

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)

STAFF REPORT

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

Applicant: San Luis Obispo County (County)		ISRF Project Type: Infrastructure Project	ISRF Project Category: Public Transit
Financing Amount: \$6,000,000	Financing Term: 30 years	Interest Rate⁽¹⁾: 3.45%	
Source of Repayment: General Fund (Fund)		Fund Rating/Date: Pension Obligation Bonds series 2003A, 2003C, and 2009A Affirmed at AA+, Fitch, as of April 1, 2016	
Security/Leashold Interest: A Portion of the New Government Center (Leased Asset)			
Project Name: A Portion of San Luis Obispo County Regional Airport (Project)		Project Location: 901 Airport Drive San Luis Obispo, CA 93401	

Project Description / Source and Use of Proceeds:

The Project consists of the construction of a portion of a new airport terminal at the San Luis Obispo County Regional Airport. Specifically, the use of the proceeds of the ISRF Program financing (Financing) would be limited to the following components of the new terminal building: (1) a portion of a communications/technology room, (2) the County Emergency Operations Center, (3) restrooms, (4) the County administration offices, (5) the County Sherriff's office, (6) a room housing electrical infrastructure, (7) a bag belt area, and (8) an access corridor.

Use of Financing Proceeds:

The Financing would fund the costs of Construction & Contingency, and the IBank Origination Fee for the Project.

PROJECT SOURCES and USES SAN LUIS OBISPO COUNTY REGIONAL AIRPORT				
Uses	Sources			
	IBank	County of SLO	FAA	Total
Construction & Contingency	\$5,940,000	\$4,673,753	\$24,748,255	\$35,362,008
Origination Fee	\$60,000			\$60,000
Total	\$6,000,000	\$4,673,753	\$24,748,255	\$35,422,008

Source: Financing Application

(1) As of July 2, 2015

Credit Considerations:

Lease payment and Fund balance analysis for the Financing is as follows:

LEASE PAYMENT AND FUNDS BALANCE ANALYSIS (in Thousands)					
For Fiscal Year Ending (FYE) June 30,	2011	2012	2013	2014	2015
Net Change in Fund Balance (actual)	\$10,807	\$20,462	\$26,670	\$31,482	\$32,105
Proposed ISRF Lease Payment	(340)	(340)	(340)	(340)	(340)
Revised Net Change in Fund Balance with ISRF Payment	\$10,467	\$20,122	\$26,330	\$31,142	\$31,765

Analysis of all five years reviewed indicate sufficient capacity to support the Financing, given the Fund's consistently strong financial position. The Net Change in Fund Balance (actual) is calculated net of five existing Fund obligation payments made from the Transfers Out category on the Statement of Revenues, Expenses, and Changes in Fund Balances. The County pays one other obligation of the Fund from the Road Impact Fee fund, with a payment of no more than \$451,000. The Net Change in Fund Balance (actual) reflects the Fund's ability to cover all expenditures and transfers out and service the proposed Financing in all five years analyzed.

Support for Staff Recommendations:

1. The Fund demonstrates historical ability to meet its obligations under the proposed Financing:
 - a. Tax revenues are trending upward, increasing each of the previous five years.
 - b. Total Assets, specifically Cash and Cash Equivalents, are trending upward.
2. Liquidity is strong with cash increasing in each of the previous five years.
3. On April 1, 2016, Fitch affirmed the following obligations:
 - a. Pension Obligation Bonds series 2003A, 2003C, and 2009A affirmed at AA+.
 - b. General obligation (GO) rating affirmed at AAA.
4. The fair market value of the County's proposed Leased Asset is equivalent to the Financing amount.

Extraordinary Covenants:

None

IBank Staff:

John Lee

Date of Staff Report:

4/1/2016

Date of IBank Board Meeting:

4/26/2016

Resolution Number: 16-09**Staff Recommendation:**

Staff recommends approval of Resolution No.16-09 authorizing ISRF Program financing to San Luis Obispo County for its San Luis Obispo County Regional Airport project.

