

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)**

**STAFF REPORT**

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

<b>Applicant:</b> City of Los Banos (“City”)		<b>ISRF Project Type:</b> Public Safety Facility
<b>Financing Amount:</b> \$ 14,000,000 (“Financing”)	<b>Financing Term:</b> 30 years	<b>Interest Rate:</b> 2.20% <sup>1</sup>
<b>Source of Repayment:</b> General Fund (“Fund”)		<b>Fund Rating/Date:</b> Aa3 Moody’s issuer rating (November 2020)

**Leasehold Interest: Los Banos Police Station (new construction)**

<b>Project Name:</b> Los Banos Police Station (“Project”)	<b>Project Location:</b> 1111 G Street, Los Banos, CA 93635
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**Project Description / Sources and Uses of Proceeds:**

The Project consists of design and construction of a new 26,500 square foot (“SF”) single-story Police Station building on a 3.5 acre site. The Project scope includes, but is not limited to, the following components: (1) Lobby and reception area; (2) Several conference rooms and interview rooms; (3) Extensive police training room; (4) Evidence and records room; (5) Booking/intake area with several cells; (6) Cubicles and Offices for staff, workout room, locker storage, break rooms and wash rooms; (7) Designated sections for various law enforcement units; (8) Jail and holding area; (9) Communications and dispatch center; (10) Sleeping rooms; (11) Vehicle Ports and Vehicle Evidence Area; (12) Covered parking area; and (13) Appurtenant work at various locations throughout the project site, such as grading, construction fences, landscaping and paving.

**Use of Financing Proceeds:**

The Financing would provide approximately 55% of the funds for construction of the Project, including but not limited to, the purchase of land, design, architecture, engineering, permitting, construction, equipping, construction management, Project administration, general Project development activities, and capitalized interest. The City will contribute funds to pay for approximately 45% of the Project costs, including IBank’s loan origination fee. The table below lists the estimated sources and uses of the Project funds:

Project Uses	Project Sources for City of Los Banos		
	IBank	City of Los Banos	Total
Project Uses	\$13,307,000	\$11,247,536	\$24,554,536
Capitalized Interest	\$693,000		\$693,000
Origination Fee		\$140,000	\$140,000
<b>Total</b>	<b>\$14,000,000</b>	<b>\$11,387,536</b>	<b>\$25,387,536</b>

The City’s contribution of \$11,387,536 includes contingency funds of \$4,084,000. The contingency funds are in excess of the estimated soft costs, and construction costs and will be set aside for cost overruns, unforeseen conditions, and the like. The City has funds available for its \$11,387,536 contribution towards the Project.

<sup>1</sup> 2.20% plus 30 bps Annual Servicing Fee – indicative Interest Rate Quoted April 27, 2021.

**Credit Considerations:**

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

<b>Lease Payment and Fund Balance Analysis</b>					
<b>FYE June 30</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$1,775,800	\$402,220	\$850,392	\$2,630,767	\$3,267,286
<b>Adjustments Specific to the Transactions</b>					
Addback Principal	\$9,828	\$13,263	\$0	\$0	\$0
Addback Interest Expense	11,594	11,232	7,950	7,049	6,100
<b>Total Adjustments</b>	<b>\$21,422</b>	<b>\$24,495</b>	<b>\$7,950</b>	<b>\$7,049</b>	<b>\$6,100</b>
<b>Adjustments to Excess (Deficiency) of Revenues</b>	<b>\$1,797,222</b>	<b>\$426,715</b>	<b>\$858,342</b>	<b>\$2,637,816</b>	<b>\$3,273,386</b>
Proposed ISRF Lease Payment *	712,986	712,986	712,986	712,986	712,986
Other MADS General Fund Obligations (Inter-Fund Loan)	156,550	156,550	156,550	156,550	156,550
<b>Revised Net Change in Funds Balance with ISRF Lease Payment</b>	<b>\$927,686</b>	<b>(\$442,821)</b>	<b>(\$11,194)</b>	<b>\$1,768,280</b>	<b>\$2,403,850</b>

\* Calculated at \$14,000,000 at 2.20% interest rate for 30 years.

Analysis of the historical cash flow over the last five years demonstrates the City has adequate funds to meet the debt service requirement of the proposed lease payment in three of the five years and has a positive Fund Balance. The most recent two years show an upward trend in Funds Balance. Refer to the Lease Payment and Fund Balance Analysis section of this staff report for further details.

**Support for Staff Recommendations:**

1. Lease Payment and Fund Balance Analysis demonstrates the City’s ability to service the proposed Financing.
2. The City’s Unassigned Fund balance is \$15 million, more than twenty-one times the proposed lease payment.
3. Total debt service obligations, inclusive of the proposed Financing, of the Fund is 4.14% of total Fund revenue, below the 15% IBank maximum for general fund financings.
4. The useful life of the Project is 50 years, which exceeds the 30-year term of the Financing.
5. The fair rental value of the City’s proposed Leased Asset is greater than the proposed financing amount

**Criteria Waivers:**

1. The City seeks an IBank Board waiver of the Criteria to complete construction within two years. The Project timeline for the completion of construction is 30 months.
2. The Criteria provides that contractors should be pre-qualified using the Model Questionnaire detailed in the Criteria. The City intends to use its internally required contractor pre-qualification questionnaire, which substantially meets the intent of the Model Questionnaire. Therefore, the City seeks a waiver of the Criteria for this item.

**IBank Staff:**

Lina Benedict

**Date of Staff Report:**

August 9, 2021

**Date of IBank Board Meeting:**

August 25, 2021

**Resolution Number:**

21-13

**Staff Recommendation:** Staff recommends approval of Resolution No. 21-13 authorizing ISRF Program financing to City of Los Banos, for the Los Banos Police Station project in an amount not to exceed \$14,000,000.

