital Plan Integration.** A sound debt management program begins with a well-devised capital plan. Therefore, a multi-year capital plan, which integrates pay-as-you-go projects and the projects to be financed, is critical. The multi-year Capital Plan shall be for a minimum of a 5-year period and shall be updated to coincide with the budgeting cycle. In addition to capital project costs, the Capital Plan shall include the following elements:

1. Qualified capital projects

2. Description of all sources of funds

3. Availability of current revenues (non-debt sources) which are reflected in the City's multi-year forecast

4. Timing of capital projects

5. A financing plan or methodology and debt service requirements

C. **Review of Capital Plan.** It is anticipated that the Capital Plan will be modified from time to time. Modifications to the Capital Plan shall be accompanied by a report from the City's Director of Finance that discusses the impact of the proposed borrowing on the Capital Plan. The Capital Plan is reviewed and presented to the City Council to coincide with the budget cycle.

D. **Qualified Capital Projects.** Generally, the City will not issue bonds for capital improvements with a cost less than $250,000. The City shall not construct or acquire a public facility if it is unable to adequately provide for the subsequent annual operation and maintenance costs of the facility throughout its life.

E. **Cash Financing of Capital Outlays.** To demonstrate the City's commitment to a continued capital program, ensure careful consideration of capital expenditure levels, and enhance the City's overall credit worthiness, the City shall seek to fund at least between two and five percent of the overall capital program from current resources, depending upon the specific projects and annual budgetary constraints.

F. **Authorization for Issuance.** Debt issuance for capital projects shall not be considered unless such issuance has been incorporated into the Capital Plan adopted by City Council.

G. **Affordability Targets.** The ratios, standards, and limits identified below are primarily intended to restrict the use of debt financing in order to facilitate long-term access to capital while ensuring that financial leveraging decisions do not negatively impact the City's annual operations.

1. **Debt Capacity** - The City's approach to its financings is to ensure continued market access at the lowest cost of borrowing. As such, the Debt Policy suggests affordability or capacity targets which are established by the rating agencies (Moody's Investor Service, Standard & Poor's, and Fitch). Debt capacity is defined as debt service payments as a percentage of operating expenditures and debt service payments. The debt capacity ratio will be calculated each year. Below are the debt capacity ranges:

- Low debt capacity <5%
- Moderate debt capacity 5% - 15%
- High debt capacity >15%

A separate Debt Affordability Study will be presented when new debt is being considered.

A presentation of the City's debt capacity shall be made to the City Council with the proposed approval of any debt, lease financing or other instruments of installment repayments with maturities longer than three years.

2. **Self-supporting Debt -** In some cases, the City will issue debt for which there is an identified repayment source. For debt to be characterized as self-supporting, the repayment source must support the issue through its maturity. Bond issues where interest has been capitalized are not considered to be self-supporting.

3. **Overlapping Debt -** (including debt from all other jurisdictions, which tax City taxpayers) will be taken into consideration in planning debt issuance.

H. **Credit Quality.** All City debt management activities will be conducted to receive the highest credit ratings possible for each issue, consistent with the City's financing objectives, and to maintain the current credit ratings assigned to the City's debt by the major credit rating agencies.

III. Debt Administration

This Policy will govern the issuance and management of debt issued by the City. This Policy will be reviewed by the Finance Department on an annual basis and reviewed by the Finance and Audit Standing Committee every two years.. Any changes to the Policy will be approved by the City Council. The City Council is responsible for overall policy direction of this Policy, as well as the authorization of each debt financing. The City Manager and Director of Finance will be responsible for implementation of the Policy.

A. Debt Administration Activities. The Finance Department is responsible for the City's debt administration activities including investment of bond proceeds, monitoring compliance with bond covenants, implementing internal control procedures to ensure the use of proceeds of bonds or other debt will be directed to the intended use, monitoring use of facilities financed with tax-exempt debt, continuing disclosure, monitoring arbitrage compliance for tax-exempt debt, and ongoing interactions with credit rating agencies. Departments implementing debt-financed capital programs will work in partnership with the Finance Department to provide information and otherwise facilitate the issuance and administration of debt.

B. **Internal Controls.** The Finance Director will regularly review internal control procedures to ensure that the proceeds of any debt issuance are directed to the intended use. Such procedures will assist the City in maintaining the effectiveness and efficiency of debt administration activities, properly expending funds, reliably reporting debt incurred by the City and the use of the proceeds, complying with all laws and regulations, preventing fraud, and avoiding conflict of interest. The Finance Director or designee will:

- Monitor the use of debt proceeds and the use of debt-financed assets (e.g., facilities, furnishings or equipment) throughout the term of the debt to ensure compliance
- Maintain all relevant documents and records in connection with each debt issuance to document compliance
- Employ appropriate internal controls and redundancy of review to ensure all approved contracts and expenditures are consistent with the terms of the bond sale
- Ensure that all bond proceeds and investments are tracked in a manner which facilitates timely and accurate calculations
- Monitor funds and accounts of trustee and review statements and records for bond expenditures
- Confirm compliance with tax certificate covenants for debt
- Consult with bond counsel and other professional expert advisers to assist the City in its debt issuance and debt administrative processes as needed

C. **Compliance.** When issuing debt, the City will comply with all applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds. The City will periodically review the requirements of and will remain in compliance with the following:

- Federal securities law, including any continuing disclosure undertakings entered into by the City in accordance with Securities and Exchange Commission Rule 15c2-12
- Any federal tax compliance requirements, including, without limitation, arbitrage and rebate compliance
- Regulations set forth in Government Code Section 8855; the City will comply with all annual reporting requirements to the California Debt and Investment Advisory Commission (CDIAC) and related regulations
- The City's investment policies as they relate to the use and investment of bond proceeds

IV. Standards for Use of Debt Financing

The City's debt management program will promote the use of debt only in those cases where public policy, equity, and economic efficiency favor debt over cash (pay-as-you-go) financing. Whenever possible, the debt shall be self-supporting.