PROJECT DESCRIPTION

San Luis Obispo County (County) requests ISRF Program financing (Financing) in the amount of \$6,000,000 to fund A Portion of the San Luis Obispo County Regional Airport (Project). (Exhibit 1) The Project consists of a portion of the construction of a new passenger terminal building designed to meet Leadership in Energy and Environmental Design (LEED) Silver specification, which incorporates use of high efficiency fixtures, systems and low maintenance materials.

Project Background

Beginning with a 1998 Master Plan, airport staff has been working toward the construction of a new terminal building. There are several reasons for the new terminal building. The terminal and aircraft parking apron used by the commercial aircraft are too close to the runway and need to be relocated to effectively meet Federal Aviation Administration (FAA) safety standards. The existing terminal building is insufficiently sized for current demand, as allowable building occupancy limits are routinely reached, and sometimes exceeded, creating safety concerns for the public. Airlines have retired older, smaller, aircraft in favor of larger regional jets, which take up a much larger footprint and result in higher passenger counts.

With the ultimate goal of constructing a new terminal building, a number of FAA funded projects have been undertaken over the past 15 years, with expenditures in excess of \$17 million. In 2003, the airport staff began planning with the FAA to obtain grant funding for the construction of a terminal building with preliminary schematic designs of a much larger facility than currently planned. A capital funding plan had been established with the FAA in order for construction to begin in 2011. As a result of the 2008 economic recession it was apparent the airport could no longer undertake the construction of the larger terminal. The FAA reluctantly accepted the change to the timing of planned construction. A new grant was provided to fund the design of a smaller terminal, and funding was programmed into the FAA's capital improvement plan for the construction of the new terminal in 2015 and 2016 Federal Fiscal Years. The County has received two significant grant awards from the FAA; one grant award of \$15,619,998 for the current year, and a second grant commitment of \$6,779,405 approved for 2017.

The design for the new terminal building is intended to mitigate safety issues, meet capacity needs the airport is currently experiencing, and allow for expansion of ticketing, baggage claim, passenger boarding, and security screening to accommodate future growth.

Project Components

The Financing would fund the construction of approximately 8,403 square feet of the total 49,075 square feet of enclosed space within the new terminal building. None of the proceeds of the Financing would be used to finance space in the terminal dedicated to private business use. Specifically, the use of the proceeds of the Financing would be limited to the following components of the new terminal building: (1) a portion of a communications/technology room, (2) the County Emergency Operations Center, (3) restrooms, (4) the County administration offices, (5) the County Sheriff's office, (6) a room housing electrical infrastructure, (7) a bag belt area, and (8) an access corridor.

Project Benefits

The new terminal will ensure the continued viability of the airport and commercial air service for the County, addressing FAA safety requirements and providing a new state of the art passenger facility. The Project satisfies FAA safety concerns at the airport, replaces a 44 year old undersized building, and accommodates airline equipment change from prop-driven aircraft to regional jets. The new terminal will also enable the airport to more effectively meet changing security requirements, airline needs, and customer expectations.

Public Benefits

The County anticipates the creation of 580 temporary jobs during the period of construction as a result of the Project. Of these, 340 are expected to be direct jobs and 240 indirect jobs, at an average wage of \$30-\$40 per hour.

GENERAL COUNTY INFORMATION

The County was one of the original counties of California, incorporated in 1850 at the time of statehood, and is located on the central coast, midway between Los Angeles and San Francisco. The County currently occupies a land area of 3,616 square miles and serves a population of 276,443 residents. Approximately 44% of the population resides in the unincorporated area. The seven incorporated cities in the county are Arroyo Grande, Atascadero, Grover Beach, Morro Bay, Paso Robles, Pismo Beach and San Luis Obispo. The county seat is San Luis Obispo.

A five-member County Board of Supervisors is the legislative authority and governance for the County. The County provides a full range of services that includes: public safety and fire protection; construction and maintenance of highways, streets, and other infrastructure; health and social programs that promote the well-being of the community; and recreational activities and cultural events.