## PROJECT DESCRIPTION

The City requests \$14,000,000 in ISRF Program financing for the construction of a new Police Station. The Project consists of design and construction of a new 26,500 SF single-story building on a 3.5-acre site, adjacent to the City's Courthouse. The City's law enforcement staff is currently split at two sites, with detectives, crime analyst and code enforcement officers working at a separate location from their peers. The Project will consolidate these units at a single site, and the updated and expanded facility support the modernization and future expansion of the City's law enforcement services.

The proposed Project is located at 1111 G Street, Los Banos, CA 93635 (Exhibit # 1).

The Project scope of work includes, but is not limited to, the following components:

(1) Lobby and reception area; (2) Several conference rooms and interview rooms; (3) Extensive police training room; (4) Evidence and records room; (5) Booking/intake area with several cells; (6) Cubicles and Offices for staff, workout room, locker storage, break rooms and wash rooms; (7) Designated sections for various law enforcement units; (8) Jail and holding area; (9) Communications and dispatch center; (10) Sleeping rooms; (11) Vehicle Ports and Vehicle Evidence Area; (12) Covered parking area; and (13) Appurtenant work at various locations throughout the project site, such as grading, construction fences, landscaping and paving.

The site for the new police station project was purchased in FY 2020 for \$1,403,714 using Police Capital Improvement Funds.

The City estimates total Project costs to be \$25,387,536 inclusive of a \$4,084,000 contingency. In addition to the proposed \$14,000,000 Financing, the City will contribute \$11,387,536 towards the Project cost inclusive of the subject ISRF financing Origination fee of \$140,000.

The sources of the City's contribution come from various funds, including the Measure P fund, which is a restricted sub fund of the General Fund; the Police Capital Improvement Fund; the Measure H fund which is a Police/dispatch/Code Enforcement fund; and the General Fund's Currently Assigned Reserves.

The City's General Fund is the repayment source for the proposed ISRF Program lease. Since the Project is the leased asset, Capitalized Interest is included in the loan amount. Project construction is scheduled to begin in August 2021 and is expected to be completed in 30 months. Till the leased asset is tenantable, the financing calls for Capitalized interest payments instead of a lease payment. Lease payment would start with completion of construction.

The building has been designed to include a number of energy-efficient features. For instance, the building will include providing space for future Solar (photovoltaic) installations.

### **Project Background/ Need**

In the 50 years since the current Headquarters Building was opened in 1969, the Los Banos Police Department ("LBPD") has continuously occupied the building while the City around it has grown significantly; from an estimated population of 9,188 in 1970 to over 40,000 today. As such, the LBPD is now experiencing impediments to the timely and proper execution of its routine public safety operations. Existing LBPD facilities have become outdated and undersized for the growing City and the department.

The current Animal Shelter facility is operating beyond its capacity with inadequate animal housing and support space, no noise mitigation, poor ventilation, and does not meet shelter medicine best practices. The new facility will have an animal shelter that will house an animal control unit.

The need for this Project arises from the fact that the existing facility is cramped, has inadequate air conditioning, inadequate storage and parking, and inadequate site access for police vehicles.

In addition to the above issues directly impacting LBPD operations, the building structure is out of compliance with modern essential service facility standards. The LBPD also uses a commercial building (a former bank building), and a house for storage and office space.

### **Public and Project Benefits**

The Project will provide the City Police space to operate in one central consolidated location and provide the Police staff an updated and expanded new facility to support the future expansion of the City's law enforcement services. There are currently 40 sworn officers, which is a ratio of one officer per 1000 population. The new facility will provide capacity for 59 sworn officers, providing coverage at an acceptable ratio of 1.40 officers per 1,000 population. The new facility will provide an effective, efficient work environment, and will project a positive public face for the City.

Development of the new police station will also enhance the visual character of the neighborhood. The project site was the former location of produce packing sheds, and redevelopment of the site will remove blight in the area. The site is currently vacant and devoid of landscaping. Redevelopment of this site will encourage future development in the area, which will provide an economic benefit to the neighborhood and surrounding community.

### **Economic Benefits**

The additional space capacity will result in 19 more sworn officers (i.e. 19 jobs) in due time. An estimated seven jobs will be added to the LBPD as the population of the City grows and there is additional need for dispatchers and Community Services Officers, at an average wage of \$55 per hour. The City anticipates the creation of 48 jobs during the construction period, at an average wage of \$74.00 per hour. Positions that are currently housed elsewhere will be moving to the new facility once it is completed.

## **GENERAL CITY INFORMATION**

The City of Los Banos ("City") incorporated as a general law city in 1907 and has a population of 41,923 as of Fiscal Year (FY) 2020. The City is located near the geographical center of California in the San Joaquin Valley, approximately 70 miles northwest of Fresno and 26 miles southwest of Merced, at the intersection of California State Route 152 and California State Route 165. The City was essentially a trading post and received its name when the Post Office, established in 1873, took its name from the nearby Los Banos creek.

The City operates under the Council-Manager form of government, consisting of five elected council members, including the Mayor and a City Manager appointed by the City Council. The council members serve four-year terms while the mayor serves a two-year term. The City Clerk and City Treasurer are also elected positions that serve four-year terms.

The City is committed to economic development strategies that include maintaining a vibrant downtown, working closely with public and private sectors to attract new business, providing sites for development, and strives to support a healthy supply of skilled labor. The resulting economic growth in the last six years has resulted in a rise in housing developments, businesses moving to the City, and consumer spending. The City is the second largest city in Merced County and is famous for its agricultural products including melons, almonds, walnuts, apricots, cotton, tomatoes, and dairy products.

