

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)

STAFF REPORT

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

Applicant: City of Sacramento (City)	ISRF Project Type: Economic Expansion Project	ISRF Project Category: Educational, Cultural and Social
Financing Amount: \$15,000,000	Financing Term: 30 years	Interest Rate¹: 3.00%
Source of Repayment: Transient Occupancy Tax Revenues and all legally available amounts in the Community Center Fund (collectively, the Fund)		Fund Rating/Date: None
Security: The ISRF Program financing (Financing) would be secured by a lien on the Fund.		
Project Name: Memorial Auditorium Renovation Project (Project)		Project Location: 1515 J St, Sacramento, CA 95814

Project Description / Sources and Uses of Proceeds:
The Project includes, but is not limited to building improvements, upgrades, and installation of furniture, fixtures, and equipment to the City’s Memorial Auditorium.

Use of Financing Proceeds:
The Financing would fund all components necessary to complete the Project including, but not limited to: construction, construction contingency, testing, inspection, remediation, machinery installation, engineering, architecture, design, permitting, entitlement, environmental review and documentation, project administration, construction management, furniture, fixtures, equipment, and general Project development activities. IBank’s origination fee will be paid by the City upon the closing of the Financing. A contingency of 5% of estimated Project hard costs is provided for in the Financing.

PROJECT USES	PROJECT SOURCES		
	IBank	City of Sacramento	Total
Memorial Auditorium Renovation Project	\$14,212,500	\$1,170,000	\$15,382,500
Capitalized Interest	\$787,500		\$787,500
Origination Fee		\$150,000	\$150,000
Total	\$15,000,000	\$1,320,000	\$16,320,000

Source Financing Application

¹ As of January 24, 2018

Credit Considerations:

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

COMMUNITY CENTER FUND CASH FLOW (IN THOUSANDS)					
For Fiscal Year Ending (FYE) June 30	2013	2014	2015	2016	2017
Operating Income (Loss)	(\$7,208)	(\$6,908)	(\$6,775)	(\$6,704)	(\$5,663)
Transaction Specific Adjustments					
+ Depreciation	2,408	2,423	2,306	2,018	1,965
+ Interest Earnings	185	152	152	368	0
+ Transient Occupancy Tax	16,555	17,943	20,108	21,800	23,866
- Transfer Out	(1,468)	(1,568)	(3,664)	(3,771)	(3,884)
Total of all Adjustments	17,680	18,950	18,902	20,415	21,947
Debt Service Calculation					
Cash Available for Debt Service	10,472	12,042	12,127	13,711	16,284
Existing Debt Service MADS ⁽¹⁾	8,356	8,356	8,356	8,356	8,356
Proposed IBank MADS ⁽²⁾	806	806	806	806	806
Total Obligations	\$9,162	\$9,162	\$9,162	\$9,162	\$9,162
Debt Service Coverage Ratio	1.14	1.31	1.32	1.50	1.78

⁽¹⁾ MADS: Maximum Debt Service

⁽²⁾ Calculated as \$15,000 and at the 3.00% for 30 years.

The historic cash flow demonstrates the Fund has sufficient capacity to service existing debt and the proposed Financing, with a debt service coverage ratio (DSCR) of 1.14 or greater in all five years reviewed. Other than one internal loan repayment of \$250,000 per year, the Existing Debt Service MADS is comprised of repayment of Lease Revenue Bonds issued in 1993 (the 1993 Bonds), which mature in FY 2020. The 1993 Bonds are not secured by the Fund, but are instead an obligation of the City's General Fund (General Fund). The City internally allocates repayments of the 1993 Bonds from the various participating funds, including the Fund, therefore the 1993 Bonds were included in the cash flow analysis. Prior to fiscal year 2020, the City would only make interest payments on the Financing from capitalized interest provided for in the Financing. The first principal payment on the proposed Financing would be scheduled to commence when the 1993 Bonds mature in fiscal year 2020.

Support for Staff Recommendations:

1. Cash flow analysis demonstrates the Fund’s ability to service existing debt and the proposed IBank Financing.
2. The City will be prohibited from issuing future debt senior to the IBank financing, and new parity debt will only be permitted if net revenues accumulated within the Fund are at least 1.20 times the MADS.

