

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)

STAFF REPORT

**CALIFORNIA LENDING FOR ENERGY AND ENVIRONMENTAL NEEDS (CLEEN)
DIRECT FINANCING EXECUTIVE SUMMARY**

Applicant: City of Huntington Beach (City)		CLEEN Center Project Type: LED Street Lighting Program
Amount Requested: \$7,692,425	Requested Financing Term: 10 years	Interest Rate⁽¹⁾: 2.32%
Source of Repayment: General Fund (Fund)		Fund Rating/Date: 2014 Series A Lease Revenue Bond (Senior Center Project) Fitch AA+ and S&P AA 10/30/2014
Security/Leasehold Interest: (1) City Fire Station #6, (2) Junior Lifeguard Headquarters, and (3) Lifeguard Headquarters (Leased Assets)		
Project Name: City of Huntington Beach Streetlight Acquisition and Light-Emitting Diode (LED) Retrofit Project (Project)		Project Location: Streetlights located throughout the City

Project Description / Source and Use of Proceeds:

The City of Huntington Beach requests CLEEN Center financing in the amount of \$7,692,425 to fund the City of Huntington Beach Streetlight Acquisition and Light Emitting Diode Retrofit. Through the Project, the City will purchase 11,181 existing High Pressure Sodium (HPS) streetlights from Southern California Edison (SCE) and retrofit them with new LED technology.

Use of Financing Proceeds:

The CLEEN Center financing will fund the streetlight acquisition, Cutover (testing and transfer of the assets) costs, and LED Streetlight Retrofit and Contingency. The City will pay the IBank's Origination Fee upon loan closing.

CITY OF HUNTINGTON BEACH STREETLIGHT ACQUISITION AND LED RETROFIT PROJECT SOURCES and USES			
Project Uses	IBank	City of Huntington Beach	Total
Streetlight Acquisition	\$3,392,425	\$1,000,000	\$4,392,425
Cutover	\$450,000		\$450,000
LED Streetlight Retrofit and Contingency	\$3,850,000		\$3,850,000
IBank Origination Fee		\$76,924	\$76,924
Total	\$7,692,425	\$1,076,924	\$8,769,349

(1) As of July 22, 2015

Credit Considerations:

Fund cash flow and debt service analysis for the CLEEN Center financing is as follows:

City of Huntington Beach					
Lease Payment and Fund Balance Analysis Based on General Fund					
For Fiscal Year Ending (FYE) September 30	2010	2011	2012	2013	2014
Net Change in Fund Balance (actual)	\$2,264,000	\$13,204,000	\$5,857,000	\$4,741,000	\$6,547,000
Less Payments for New Debt					
Lease Revenue Bonds, 2014 Series A, (issued Sept 2014)	\$1,090,494	\$1,090,494	\$1,090,494	\$1,090,494	\$1,090,494
Capital One Public Funding, LLC (issued October 2014)	\$65,934	\$65,934	\$65,934	\$65,934	\$65,934
Proposed CLEEN Center Lease Payment	\$885,818	\$885,818	\$885,818	\$885,818	\$885,818
Total Payments for New Debt	\$2,042,246	\$2,042,246	\$2,042,246	\$2,042,246	\$2,042,246
Revised Net Change in Fund Balance after Payments for New Debt	\$221,754	\$11,161,754	\$3,814,754	\$2,698,754	\$4,504,754

In addition to deducting the proposed CLEEN payment from the historical Net Change in Fund Balance, deductions in the above table includes payments for two additional obligations the City obtained since completing its Fiscal Year 2014 financial statements. The Net Change in Fund Balance (actual) after adjustments for the three new payments reflects the Fund’s ability to cover all expenditures and transfers out and service its new and proposed obligations in all five years analyzed.

The City anticipates annual savings due to lower electricity costs following the installation of the LED lights, resulting in expenditure savings that are not included in the analysis.

Staff Analysis for Funding and Extraordinary Covenants:

1. The Fund demonstrates the City’s ability to make payments on the existing leases and the proposed CLEEN Center financing:
 - a. The Fund is trending upwards due to increases in tax revenues;
 - b. Total Assets, specifically Restricted Cash and Investments, are trending upward;
 - c. The Unrestricted Fund balance is increasing and was \$5,739,000 at Fiscal Year End (FYE) September 30, 2014;
 - d. Unrestricted Fund balance can be fully covered by Cash and Investments.
2. On October 30, 2014, Fitch Ratings (Fitch) and Standard and Poor’s (S&P) affirmed the following rating of the City of Huntington Beach Financing Authority’s 2014A Bonds:
 - a. Fitch AA+
 - b. S&P AA
3. The fair market value of the City’s proposed Leased Assets is equivalent to the proposed financing amount.
4. Delaying the Project will increase the cost of purchasing the lighting assets and delay energy savings that will benefit the City.

Covenants:

1. Leased Assets must not be the subject of any litigation or material controversy.
2. City to enter into a fixed-price construction contract. Contractor must obtain payment and performance bonds, builder’s risk insurance, and liability and worker’s compensation insurance.
3. City to procure a CLTA or ALTA title insurance policy for each Leased Asset.
4. City to procure and maintain rental interruption insurance for a period of at least six months beyond the time needed to reconstruct each Leased Asset.
5. City to covenant against future encumbrances against the Leased Assets.
6. City to budget and appropriate funds sufficient to make annual lease payments.