**CREDIT ANALYSIS**

**Source of Financing and Security**

<b>Source of Revenue to Repay Proposed ISRF Financing:</b>	General Fund
<b>Outstanding General Fund Obligations:</b>	Inter-Fund Loan with the City's Water Enterprise Fund
<b>Type of Audited Financial Documents Reviewed:</b>	<input checked="" type="checkbox"/> Comprehensive Annual Financial Reports (CAFR) <input type="checkbox"/> Basic Financial Statements (F/S) <input type="checkbox"/> Other:
<b>Fiscal Year Ends:</b>	June 30
<b>Audit Fiscal Years Reviewed:</b>	2016-2020
<b>The auditor's reports for all years indicate that the financial statements present fairly, in all material respects, the financial position of the City, and that the results of its operations and the cash flows are in conformity with generally accepted accounting principles.</b>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No. [If no, explain]
<b>Adopted Budget(s) Reviewed:</b>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No. [If no, explain]
<b>Budget Year(s) Reviewed:</b>	FY 2016 and 2021

## Comparative Statement of Net Position

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

CITY OF LOS BONOS - GENERAL FUND - BALANCE SHEET - GOVERNMENTAL FUNDS										
For Fiscal Year Ending (FYE) June 30	2016		2017		2018		2019		2020	
Source:	CAFR	% <sup>(1)</sup>	CAFR	% <sup>(1)</sup>	CAFR	% <sup>(1)</sup>	CAFR	% <sup>(1)</sup>	CAFR	% <sup>(1)</sup>
<b>Assets</b>										
Cash and Investments	\$11,891,303	86.4%	\$12,530,154	90.0%	\$13,166,280	88.6%	\$15,176,614	85.9%	\$20,907,996	89.5%
Accounts Receivable	258,999	1.9%	196,379	1.4%	384,524	2.6%	363,859	2.1%	355,155	1.5%
Taxes Receivable	1,589,441	11.5%	1,128,401	8.1%	1,252,805	8.4%	1,984,490	11.2%	1,782,689	7.6%
Interest Receivable	\$10,515	0.1%	\$16,895	0.1%	\$33,296	0.2%	\$58,765	0.3%	39,042	0.2%
Intergovernmental Receivables	10,621	0.1%	48,280	0.3%	17,036	0.1%	75,646	0.4%	54,118	0.2%
Prepaid Items	3,938	0.0%	248	0.0%	2,970	0.0%	1,087	0.0%	2,381	0.0%
Due From Other Funds							15,420	0.1%	220,865	0.9%
<b>Total Assets</b>	<b>\$13,764,817</b>	<b>100%</b>	<b>\$13,920,357</b>	<b>100%</b>	<b>\$14,856,911</b>	<b>100%</b>	<b>\$17,675,881</b>	<b>100%</b>	<b>\$23,362,246</b>	<b>100%</b>
<b>Liabilities and Fund Balances</b>										
Accounts Payable	\$863,979	6.3%	\$801,739	5.8%	\$894,230	6.0%	\$1,146,114	6.5%	\$1,149,115	4.9%
Deposits	42,501	0.3%	39,947	0.3%	40,075	0.3%	42,095	0.2%	17,188	0.1%
Advances from Other Funds	880,000	6.4%	795,000	5.7%	705,000	4.7%	610,000	3.5%	510,000	2.2%
<b>Total Liabilities</b>	<b>\$1,786,480</b>	<b>13.0%</b>	<b>\$1,636,686</b>	<b>11.8%</b>	<b>\$1,639,305</b>	<b>11.0%</b>	<b>\$1,798,209</b>	<b>10.2%</b>	<b>\$1,676,303</b>	<b>7.2%</b>
<b>Deferred Inflows of Resources</b>										
Unavailable Revenue					94,015	0.6%	46,609	0.3%		
<b>Total Deferred Inflows of Resources</b>	<b>\$0</b>	<b>0.0%</b>	<b>\$0</b>	<b>0.0%</b>	<b>\$94,015</b>	<b>0.6%</b>	<b>\$46,609</b>	<b>0.3%</b>	<b>\$0</b>	<b>0.0%</b>
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>\$1,786,480</b>	<b>13.0%</b>	<b>\$1,636,686</b>	<b>11.8%</b>	<b>\$1,733,320</b>	<b>11.7%</b>	<b>\$1,844,818</b>	<b>10.4%</b>	<b>\$1,676,303</b>	<b>7.2%</b>
<b>Fund Balance</b>										
<b>Reserved for:</b>										
Nonspendable	\$3,938	0.0%	\$248	0.0%	\$2,970	0.0%	\$1,087	0.0%	\$2,381	0.0%
Committed					494,657	3.3%	674,349	3.8%	457,876	2.0%
Assigned	3,335,429	24.2%	3,266,323	23.5%	3,916,672	26.4%	3,717,891	21.0%	6,214,047	26.6%
<b>Unassigned</b>	<b>8,638,970</b>	<b>62.8%</b>	<b>9,017,100</b>	<b>64.8%</b>	<b>8,709,292</b>	<b>58.6%</b>	<b>11,437,736</b>	<b>64.7%</b>	<b>15,011,639</b>	<b>64.3%</b>
<b>Total Fund Balances</b>	<b>\$11,978,337</b>	<b>87.0%</b>	<b>\$12,283,671</b>	<b>88.2%</b>	<b>\$13,123,591</b>	<b>88.3%</b>	<b>\$15,831,063</b>	<b>89.6%</b>	<b>\$21,685,943</b>	<b>92.8%</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$13,764,817</b>	<b>100%</b>	<b>\$13,920,357</b>	<b>100%</b>	<b>\$14,856,911</b>	<b>100%</b>	<b>\$17,675,881</b>	<b>100%</b>	<b>\$23,362,246</b>	<b>100%</b>

<sup>(1)</sup> Calculated as a percent of Total Assets.