A. **Long-Term Capital Projects.** Debt will be used primarily to finance long-term capital projects — paying for the facilities or equipment over some or all of their useful life and concurrent with the stream of benefits from these facilities. The City will consider the debt capacity in determining the use of debt financing.

B. **Special Circumstances for Non-Capital-Project Debt Issuance.** Debt may be used in special circumstances for projects other than long-term capital projects such as pension obligations, only after careful policy evaluation by the City.

C. **Debt Financing Mechanisms.** The City will evaluate the use of all financial alternatives available, including, but not limited to: long-term debt, pay-as-you-go, joint financing, reserve fund releases, lease-purchase, authority sponsored debt, special districts, community facility districts, special assessments, Mello Roos bonds, state and federal aid, certificates of participation, tax increment, private placement, master lease programs, and interfund borrowing. The City will utilize the most cost advantageous financing alternative available while limiting the General Fund's risk exposure.

D. **Record-Keeping.** All debt related records shall be maintained with the Finance Department and City Clerk. At a minimum, this repository will include all official statements, bid documents, ordinances, indentures, trustee reports, leases, etc., for all City debt. To the extent that official transcripts incorporate these documents, possession of a transcript will suffice (transcripts may be in hard copy or stored on CD-ROM). The Treasury Division will maintain all available documentation for outstanding debt and will develop a standard procedure for archiving transcripts for any new debt.

E. **Rebate Policy and System**. The City will accurately account for all interest earnings in debt-related funds. These records will be designed to ensure that the City is in compliance with all debt covenants, and with State and Federal laws. The City will maximize the interest earnings on all funds within the investment parameters set forth in each respective indenture. The City will calculate and report interest earnings that relate to Internal Revenue Code rebate, yield limits, and arbitrage.

V. Financing Criteria

The Finance Director and/or designated staff will investigate all possible project financing alternatives including, but not limited to, bonds, loans, state bond pools, and grants. The City has also implemented an impact fee program whereby new development pays its fair share for the increased capital and operating costs that result from new construction. Although impact fee payments may be restricted to specific projects or types of projects, the use of these payments can be an important source of financing for certain capital projects.

A. **Types of Debt.** When the City determines that the use of debt is appropriate, the following criteria will be utilized to evaluate the type of debt to be issued.

1. ***Cash Funding.*** The City funds a significant portion of capital improvements on a "pay-as-you-go" basis. As part of a "pay as you go" strategy, the City will first look for grant funding for capital projects.

2. ***Interfund Borrowing.*** The City may borrow internally from other funds with surplus cash in lieu of incurring third-party debt. Purposes that could warrant the use of this type of borrowing include short-term cash flow imbalances, interim financing pending the issuance of debt, or long-term financing in lieu of debt. The City funds from which the money is borrowed shall be repaid with interest based upon the earning rate of the City's investment pool – Local Agency Investment Fund (LAIF). The Finance Director shall also exercise due diligence to ensure that it is financially prudent for the fund making the loan. The purpose of interfund borrowing is to finance high priority needs and to reduce costs of interest, debt issuance, and/or administration. Interfund loans will be evaluated on a case by case basis. Any borrowing between two City funds will require a repayment schedule approved by City Council.

3. ***Long-Term Debt*****.** The City may issue long-term debt (e.g., general obligation bonds, revenue bonds, tax increment bonds, lease obligations, or variable rate bonds) when required capital improvements cannot be financed from current revenues. The proceeds derived from long-term borrowing will not be used to finance current operations or normal maintenance. Long-term debt will be structured such that the obligations do not exceed the expected useful life of the respective projects.

   The City shall not use any debt, lease financing or other instruments of installment repayments with terms longer than two years to finance the operating costs. Exceptions to the policy may be made on a case-by-case basis by City Council approval.

4. ***Short-Term Debt.*** Short-term borrowing may be utilized for the temporary funding of operational cash flow deficits or anticipated revenues (defined as an assured source with the anticipated amount based on conservative estimates). The City will determine and utilize the least costly method for short-term borrowing. The City may issue short-term debt when there is a defined repayment source or amortization of principal, subject to the following policies:

a) ***Bond Anticipation Notes (BANs)*** may be issued instead of capitalizing interest to reduce the debt service during the construction period of a project or facility. The BANs shall mature not more than 3 years from the date of issuance. BANs shall mature within 6 months after substantial completion of the financed facility.

b) ***Tax and Revenue Anticipation Notes (TRANs)*** shall be issued only to meet projected cash flow needs consistent with a finding by bond counsel that the sizing of the issue fully conforms to Federal IRS requirements and limitations.

c) ***Bank Loans/Lines of Credit*** shall be considered as an alternative to other short-term borrowing options. The lines of credit shall be structured to limit concerns as to the Internal Revenue Code.

d) ***Other Short-Term Debt,*** including commercial paper notes, may be used.