7. City to provide a copy of its adopted annual budget of Lease due to IBank within 60 days of September 30th of each year.
8. City to provide to IBank within 240 days of the end of each fiscal year a copy of its audited financial statements, together with an annual certificate demonstrating compliance with the foregoing covenants, as well as other information as IBank may request from time to time.
9. City to provide IBank with a copy of any and all proposed contracts for retrofit services to enable IBank to determine that the contracts each constitute a Qualified Management Contract for federal tax law purposes.
10. City to provide IBank with satisfactory evidence that it has obtained commercially reasonable equipment and labor warranties and that installers demonstrate the ability to fulfill warranty obligations.

IBank Staff: Tom Dear	Date of Staff Report: November 5, 2015
---------------------------------	--

Date of IBank Board Meeting: 11/17/2015	Resolution Number: 15-15
---	------------------------------------

Staff Recommendation:
Staff recommends approval of Resolution No. 15-15 authorizing CLEEN Center direct financing to the City of Huntington Beach for the City of Huntington Beach Streetlight Acquisition and Light-Emitting Diode Retrofit Project.

PROJECT DESCRIPTION

The City of Huntington Beach (City) requests CLEEN Center direct financing in the amount of \$7,692,425 to fund the City of Huntington Beach Streetlight Acquisition and Light Emitting Diode (LED) Retrofit (Project). Through the Project, the City will purchase 11,181 existing High Pressure Sodium (HPS) streetlights from Southern California Edison and retrofit them with new LED technology. The streetlights are located within the street right-of-way owned or controlled by the City and along Pacific Coast Highway (PCH) and Beach Boulevard that are controlled by Caltrans, and which has granted the City permission to retrofit the lights.

The Project has seven steps as described below:

1. **Valuation of Streetlights:** In 2013 and 2014, SCE inventoried its streetlights, identified major streetlight components as discussed below, and established the replacement cost.

Poles:

Seventy-one percent of the streetlight poles are made of concrete and twenty-five percent are made of steel; all of these poles are deemed to be in satisfactory condition and will stay in service. The remaining four percent of the streetlight poles are in poor condition and will be replaced during the retrofit.

Light Fixtures and Weatherheads:

All of the light fixtures and weatherheads are in fair or better condition and will not be replaced.

Electrical Wiring:

The City will acquire ownership of 74 miles of overhead electrical wiring dedicated to streetlights. Although the electrical wiring was not initially evaluated, this wiring will be evaluated during the retrofit process. The total Project cost does include an estimate for replacing wire that is no longer serviceable. This estimate is based on information received from Siemens, an experienced vendor familiar with retrofitting streetlights in similar Southern California cities. Any cost overruns will be covered by the City.

2. **Contract negotiation with Southern California Edison Company:** The City and SCE have negotiated a contract that is ready to be executed when the City is prepared to proceed. The contract identifies the streetlights that will be transferred to the City. Once the contract is executed, it will be sent to the California Public Utilities Commission (CPUC) for final approval.
3. **California Public Utilities Commission Acceptance of Final Purchase:** State law requires that the CPUC approve the terms of the contract between the City and SCE. Once the filing of acceptance is completed, the purchase of the assets can be finalized.
4. **Streetlight Acquisition:** Following CPUC approval, a purchase contract will be executed and assets transfer, commonly known as “cutover”, begins. Cutover will occur at a rate of

approximately 1,000 lights per month, at which time the City legally assumes responsibility for the streetlights.

5. **LED Streetlight Retrofit:** Streetlights will be retrofitted from the less efficient high pressure sodium (HPS) fixtures to Light Emitting Diode (LED) technology.
6. **City Acceptance of Project:** Following completion of the Project, City employees will conduct a nighttime drive-by inspection of all streetlights to ensure sufficient lighting levels. Additionally, the City will hire a vendor to ensure the Project meets or exceeds contractual forecasted performance levels.
7. **Warranty:** Manufacturer provides a ten year warranty for materials; however, it is estimated that the Project will last at least 15 years. In addition to the manufacturer's warranty, the installing vendor will provide a minimum 12 month warranty on all material and work performed.

Following Project completion, the City will contract with a vendor to perform streetlight maintenance for the next 20 years.

Project Benefits

- The Project will decrease energy consumption and reduce greenhouse gases and light trespass/pollution.
- A secondary benefit is the upgrade provided to the City's existing out-of-date streetlights that are in need of repair.
- LED fixtures have an expected useful life between 10 and 15 years compared to the maximum expected useful life of HPS streetlights of 10 years.
- LED streetlights do not require routine maintenance and the lighting ballast can last ten years or more, while HPS streetlights require replacement every two to three years and replacement of the ballast every seven years.

Although routine maintenance will continue to be performed, it will be on a less frequent schedule than performed with the HPS streetlights. The vendor will perform streetlight maintenance for extraordinary and emergency issues on an as needed basis such as streetlight knockdowns. Typically, the City experiences an average of 55 knockdowns events annually.

In accordance with the Criteria, IBank Staff have determined that the Project utilizes investment-grade commercially proven technology. However, an engineering report was not requested since the City demonstrates historical repayment ability in the last four out of five years without consideration given to potential cost savings the City may experience after converting the streetlights to LED.

Public Benefits

The City anticipates annual energy savings of 3,514,534 *kilowatt-hour* (kWh) beginning the first year after installation which means lower energy cost for the City, freeing money for other services that benefit it's citizens.

The City anticipates five (5) temporary jobs and one (1) full-time equivalent (FTE) job to be created as the result of this project once all the streetlights have been cutover. This estimate does not include the temporary job creation that will occur during the retrofit.

CITY OF HUNTINGTON BEACH INFORMATION

The City is located along the seaside in Orange County, Southern California. The City has a total area of 31.8 square miles, of which 26.7 square miles is land and 5.1 square miles is water. It is bordered by the Pacific Ocean on the southwest, Seal Beach on the northwest, Westminster on the north, Fountain Valley on the northeast, Costa Mesa on the east, and Newport Beach on the southeast.