Ratio Analysis										
FYE June 30	2016		2017		2018		2019		2020	
<b>Total Liabilities to Total Assets</b>	<b>0.13</b>		<b>0.12</b>		<b>0.11</b>		<b>0.10</b>		<b>0.07</b>	
<b>Current Ratio*</b>	<b>15.18</b>		<b>16.54</b>		<b>15.90</b>		<b>14.86</b>		<b>19.84</b>	
<b>Leverage Ratio (Debt to Capitalization)**</b>	<b>0.54</b>		<b>0.53</b>		<b>0.52</b>		<b>0.47</b>		<b>0.39</b>	
<b>Operating Margin***</b>	<b>0.12</b>		<b>0.03</b>		<b>0.05</b>		<b>0.15</b>		<b>0.16</b>	

\* Current assets (i.e. cash and investments; receivables) / Current Liabilities (i.e. payables, deposits)

\*\* Includes proposed debt of \$14,000,000

\*\*\* Excess of Revenues over Expenses / Total Revenues

Total Assets increased by 69.7% from FY 2016 to FY 2020. The greatest increase was in Cash and Investments, which grew by over 75% over the period, including 38% from FY 2019 to FY 2020 due to the sale of the Child Development Center for \$2.5M, increases in property taxes and sales tax revenue collections, and savings in personnel and Recreation. The Fund balance sheet does not show long term assets.

Total Liabilities decreased by 6.17% as the single General Fund long-term debt, an advance from the City's Water Enterprise Fund, decreased by approximately \$370,000. In July 2012, this advance was used to retire the City's 1993 Certificate of Participation and the 2002 Lease Revenue Bonds. This refinancing from its own resources indicates the City has strong cash positions, and the ability to improve the General Fund position with a lower, variable interest rate (on or about 1%)

Unassigned Funds increased 74% from \$8.6M to \$15M over the five years reviewed, showing that the Fund has discretionary monies saved. As of FY 2020, Los Banos's General Fund had over \$15M in Unassigned Fund Balances, of which \$11M is proposed to be used towards the subject project.



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

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

CITY OF LOS BANOS-GENERAL FUNDS										
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES										
For Fiscal Year Ending (FYE) June30	2016	% <sup>(1)</sup>	2017	% <sup>(1)</sup>	2018	% <sup>(1)</sup>	2019	% <sup>(1)</sup>	2020	% <sup>(1)</sup>
Source:	CAFR		CAFR		CAFR		CAFR		CAFR	
% Change Year-over-Year in Total Revenues		9.78%		4.54%		7.34%		10.25%		14.75%
<b>Revenues</b>										
<b>Taxes</b>										
Property	\$5,551,292	39.1%	\$ 5,675,697	38.1%	\$ 6,200,655	38.6%	\$ 6,764,382	37.8%	\$ 7,275,270	34.7%
Sales	3,829,042	26.9%	4,012,401	27.0%	4,613,579	28.7%	5,594,516	31.3%	7,750,981	36.9%
Franchise	534,702	3.8%	546,061	3.7%	563,611	3.5%	540,449	3.0%	566,328	2.7%
Other	523,261	3.7%	595,119	4.0%	652,890	4.1%	621,498	3.5%	518,924	2.5%
Licenses and Permits	855,171	6.0%	1,123,244	7.5%	1,012,757	6.3%	763,207	4.3%	1,169,141	5.6%
Intergovernmental	226,325	1.6%	200,288	1.3%	191,182	1.2%	208,238	1.2%	219,512	1.0%
Charges for Services	1,456,042	10.2%	1,487,060	10.0%	1,564,516	9.7%	1,941,815	10.8%	2,155,797	10.3%
Fines	50,546	0.4%	64,129	0.4%	67,496	0.4%	59,806	0.3%	45,227	0.2%
Use of Property and Money	1,058,144	7.4%	1,022,766	6.9%	1,079,559	6.7%	1,282,404	7.2%	1,194,934	5.7%
Miscellaneous	125,587	0.9%	158,404	1.1%	117,369	0.7%	121,983	0.7%	99,062	0.5%
<b>Total Revenues</b>	<b>\$14,210,112</b>	<b>100%</b>	<b>\$14,885,169</b>	<b>100%</b>	<b>\$16,063,614</b>	<b>100%</b>	<b>\$17,898,298</b>	<b>100%</b>	<b>\$20,995,176</b>	<b>100%</b>
<b>Expenditures</b>										
General Government	\$1,083,155	7.6%	\$1,115,188	7.5%	\$1,233,640	7.7%	\$1,227,119	6.9%	\$1,284,005	6.1%
Public Safety	9,279,416	65.3%	10,600,432	71.2%	11,403,778	71.0%	11,438,942	63.9%	12,487,380	59.5%
Highway and Streets	53,281	0.4%	67,564	0.5%	166,224	1.0%	196,407	1.1%	224,852	1.1%
Parks and Recreation	1,102,241	7.8%	1,156,661	7.8%	1,260,105	7.8%	1,339,358	7.5%	1,485,223	7.1%
Economic Development	428,331	3.0%	553,467	3.7%	744,074	4.6%	799,313	4.5%	824,558	3.9%
<b>Debt Service</b>										
Principal	\$9,828	0.1%	\$13,263	0.1%						
Interest	11,594	0.1%	11,232	0.1%	7,950	0.0%	7,049	0.0%	6,100	0.0%
<b>Capital Outlay</b>										
General Government			\$6,645	0.0%	\$147,521	0.9%	\$55,642	0.3%	\$413,056	2.0%
Public Safety	\$126,396	0.9%	927,504	6.2%	249,676	1.6%	129,094	0.7%	851,925	4.1%
Highways and Street	90,522	0.6%	27,645	0.2%	37	0.0%	1,631	0.0%	93	0.0%
Parks and Recreation	243,027	1.7%	3,348	0.0%	116	0.0%	68,584	0.4%	150,447	0.7%
Economic Development	6,521	0.0%			101	0.0%	4,392	0.0%	251	0.0%
<b>Total Expenditures</b>	<b>\$12,434,312</b>	<b>87.5%</b>	<b>\$14,482,949</b>	<b>97.3%</b>	<b>\$15,213,222</b>	<b>94.7%</b>	<b>\$15,267,531</b>	<b>85.3%</b>	<b>\$17,727,890</b>	<b>84.4%</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>\$1,775,800</b>	<b>12.5%</b>	<b>\$402,220</b>	<b>2.7%</b>	<b>\$850,392</b>	<b>5.3%</b>	<b>\$2,630,767</b>	<b>14.7%</b>	<b>\$3,267,286</b>	<b>15.6%</b>
<b>Other Financing Sources (Uses)</b>										
Proceeds From Sales of Capital Assets	\$17,020		\$17,984		\$13,396		\$1,470		\$2,257,084	
Capital Lease	70,501									
Insurance Recoveries	237,923						81,779		50,659	
Transfers In	16,268		7,659		3,466					
Transfers Out	(165,355)		(122,529)		(27,335)		(6,544)		(789,459)	
<b>Total Other Financing Sources (Uses)</b>	<b>\$176,357</b>		<b>(\$96,886)</b>		<b>(\$10,473)</b>		<b>\$76,705</b>		<b>\$1,518,284</b>	
<b>Net Change in Fund Balance</b>	<b>\$1,952,157</b>		<b>\$305,334</b>		<b>\$839,920</b>		<b>\$2,707,472</b>		<b>\$4,785,570</b>	
<b>Fund Balance, Beginning of Year</b>	<b>\$10,026,180</b>		<b>\$11,978,337</b>		<b>\$12,283,671</b>		<b>\$13,123,591</b>		<b>\$15,831,063</b>	
<b>Fund Balance, End of Year</b>	<b>\$11,978,337</b>		<b>\$12,283,671</b>		<b>\$13,123,591</b>		<b>\$15,831,063</b>		<b>\$21,685,943</b>	