5. ***Lease-Purchase Debt.*** Lease-purchase debt, including certificates of participation, shall be considered as an alternative to long-term vendor leases. Such debt shall be subject to annual appropriation. In order to reduce the cost of lease borrowing and to improve control over leases, the City may adopt a master lease program.

6. ***Variable Rate Debt.*** To maintain a predictable debt service burden, the City may give preference to debt that carries a fixed interest rate. Variable rate debt, which is synthetically fixed, shall be considered fixed rate debt through the maturity of the swap. The City, however, may consider variable rate debt in certain instances, such as:

a) ***High Interest Rate Environment*****.** Current interest rates are above historic average trends.

b) ***Variable Revenue Stream*****.** The revenue stream for repayment is variable, and is anticipated to move in the same direction as market-generated variable interest rates, or the dedication of revenues allows capacity for variability.

c) ***Adequate Safeguards Against Risk*****.** Financing structure and budgetary safeguards are in place to prevent adverse impacts from interest rate shifts; such structures could include, but are not limited to, interest rate swaps, interest rate caps and the matching of assets and liabilities.

d) ***Finance Analysis.*** The Finance Director will provide to the Finance Committee an analysis evaluating and quantifying the risks and returns involved in the variable rate financing and recommending variable rate as the lowest cost option.

e) ***As a Component to Synthetic Fixed Rate Debt.*** Variable rate bonds may be used in conjunction with a financial strategy, which results in synthetic fixed rate debt. Prior to using synthetic fixed rate debt, the City shall certify that the interest rate cost is lower than traditional fixed rate debt.

f) ***Variable Rate Debt Capacity.*** Consistent with rating agency guidelines, the percentage of variable rate debt outstanding (not including debt which has been converted to synthetic fixed rate debt) shall not exceed 20% of the City's total outstanding debt.

VI. Terms and Conditions of Bonds

The City shall establish all terms and conditions relating to the issuance of bonds, and will control, manage, and invest all bond proceeds. Unless otherwise authorized by the City, the following shall serve as bond requirements:

A. **Term.** All capital improvements financed through the issuance of debt will be financed for a period not to exceed the useful life of the improvements, but in no event greater than thirty-five years.

B. **Capitalized Interest.** Certain types of financings such as certificates of participation and lease-secured financings will require the use of capitalized interest from the issuance date until the City has beneficial use and occupancy of the financed project. Interest shall not be funded (capitalized) beyond a period of three years, or a shorter period if further restricted by statute. The City may require that capitalized interest on the initial series of bonds be funded from the proceeds of the bonds. Interest earnings may, at the City's discretion, be applied to extend the term of capitalized interest but in no event beyond the term statutorily authorized.

C. **Debt Service Structure.** Debt issuance shall be planned to achieve relatively rapid repayment of debt while still matching debt service to the useful life of facilities. The City shall avoid the use of bullet or balloon maturities except in those instances where these maturities serve to levelize existing debt service.

D. **Call Provisions.** In general, the City's securities will include a call feature, which is no later than 10 years from the date of delivery of the bonds. The City will avoid the sale of non-callable bonds absent careful evaluation by the City of the value of the call option.

E. **Original Issue Discount.** An original issue discount will be permitted only if the City determines that such discount results in a lower true interest cost on the bonds and that the use of an original issue discount will not adversely affect the project identified by the bond documents.

F. **Deep Discount Bonds.** Deep discount bonds may provide a lower cost of borrowing in certain markets. The City will carefully consider their value and effect on any future refinancings as a result of the lower-than-market coupon.

G. **Derivative Structures.** The City will consider the use of derivative structures as a hedge against future interest rate risk when appropriate. The City will avoid the use of derivative structures for speculative purposes. The City will consider the use of derivative structures when it is able to gain a comparative borrowing advantage of 10 or more basis points, and is able to reasonably quantify and understand potential risks.

The City shall not use derivative structures for the sole purpose of generating operating or capital proceeds, without a determination that such structure will accrue interest rate and borrowing costs benefits for the City.

H. **Multiple Series.** In instances where multiple series of bonds are to be issued, the City shall make a final determination as to which facilities are of the highest priority and those facilities which will be financed first, pursuant to funding availability and the proposed timing of facilities development, and which will generally be subject to the earliest or most senior lien.

VII. Credit Enhancements

The City will consider the use of credit enhancement on a case-by-case basis, evaluating the economic benefit versus cost for each case. Only when a clearly demonstrable savings can be shown shall enhancement be considered. The City will consider each of the following enhancements as alternatives by evaluating the cost and benefit of such enhancement.

A. **Bond Insurance.** The City shall have the authority to purchase bond insurance when such purchase is deemed prudent and advantageous. The predominant determination shall be based on such insurance being less costly than the present value of the difference in the interest on insured bonds versus uninsured bonds.

1. **Provider Selection.** The Director of the Finance or his/her designee will solicit quotes for bond insurance from interested providers, or in the case of a competitive sale submit an application for pre-qualification on insurance. In a negotiated sale, the Director or his/her designee shall have the authority to select a provider whose bid is most cost effective and whose terms and conditions governing the guarantee are satisfactory to the City. The winning

bidder in a competitive sale will determine whether it chooses to purchase bond insurance for the issue.