The mainstays of the economy are California Polytechnic State University with its almost 20,000 students, tourism, and agriculture. The County is the third largest producer of wine in California, surpassed only by Sonoma and Napa Counties.

Capital Improvement Plan (CIP)

The County has a five year CIP effective FY 2015 thru FY 2020. The CIP is a means to identify, schedule and track capital projects and provide the Board of Supervisors and staff with the needed information to determine priorities and assign limited resources to those priorities. A variety of funding sources are used, including the Fund, County reserves, grants, service charges, fees, and state and federal funding. The CIP identifies one hundred twenty-one facilities and infrastructure projects with an estimated cost of \$449 million, including \$34 million for the Project. At this time approximately \$200 million is allocated to fund the CIP, and the balance of \$249 million of the total estimated cost is planned to be allocated within the next five years.

The planned expense for FY 2016 totals \$92.4 million and funds 67 facilities and infrastructure projects. Based on funding sources identified, approximately 94% of FY 2016's total expense is funded with sources other than the Fund.

The following table lists the County's Top Ten Employers.

TOP TEN EMPLOYERS as of 6/30/2015			
Rank	Employer	Number of Employees	Percentage of Total City Employment
1	Cal Poly State University, SLO	3,055	2.12%
2	County of San Luis Obispo	2,800	1.94%
3	Atascadero State Hospital	2,000	1.39%
4	Pacific Gas and Electric Company	1,900	1.32%
5	California Men's Colony	1,540	1.07%
6	Cal Poly Corporation	1,400	0.97%
7	Tenet Healthcare	1,272	0.88%
8	Compass Health Inc.	1,200	0.83%
9	Lucia Mar Unified School District	1,000	0.69%
10	Paso Robles Public Schools	935	0.65%
Total		17,102	11.86%

The top ten employers represent approximately 12% of the total County employment, reflecting diversity and a lack of concentration, which is a credit positive.

CREDIT ANALYSIS

Source of Repayment

The County proposes its Fund as the source of repayment for the Financing.

Source of Revenue to Repay Financing:	General Fund
Outstanding Obligations:	<ol style="list-style-type: none"> 1. 2007 Paso Court Building 2. 2008 Vineyard Drive Interchange 3. 2012 Govt. Center Lease Rev Ref Bonds 4. POB 2003 Series A Standard Bonds 5. POB 2003 Series C Capital Appreciation Bonds 6. POB 2009 Series A
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:	June 30
Audit Fiscal Years Reviewed:	2011-2015
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:	2015-2016

Comparative Balance Sheet Analysis

Analysis of the Fund's Comparative Balance Sheet for the last five years is as follows:

COMPARATIVE BALANCE SHEET (in Thousands)										
For Fiscal Year Ending (FYE) June 30,	2011		2012		2013		2014		2015	
Source:	CAFR	% ⁽¹⁾	CAFR	% ⁽¹⁾	CAFR	% ⁽¹⁾	CAFR	% ⁽¹⁾	CAFR	% ⁽¹⁾
Assets										
Cash and Cash Equivalents	\$160,301	73.0%	\$175,637	78.3%	\$202,815	81.4%	\$235,988	85.2%	\$261,295	84.3%
Accounts Receivable, Net	50	0.0%	3	0.0%	23	0.0%	23	0.0%	58	0.0%
Accrued Property Taxes Receivable	26,729	12.2%	21,747	9.7%	16,021	6.4%	12,857	4.6%	11,779	3.8%
Other Receivables	863	0.4%	953	0.4%	1,110	0.4%	1,117	0.4%	1,088	0.4%
Due from Other Governments	21,492	9.8%	22,848	10.2%	26,091	10.5%	24,064	8.7%	28,943	9.3%
Inventories	94	0.0%	96	0.0%	96	0.0%	98	0.0%	108	0.0%
Prepaid Items	328	0.1%	309	0.1%	329	0.1%	348	0.1%	2,361	0.8%
Advances to Other Funds	2,911	1.3%	2,771	1.2%	2,667	1.1%	2,347	0.8%	4,465	1.4%
Other Restricted Cash	6,682	3.0%		0.0%		0.0%		0.0%		0.0%
Total Assets	\$219,450	100%	\$224,364	100%	\$249,152	100%	\$276,842	100%	\$310,097	100%
Liabilities and Fund Balance										
Liabilities										
Salaries and Benefits Payable	\$11,545	5.3%	\$4,061	1.8%	\$4,674	1.9%	\$5,500	2.0%	\$6,453	2.1%
Accounts Payable	8,999	4.1%	7,996	3.6%	9,909	4.0%	9,426	3.4%	6,795	2.2%
Trust Deposits	722	0.3%		0.0%		0.0%		0.0%		0.0%
Deposits from Others	159	0.1%	1,253	0.6%	699	0.3%	1,611	0.6%	1,418	0.5%
Unearned Revenue	6,094	2.8%	4,517	2.0%	510	0.2%	394	0.1%	804	0.3%
Deferred Revenue	28,481	13.0%	24,941	11.1%		0.0%		0.0%		0.0%
Other Current Liabilities	2,883	1.3%	567	0.3%	567	0.2%	573	0.2%	596	0.2%
Total Liabilities	\$58,883	26.8%	\$43,335	19.3%	\$16,359	6.6%	\$17,504	6.3%	\$16,066	5.2%
Deferred Inflows of Resources										
Unavailable Revenue					\$25,094	10.1%	\$20,157	7.3%	\$22,745	7.3%
Fund Balance										
Nonspendable	3,333	1.5%	3,176	1.4%	3,092	1.2%	779	0.3%	5,089	1.6%
Restricted Cash and Investments	7,113	3.2%	6,682	3.0%	4,005	1.6%	3,214	1.2%	2,945	0.9%
Committed	62,380	28.4%	68,880	30.7%	96,365	38.7%	116,940	42.2%	138,140	44.5%
Assigned		0.0%		0.0%	104,237	41.8%	118,248	42.7%	125,112	40.3%
Unassigned	87,741	40.0%	102,291	45.6%		0.0%		0.0%		0.0%
Total Fund Balances	\$160,567	73.2%	\$181,029	80.7%	\$207,699	83.4%	\$239,181	86.4%	\$271,286	87.5%
Total Liabilities, Deferred Inflows and Fund Balance	\$219,450	100%	\$224,364	100%	\$249,152	100%	\$276,842	100%	\$310,097	100%
Total Liabilities to Total Assets	0.27		0.19		0.07		0.06		0.05	
Total Fund Balance/Total Liabilities	2.73		4.18		12.70		13.66		16.89	

⁽¹⁾Calculated as a percent of Total Assets.

Review of the Comparative Balance Sheet for the five years analyzed found growth in the Fund's Total Assets, 41%; and Total Fund Balances, 69%; while Total Liabilities decreased 73%. The increase in Total Assets was primarily attributable to Cash and Cash Equivalents growth of 63% over the five years reviewed, increasing each year to \$261 million in FY 2015. Due From Other Governments reflects accrued Federal and State reimbursements, and outstanding claims for grants. Total Assets for FY 2015 improved 12% over FY 2014. The decrease in Total Liabilities was primarily attributable to GASB 65 reclassification of Deferred Revenue (mostly property taxes assessed but outstanding) into the new category Deferred Inflows of Resources, beginning in FY 2013.

The increase in Committed is primarily attributable to increasing reserves by \$28.8 million over the five years reviewed, as well as Pension Obligation Bonds (POB) beginning FY 2013. The Fund Balance categories also reflect that the County revised its application of GASB 54 in FY 2013, which resulted in a shift of Unassigned fund balances to the Assigned category, and resulted in reclassifying \$2.1 million of fund balance in FY 2014 from Nonspendable to the Committed category. Review of the Fund's Total Fund Balance found growth of 13% over FY 2014.