The City was incorporated as a Charter City on February 17, 1908, and has a Council/City Manager form of government. The City Council is the City’s legislative authority and sets the policies under which the City operates. The City Council has seven members, each of whom is elected to a four-year term.

The 2010 census reported the City’s population as 189,992, making it the most populous beach city in Orange County. The City’s estimated 2014 population was 200,809.

The City is known for its 9.5-mile stretch of sandy beach, mild climate, excellent surfing, and beach culture earning the City the nickname “Surf City” and creating a brand based on Southern California’s active outdoor lifestyle and promoting tourism. Several hotels are located on the inland side of Pacific Coast Highway within view of the beach, just southeast of the pier adding to the local tourism income. The downtown district includes an active art center, a colorful shopping district, and the International Surfing Museum. Another surfing-related attraction in Huntington Beach is the Surfing Walk of Fame.

Tourism and technology are the leading industries in the City. Home to more than 650 industrial businesses, including Boeing, Quicksilver, Cambro Manufacturing, and C & D Aerospace, the City boasts a diversified and dynamic economy. The City contains a major installment of one of the state’s largest employers, Boeing, formerly McDonnell-Douglas. The second largest employer in the City is clothing manufacturer Quicksilver that also has its world-wide corporate headquarters within the City. The City is also home to the headquarters of Cambro Manufacturing, an international foodservice equipment company, with two manufacturing facilities in the City. The following table lists the City’s Top Ten Employers.

Huntington Beach Top Ten Employers		
Employer	No. of Employees	% of Employees in City
Boeing	5,581	4.64%
Quiksilver	1,228	1.02%
Cambro MFG Co.	951	0.79%
Ensign United States Drilling	925	0.77%
Hyatt Regency Huntington Beach	641	0.53%
C & D Aerospace	555	0.46%
Huntington Beach Hospital	527	0.44%
Walters Wholesale Electronics	480	0.40%
Wal-Mart	462	0.38%
Rainbow Disposal	408	0.34%
Total	11,758	9.78%

CREDIT ANALYSIS

Source of Financing Repayment

Source of Revenue to Repay Proposed CLEEN Program Financing:	General Fund
Outstanding General Fund Bond and Lease Obligations:	1) 2004 Judgment Obligation Bond (City) 2) 2010 Lease Revenue Refunding Bonds (FA) 3) 2011 Lease Revenue Refunding Bonds (FA) 4) 2014 Lease Revenue Bonds (FA) 5) Capital One Public Funding, LLC
Type of Audited Financial Documents Reviewed:	<input checked="" type="checkbox"/> Comprehensive Annual Financial Reports (CAFR) <input type="checkbox"/> Basic Financial Statements (F/S) <input type="checkbox"/> Other: _____
Fiscal Year Ends:	September 30
Audit Fiscal Years Reviewed:	2010-2014
The auditor's reports for all years indicate that the financial statements present fairly, in all material respects, the financial position of the District, and that the results of its operations and the cash flows are in conformity with generally accepted accounting principles.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No. [If no, explain]
Adopted Budget(s) Reviewed:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No. [If no, explain]
Budget Year(s) Reviewed:	2010-2015