Criteria Waiver:

1. The Criteria, Priorities, and Guidelines for the Selection of Projects for Financing under the Infrastructure State Revolving Fund (ISRF) Program (the Criteria) require that repayment of the ISRF Financing be targeted to begin within one year of Financing origination. The City requests that only capitalized interest be assessed for two years while the Project is under construction. Therefore, the City seeks a waiver of the Criteria requirement that repayments be targeted within one year of Financing origination.
2. The Criteria provides that contractor’s 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 requirement that contractors be pre-qualified using the Model Questionnaire.

IBank Staff:

John Lee

Date of Staff Report:

February 15, 2018

Date of IBank Board Meeting:

February 27, 2018

Resolution Number:

18-03

Staff Recommendation:

Staff recommends approval of Resolution No.18-03 authorizing ISRF Program financing to the City of Sacramento for the Memorial Auditorium Renovation Project.

PROJECT DESCRIPTION

The City of Sacramento (City) requests Infrastructure State Revolving Fund (ISRF) Program financing (Financing) in the amount of \$15 million to fund the Memorial Auditorium Renovation Project (Project). The Project would provide necessary upgrades to the City's Memorial Auditorium (Auditorium). (Exhibit 1)

Project Background

The Auditorium is one of the most recognizable buildings in the region, and is listed on the National Historic Register. For over eighty years, with the exception of a ten-year closure from 1986-1996, the Auditorium has served as a venue for a variety of events including concerts for the Beach Boys, the Rolling Stones, the Doors, James Brown, the Moody Blues, Doobie Brothers, and Duran Duran; boxing title fights i.e. Rocky Marciano, and the Harlem Globetrotters. It continues to serve as a venue for graduation commencements for regional high schools, colleges, and business and professional schools. The Auditorium has lived up to its mission as a multi-purpose venue, and it still serves as the venue of choice for not only entertainment and sporting events but also meetings, conferences, banquets, receptions, speaking engagements, and naturalization ceremonies for new citizens.

The City Manager's Office, along with key stakeholders, identified the Auditorium as the best option to relocate the scheduled performances held at the Community Center Theater (Theater) during the Theater's planned renovations. However, renovations and upgrades need to be made to the Auditorium before it can be used as an alternate site for Theater performances. The Project would provide new amenities, operational enhancements, and building performance system upgrades to the Auditorium, which will improve the quality of performances and the patron experience. Upon completion of the Project, the Auditorium will serve as the temporary venue for the California Musical Theater, Sacramento Ballet, and the Sacramento Philharmonic & Opera while renovations are underway at the Theater.

Project Components

Generally, the Financing funds all components necessary to complete the Project including, but not limited to: construction, construction contingency, testing, inspection, remediation, machinery installation, engineering, architecture, design, permitting, entitlement, environmental review and documentation, project administration, construction management, furniture, fixtures, equipment, and general Project development activities.

- Improvements and upgrades to audio-visual equipment and related facilities
- Upgrades to lighting and acoustical systems
- Construction of orchestra facilities
- Seating improvements
- Newly constructed and upgraded HVAC systems
- Projection booth upgrades
- Construction of additional facilities, and upgrade of existing facilities, to accommodate large and complex plays, shows, concerts, and other events.
- Upgrades to the rigging system
- Structural upgrades
- Purchase new, and upgrade existing, furnishings, fixtures, and equipment

Project Benefits

The Project would provide much-needed upgrades to the Memorial Auditorium facilities, which the City expects will enhance its ability to host more musical and theatrical performances and

other events, and in turn, draw additional visitors to the City. The Project would allow for greater use of the Auditorium in the future due to improved acoustics, lighting, rigging, function, and operation of the building. Upon completion of the Project, it is anticipated that there will be an increased number of events, with a greater number of attendees, and an increase contribution to the overall economic development within the Downtown core. In addition, the Project will allow theatrical events normally held at the Theater to instead be held at the Auditorium while the Theater undergoes renovations.

Public Benefits

The City anticipates approximately 120 temporary jobs to be created during the period of construction, and a total of 225 jobs retained as a result of the Project.