<sup>(1)</sup>Calculated as a percent of Total Revenues

The City has 10 consistent revenue sources, four of which are tax-related. Economic growth resulted in three of the tax revenue sources (Property, Sales and Franchise taxes), consistently increasing in each of the five years reviewed.

Total Revenues increased approximately \$6.7M (47.7%) over the five-year period, in part due to the City's population growth, of about 2,500 people, reaching a total of 41,923 as of FY ended 2020. Other income or Other Financing Sources in FY 2020 included Proceeds for Sales of Capital Assets of \$2.2M and the Insurance Recoveries of \$51K in FY 2020.

In FY 2017 and 2018, the Excess of Revenues over Expenditures was lower primarily due to an increase in Public Safety related expenditures. Total Expenditures increased by 42.6%, or about \$5M, during the same period. Public Safety expenses were higher at 71% of Revenues in FY 2017 and 2018 vs. the other years reviewed, when these items consumed between 59% and 65% of Total Revenues. This was because of costs related to the security and hiring of LBPD Staff, as the City addressed the needs of a growing population. This was a planned expansion for the LBPD, as the City considered the population growth of

the city and that caused the added need for personnel and space.

Included in Public Safety are higher expenses as police personnel had more overtime expenses as they were short-staffed. There were also more “Strike teams” with the fire department where there were more firemen working overtime as they were sent out to help CalOES fight fires.

Net Change in Fund Balance was positive in all five years, reflecting the healthy financial profile described above.

### Obligations of the General Fund and Percentage of Total Revenues

The table below summarizes the Current and Proposed Obligations of the General Fund:

General Fund Obligations for City of Los Banos Proposed Debt							
Debt Issues	Underlying Rating (at issuance)	Date Issued	Amount Issued	Outstanding Balance	MADS <sup>1</sup> Principal & Interest	General Fund Portion Outstanding Balance (\$)	Maturity
Intergovernmental Loan from Water Department	N/a	7/18/12	\$1,200,000	\$523,400	\$156,550	\$523,400	7/1/24
Proposed Lease			\$14,000,000		\$712,986	\$14,000,000	8/1/51
<b>Total</b>			<b>\$15,200,000</b>	<b>\$523,400</b>	<b>\$869,536</b>	<b>\$14,523,400</b>	
<b>City of Los Banos Total Revenue</b>	<b>\$20,995,176</b>						
<b>15% of City of Los Banos Total Revenue</b>	<b>\$3,149,276</b>						
<b>Total Annual Payments</b>	<b>\$869,536</b>						
<b>% of City of Los Banos Total Revenue</b>	<b>4.14%</b>						

The only debt carried by the City is an Inter-Fund loan with the City’s Water Department that currently has an outstanding amount of \$523,400. The City expects to pay this outstanding loan by July 2024. This shows that the proposed financing, in combination with other City debt, falls well within ISRF program guidelines.

### Lease Payment and Fund Balance Analysis

Lease Payment and Fund Balance Analysis						
	FYE June 30	2016	2017	2018	2019	2020
Excess (Deficiency) of Revenues Over (Under) Expenditures		\$1,775,800	\$402,220	\$850,392	\$2,630,767	\$3,267,286
<b>Adjustments Specific to the Transactions</b>						
Addback Principal		\$9,828	\$13,263	\$0	\$0	\$0
Addback Interest Expense		11,594	11,232	7,950	7,049	6,100
<b>Total Adjustments</b>		<b>\$21,422</b>	<b>\$24,495</b>	<b>\$7,950</b>	<b>\$7,049</b>	<b>\$6,100</b>
<b>Adjustments to Excess (Deficiency) of Revenues</b>		<b>\$1,797,222</b>	<b>\$426,715</b>	<b>\$858,342</b>	<b>\$2,637,816</b>	<b>\$3,273,386</b>
Proposed ISRF Lease Payment *		712,986	712,986	712,986	712,986	712,986
Other MADS General Fund Obligations (Inter-Fund Loan)		156,550	156,550	156,550	156,550	156,550
<b>Revised Net Change in Funds Balance with ISRF Lease Payment</b>		<b>\$927,686</b>	<b>(\$442,821)</b>	<b>(\$11,194)</b>	<b>\$1,768,280</b>	<b>\$2,403,850</b>

\* Calculated at \$14,000,000 at 2.20% interest rate for 30 years.