Comparative Statement of Revenues, Expenses, and Changes in Fund Balances Analysis

Analysis of the Fund's Comparative Statement of Revenues, Expenditures, and Changes in Fund Balances for the last five years is as follows:

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES (in Thousands)										
For Fiscal Year Ending (FYE) June 30,	2011		2012		2013		2014		2015	
Source:	CAFR	%	CAFR	%	CAFR	%	CAFR	%	CAFR	%
% Change Year-over-Year in Total Revenues				1.9%		5.4%		3.1%		6.5%
Revenues										
Taxes	\$145,173	39.2%	\$150,797	40.0%	\$161,274	40.6%	\$167,004	40.7%	\$167,347	38.4%
Licenses, Permits, and Franchises	7,412	2.0%	7,863	2.1%	9,247	2.3%	10,694	2.6%	10,449	2.4%
Fines, Forfeits and Penalties	6,580	1.8%	5,458	1.4%	5,462	1.4%	2,177	0.5%	4,344	1.0%
Use of Money and Property	779	0.2%	1,792	0.5%	1,149	0.3%	1,096	0.3%	3,412	0.8%
Aid from Governmental Agencies	169,517	45.8%	173,670	46.0%	185,116	46.6%	195,037	47.6%	215,320	49.3%
Charges for Current Services	36,649	9.9%	31,837	8.4%	28,893	7.3%	29,713	7.2%	29,442	6.7%
Other Revenues	4,196	1.1%	5,793	1.5%	6,351	1.6%	4,129	1.0%	6,053	1.4%
Total Revenues	\$370,306	100%	\$377,210	100%	\$397,492	100%	\$409,850	100%	\$436,367	100%
Expenditures										
Current:										
General Government	\$50,321	13.6%	\$45,850	12.2%	\$44,374	11.2%	\$44,317	10.8%	\$51,207	11.7%
Public Protection	133,504	36.1%	135,982	36.0%	141,041	35.5%	143,703	35.1%	149,317	34.2%
Public Ways and Facilities	2,379	0.6%	1,975	0.5%	2,958	0.7%	2,045	0.5%	2,024	0.5%
Health and Sanitation	63,175	17.1%	63,380	16.8%	65,197	16.4%	68,377	16.7%	70,503	16.2%
Public Assistance	94,517	25.5%	91,235	24.2%	92,428	23.3%	94,528	23.1%	104,501	23.9%
Education	420	0.1%	431	0.1%	436	0.1%	441	0.1%	457	0.1%
Total Expenditures	\$344,316	93.0%	\$338,853	89.8%	\$346,434	87.2%	\$353,411	86.2%	\$378,009	86.6%
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$25,990	7.0%	\$38,357	10.2%	\$51,058	12.8%	\$56,439	13.8%	\$58,358	13.4%
Other Financing Sources (Uses)										
Transfers In	5,135		1,283		2,039		957		984	
Transfers Out	(20,318)		(19,178)		(26,427)		(23,114)		(27,237)	
Total Other Financing Sources (Uses)	(\$15,183)		(\$17,895)		(\$24,388)		(\$22,157)		(\$26,253)	
Special Item							(\$2,800)			
Net Change in Fund Balance	\$10,807		\$20,462		\$26,670		\$31,482		\$32,105	
Fund Balance, Beginning of Year	116,102		160,567		181,029		207,699		239,181	
Prior Year Adjustment	33,658									
Fund Balance, End of Year	\$160,567		\$181,029		\$207,699		\$239,181		\$271,286	

Review of the Fund's Comparative Statement of Revenues, Expenditures, and Changes in Fund Balances found that the Fund's revenues increased steadily between FY 2011 and FY 2015, with Total Revenues growth of 6.5% in the most current year, and 18% over all five years reviewed. The increase in Total Revenues was mainly due to increases in Taxes and Aid From Government Agencies which increased over the last five years 15% and 27%, respectively. The Taxes increase is primarily due to an increase in secured property tax revenue, and is an indicator of local economic improvement from the recent economic downturn. The County Taxes also had a 8.8% increase in transient occupancy tax collections in FY 2015 due to increased tourism, following a 6.7% increase the previous fiscal year.