Comparative Fund Balance Sheet Analysis

CITY OF HUNTINGTON BEACH GENERAL FUND COMPARATIVE BALANCE SHEET										
For Fiscal Year Ending (FYE) September 30	2010		2011		2012		2013		2014	
Source:	CAFR	%	CAFR	%	CAFR	%	CAFR	%	CAFR	%
Assets										
Cash and Investments	28,155,000	39.5%	47,339,000	53.6%	52,081,000	56.6%	49,864,000	54.5%	58,132,000	58.8%
Receivables										
Taxes	25,758,000	36.1%	24,771,000	28.1%	29,549,000	32.1%	31,449,000	34.4%	29,499,000	29.8%
Other	4,278,000	6.0%	5,331,000	6.0%	5,805,000	6.3%	6,128,000	6.7%	6,846,000	6.9%
Advance to Other Funds	675,000	0.9%	341,000	0.4%						
Land Held for Resale		0.0%	5,978,000	6.8%						
Prepaid Items	12,502,000	17.5%	4,540,000	5.1%	4,637,000	6.5%	4,040,000	5.7%	4,378,000	4.4%
Total Assets	\$71,368,000	100.0%	\$88,300,000	100.0%	\$92,072,000	100.0%	\$91,481,000	100.0%	\$98,855,000	100.0%
Liabilities										
Accounts Payable	4,150,000	5.8%	4,238,000	4.8%	4,206,000	4.6%	4,467,000	4.9%	6,202,000	6.3%
Accrued Payroll	4,709,000	6.6%	5,526,000	6.3%	4,846,000	5.3%	6,494,000	7.1%	6,063,000	6.1%
Deposits Payable	1,194,000	1.7%	1,469,000	1.7%	1,511,000	1.6%	1,304,000	1.4%	1,289,000	1.3%
Deferred Revenue	14,285,000	20.0%	15,519,000	17.6%	19,612,000	22.2%	21,446,000	23.4%	\$21,689,000	21.9%
Claims Payable	5,678,000	8.0%	6,992,000	7.9%	7,462,000	8.1%	3,263,000	3.6%	2,558,000	2.6%
Total Liabilities	\$30,016,000	42.1%	\$33,744,000	38.2%	\$37,637,000	40.9%	\$36,974,000	40.4%	\$37,801,000	38.2%
Fund Balance										
Land Held for Resale			5,978,000	6.8%						
Non Spendable (Prepaid Insurance)	3,930,000	5.5%	3,922,000	4.4%	4,033,000	4.4%	4,040,000	4.4%	4,378,000	4.4%
Advance to Other Funds	675,000	0.9%	341,000	0.4%						
Worker's Compensation Claims Deposit			600,000	0.8%	600,000	0.8%				
Restricted Cash and Investments										
Underground Utilities	364,000	0.5%	364,000	0.5%	364,000	0.5%	364,000	0.5%	364,000	0.5%
Restitution	244,000	0.3%	244,000	0.3%	263,000	0.4%	269,000	0.4%	269,000	0.4%
Other Purposes	844,000	1.2%	696,000	1.0%	760,000	1.1%	1,245,000	1.7%	1,437,000	2.0%
Committed										
Economic Uncertainties	19,710,000	27.6%	23,185,000	32.5%	24,011,000	33.6%	24,011,000	33.6%	25,011,000	35.0%
Assigned										
Litigation Resources	900,000	1.3%	900,000	1.3%	900,000	1.3%	900,000	1.3%	900,000	1.3%
Capital Improvement Reserve	2,970,000	4.2%	4,270,000	6.0%	5,970,000	8.4%	7,136,000	10.0%	7,136,000	10.0%
Equipment Replacement	6,913,000	9.7%	6,913,000	9.7%	6,913,000	9.7%	8,295,000	11.6%	8,295,000	11.6%
PARS Obligation	3,549,000	5.0%	4,649,000	6.5%	4,701,000	6.6%				
Budget Stabilization					3,100,000	4.3%				
Redevelopment Dissolution							1,323,000	1.9%	1,323,000	1.9%
Retiree Medical Unfunded Liability					698,000	1.0%	698,000	1.0%		
General Plan Maintenance					323,000	0.5%	720,000	1.0%	720,000	1.0%
Senior Center Debt Service Reserve							2,000,000	2.8%	2,000,000	2.8%
CalPERS One Equal Five Plan							500,000	0.7%	1,500,000	2.1%
CalPERS Rate Increase									1,287,000	1.8%
City View Replacement									695,000	1.0%
Unrestricted	1,253,000	1.8%	2,494,000	3.5%	1,799,000		3,006,000	4.2%	5,739,000	8.0%
Total Fund Balances	\$41,352,000		\$54,556,000		\$54,435,000		\$54,507,000		\$61,054,000	
Total Liabilities and Fund Balance	\$71,368,000		\$88,300,000		\$92,072,000		\$91,481,000		\$98,855,000	
Total Liabilities to Total Assets	0.42		0.38		0.41		0.40		0.38	
Total Fund Balance/Total Liabilities	1.38		1.62		1.45		1.47		1.62	

Review of the above spreadsheet finds year-over-year growth in Total Assets with an exception in Fiscal Year (FY) 2013 when Total Assets declined less than 1%, but recovered by 8.1% in FY 2014. The City also eliminated two categories, Advance to Other Funds and Land Held for Resale. Both categories were related to Redevelopment Agency activities and are no longer part of the General Fund.

Total Assets increased 38.5% over the five years analyzed. The five year growth was centered primarily in Cash and Investments, which improved due to positive net changes in fund balance as will be seen in the next section of this report.

Total Liabilities increased 25.9% in the five years reviewed. Increases were seen in FYs 2011 and 2012, 12.4% and 11.5%, respectively; however, Total Liabilities declined 1.8% in FY 2013 and

increased only a 2.2% increase in FY 2014. Increases over the five year period were seen primarily in Deferred Revenue, 51.8%; Accounts Payable, 49.4%; and Accrued Payroll, 28.8%. Deferred Revenue represents property taxes related to the current fiscal year that are collected more than 60 days after fiscal year-end. Accounts Payable increased primarily due to normal fluctuations in the accounts payable cycle. Accrued Payroll increased due to the City's filling vacant positions that were left open as a method of cost control during the recession. The increases in Total Liabilities were partially offset by a decrease of 54.9% in Claims Payable. Claims may occur as the result of injuries to citizens, contractors, and employees. With the year-over-year positive net changes in fund balance, the City has been paying claims faster rather than deferring such expenditures over multiple years.

As a result of the changes discussed above, Total Fund Balances increased \$19,702,000 in the five years reviewed, representing 47.6% growth, of which 12%, or \$6,547,000, occurred in FY 2014.

In the past three years, the City added seven new categories under Fund Balance to designate \$7,525,000 (FY 2014) for purposes not previously identified. The City set aside funds to address short falls due to the redevelopment dissolution, permit staff to continue to update the City's General Plan, to provide a contingency for the construction of the City's new Senior Center, to respond to changes in actuarial estimates by CalPERS. The City also created a CalPERS Rate Increase reserve that is intended to help shield the City's budget from pension volatility. Finally, the City established the "City View Replacement" fund to pay for upgrading its Enterprise Land Management software system.