Analysis of the historical cash flow over the last five years demonstrates the City has adequate funds to meet the debt service requirement of the proposed lease payment in three of the five years and has a positive Fund Balance. The most recent two years, i.e. 2019 and 2020, show an upward trend in Funds Balance and very strong coverage.

In FY 2017 and 2018, net revenues would have been inadequate for meeting the proposed lease payment in combination with the City’s other debt obligation. However, in these two years the City had higher Capital Outlay Expenditures such as the purchase of police cars, code enforcement vehicles, command vehicle, canine purchases, fires station upgrades, and upgrades to the phone system and radio equipment, camera etc. If not for these outlays, the City’s surplus would have been stronger by \$906,800 in FY 2017 and \$150,000 in FY 2018.



The City's substantial cash reserves (nearly \$21M as of FY 2020), provide it the ability to accomplish many of its one-time capital (discretionary) goals and to cover shortfalls for additional years, if needed. It is also worth noting, that Moody's issued a Aa3 General Obligation issuer rating for Los Banos in November 2020. The credit position for the City is strong. The line items of Principal and Interest are for the Inter-Fund debt; see Existing Debt section above for detail.

The table above shows that, retrospectively, the City's General Fund had adequate cash flow to repay the requested debt in three of the years reviewed. FY 2017 and FY 2018 involved some specific spending initiatives in response to community needs in the area of public safety – police and fire. However, in the last two FY's the Fund shows significant increase in Funds Balance as expenses stabilized and revenues grew 10.25% in 2019 and 14.75% in 2020, as the influx of people into the City resulted in increased tax revenues.

### **COVID-19 Pandemic Impact**

The City of Los Banos has seen a minor impact to the General Fund due to the pandemic. However, the impact is not as significant as might have been expected.

Sales tax is the City's largest revenue source, representing 37% of the Fund's revenues as of the FY 2020. The City saw a decrease of \$300,000 in regular sales tax in FY 2020, due to shutdowns of retail businesses, including gym operations, restaurants, etc. However, the loss was offset by Measure H sales tax revenues. Measure H, also known as Los Banos Essential City Services Measure, was enacted in FY 2019 to impose a half-cent sales tax to fund city services. The City had only started collecting a full year of Measure H revenues in 2020, when it brought in an estimated \$2.8M.

Property Taxes, the second largest revenue source for the city at 34.7% of Revenues in FY 2020, also saw an increase of \$510K. The City renegotiated its revenue sharing agreement with the County, which brought an increase in the City's allocation for certain Tax Rate Areas ("TRA's"), which are geographical areas comprised of unique combination of taxing jurisdictions. This resulted in several infill housing developments and new homes being built on previous empty lots.

FY 2021 financial statements are pending; however, the City maintains that the impact of the pandemic was not as significant as might be expected and that the impact on General Fund revenues was minimal.

The City is remaining cautious with its finances. Due to the difficulty in determining the exact duration and extent of COVID-19 pandemic impact, the City has maintained a healthy reserve and implemented cost cutting measures. Prior to the pandemic, the City adopted a reserve policy for the General Fund to maintain a minimum reserve level of 30% of the Fund's projected expenditures for the current year (equivalent to about \$6M). Reserves are for non-recurring emergencies and economic uncertainty.

In response to the financial impacts of the pandemic, the City has taken the following proactive measures to reduce expenditures:

- Decreasing travel/training budgets
- Reducing part-time staff
- Delaying or canceling discretionary capital and equipment purchases

The City plans to conduct quarterly budget reviews to assess the impact of the pandemic and adjust accordingly.

In addition to carefully managing costs in response to the pandemic, the City received \$517,629 in federal Cares Act Coronavirus Relief Funds ("CRF") funding. These funds were used for public safety overtime, COVID sick leave, and the purchase of supplies and equipment to address COVID-19 related restrictions.

The 30th November, 2020, Issuer Comment by Moody's states:

"The credit position for Los Banos is strong. Its Aa3 rating is aligned with the median rating of Aa3 for cities nationwide. Notable credit factors include a robust financial position, an exceptionally low debt

burden and an above average pension liability. It also reflects a sizable tax base and an adequate wealth and income profile.”

Further, Moody’s did not see any material immediate credit risks for Los Banos. However, the rating agency recognizes the situation surrounding coronavirus is rapidly evolving and the longer-term impact will depend on both the severity and duration of the crisis.

### Projections

The City provided projections on the Comparative Statement of Revenues, Expenses, and Changes in Net Position for the Fund through FY 2026.

Projected Lease Payment and Fund Balance Analysis							
	2020	2021	2022	2023	2024	2025	2026
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$3,267,286	\$1,276,040	\$2,583,207	\$3,150,075	\$3,110,096	\$3,012,978	\$2,908,416
<b>Adjustments Specific to the Transactions</b>							
Projected IBank Debt Principal and Interest Addback	\$6,100	\$291,667	\$706,901	\$705,845	\$704,762	\$703,652	\$702,515
Total Adjustments	\$6,100	\$291,667	\$706,901	\$705,845	\$704,762	\$703,652	\$702,515
<b>Adjustments to Excess (Deficiency) of Revenues</b>							
Proposed ISRF Lease Payment *	\$712,986	\$712,986	\$712,986	\$712,986	\$712,986	\$712,986	\$712,986
Other MADs General Fund Obligations (Intergovernmental Water Dept. Loan)	\$156,550	\$156,550	\$156,550	\$156,550	\$156,550	\$0	\$0
<b>Revised Net Change in Funds Balance with ISRF Lease Payment</b>	<b>\$2,403,850</b>	<b>\$698,170</b>	<b>\$2,420,572</b>	<b>\$2,986,384</b>	<b>\$2,945,322</b>	<b>\$3,003,643</b>	<b>\$2,897,945</b>
<b>Fund Balance, End of Year</b>	<b>\$21,685,943</b>	<b>\$22,866,983</b>	<b>\$25,355,190</b>	<b>\$28,410,265</b>	<b>\$31,425,362</b>	<b>\$34,343,339</b>	<b>\$37,156,755</b>

\* Calculated at \$14,000,000 at 2.20% interest rate for 30 years.