GENERAL INFORMATION

City of Sacramento

The City was incorporated in 1849, and is the Capitol of the State and the County seat. The City, located 75 miles northeast of San Francisco at the confluence of the Sacramento and American Rivers, operates as a Charter City with a publicly elected nine-member City Council including an elected Mayor. The City's 2016 estimated population of 495,200 made it the sixth-largest city in the State.

The City is the cultural and economic core of the Sacramento metropolitan area, which includes seven counties with an estimated population of more than 2.5 million. Its metropolitan area is the fourth largest in California after the Greater Los Angeles area, the San Francisco Bay Area, and the San Diego metropolitan area. In 2015, the City ranked as the third most diverse city in the U.S. and the second most integrated, according to analysis of U.S. Census Data.

State government employees and government-related activities contribute substantially to the City's economy. Major private employers in the City's metropolitan area include those in health care, electronics, telecommunications, retail, and financial services. The City is also home to the UC Davis Medical Center, a world-renowned research hospital.

CREDIT ANALYSIS

Source of Financing and Security

The City proposes pledging Transient Occupancy Tax Revenues and all legally available amounts in the Community Center Fund (collectively, the Fund) as the security and the source of repayment for the Financing. Transient Occupancy Tax (TOT) is a tax assessed on guests who occupy hotels within the City for 30 or fewer calendar days (transients), at a rate of 12% of the room charge. The Community Center Fund receives 10 percentage points of the 12% TOT tax. The entire TOT collected is deposited into the Community Center Fund each month, then two percentage points of the 12% TOT tax is transferred to the General Fund. Also, a sum certain of TOT must fund the Sacramento Convention and Visitor's Bureau each year, per City Code section 3.28.040. For each fiscal year, an amount equal to the previous year's allocation plus an amount equal to the annual increase in the consumer price index or 10 percent, whichever is less.

The Community Center Fund supports the operation, debt service, and Capital Improvement Projects (CIP's) for the Sacramento Convention Center Complex, which includes the Auditorium, Convention Center, and the Theater. The Community Center Fund also provides support to the following cultural partners: Sacramento Zoo, Crocker Art Museum, History Division, Sacramento History, Museum, and the Powerhouse Science Center, as well as to citywide services (i.e., IT, Accounting, Attorneys, Human Resources) through the cost plan to the General Fund.

Source of Revenue to Repay Financing:	The Fund
Outstanding Obligations²:	Sacramento City Financing Authority Lease Revenue Refunding Bonds Series 1993 A and Series 1993 B (the 1993 Bonds)
Type of Audited Financial Documents Reviewed:	[X] Comprehensive Annual Financial Reports (CAFR) [] Basic Financial Statements (F/S) [] Other: _____
Fiscal Year Ends:	June 30
Audit Fiscal Years Reviewed:	2013-2017
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.	[X] Yes [] No. [If no, explain]
Adopted Budget(s) Reviewed:	[X] Yes [] No. [If no, explain]
Budget Year(s) Reviewed:	2017-2018

² The 1993 Bonds are not secured by a lien on the Fund. The 1993 Bonds are a General Fund obligation. However, the City internally allocates repayment of the 1993 Bonds from a number of City funds, including the Fund. Because the City makes bond payments with Fund moneys, the 1993 Bonds are underwritten as if they were Fund obligations despite the fact the 1993 Bonds are not secured by the Fund.

Comparative Statement of Net Position Analysis

Analysis of the Community Center Fund's Comparative Statement of Net Position for the last five years is as follows:

COMMUNITY CENTER FUND COMPARATIVE STATEMENT OF NET POSITION IN THOUSANDS												
	For Fiscal Year Ending (FYE) June 30		2013		2014		2015		2016		2017	
	Source:	CAFR	%	CAFR	%	CAFR	%	CAFR	%	CAFR	%	
Current Assets												
Cash and Investments Held by City		\$10,521	9.7%	\$12,985	11.8%	\$16,068	14.5%	\$20,376	17.7%	\$32,689	25.1%	
Cash and Investments Held by Fiscal Agent		313	0.3%	171	0.2%	28	0.0%	53	0.0%			
Taxes		2,224	2.0%	2,253	2.1%	2,647	2.4%	2,352	2.0%	2,922	2.2%	
Accounts		281	0.3%	304	0.3%	237	0.2%	282	0.2%	238	0.2%	
Loans		24	0.0%	20	0.0%	20	0.0%	21	0.0%	22	0.0%	
Interest		17	0.0%	3	0.0%	26	0.0%	85	0.1%	133	0.1%	
Prepaid Items										21	0.0%	
Total Current Assets		13,380	12.3%	15,736	14.3%	19,026	17.1%	23,169	20.1%	36,025	27.7%	
Noncurrent Assets												
Restricted assets:												
Cash and Investments Held by City		1,901	1.8%	2,305	2.1%	755	0.7%	1,329	1.1%	1,446	1.1%	
Cash and Investments Held by Fiscal Agent		7,945	7.3%	7,945	7.2%	7,945	7.1%	7,945	6.9%	7,881	6.1%	
Loans Receivable		128	0.1%	108	0.1%	87	0.1%	66	0.1%	44	0.0%	
Deferred Charges		764	0.7%									
Land		21,740	20.0%	21,740	19.8%	21,740	19.6%	21,740	18.9%	21,740	16.7%	
Buildings and Improvements		111,201	102.4%	111,161	101.3%	111,885	100.6%	111,885	97.2%	113,040	86.8%	
Machinery and Equipment		3,900	3.6%	4,831	4.4%	4,831	4.3%	4,831	4.2%	4,831	3.7%	
Construction on Progress		3,203	2.9%	3,605	3.3%	4,923	4.4%	6,112	5.3%	9,230	7.1%	
Software		31	0.0%	46	0.0%	46	0.0%	46	0.0%	46	0.0%	
Less: (Accumulated Depreciation)		(55,568)	-51.2%	(57,744)	-52.6%	(60,050)	-54.0%	(62,068)	-53.9%	(64,033)	-49.2%	
Total Other Non Current Assets		95,245	87.7%	93,997	85.7%	92,162	82.9%	91,886	79.9%	94,225	72.3%	
Total of Assets		108,625	100.0%	109,733	100.0%	111,188	100.0%	115,055	100.0%	130,250	100.0%	
Deferred Outflows of Resources												
Deferred Outflows Related to Pension						538	0.5%	729	0.6%	1,763	1.4%	
Total Deferred Outflow of Resources						538	0.5%	729	0.6%	1,763	1.4%	
Current Liabilities												
Security Lending Obligations		64	0.1%	64	0.1%							
Accounts Payable		1,013	0.9%	1,444	1.3%	1,425	1.3%	1,758	1.5%	3,425	2.6%	
Accrued Payroll		185	0.2%	197	0.2%	230	0.2%	272	0.2%	283	0.2%	
Accrued Compensation		25	0.0%	28	0.0%	34	0.0%	36	0.0%	34	0.0%	
Due to Other Funds		250	0.2%	250	0.2%	250	0.2%	250	0.2%	7,850	6.0%	
Interest Payable		463	0.4%	416	0.4%	366	0.3%	312	0.3%	256	0.2%	
Unearned Revenue		2,843	2.6%	2,653	2.4%	2,227	2.0%	2,081	1.8%	1,975	1.5%	
Accrued Claims and Judgements		25	0.0%	23	0.0%	12	0.0%	11	0.0%	15	0.0%	
Revenue and Other Bonds Payable Net		5,302	4.9%	5,587	5.1%	5,885	5.3%	6,210	5.4%	6,543	5.0%	
Total Current Liabilities		10,170	9.4%	10,662	9.7%	10,429	9.4%	10,930	9.5%	20,381	15.6%	
Noncurrent Liabilities												
Accrued Compensated Absences		523	0.5%	498	0.5%	492	0.4%	605	0.5%	498	0.4%	
Advances From Other Funds		6,382	5.9%	6,190	5.6%	5,994	5.4%	5,798	5.0%	5,617	4.3%	
OPEB Liabilities		671	0.6%	814	0.7%	965	0.9%	1,029	0.9%	1,058	0.8%	
Revenue and Other Bonds Payable Net		46,081	42.4%	40,494	36.9%	34,609	31.1%	28,399	24.7%	21,856	16.8%	
Net Pension Liability						5,234	4.7%	5,802	5.0%	6,832	5.2%	
Total Long Term Liabilities		53,657	49.4%	47,996	43.7%	47,294	42.5%	41,633	36.2%	35,861	27.5%	
Total Liabilities		63,827	58.8%	58,658	53.5%	57,723	51.9%	52,563	45.7%	56,242	43.2%	
Deferred Inflows of Resources												
Deferred Inflows Related to Pension						1,209	1.1%	523	0.5%	210	0.2%	
Total Deferred Inflows of Resources						1,209	1.1%	523	0.5%	210	0.2%	
Net Position												
Net Investment in Capital Assets		41,069	37.8%	48,401	44.1%	53,724	48.3%	58,780	51.1%	67,298	51.7%	
Capital Projects		1,901	1.8%	2,305	2.1%	755	0.7%	1,329	1.2%	1,446	1.1%	
Unrestricted		1,828	1.7%	369	0.3%	(1,685)	-1.5%	2,589	2.3%	6,817	5.2%	
Total Net Position		\$44,798	41.2%	\$51,075	46.5%	\$52,794	47.5%	\$62,698	54.5%	\$75,561	58.0%	
Total Liabilities and Net Position		\$108,625	100.0%	\$109,733	100.0%	\$111,188	100.0%	\$115,055	100.0%	\$130,250	100.0%	