B. **Debt Service Reserves.** When required, a reserve fund shall be funded from the proceeds of each series of bonds, subject to federal tax regulations and in accordance with the requirements of credit enhancement providers and/or rating agencies.

The City may purchase reserve equivalents (i.e., the use of a reserve fund surety) when such purchase is deemed prudent and advantageous. Such equivalents shall be evaluated in comparison to cash funding of reserves on a net present value basis.

C. **Letters of Credit.** The City may enter into a letter-of-credit ("LOC") agreement when such an agreement is deemed prudent and advantageous. The Director of the Finance or his/her designee shall prepare (or cause to be prepared) and distribute to qualified financial institutions as described in paragraph 2 below, a request for qualifications which includes terms and conditions that are acceptable to the City.

1. **Provider Selection.** Only those financial institutions with long-term ratings greater than or equal to that of the City, and short-term ratings of VMIG 1/A-1 F1, by Moody's Investors Service, Standard & Poor's and Fitch Inc., respectively, may be solicited.

2. **Selection Criteria.** The selection of LOC providers will be based on responses to a City-issued request for qualifications; criteria will include, but not be limited to, the following:

   a) Ratings at least equal to or better than the City's

   b) Evidence of ratings (including "Outlook")

   c) Trading value relative to other financial institutions

   d) Terms and conditions acceptable to the City; the City may provide a term sheet along with the request for qualifications to which the financial institution may make modifications

   e) Representative list of clients for whom the bank has provided liquidity facilities

   f) Fees, specifically, cost of LOC, draws, financial institution counsel and other administrative charges

VIII. Refinancing Outstanding Debt

The Finance Director shall have the responsibility to analyze outstanding bond issues for refunding opportunities that may be presented by underwriting and/or financial advisory firms. The Finance Director will consider the following issues when analyzing possible refunding opportunities*:*

A. **Debt Service Savings.** The City establishes a minimum savings threshold goal of three percent of the refunded bond principal amount or at least $200,000 in present value savings (including foregone interest earnings) unless there are legal reasons for defeasance. The present value savings will be net of all costs related to the refinancing. The decision to take savings on an upfront or deferred basis must be explicitly approved by the City Manager or the Director of the Finance.

B. **Restructuring.** The City will refund debt when in its best interest to do so. Refundings will include restructuring to meet unanticipated revenue expectations, terminate swaps, achieve cost savings, mitigate irregular debt service payments, release reserve funds, or remove unduly restrictive bond covenants.

C. **Term of Refunding Issues.** The City may refund bonds within the term of the originally issued debt. However, the City may consider maturity extension, when necessary to achieve a desired outcome, provided that such extension is legally permissible. The City may also consider shortening the term of the originally issued debt to realize greater savings. The remaining useful life of the financed facility and the concept of inter-generational equity should guide this decision.

D. **Escrow Structuring.** The City shall utilize the least costly securities available in structuring refunding escrows. The City will examine the viability of an economic versus legal defeasance on a net present value basis. A certificate will be required from a third party agent who is not a broker-dealer, stating that the securities were procured through an arms-length, competitive bid process (in the case of open market securities), that such securities were more cost effective than State and Local Government Obligations (SLGS), and that the price paid for the securities was reasonable within Federal guidelines. Under no circumstances shall an underwriter, agent or financial advisor sell escrow securities to the City from its own account.

E. **Arbitrage.** The City shall take all necessary steps to optimize escrows and to avoid negative arbitrage in its refundings. Any resulting positive arbitrage will be rebated as necessary according to Federal guidelines.

IX. Methods of Issuance

The City will determine, on a case-by-case basis, whether to sell its bonds competitively or through negotiation. General Obligation Bonds and Tax and Revenue Anticipation Notes will be issued on a competitive basis.

A. **Competitive Sale.** In a competitive sale, the City's bonds shall be awarded to the bidder providing the lowest true interest cost as long as the bid adheres to the requirements set forth in the official notice of sale.

B. **Negotiated Sale.** The City recognizes that some securities are best sold through negotiation. In its consideration of a negotiated sale, the City shall assess the following circumstances:

1. Bonds issued as variable rate demand obligations

2. A complex structure which may require a strong pre-marketing effort

3. Size of the issue which may limit the number of potential bidders

4. Market volatility is such that the City would be better served by flexibility in timing its sale in changing interest rate environments

C. **Private Placement.** From time to time the City may elect to privately place its debt. Such placement shall only be considered if this method is demonstrated to result in a cost savings to the City relative to other methods of debt issuance.

D. **Issuance Method Analysis.** The City shall evaluate each method of issuance on a net present value basis.

E. **Feasibility Analysis.** Issuance of self-supporting revenue bonds will be accompanied by a finding that demonstrates the projected revenue stream's ability to meet future debt service payments.

X. Underwriter Selection

Senior Manager Selection: The Director of the Finance and/or his/her designee shall recommend to the City Manager the selection of a senior manager for a proposed negotiated sale. Request for Proposals (RFP) or Request of Qualifications (RFQ) will be used to determine the selection and appointment of the senior managers and co-managers on the debt issuances.