Notably, Aid From Governmental Agencies accounts for 49% of Total Revenues in FY 2015, increasing each of the five years reviewed. This category accounts for grant revenue from a variety of State and Federal programs, of which the largest categories are Social Services programs from U.S. Dept. of Health and Human Services.

Review of Total Expenditures indicates they have remained relatively constant, increasing by only 10% over the last five year period, while Revenues increased 18% over the same period. However, Total Expenditures increased \$24.6 million or 7% in FY 2015 over the prior year, primarily attributable to increases in Public Protection due to negotiated salaries and benefit raises; and increases in Public Assistance due to costs related to Social Services' contracted programs.

Total Expenditures as a percentage of Total Revenues declined from 93% in FY 2011, to 86.4% in FY 2015. The 6.6% decrease in expenditures in terms of a percent of Total Revenues, represents the County maintaining conservative budgeting practices that were implemented to address expected budgetary pressures due to the economic recession. The County took a variety of expenditure control actions to close budget gaps over the last five years, as described in the budget section later in the report. This discipline has generated an operating surplus after transfers for all five years reviewed, with a surplus of \$32 million in FY 2015.

The Fund's Transfers Out routinely exceed Transfers In, primarily due to the category being used for debt payment obligations. Notable uses of Transfers out include Pension Obligation Bond payments, and contributions to Roads, and Parks, that made up 32%, 31%, and 15% of transfers in FY 2015, respectively.

Existing Obligations Payable from the Fund

OBLIGATIONS						
Debt Issues	Underlying Rating (at issuance)	Date Issued	Amount Issued	Outstanding Balance	MADS ⁽¹⁾	Maturity
2007 Paso Court Building	S&P A+	2007	\$5,090,000	\$4,350,000	\$306,000	2037
2008 Vineyard Drive Interchange ⁽²⁾	S&P AA-	2008	\$7,325,000	\$6,335,000	\$448,000	2038
2012 Govt. Center Lease Rev Ref Bonds ⁽³⁾	S&P AA-, Fitch AA	2012	\$19,750,000	\$17,680,000	\$1,795,000	2028
POB 2003 Series A Standard Bonds ⁽⁴⁾	S&P A+, Fitch AA-	2003	\$47,995,000	\$19,440,000	NA	2018
POB 2003 Series C Capital Appreciation Bonds	S&P A+, Fitch AA-	2003	\$44,199,398	\$44,199,398	\$8,480,000	2031
POB 2009 Series A Term Bonds (replaced ARS)	S&P & Fitch AA-	2009	\$42,565,000	\$42,565,000	\$44,150,546	2019
Proposed IBank ISRF Financing				\$6,000,000	\$338,858	2045
Total				\$140,569,398	\$55,518,404	

(1) Maximum Annual Debt Service (Occurs in FY 2020)

(2) Paid from Road Impact Fees fund

(3) Paid partially from Public Facilities Fees fund and Golf fund

(4) POB's are Pension Obligation Bonds

2015 Total Revenues	\$436,367,000
15% of 2015 Total Revenues	\$65,455,050
MADS	\$55,518,404
% of 2015 Total Revenue	12.72%

The Maximum Annual Debt Service inclusive of the Financing is found in FY 2020 for a total of \$55,518,404 and does not exceed 15% of the Fund's 2015 Total Revenues. Total debt service obligations, inclusive of the Financing, remain 3% to 4% of the Fund's 2015 Total Revenues throughout the 30 year term, with the exception of FY 2020 where a balloon payment for the POB 2009 Series A pushes the percentage to 12.7%.

The County plans to pay off the \$43 million balloon payment at maturity, and has established \$19 million of reserves in the Fund and POB Debt Service Fund for this purpose. The County is also putting together a proposal for its Board to recommend the remainder of the debt be provided from available sources, as well as continuing to increase the existing reserves with annual budgetary savings.