Review of the Comparative Statement of Net Position found an increase of \$21.6 million, or 19.9% in Total Assets between FY 2013 and FY 2017, primarily due to an increase in Transient Occupancy Tax revenues (TOT Revenues) that are reflected in the Cash and Investments Held by City line item. The review also found a decrease in Total Liabilities of \$10.2 million, or 11.9% over the same period.

Accounts Payable increased 94.8% during FY 2017 as compared to FY 2016, primarily due to an increase in activity at year-end. Unearned Revenue decreased 30.5% over the five years reviewed, primarily due to amortization of a \$2 million signing bonus the City received as part of an exclusive provider agreement for food and beverage services; this bonus is amortized on a straight-line basis over 10 years.

Revenues and Other Bonds Payable Net (Noncurrent) decreased 52.6%, or \$24.2 million between FY 2013 and FY 2017, primarily due to principal payments paid on the Sacramento City Financing Authority Lease Revenue Refunding Bonds Series 1993 A & Series 1993 B (1993 Bonds), which matures in FY 2020. Beginning FY 2015, the City began reporting the Community Center Fund's proportionate share of the Net Pension Liability, as required by GASB Statement No. 68.

The Community Center Fund's Total Net Position showed consistent growth increasing each year from FY 2013 to FY2017, and overall by \$30.8 million, or 68.7% over the five years reviewed. The increase is primarily attributable to the previously mentioned increase in TOT Revenues, as well as the reduction in outstanding debt from annual principal payments. The reduction in outstanding debt obligations is also the primary contributor to an increase of \$26.2 million, or 63.9% in Net Investments in Capital Assets.