A. **General.** The criteria for selection as reflected in the RFP or RFQ shall include but not be limited to the following:

1. The firm's ability and experience in managing complex transactions

2. Prior knowledge and experience with the City

3. The firm's willingness to risk capital and demonstration of such risk

4. The firm's ability to sell bonds

5. Quality and experience of personnel assigned to the City's engagement

6. Financing plan presented

B. **Co-Manager Selection.** Co-managers will be selected on the same basis as the senior manager. In addition to their qualifications, co-managers appointed to specific transactions will be a function of transaction size and the necessity to ensure maximum distribution of the City's bonds.

C. **Selling Groups.** The City may establish selling groups in certain transactions. To the extent that selling groups are used, the Director of Finance at his or her discretion, may make appointments to selling groups from within the pool of underwriters or from outside the pool, as the transaction dictates.

D. **Underwriter's Counsel.** In any negotiated sale of City debt in which legal counsel is required to represent the underwriter, the appointment will be made by the lead underwriter.

E. **Underwriter's Discount.**

a) The Director of the Finance and/or his/her designee will evaluate the proposed underwriter's discount against comparable issues in the market. If there are multiple underwriters in the transaction, the Director will determine the allocation of fees with respect to the management fee. The determination will be based upon participation in the structuring phase of the transaction.

b) All fees and allocation of the management fee will be determined prior to the sale date; a cap on management fee, expenses and underwriter's counsel will be established and communicated to all parties. The senior manager shall submit an itemized list of expenses charged to members of the underwriting group. Any additional expenses must be substantiated.

F. **Evaluation of Financing Team Performance.** The City will evaluate each bond sale after its completion to assess the following: costs of issuance including underwriters' compensation, pricing of the bonds in terms of the overall interest cost and on a maturity-by-maturity basis, and the distribution of bonds and sales credits.

G. **Syndicate Policies.** For each negotiated transaction, syndicate policies will be prepared that will describe the designation policies governing the upcoming sale.

H. **Designation Policies.** To encourage the pre-marketing efforts of each member of the underwriting team, orders for the City's bonds will be net designated, unless otherwise expressly stated. The City shall require the senior manager to:

1. Equitably allocate bonds to other managers and the selling group

2. Comply with MSRB regulations governing the priority of orders and allocations

3. Within 10 working days after the sale date, submit to the Director of Finance a detail of orders, allocations and other relevant information pertaining to the City's sale

XI. Market Relationships

A. **Rating Agencies and Investors.** The City Manager and Director of the Finance shall be responsible for maintaining the City's relationships with Moody's Investors Service, Standard & Poor's and Fitch Inc. The City may, from time to time, choose to deal with only one or two of these agencies as circumstances dictate. In addition to general communication, the City Manager and the Director of Finance shall meet with or offer conference calls with agency analysts in connection with the planned sale.

B. **City Council Communication.** The City Manager shall report to the City Council feedback from rating agencies and/or investors regarding the City's financial strengths and weaknesses and recommendations for addressing any weaknesses.

C. **Continuing Disclosure.** The City shall remain in compliance with Rule 15c2-12 by filing its annual financial statements and other financial and operating data for the benefit of its bondholders within 270 days of the close of the fiscal year. The inability to make timely filings must be disclosed and would be a negative reflection on the City. While also relying on timely audit and preparation of the City's annual report, the Director of Finance will ensure the City's timely filing with each Nationally Recognized Municipal Securities Information Repository.

The City shall ensure compliance with Government Code Section 8855 including notification to the CDIAC of proposed debt. At least 30 days prior to the sale of any debt issue, the City shall submit a report of the proposed issuance to the CDIAC by any method approved by CDIAC. Such report shall include a self-certification that the City has adopted a policy concerning the use of debt that complies with law and that the contemplated debt issuance is consistent with that policy. The City shall submit a report of final sale to CDIAC by any method approved by CDIAC no later than 21 days after the sale of the debt. The report shall include the information required by CDIAC.

The City shall submit an annual report to CDIAC for any issuance of debt for which it has submitted a report of final sale on or after January 21, 2017. On or before January 31 of each year, the City shall submit a report to the CDIAC regarding the debt authorized, the debt outstanding, and the use of proceeds of the issued debt for the period from July 1 to June 30. The annual report shall comply with the requirements of Government Code Section 8855 and related regulations.

D. **Rebate Reporting.** The use of bond proceeds and their investments must be monitored to ensure compliance with arbitrage restrictions. Existing regulations require that issuers calculate annual rebates, if any, related to each bond issue, with rebate, if due, paid every five years. Therefore, the Director of Finance shall ensure that proceeds and investments are tracked in a manner which facilitates accurate calculation, that calculations are completed, and rebates, if any, are made in a timely manner.

E. **Other Jurisdictions.** From time to time, the City will issue bonds on behalf of other public or private entities ("conduit" issues). While the City will make every effort to facilitate the desires of these entities, the Director of the Finance will ensure that the highest quality financings are done and that the City is insulated from all risks. The City shall require that all conduit financings achieve a rating at least equal to the City's ratings or that credit enhancement is obtained.

XII. ***Fees*.** The City will charge an administrative fee equal to direct costs plus indirect costs as calculated by the City's OMB A87 model to reimburse its administrative costs incurred in debt issuance on behalf of other governmental entities.