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

CITY OF HUNTINGTON BEACH GENERAL FUND COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES										
For Fiscal Year Ending (FYE) September 30	2010	% ⁽¹⁾	2011	% ⁽¹⁾	2012	% ⁽¹⁾	2013	% ⁽¹⁾	2014	% ⁽¹⁾
Source:	CAFR		CAFR		CAFR		CAFR		CAFR	
% Change Year-over-Year in Total Revenues		N/A		3.93%		4.93%		4.64%		2.87%
Revenues										
Property Taxes	\$66,886,000	38.8%	\$67,842,000	37.8%	\$67,880,000	36.0%	\$73,423,000	37.1%	\$79,460,000	39.0%
Sales Tax	20,795,000	12.1%	22,617,000	12.6%	26,517,000	14.1%	27,199,000	13.7%	27,236,000	13.4%
Utility Tax	19,757,000	11.5%	19,135,000	10.7%	20,152,000	10.7%	20,764,000	10.5%	20,621,000	10.1%
Other Local Taxes	11,629,000	6.7%	13,368,000	7.5%	12,930,000	6.9%	14,568,000	7.4%	15,437,000	7.6%
Licenses and Permits	6,109,000	3.5%	6,593,000	3.7%	7,731,000	4.1%	8,983,000	4.5%	7,935,000	3.9%
Fines, Forfeitures and Penalties	3,965,000	2.3%	4,334,000	2.4%	4,252,000	2.3%	4,058,000	2.1%	4,392,000	2.2%
Revenues from Use of Money and Property	13,826,000	8.0%	14,267,000	8.0%	15,976,000	8.5%	14,981,000	7.6%	16,216,000	8.0%
Intergovernmental	4,219,000	2.4%	5,448,000	3.0%	5,934,000	3.1%	5,453,000	2.8%	4,045,000	2.0%
Charges for Current Service	22,724,000	13.2%	23,543,000	13.1%	25,404,000	13.5%	26,374,000	13.3%	25,988,000	12.8%
Other	2,433,000	1.4%	2,253,000	1.3%	1,928,000	1.0%	2,074,000	1.0%	2,392,000	1.2%
Total Revenues	\$172,343,000	100%	\$179,400,000	100%	\$188,704,000	100.0%	\$197,877,000	100.0%	\$203,722,000	100.0%
Expenditures										
City Council	\$301,000	0.2%	\$300,000	0.2%	\$310,000	0.2%	\$260,000	0.1%	\$258,000	0.1%
City Manager	1,652,000	1.0%	1,493,000	0.8%	1,490,000	0.8%	1,341,000	0.7%	1,853,000	0.9%
City Treasurer	1,532,000	0.9%	1,274,000	0.7%	141,000	0.1%	132,000	0.1%	169,000	0.1%
City Attorney	2,657,000	1.5%	2,142,000	1.2%	2,294,000	1.2%	2,221,000	1.1%	2,321,000	1.1%
City Clerk	868,000	0.5%	798,000	0.4%	689,000	0.4%	797,000	0.4%	747,000	0.4%
Finance	4,286,000	2.5%	3,423,000	1.9%	4,573,000	2.4%	4,825,000	2.4%	5,314,000	2.6%
Human Resources	5,209,000	3.0%	6,043,000	3.4%	5,193,000	2.8%	5,442,000	2.8%	4,073,000	2.0%
Planning and Building	\$2,954,000	1.7%	\$5,826,000	3.2%	\$6,119,000	3.2%	\$6,155,000	3.1%	\$7,091,000	3.5%
Building	\$3,376,000	2.0%								
Fire	32,398,000	18.8%	34,317,000	19.1%	34,652,000	18.4%	35,497,000	17.9%	42,193,000	20.7%
Information Services	6,782,000	3.9%	5,879,000	3.3%	5,857,000	3.1%	6,096,000	3.1%	6,456,000	3.2%
Police	57,521,000	33.4%	58,848,000	32.8%	58,933,000	31.2%	59,274,000	30.0%	65,360,000	32.1%
Economic Development	1,520,000	0.9%	1,723,000	1.0%	1,551,000	0.8%	1,556,000	0.8%		
Community Services	13,328,000	7.7%	12,736,000	7.1%	13,392,000	7.1%	13,050,000	6.6%	9,042,000	4.4%
Library Services	4,066,000	2.4%	3,480,000	1.9%	3,492,000	1.9%	3,547,000	1.8%	3,663,000	1.8%
Public Works	17,388,000	10.1%	16,169,000	9.0%	20,692,000	11.0%	20,209,000	10.2%	20,299,000	10.0%
Non-Departmental	14,443,000	8.4%	14,360,000	8.0%	15,446,000	8.2%	19,671,000	9.9%	20,933,000	10.3%
Business Type Activities										
Principal Retirement	386,000	0.2%	1,566,000	0.9%	1,633,000	0.9%	4,751,000	2.4%	27,000	0.0%
Interest	48,000	0.0%	340,000	0.2%	256,000	0.1%	191,000	0.1%	1,000	0.0%
Total Expenditures	\$170,715,000	89.5%	\$170,717,000	86.5%	\$176,713,000	93.6%	\$185,015,000	93.5%	\$189,800,000	93.2%
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$1,628,000	0.9%	\$8,683,000	4.8%	\$11,991,000	6.4%	\$12,862,000	6.5%	\$13,922,000	6.8%
Other Financing Sources (Uses)										
Transfers In	8,452,000		13,199,000		1,063,000		913,000		1,135,000	
Transfers Out	(7,816,000)		(8,678,000)		(7,197,000)		(9,034,000)		(8,510,000)	
Total Other Financing Sources (Uses)	\$636,000		\$4,521,000		(\$6,134,000)		(\$8,121,000)		(\$7,375,000)	
Dissolution of Redevelopment Agency					(\$5,978,000)		(\$4,669,000)			
Net Change in Fund Balance	\$2,264,000		\$13,204,000		\$5,857,000		\$4,741,000		\$6,547,000	
Fund Balance, Beginning of Year	39,088,000		41,352,000		54,556,000		54,435,000		54,507,000	
Prior Year Adjustment										
Fund Balance, End of Year	\$41,352,000		\$54,556,000		\$54,435,000		\$54,507,000		\$61,054,000	
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$1,628,000		\$8,683,000		\$11,991,000		\$12,862,000		\$13,922,000	

⁽¹⁾ Calculated as a percent of Total Revenues

Analysis of the Comparative Statement of Revenues, Expenditures, and Changes in Fund Balance finds the Fund has ten revenue sources. Total Revenues increased year-over-year for overall growth of 18.2% over the five years analyzed, and 3% in FY 2014.