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

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

COMMUNITY CENTER FUND											
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION											
IN THOUSANDS											
For Fiscal Year Ending (FYE) June 30	2013		2014		2015		2016		2017		
Source:	CAFR	%	CAFR	%	CAFR	%	CAFR	%	CAFR	%	
% Change in Total Operating Revenues				21%		38%		1%		22%	
Operating Revenues											
User Fees and Charges	\$2,708	38.0%	\$2,837	36.8%	\$2,734	31.3%	\$2,952	33.6%	\$3,233	34.1%	
Rents and Concessions	4,376	61.4%	4,826	62.5%	5,932	67.8%	5,762	65.6%	6,200	65.3%	
Miscellaneous	46	0.6%	55	0.7%	82	0.9%	68	0.8%	55	0.6%	
Total Operating Revenues	7,130	100.0%	7,718	100.0%	8,748	100.0%	8,782	100.0%	9,488	100.0%	
Operating Expenses											
Employee Services	5,870	82.3%	5,855	75.9%	6,061	69.3%	6,514	74.2%	6,168	65.0%	
Services and Supplies	6,053	84.9%	6,332	82.0%	7,156	81.8%	6,951	79.2%	7,013	73.9%	
Depreciation and Amortization	2,408	33.8%	2,423	31.4%	2,306	26.4%	2,018	23.0%	1,965	20.7%	
Claims and Judgments	7	0.1%	16	0.2%			3	0.0%	5	0.1%	
Total Operating Expenses	14,338	201.1%	14,626	189.5%	15,523	177.4%	15,486	176.3%	15,151	159.7%	
Operating Income (Loss)	(7,208)	-101.1%	(6,908)	-89.5%	(6,775)	-77.4%	(6,704)	-76.3%	(5,663)	-59.7%	
Nonoperating Revenues (Expenses)											
Interest Earnings	185	2.6%	152	2.0%	152	1.7%	368	4.2%			
Transient Occupancy Tax	16,555	232.2%	17,943	232.5%	20,108	229.9%	21,800	248.2%	23,866	251.5%	
Interest Expense	(2,910)	-40.8%	(2,575)	-33.4%	(2,167)	-24.8%	(1,791)	-20.4%	(1,456)	-15.3%	
Amortization and Deferred Charges	(107)	-1.5%									
Loan Forgiveness	(3)	0.0%	(3)	0.0%							
Net Non-operating Revenues (Expenses)	13,720	192.4%	15,517	201.0%	18,093	206.8%	20,377	232.0%	22,410	236.2%	
Income (Loss Before Operating Transfers)	6,512	91.3%	8,609	111.5%	11,318	129.4%	13,673	155.7%	16,747	176.5%	
Capital Contributions and Transfers											
Transfer In					2		2				
Transfer Out	(1,468)		(1,568)		(3,664)		(3,771)		(3,884)		
Total Contributions and Transfers	(1,468)		(1,568)		(3,662)		(3,769)		(3,884)		
Change in Net Position	5,044		7,041		7,656		9,904		12,863		
Total Net Position, Beginning of Year	39,754		44,798		51,075		52,794		62,698		
Prior Period Adjustment (=/-)			(764)		(5,937)						
Total Net Position, End of Year	\$44,798		\$51,075		\$52,794		\$62,698		\$75,561		

Review of the Community Center Fund's Comparative Statement of Revenues, Expenses, and Changes in Net Position shows that Total Net Position, End of Year has experienced steady growth each year from FY 2013 to FY 2017, and overall by \$30.8 million, or 68.7%. Total Operating Revenues increased 33% over the five years reviewed, which compares favorably with the 5.7% increase in Total Operating Expenses over the same period. However, the Community Center Fund shows a consistent operating loss averaging \$6.7 million from FY 2013 to FY 2017, since it relies substantially on Non-operating Revenues, specifically TOT Revenues.

TOT Revenues are accounted for on the Transient Occupancy Tax line item (below the line), and account for 74.8% of total revenues in FY 2017. TOT Revenues increased approximately \$7.3 million, or 44.2% over the five years reviewed, primarily attributable to a continuing upward trend in hotel room occupancy and rates.

Transfer Out shows an increase beginning in FY 2015, which is primarily attributable to the City's commitment of three annual transfers of \$2 million (\$6 million in total) to the Golden 1 Center debt service fund to establish a liquidity reserve. Beyond FY 2017, there is no further commitment from the Fund towards the Golden 1 Center financing.

The Transfer Out line item also includes a recurring transfer that averages \$1.7 million of in-lieu property tax and franchise tax fees. The in-lieu property tax represents what property tax revenue would be, as received directly into the City's General Fund, if the Auditorium were taxed as if owned as a private property. The in-lieu franchise fee represents franchise fee amount equivalent, which would be received by the City if this property was owned by a private entity, and charged rent for the use of the city streets and right-of way.

The Prior Period adjustment in FY 2014 is due to the implementation of GASB 65. The Prior Period Adjustment of \$5.9 million in FY 2015 is due to the implementation of GASB 68 and GASB 71. The Community Center Fund's Change in Net Position increased consistently each year reviewed, increasing from \$5 million in FY 2013 to \$12.9 million in FY 2017, primarily due to the above noted increase in TOT Revenues.