XIII. Consultants

The City shall select its primary consultant(s) by competitive process through a Request for Proposals (RFP).

A. **Selection of Financing Team Members.** The City Manager and/or the Director of Finance will make recommendations for financial advisors, underwriters, and bond counsel. Final approval will be provided by the City Council.

B. **Financial Advisor.** A pool of financial advisors will be created to assist the City in its debt issuance and debt administration processes. Selection of the City's financial advisor(s) shall be based on, but not limited to, the following criteria:

1. Experience in providing consulting services to complex issuers

2. Knowledge and experience in structuring and analyzing complex issues

3. Experience and reputation of assigned personnel

4. Fees and expenses

C. **Financial Advisory Services.** Financial advisory services provided to the City shall include, but shall not be limited to the following:

1. Evaluation of risks and opportunities associated with debt issuance

2. Monitoring marketing opportunities

3. Evaluation of proposals submitted to the City by investment banking firms

4. Structuring and pricing

5. Preparation of request for proposals for other financial services (trustee and paying agent services, printing, credit facilities, remarketing agent services, etc.)

6. 6. Advice, assistance and preparation for presentations with rating agencies and investors

D. **Conflicts of Interest.** The City also expects that its financial advisor will provide the City with objective advice and analysis, maintain the confidentiality of City financial plans, and be free from any conflicts of interest.

E. **Bond Counsel.** City debt will include a written opinion by legal counsel affirming that the City is authorized to issue the proposed debt, that the City has met all constitution and statutory requirements necessary for issuance, and a determination of the proposed debt's federal income tax status. The approving opinion and other documents relating to the issuance of debt will be prepared by counsel with extensive experience in public finance and tax issues. Compensation will be based on a fixed fee schedule and will vary based on the complexity of the transaction.

F. **Disclosure by Financing Team Members.** All financing team members will be required to provide full and complete disclosure, relative to agreements with other financing team members and outside parties. The extent of disclosure may vary depending on the nature of the transaction. However, in general terms, no agreements shall be permitted which could compromise the firm's ability to provide independent advice which is solely in the City's best interests or which could reasonably be perceived as a conflict of interest.

G. **Financing Team Selection Process.** The City shall conduct a request for qualifications from all red-book firms and other potential candidates of qualified underwriters, financial advisors, bond counsel and other consultants for each of the following areas:

- General Obligation Bonds, assessment bonds and other bond issuances based on voter-approval revenues;
- Redevelopment tax-increment bonds (including low and moderate income housing);
- Revenue bonds, lease financing and other obligations on existing City revenues.

Selected candidates may at the City's discretion provide financial services for a period not to exceed three years.

Glossary

Arbitrage. The difference between the interest paid on the tax-exempt securities and the interest earned by investing the security proceeds in higher-yielding taxable securities. IRS regulations govern arbitrage on the proceeds from issuance of municipal securities.

Balloon Maturity. A later maturity within an issue of bonds which contains a disproportionately large percentage of the principal amount of the original issue.

Bond Anticipation Notes (BANs). Notes issued by the government unit, usually for capital projects, which are paid from the proceeds of the issuance of long term bonds.

Bullet Maturity. A maturity for which there are no sinking fund payments prior to the stated maturity date.

Call Provisions. The terms of the bond contract giving the issuer the right to redeem all or a portion of an outstanding issue of bonds prior to their stated dates of maturity at a specific price, usually at or above par.

Capitalized Interest. A portion of the proceeds of an issue which is set aside to pay interest on the securities for a specific period of time. Interest is commonly capitalized for the construction period of the project.

Certificates of Participation (COP). A bond from an issue, which is secured by lease payments made by the party leasing the facilities, financed by the issue. Typically certificates of participation ("COPs") are used to finance construction of facilities (i.e., schools of office buildings) used by a state or municipality, which leases the facilities from a financing authority. Often the leasing municipality is legally obligated to appropriate moneys from its general tax revenues to make lease payments.

Commercial Paper. Very short-term, unsecured promissory notes issued in either registered or bearer form, and usually backed by a line of credit with a bank.

Competitive Sale. A sale of securities by an issuer in which underwriters or syndicates of underwriters submit sealed bids to purchase the securities in contrast to a negotiated sale.

Continuing Disclosure. The principle that accurate and complete information material to the transaction which potential investors would be likely to consider material in making investment decisions with respect to the securities be made available on an ongoing basis.

Credit Enhancement. Credit support purchased by the issuer to raise the credit rating of the issue. The most common credit enhancements consist of bond insurance, direct or standby letters of credit, and lines of credit.

Debt Service Reserve Fund. The fund in which moneys are placed which may be used to pay debt service if pledged revenues are insufficient to satisfy the debt service requirements.

Deep Discount Bonds. Bonds which are priced for sale at a substantial discount from their face or par value.

Derivatives. A financial product whose value is derived from some underlying asset value.

Designation Policies. Outline of how an investor's order is filled when a maturity is oversubscribed when there is an underwriting syndicate. The senior managing underwriter and issuer decide how the bonds will be allocated among the syndicate. There are three primary classifications of orders, which form the designation policy.

The highest priority is given to Group Net orders; the next priority is given to Net Designated orders and Member orders are given the lowest priority.