Fitch Ratings, as of April 1, 2016, affirmed the County's pension obligation bonds series 2003A, 2003C, 2009A, and lease revenue refunding bonds series 2012A at AA+. The County implied general obligation (GO) rating was also affirmed at AAA. Fitch stated the affirmations reflected the County's consistently solid financial position, benefiting from conservative budgeting and financial planning, and referred to very strong liquidity with cash increasing in each of the previous seven years resulting in significant reserve levels. Also, that the County's low overall debt levels were a credit positive, and the prefunding of retiree healthcare liabilities and implementation of pension reforms have reduced its long-term liability.

Historical Ability to Budget Proposed Payment

LEASE PAYMENT AND FUNDS BALANCE ANALYSIS (in Thousands)					
For Fiscal Year Ending (FYE) June 30,	2011	2012	2013	2014	2015
Net Change in Funds Balance (actual)	\$10,807	\$20,462	\$26,670	\$31,482	\$32,105
Proposed ISRF Lease Payment	(340)	(340)	(340)	(340)	(340)
Revised Net Change in Fund Balance with ISRF Payment	\$10,467	\$20,122	\$26,330	\$31,142	\$31,765

The above table reflects that the Fund has sufficient capacity to support the Financing, given its consistently strong financial position. The County demonstrates the ability to budget the proposed Lease payments from operations in all years.

Budget

The County adopts a budget annually as the foundation for its financial planning and control. A review of the County's budgeting process finds that the County conservatively budgets Total Revenues. All five years reviewed found that the actual Total Revenues received exceeded budgeted Revenues. The County is also conservative when budgeting Total Expenditures, as the actual expenditures were less than the budgeted amounts for all years reviewed. The County's consistently strong financial performance is due largely to conservative budgeting and financial planning, which was implemented to address expected budgetary pressures due to the economic recession. The County took a variety of expenditure control actions to close budget gaps over the last five years, including eliminating vacant positions, reducing department budgets, and implementing pay and pension reform.

Staff reviewed the County's FY 2016 Budget and found that the County notes a budget increase of just under 4% compared to the current year. The growth is due to a strengthening housing market, increased development activity, as well as increased sales tax, property tax and transient occupancy tax revenue, all of which are reflective of an improving economy.

The current budget also represents a significant milestone for the County, in that after a multi-year strategy to deal with the effects of the Great Recession, it is the first year that the County is able to return to fully funding its contingencies, while making significant investments in the many programs and services provided to the community.

Pension Plan

The County contributes to the San Luis Obispo County Employees Retirement Plan (Plan), which is an independent multi-employer cost sharing contributory defined benefit pension plan. As of the most recent actuarial evaluation dated January 1, 2015, the funded status of the Plan was 77% of what is considered to be fully funded. In order to address pension costs, in FY 2011 the County implemented a Tier II plan which raised the retirement age to 60 from 55 and limited the cost of living increase for the majority of employees. It also began shifting the employer share of the pension contribution to the employees. The County is responsibly making contributions towards its annual pension costs, and contributed 100% of its required contributions for each of the last three fiscal years.

The County's Other Post-Employment Benefits (OPEB) funded ratio is 49% with more than 100% of the annual required contribution being made for the two most recent years reported.

Analysis of the Proposed Leased Asset

The County proposes the subject of the lease to be an unencumbered portion of an asset identified as A Portion of the New Government Center (Leased Asset) located at 1055 Monterey Street, San Luis Obispo, CA. The table below shows the Value-to-Lease ratio of the Leased Asset.

VALUATION OF THE LEASED ASSET					
Name of Asset	Address	Year Built	Building Size (Sq. Ft.)	Type of Construction	Estimate of Value
New Government Center Office Floor 2 and Parking Level P1	1055 Monterey Street, San Luis Obispo, CA 93408	2005	55,714	Mixed Non-Comb/Comb	\$8,566,092

Lease Amount: \$6,000,000
Value-to-lease 143%

The New Government Center is a four-story office building for the County that houses key county executive departments. The Leased Asset is that portion of the New Government Center described as Office Floor 2 and Parking Level P1. Office Floor 2 provides improved space for the following departments: Public Administrator, Personnel/Human Resources, Risk Management, Auditor-Controller, Tax Collector, and Treasurer. An estimate of fair market value of the Leased Asset was based on a Marshall/Swift methodology provided by Alliant Insurance Services, Inc. The valuation method is deemed acceptable to IBank.