The City projects consistently positive cash flows through FY 2026. The assumption for projected Sales revenues and other Tax revenues from FY 2021 through FY 2026 is based on a conservative 2% increase for each category, except Fines and Miscellaneous charges, which are estimated at a flat \$50,000 per year (per historical levels).

The City is growing and expanding as developers build homes, retailers build stores, and contribute sales tax, property taxes, etc. to the City’s economy. The expansion is spurred by an influx of people from the Bay Area, where the cost of living and housing is high when compared to the City. The City is only about one hour away from the South Bay.

Each category of the Fund’s expenditures is projected to increase 3% per year.

In summary, in the years ahead, the City expects strong cash flow. The total debt service obligation is projected to be below 3.50% of Total Revenues in all the projected years, below the 15% maximum allowed by IBank guidelines.

### Analysis of the Proposed Leased Asset

The City proposes to finance the Project under a lease/lease-back financing agreement. The Project will include a 26,500 SF building on a new parcel on existing undeveloped land owned by the City located at 1111 G Street, Los Banos, CA 93635. The City states the expected useful life of the Project is a minimum of 50 years.

Leased Asset Evaluation				
Name of Leased Asset	Year Built	Building Size (square feet)	Value of Improvements	Estimate of Value
New Police Station	2021	26,500	\$19,066,822	\$19,066,822
<b>Total Value</b>				<b>\$19,066,822</b>
<b>Loan Amount</b>				<b>\$14,000,000</b>
<b>Value-to-loan</b>				<b>136%</b>

For purposes of determining a value for the Project under the lease-lease back financing model, IBank identifies the value of the improvements and not the land owned by the City. The source of repayment for the transaction is the City's General Fund.

Consequently, staff can simply rely on the construction costs of the Project as the fair value of the asset. The Value of Improvements shown in chart above exclude costs of the origination fee, capitalized interest, land purchase, and contingency costs. As identified in the table above, the Value of Improvements is higher than the lease value (\$14,000,000) and the Leased Asset is therefore acceptable.

Staff also evaluated the Fair Rental Value ("FRV") of comparable properties in Los Banos (office space, neighborhood centers, and retail) and found the average contract lease price for similar properties was \$29.74 per SF year.

The subject Project lease for 26,500 SF completed police station with a lease payment of \$712,986 amounts to \$26.91 per SF per year, which is lower than the market lease rate and is acceptable per IBank guidelines.

Staff received and reviewed a preliminary title report ("Prelim") for the Leased Asset. The Prelim reflects a fee simple title held by the District. The prelim reflects standard encumbrances for property taxes, supplemental taxes, water rights, and easements for utility purposes. All exceptions are customary, reasonable, and acceptable to IBank.

## **Risk Assessment**

Primary risks of the proposed ISRF Program financing are as follows:

1. Structured as a lease-financing. No lien on a revenue stream.
2. Under State law governing the proposed ISRF Program financing, lease payments to IBank (designed to match debt service) are subject to abatement, with the amount of abatement proportionate to the extent of disruption of the Borrower's use of the Leased Asset.
3. Under State law governing the proposed ISRF Program financing, acceleration in the event of default by the Borrower is prohibited. Thus, in the event of payment default, IBank must annually pursue a remedy of compelling past due lease payments.
4. Repayment source is the City's General Fund. In the short-term, staff has observed that General Funds are more vulnerable to the negative impacts of the pandemic than Enterprise Funds; however, the City of Los Banos has seen minimal impact.

## **Mitigating Factors**

1. The City is rated Aa3 by Moody's.
2. The City has shown the ability to support the lease payment in three of the five historical years reviewed; projections also show a continued ability to make payments despite the pandemic.
3. The City has been fiscally conservative - functioning with very little General Fund debt.
4. The City has healthy Unassigned Fund Balances, reflected in its strong cash position, and can meet all obligations; it has additional resources to handle unforeseen expenses and other financial shocks, as it has well demonstrated during the pandemic.
5. The Borrower will covenant against permitting any additional encumbrances against the Leased Asset besides the IBank financing.
6. The Borrower will covenant to annually budget and appropriate lease payments.
7. Lease payments from the General Fund may draw upon a broad source of revenue sources and provide greater flexibility to the Borrower to meet the required Lease obligations. The City also has reserves it can draw on to pay shortfalls. Current Unassigned funds are over \$15M, and a 30% of operating expense reserve (currently estimated at over \$6M), are also held to cover shortfalls and emergencies.

8. The Borrower will covenant to procure rental interruption insurance for the Leased Asset in the event of loss of use (abatement). Such insurance would cover abated lease payments for a period of at least six months beyond the period required to rebuild the Leased Asset.

### **Compliance with IBank Criteria, Priorities, and Guidelines**

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

- The total Fund obligation debt service (inclusive of the Financing) is less than 15% of the City's Total Revenues for FY 2020.
- The use of the Leased Asset, as a police station facility, is an eligible use.
- The Fund adequately covers existing expenditures, financing obligations, and the proposed IBank Lease payments.
- The useful life of the Project is over 50 years and exceeds the term of this Financing.

### **Criteria Waivers**

1. The City is seeking IBank waiver of the criteria requirement to complete construction within 24 months. The City's project construction timeline extends to 30 months.
2. The Contractor Criteria: The request is to waive the provision that requires contractors to be pre-qualified using the Model Questionnaire detailed in the Criteria. The City intends to use its internally required contractor pre-qualification questionnaire, which substantially meets the intent of the Model Questionnaire.