Escrow. A fund established to hold moneys pledged and to be used to pay debt service on an outstanding issue.

Expenses. Compensates senior managers for out-of-pocket expenses including: underwriters' counsel, DTC charges, travel, syndicate expenses, dealer fees, overtime expenses, communication expenses, computer time and postage.

Lease-Purchase. A financing lease which may be sold publicly to finance capital equipment, real property acquisition or construction. The lease may be resold as certificates of participation or lease revenue bonds.

Letters of Credit. A bank credit facility wherein the bank agrees to lend a specified amount of funds for a limited term.

Management Fee. The fixed percentage of the gross spread which is paid to the managing underwriter for the structuring phase of a transaction.

Members. Underwriters in a syndicate other than the senior underwriter.

Moody's Median. Key financial, debt, economic and tax base statistics with median values for each statistic presented. Moody's uses audits for both rated and unrated cities to ensure that the medians presented are representative of all cities.

Negotiated Sale. A method of sale in which the issuer chooses one underwriter to negotiate terms pursuant to which such underwriter will purchase and market the bonds.

Original Issue Discount. The amount by which the original par amount of an issue exceeds its public offering price at the time it is originally offered to an investor.

Overlapping Debt. That portion of the debt of other governmental units for which residents of a particular municipality are responsible.

Pay-As-You-Go. An issuer elects to finance a project with existing cash flow as opposed to issuing debt obligations.

Present Value. The current value of a future cash flow.

Private Placement. The original placement of an issue with one or more investors as opposed to being publicly offered or sold.

Rebate. A requirement imposed by Tax Reform Act of 1986 whereby the issuer of the bonds must pay the IRS an amount equal to its profit earned from investment of bond proceeds at a yield above the bond yield calculated pursuant to the IRS code together with all income earned on the accumulated profit pending payment.

Selling Groups. The group of securities dealers who participate in an offering not as underwriters but rather who receive securities less the selling concession from the managing underwriter for distribution at the public offering price.

Special Assessments. Fees imposed against properties, which have received a special benefit by the construction of public improvements such as water, sewer and irrigation.

Syndicate Policies. The contractual obligations placed on the underwriting group relating to distribution, price limitations and market transactions.

Tax Increment. A portion of property tax revenue received by a redevelopment agency, which is attributable to the increase in assessed valuation since adoption of the project area plan.

Underwriter. A dealer that purchases new issues of municipal securities from the Issuer and resells them to investors.

Underwriter's Discount. The difference between the price at which bonds are bought by the Underwriter from the Issuer and the price at which they are reoffered to investors.

Variable Rate Debt. An interest rate on a security, which changes at intervals according to an index or a formula or other standard of measurement, as stated in the bond contract.

ATTACHMENT 6:

Draft – Bond Amortization Schedule

Applicant/Project Name	City of Goleta
Loan Amount	$10,000,000
Interest Rate	3.52%
Annual Fee	0.30%
Funding Date	8/15/2019
First Interest Only Pmt Date	2/1/2020
First Principal Pmt Date	8/1/2020
Amortization Period	30
Loan Term	30