The City's largest source of revenue is Property Taxes, 39.0%, followed by Sales Tax, 13.4%, of Total Revenues. Property Taxes increased 37.7% over the five year period, which coincides with the rise of market values and sales in new residential projects such as "Brightwater" (347 single-family units) and "Truewind" (49 detached single-family units). Additionally, the City's

Property Tax now includes the assessed values for Sunset Beach that was annexed to Huntington Beach in FY 2011.

Sales Tax increased due to the number of retail stores located within the City, and from the City's Transient Occupancy Tax (TOT) that is included in Sales Tax. The City's TOT revenue increased as established public events increased in popularity at Huntington Beach such as the U.S. Open of Surfing, Surf City Marathon, and the BB Jazz Festival.

Total Expenditures were approximately 93% of Total Revenue in each FY 2012, 2013, and 2014. The largest expenditures as a percent of Total Revenue in FY 2014 were Police (32.1%), Fire (20.7%), Non-Departmental (representing citywide costs such as debt service payments, utility costs, unemployment insurance, and equipment replacement) (10.3%), and Public Works (10.0%). All other expenditure categories are each 4.4% or lower.

Total Expenditures increased by 11.2% over the five years reviewed. Specifically, expenditures grew 13.6% for Police and 30.2% for Fire over the same period. The City stated in its CAFR that program expenditures increased primarily due to increased staffing levels and increases in worker's compensation and pension costs.

Non-Departmental expenditures increased 44.9% during the five year period, with a 27.4% increase occurring in FY 2013 due to a transfer of \$4.7 million to the City's former Redevelopment Agency for remittance to the Orange County Auditor-Controller as part of the redevelopment dissolution process. Public Works increased 16.7% over the five years, with 28.0% occurring in FY 2012 as the City began to address projects that had been deferred during the recession. Lastly, substantial changes occurred in FY 2012 in both City Treasurer and Finance when the City realigned resources and duties.

Transfers In and Transfers Out represent movement of funds between the Fund and Other Governmental Funds, or Special Funds for purposes including service payments, payments for rehabilitation and improvement projects, to close out inactive funds, to fund senior citizen rate reduction charges, to comply with local match requirements of certain grants, and to cover administrative overhead charges.

The Net Change in Fund Balance was positive in each of the five years reviewed.

Obligations of the General Fund and Percentage of Total Revenues

The General Fund currently has five outstanding obligations briefly described below:

Name of Debt	Issuer	Purpose	Security
2004 Judgment Obligation Bonds	City of Huntington Beach	Refund City's obligations under a judgment that invalidated certain property taxes collected.	Any source of legally available funds of the City, including amounts on deposit in the Fund
Lease Revenue Refunding Bonds, 2010 Series A	Huntington Beach Public Financing Authority (Authority)	Refund the 1997 and 2000 Bonds, fund a reserve fund for the Bonds, and pay costs of issuance	Lease payments made by the City to the Authority
Lease Revenue Refunding Bonds, 2011 Series A (Capital Improvement Refinancing Project)	Huntington Beach Public Financing Authority (Authority)	Refund the 2001A and 2001B bonds, fund a reserve fund, and pay costs of issuance	Pledged Lease Revenues and amounts on deposit in funds and accounts established under the Indenture
Lease Revenue Bonds, 2014 Series A (Senior Center Project)	Huntington Beach Public Financing Authority (Authority)	Finance the construction of a new one-story senior center, fund a portion of a reserve account, pay costs of issuance.	Rental payment under the Lease Agreement
Capital One Public Funding, LLC (Lease/Purchase Agreement)	Between the City of Huntington Beach and Capital One Public Funding, LLC	Finance certain streetlight, parking lot light, and area light improvements as described in Exhibit C of the Lease/Purchase Agreement	Rental payments for the equipment

The table below summarizes the five outstanding obligations and IBank's proposed debt.

Current and Proposed Obligations Owned By the City of Huntington Beach Or the Huntington Beach Financing Authority						
Debt Issues	Underlying Rating (at issuance)	Date Issued	Amount Issued	Outstanding/ Proposed Balance	Highest Annual Payment	Maturity
2004 Judgment Obligation Bonds	S&P AAA	4/19/2004	\$12,500,000	\$5,175,000	\$1,124,755	4/1/2019
Lease Revenue Refunding Bonds, 2010 Series A	S&P AA	9/1/2010	\$14,745,000	\$11,230,000	\$1,239,150	9/1/2030
Lease Revenue Refunding Bonds, 2011 Series A	S&P AA	9/1/2010	\$36,275,000	\$28,165,000	\$4,296,594	9/1/2031
Lease Revenue Bonds, 2014 Series A	S&P AA	9/1/2014	\$15,295,000	\$15,295,000	\$1,090,494	9/1/2034
Capital One Public Funding, LLC	Not Rated	10/1/2014	\$1,096,924	\$1,096,924	\$65,934	11/1/2024
Proposed IBank Debt	Not Rated	TBD	\$7,692,425	\$7,692,425	\$885,818	8/1/2025
Total			\$87,604,349	\$68,654,349	\$8,702,745	

2014 Total Revenues	\$203,722,000
15% of 2014 Total Revenue	\$30,558,300
Total Annual Payments	\$8,702,745
% of 2014 Total Revenue	4.27%

The sum of the payments due on the five outstanding obligations and the proposed obligation do not exceed 15% of the Fund's 2014 Total Revenues.