## STAFF RECOMMENDATION

Staff recommends approval of Resolution No. 21-13 authorizing ISRF Program financing to the City of Los Banos for the Police Station Project as follows:

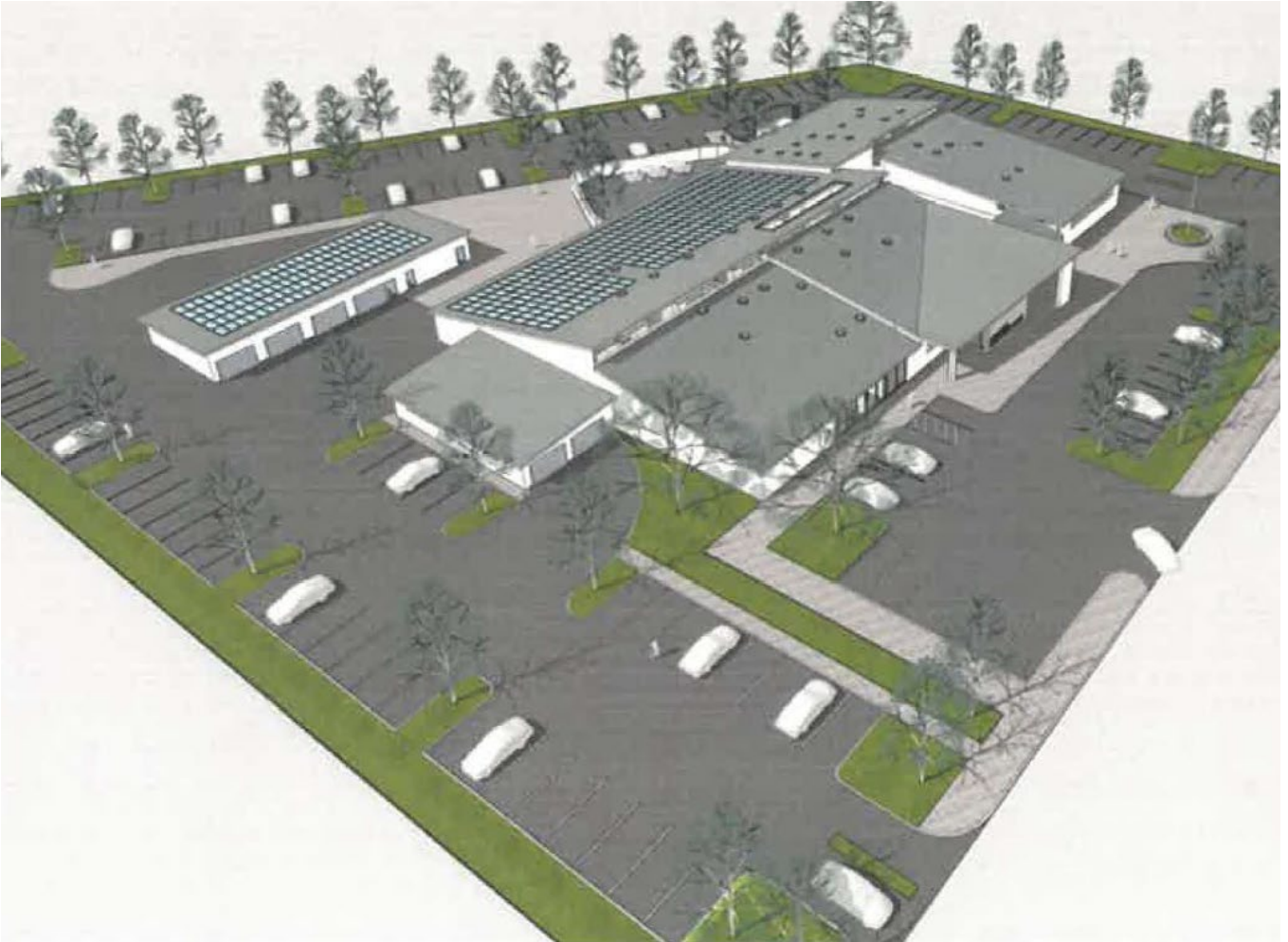
1. Applicant/Borrower: City of Los Banos
2. Project: Police Station Project
3. Amount of ISRF Program financing: \$14,000,000
4. Maturity: Not to exceed 30 years; subject to extension for rental abatement periods.
5. Repayment/Leased Asset: General Fund Lease provides IBank with a leasehold interest on Police Station (Leased Asset).
6. Interest Rate: 2.20%
7. Fees: The City to pay the origination fee of 1.00%, \$140,000 upon loan closing, and an annual fee of 0.30% of the outstanding balance.
8. Not an Unconditional Commitment: IBank's resolution shall not be construed as unconditional commitment to finance the Project, but rather IBank's approval pursuant to the resolution is conditioned upon entry by IBank and the Borrower into an ISRF Program financing agreement(s), in form and substance satisfactory to IBank.
9. Limited Time: The Board's approval expires 180 days from the date of its adoption. Thus, the City and IBank must enter into the ISRF Program financing agreement(s) no later than 180 days from such date. Once the approval has expired, there can be no assurances that IBank will be able to provide the ISRF Program financing or consider extending the approval period.
10. ISRF Program Financing Agreement Covenants: Aside from usual and customary terms and conditions for this type of ISRF Program financing, staff recommends IBank's ISRF Program financing agreement(s) include without limitation, the following additional conditions and covenants that the City:
  - a. Comply with all applicable requirements of ISRF Program Criteria.
  - b. Budget and appropriate funds sufficient to make annual Lease payments.
  - c. Procure an ALTA title insurance policy.
  - d. Not encumber further the Leased Asset.
  - e. Provide to IBank within 180 days of the end of each City 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.

**PROJECT SITE (Exhibit 1)**





## Concept Model



Source: Police Facility Study  
City of Los Banos, California