Payment Date	Principal Balance	Principal Component	Interest Component	Base Rental Payment	Additional Rental Payment	Total Payment	Total Payment Fiscal Year Ending 30 - June
						-	-
15-Aug-2019	$10,000,000.00						
1-Feb-2020			$162,311.11	$162,311.11	$0.00	$162,311.11	$162,311.11
1-Aug-2020	$9,806,923.40	$193,076.60	$176,000.00	$369,076.60	$30,000.00	$399,076.60	$0.00
1-Feb-2021			$172,601.85	$172,601.85		$172,601.85	$571,678.45
1-Aug-2021	$9,607,050.51	$199,872.89	$172,601.85	$372,474.75	$29,420.77	$401,895.52	$0.00
1-Feb-2022			$169,084.09	$169,084.09		$169,084.09	$570,979.60
1-Aug-2022	$9,400,142.09	$206,908.42	$169,084.09	$375,992.51	$28,821.15	$404,813.66	$0.00
1-Feb-2023			$165,442.50	$165,442.50		$165,442.50	$570,256.16
1-Aug-2023	$9,185,950.49	$214,191.60	$165,442.50	$379,634.10	$28,200.43	$407,834.52	$0.00
1-Feb-2024			$161,672.73	$161,672.73		$161,672.73	$569,507.25
1-Aug-2024	$8,964,219.35	$221,731.14	$161,672.73	$383,403.87	$27,557.85	$410,961.72	$0.00
1-Feb-2025			$157,770.26	$157,770.26		$157,770.26	$568,731.98
1-Aug-2025	$8,734,683.28	$229,536.08	$157,770.26	$387,306.34	$26,892.66	$414,198.99	$0.00
1-Feb-2026			$153,730.43	$153,730.43		$153,730.43	$567,929.42
1-Aug-2026	$8,497,067.53	$237,615.75	$153,730.43	$391,346.17	$26,204.05	$417,550.22	$0.00
1-Feb-2027			$149,548.39	$149,548.39		$149,548.39	$567,098.61
1-Aug-2027	$8,251,087.71	$245,979.82	$149,548.39	$395,528.21	$25,491.20	$421,019.41	$0.00
1-Feb-2028			$145,219.14	$145,219.14		$145,219.14	$566,238.56
1-Aug-2028	$7,996,449.40	$254,638.31	$145,219.14	$399,857.45	$24,753.26	$424,610.72	$0.00
1-Feb-2029			$140,737.51	$140,737.51		$140,737.51	$565,348.23
1-Aug-2029	$7,732,847.82	$263,601.58	$140,737.51	$404,339.09	$23,989.35	$428,328.44	$0.00
1-Feb-2030			$136,098.12	$136,098.12		$136,098.12	$564,426.56
1-Aug-2030	$7,459,967.47	$272,880.35	$136,098.12	$408,978.48	$23,198.54	$432,177.02	$0.00
1-Feb-2031			$131,295.43	$131,295.43		$131,295.43	$563,472.45
1-Aug-2031	$7,177,481.73	$282,485.74	$131,295.43	$413,781.17	$22,379.90	$436,161.07	$0.00
1-Feb-2032			$126,323.68	$126,323.68		$126,323.68	$562,484.75
1-Aug-2032	$6,885,052.49	$292,429.24	$126,323.68	$418,752.92	$21,532.45	$440,285.36	$0.00
1-Feb-2033			$121,176.92	$121,176.92		$121,176.92	$561,462.29
1-Aug-2033	$6,582,329.74	$302,722.75	$121,176.92	$423,899.67	$20,655.16	$444,554.83	$0.00
1-Feb-2034			$115,849.00	$115,849.00		$115,849.00	$560,403.83
1-Aug-2034	$6,268,951.15	$313,378.59	$115,849.00	$429,227.59	$19,746.99	$448,974.58	$0.00
1-Feb-2035			$110,333.54	$110,333.54		$110,333.54	$559,308.12
1-Aug-2035	$5,944,541.63	$324,409.52	$110,333.54	$434,743.06	$18,806.85	$453,549.91	$0.00
1-Feb-2036			$104,623.93	$104,623.93		$104,623.93	$558,173.84
1-Aug-2036	$5,608,712.90	$335,828.73	$104,623.93	$440,452.66	$17,833.62	$458,286.29	$0.00
1-Feb-2037			$98,713.35	$98,713.35		$98,713.35	$556,999.64
1-Aug-2037	$5,261,062.99	$347,649.90	$98,713.35	$446,363.25	$16,826.14	$463,189.39	$0.00
1-Feb-2038			$92,594.71	$92,594.71		$92,594.71	$555,784.10
1-Aug-2038	$4,901,175.81	$359,887.18	$92,594.71	$452,481.89	$15,783.19	$468,265.08	$0.00
1-Feb-2039			$86,260.69	$86,260.69		$86,260.69	$554,525.77
1-Aug-2039	$4,528,620.61	$372,555.21	$86,260.69	$458,815.90	$14,703.53	$473,519.43	$0.00
1-Feb-2040			$79,703.72	$79,703.72		$79,703.72	$553,223.15
1-Aug-2040	$4,142,951.45	$385,669.15	$79,703.72	$465,372.87	$13,585.86	$478,958.74	$0.00
1-Feb-2041			$72,915.95	$72,915.95		$72,915.95	$551,874.68
1-Aug-2041	$3,743,706.75	$399,244.71	$72,915.95	$472,160.65	$12,428.85	$484,589.51	$0.00
1-Feb-2042			$65,889.24	$65,889.24		$65,889.24	$550,478.74
1-Aug-2042	$3,330,408.63	$413,298.12	$65,889.24	$479,187.36	$11,231.12	$490,418.48	$0.00
1-Feb-2043			$58,615.19	$58,615.19		$58,615.19	$549,033.67
1-Aug-2043	$2,902,562.41	$427,846.21	$58,615.19	$486,461.41	$9,991.23	$496,452.63	$0.00
1-Feb-2044			$51,085.10	$51,085.10		$51,085.10	$547,537.73
1-Aug-2044	$2,459,656.01	$442,906.40	$51,085.10	$493,991.50	$8,707.69	$502,699.19	$0.00
1-Feb-2045			$43,289.95	$43,289.95		$43,289.95	$545,989.13
1-Aug-2045	$2,001,159.31	$458,496.71	$43,289.95	$501,786.65	$7,378.97	$509,165.62	$0.00
1-Feb-2046			$35,220.40	$35,220.40		$35,220.40	$544,386.02
1-Aug-2046	$1,526,523.52	$474,635.79	$35,220.40	$509,856.19	$6,003.48	$515,859.67	$0.00
1-Feb-2047			$26,866.81	$26,866.81		$26,866.81	$542,726.49
1-Aug-2047	$1,035,180.55	$491,342.97	$26,866.81	$518,209.78	$4,579.57	$522,789.35	$0.00
1-Feb-2048			$18,219.18	$18,219.18		$18,219.18	$541,008.53
1-Aug-2048	$526,542.31	$508,638.24	$18,219.18	$526,857.42	$3,105.54	$529,962.96	$0.00
1-Feb-2049			$9,267.14	$9,267.14		$9,267.14	$539,230.11
1-Aug-2049	$0.00	$526,542.31	$9,267.14	$535,809.45	$1,579.63	$537,389.08	$537,389.08
Total Payments:		$10,000,000.00	$6,338,609.03	$16,338,609.03	$541,389.03	$16,879,998.06	$16,879,998.06