Historical Ability to Budget Proposed Payment

The City acquired new debt in 2014 that is not reflected in the financial statements. The table below reflects the Revised Net Change in Fund Balance in FYs 2010-2014 after deducting the payments for new debt. The table demonstrates that the Fund can support the existing and proposed debt in all five years.

City of Huntington Beach Lease Payment and Fund Balance Analysis Based on General Fund					
For Fiscal Year Ending (FYE) September 30	2010	2011	2012	2013	2014
Net Change in Fund Balance (actual)	\$2,264,000	\$13,204,000	\$5,857,000	\$4,741,000	\$6,547,000
Less Payments for New Debt					
Lease Revenue Bonds, 2014 Series A, (issued Sept 2014)	\$1,090,494	\$1,090,494	\$1,090,494	\$1,090,494	\$1,090,494
Capital One Public Funding, LLC (issued October 2014)	\$65,934	\$65,934	\$65,934	\$65,934	\$65,934
Proposed CLEEN Center Lease Payment	\$885,818	\$885,818	\$885,818	\$885,818	\$885,818
Total Payments for New Debt	\$2,042,246	\$2,042,246	\$2,042,246	\$2,042,246	\$2,042,246
Revised Net Change in Fund Balance after Payments for New Debt	\$221,754	\$11,161,754	\$3,814,754	\$2,698,754	\$4,504,754

The City anticipates annual savings due to lower electricity costs following the installation of the LED lights, resulting in expenditure savings that are not included in the analysis.

Budget

The City adopts a budget annually as the foundation for its financial planning and control. The table below illustrates that actual revenues exceeded the City's expectations in three of the five years analyzed. However, in FY 2010, a shortfall of 2.1% was due to the recession adversely impacting the City's Sales Tax and Licenses and Permits revenues. In FY 2012, a shortfall of 0.5% was due to lower receipts in (1) Property Taxes due to foreclosures, (2) Use of Money

and Property as interest rates and property values declined, and (3) Charge for Current Services as consumers reduced spending.

City of Huntington Beach General Fund Revenues Budget				
Year	Orginal	Final	Actual	Difference between Final and Actual
2010	\$174,208,000	\$176,113,000	\$172,343,000	(\$3,770,000)
2011	\$171,785,000	\$176,596,000	\$179,400,000	\$2,804,000
2012	\$176,309,000	\$189,666,000	\$188,704,000	(\$962,000)
2013	\$181,888,000	\$196,702,000	\$197,877,000	\$1,175,000
2014	\$192,635,000	\$202,363,000	\$203,722,000	\$1,359,000

The table below indicates the City controls spending by deferring capital spending decisions until the end of the fiscal year. This ensures that the City is fully informed before proceeding with projects.

City of Huntington Beach General Fund Expenses Budget				
Year	Orginal	Final	Actual	Difference between Final and Actual
2010	\$174,552,000	\$177,636,000	\$170,715,000	(\$6,921,000)
2011	\$171,611,000	\$175,654,000	\$170,717,000	(\$4,937,000)
2012	\$177,322,000	\$181,013,000	\$176,713,000	(\$4,300,000)
2013	\$180,266,000	\$190,087,000	\$185,015,000	(\$5,072,000)
2014	\$187,745,000	\$203,656,000	\$189,800,000	(\$13,856,000)

As illustrated, Actual Expenses were less than Final Expenses in all years. This demonstrates the City's ability to control its cost.

Pension Plan

The City participates in CalPERS and over the last three years has funded 100% of the annual obligation to its pension fund. The City is waiting for the anticipated changes to CalPERS's updated calculation as to how much each member city will be responsible to contribute in the future. Once this information has been published and understood, the City will then make a decision on how to make up any shortfall that is then listed for the City.

Analysis of the Proposed Leased Assets

The City proposes to lease three assets (Leased Assets) under a lease/lease-back financing agreement. The City established fair market values for the Leased Assets in 2014 based on replacement cost of the existing buildings and the cost of the land. This valuation method is deemed acceptable to IBank.

The proposed Leased Assets are identified in the following table:

Valuation of Leased Assets for the City of Huntington Beach						
Name of Asset	Building Size (square feet)	Year Built	APN	Address in Huntington Beach	Type of Construction	Estimate of Value
Fires Station #6	7,235	1996	110-511-13	18592 Edward Street	concrete, block and stucco	\$4,504,926
Junior Lifeguard Headquarters	6,393	2005	024-281-14	21073 Pacific Coast Highway		\$1,749,782
Lifeguard Headquarters	12,000	2005		103 Pacific Coast Highway		\$2,591,560
Total Value						\$8,846,268
Lease Amount						\$7,692,425
Value-to-lease						115.00%

The table above reflects the land value and replacement cost of Lease Assets. Fire Station #6 (pictured below), constructed of concrete block and stucco, is the latest fire station added to the City's fire protection services and was opened in 2000. The fire station has three bays housing the fire equipment, a clock tower, and a residential dormitory. This station is an acceptable asset due to the quality of construction and its importance to the City. It is located within the City limits.



Fire Station #6

The Junior Lifeguard Headquarters (pictured below), a two story concrete block and stucco building, is located on Pacific Coast Highway fronting the beach. This building houses the administrative personnel and the equipment for the Junior Lifeguard program. Established in 1963, the Junior Lifeguard program educates children to recognize potential hazardous conditions. The Huntington Beach Junior Lifeguards is world renowned with students attending from around the country and around the world. This building is an acceptable asset due to the

importance of the Junior Lifeguard program to the City’s identity as “Surf City” and the quality of the property.