Staff received and reviewed preliminary title reports for the Leased Asset. All exceptions are customary, reasonable, and acceptable to IBank. The useful life of the Leased Asset is at least 40 years, and exceeds the term of the loan.

RISK FACTORS

1. The County is not prohibited from incurring additional obligations payable from the Fund.
2. The security is a leasehold interest on the Leased Asset and not a lien on the Fund.
3. Under State law governing the proposed financing structure, 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 County’s use of the Leased Asset.
4. Under State law governing the Financing structure, acceleration in the event of default by the County is prohibited. Thus, in the event of payment default, IBank must annually pursue a remedy of compelling past due lease payments.

MITIGATING FACTORS

1. The County would covenant against permitting additional encumbrances against the Leased Asset.
2. The County would covenant to annually budget and appropriate Lease payments.
3. Lease payments may be made from any General Fund revenue providing a broad source of funds and greater flexibility to the County to meet the required Lease obligations.
4. The County would covenant to procure rental interruption insurance for the Leased Asset so that in the event of 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 total General Fund obligation (inclusive of the Financing) is less than 15% of the County's Total 2015 Revenues.
- The Leased Asset is A Portion of the New Government Center, and is acceptable to IBank.
- The source and the diversity of the Fund appear to adequately cover existing expenditures, financing obligations, and the proposed IBank Lease payments.
- The useful life of the Project exceeds the 30 year term financing.

Interest Rate Setting Demographics

The interest rate for the proposed Lease was set based upon the following statistics obtained from the 2014 American Community Survey or the ISRF program cost of funds.

Unemployment Rate	The County's unemployment rate was 5.7%, which is 67% of the State's rate of 8.5%
Median Household Income	The County's median household income was \$63,474 which is 102.5% of the State's median house income of \$61,933.

STAFF RECOMMENDATIONS

Staff recommends approval of Resolution No.16-09 authorizing Financing to San Luis Obispo County for its San Luis Obispo County Regional Airport project.

1. **Applicant/Borrower:** County of San Luis Obispo
2. **Project:** San Luis Obispo County Regional Airport
3. **Amount of Financing:** \$6,000,000
4. **Maturity:** Thirty (30) years
5. **Repayment/Security:** General Fund Lease provides IBank with a leasehold interest on A Portion of the Main Government Center.
6. **Interest Rate:** 3.45%
7. **Fees:** Origination fee of 1.00% of the Financing amount and an annual fee of 0.30% of the outstanding principal balance.
8. **Not an Unconditional Commitment:** The IBank's resolution shall not be construed as an unconditional commitment to finance the Project, but rather IBank's approval pursuant to the Resolution is conditioned upon entry by IBank and the County into a Financing agreement, 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 County and IBank must enter into the Financing agreement no later than 180 days from such date. Once the approval has expired, there can be no assurances that IBank would be able to provide the Financing to the County or consider extending the approval period.
10. **Financing Agreement Covenants:** The financing agreement shall include, among other things, the following covenants:
 - a. County to comply with all applicable requirements of ISRF Program Criteria, as well as all applicable laws, regulations and permitting requirements associated with public works projects.
 - i. County to enter a fixed-price construction contract payment and performance bonds, construction contingency funds, builder's risk insurance, and liability and worker's compensation insurance would be required.
 - b. County to budget and appropriate funds sufficient to make annual Lease payments.
 - c. County to procure and maintain rental interruption insurance for a period of at least six months beyond the time needed to reconstruct the Leased Asset.
 - d. County to procure CLTA or ALTA title insurance policy.
 - e. County to covenant against future encumbrances against the Leased Asset.
 - f. County 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.

Exhibit 1

NEW AIRPORT TERMINAL RENDERING



Birdseye View of New Terminal