Junior Lifeguard Headquarters

The Lifeguard Headquarters (pictured below) is constructed of concrete block and stucco and located on Pacific Beach. This building houses the administrative personnel that coordinates the City’s beach patrol that is responsible for the safety of more than 8,000,000 annual visitors. The Lifeguard Headquarters building is an acceptable asset due to the economic importance of tourism to the City, the safety provided by the lifeguards, and the location of the property.



Lifeguard Headquarters

As demonstrated in the above table, the total value, \$8,846,268, of the proposed Leased Assets provides 115% coverage for the proposed financing.

Staff received and reviewed preliminary title reports (Prelims) for the Leased Assets. The Prelims reflect fee simple title held by the City; all exceptions are customary, reasonable, and acceptable to IBank.

Risk Assessment

Primary risks of the proposed CLEEN Center financing are as follows:

1. The Borrower is not prohibited from incurring additional obligations payable from the General Fund or any other Governmental Fund.
2. The security is a leasehold interest on Leased Assets and not a lien on the General Fund or any other Governmental Fund.
3. Under State law governing the proposed CLEEN Center financing, lease payments to IBank (designed to match debt service) are subject to abatement, with the amount of abatement proportionate to the extent and disruption, of the Borrower's use of the leased asset.
4. Under State law governing the proposed CLEEN Center financing, acceleration in the event of default by the Borrower is prohibited. Thus, in the event of payment default, IBank must annually pursue a remedy of compelling past due lease payments.

Mitigation Factors

1. The Borrower will covenant against permitting additional encumbrances against the Leased Assets.
2. The Borrower will covenant to annually budget and appropriate lease payments.
3. Lease payments from the General Fund or any governmental funds provide a broad source of funds and greater flexibility to the Borrower to meet the required Lease obligations.
4. The Borrower will covenant to procure rental interruption insurance for each of the Leased Assets in the event of loss of use (abatement), such insurance would cover abated lease payments for a period of at least six months beyond the period required to rebuild the Leased Asset.

Compliance with IBank Underwriting Criteria

The application and the proposed financing are in compliance with the Credit Underwriting Guidelines and Procedures as stated in Exhibit A of the CLEEN Center Criteria as follows:

- **Application Eligibility:** The City of Huntington Beach is an eligible applicant under the Criteria.
- **Project Eligibility:** The Project is eligible as "LED Street Lighting" under the Criteria.
- **Limitation of Total Obligations:** The total Fund obligations (inclusive of the proposed IBank CLEEN Center financing) is less than 15% of the Fund's Total Revenue.
- **Leased Assets:** The Leased Assets (Fire Station, Life Guard Headquarters, and Junior Life Guard Headquarters) are acceptable to IBank.
- **Repayment Ability:** The source and the diversity of the Fund appear to adequately cover existing expenditures, existing obligation payments, and the proposed CLEEN Center financing Lease payments.

STAFF RECOMMENDATION

Staff recommends approval of Resolution No. 15-15 authorizing CLEEN Center financing to the City of Huntington Beach for the Project as follows:

1. **Application/Borrower:** City of Huntington Beach
2. **Project:** City of Huntington Beach Streetlight Acquisition and Light-Emitting Diode (LED) Retrofit Project
3. **Amount of CLEEN Center financing:** \$7,692,425
4. **Maturity:** Not to exceed 10 years
5. **Repayment/Security:** General Fund Lease provides IBank with a leasehold interest on the City's Fire Station #6, Junior Lifeguard Headquarters, and the Lifeguard Headquarters (Leased Assets).
6. **Interest Rate:** 2.32%
7. **Fees:** City to pay the origination fee of 1.00%, \$76,924, upon loan closing, and an annual fee of 0.30% of the outstanding balance.
8. **Not an Unconditional Commitment:** IBank's resolution shall not be construed as unconditional commitment to finance the Project, but rather IBank's approval pursuant to the resolution conditioned upon entry by IBank and the Borrower into a CLEEN Center financing agreement, in form and substance satisfactory to IBank and its counsel.
9. **Limited Time:** The Board's approval expires 180 days from the date of its adoption. Thus, the City and IBank must enter into the CLEEN Center financing agreement no later than 180 days from such date. Once the approval has expired, there can be no assurances that IBank will be able to provide the CLEEN Center financing or consider extending the approval period.
10. **CLEEN Center Financing Agreement Covenants:** Aside from usual and customary terms and conditions for this type of CLEEN Center financing, Staff recommends IBank's CLEEN Center financing agreement includes without limitation, the following additional conditions and covenants:
 - a. Leased Assets must not be the subject of any litigation or material controversy.
 - b. City to covenant against allowing future encumbrances against the Leased Assets.
 - c. City to enter a fixed-price construction contract. Contractor must obtain payment and performance bonds, builder's risk insurance, and liability and worker's compensation insurance.
 - d. City to provide to IBank CLTA or ALTA title insurance policy(ies) for each Leased Asset.
 - e. City to provide IBank with a copy of any and all proposed contracts for retrofit services to enable IBank to determine that the contracts each constitute a Qualified Management Contract for federal tax law purposes.
 - f. City to provide IBank with satisfactory evidence that it has obtained commercially reasonable equipment and labor warranties and that installers demonstrate the ability to fulfill warranty obligations.
 - g. City to procure and maintain rental interruption insurance on each Leased Asset. Rental interruption insurance must be for a period of at least six months beyond the reasonably estimated time needed to reconstruct the Leased Asset.

- h. City to annually budget and appropriate funds sufficient to make annual lease payments and to submit a copy of its adopted annual budget to IBank within 60 days of its adoption.
- i. City to provide to IBank within 240 days of the end of each fiscal year a copy of its audited financial statements, together with an annual certificate demonstrating compliance with the foregoing covenants, as well as other information as IBank may request from time to time.