Community Center Fund Cash Flow and Debt Service Analysis

Community Center Fund cash flow and debt service analysis for the Financing is as follows:

COMMUNITY CENTER FUND CASH FLOW (IN THOUSANDS)					
For Fiscal Year Ending (FYE) June 30	2013	2014	2015	2016	2017
Operating Income (Loss)	(\$7,208)	(\$6,908)	(\$6,775)	(\$6,704)	(\$5,663)
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Existing Debt Service MADS ⁽¹⁾	8,356	8,356	8,356	8,356	8,356
Proposed IBank MADS ⁽²⁾	806	806	806	806	806
Total Obligations	\$9,162	\$9,162	\$9,162	\$9,162	\$9,162
Debt Service Coverage Ratio	1.14	1.31	1.32	1.50	1.78

⁽¹⁾ MADS: Maximum Debt Service

⁽²⁾ Calculated as \$15,000 and at the 3.00% for 30 years.

The historic cash flow demonstrates the Fund has sufficient capacity to service existing debt and the proposed Financing, with a DSCR of 1.14 or greater in all five years reviewed. Other than one

internal loan repayment of \$250,000 per year, the Existing Debt Service MADS is comprised of repayment of the 1993 Bonds, which mature in FY 2020. The 1993 Bonds are not secured by the Fund, but are instead an obligation of the City's General Fund. The City internally allocates repayments of the 1993 Bonds from the various participating funds, including the Fund; therefore the 1993 Bonds were included in the cash flow analysis. Prior to fiscal year 2020, the City would make only interest payments on the Financing from capitalized interest provided for in the Financing. The first principal payment on the proposed Financing would be scheduled to commence when the 1993 Bonds mature in fiscal year 2020.

The addback for the line item TOT reflects that the Community Center Fund is the designated fund for depositing the City's TOT Revenues, which make up a significant percentage of the Community Center Fund's total revenues. As discussed above, the Community Center Fund receives 10 percentage points of the 12% TOT tax, which accounts for over two thirds of the Community Center Fund's revenue.

In FY 2017, the Community Center Fund's TOT Revenues increased \$2 million, or 9.48% over the prior fiscal year, due to increase in TOT Revenue generated from higher hotel occupancy and room rates, which is consistent with the sustained improvements in the Sacramento area economy. The average annual increase in TOT Revenue received over the past five years is 9.6%. While TOT Revenue has experienced exceptional performance recently, projected growth has been conservatively estimated at 3.4% for the period from FY 2018 and beyond to reflect the historical long-term growth of TOT Revenues.

Existing Obligations Payable from the Community Center Fund

The table below shows current debt payments being made from the Fund together with the proposed Financing for the Project.

OBLIGATIONS OF THE COMMUNITY CENTER FUND							
Debt Issues	Underlying Rating (at issuance)	Date Issued	Amount Issued	Outstanding Balance	MADS	Lien Position	Maturity
Sacramento City Financing Authority Lease Revenue Refunding Bonds Series 1993 A	Moody Aaa Standard & Poors AAA	1993	\$104,666,583	\$20,335,679	\$7,531,005	NA	2020
Sacramento City Financing Authority Lease Revenue Refunding Bonds Series 1993 B	Moody Aa Standard & Poors A+	1993	\$8,585,437	\$1,555,120	\$575,385	NA	2020
Risk Fund Interfund Loan	NA	1997	\$10,400,000	\$5,800,000	\$250,000	NA	NA
Proposed IBank Financing ¹			\$15,000,000	\$15,000,000	\$805,560	Senior	2047
Total			\$138,652,020	\$42,690,799	\$9,161,949		

(1) Calculated as \$15 million at 3.00% for 30 years.

The 1993 Bonds are not a legal obligation of the Fund, and are presented here only because the City has elected to utilize the Fund to repay the 1993 Bonds.

Looking forward, the City anticipates incurring additional obligations secured by, and payable from, the Fund within the 2018 calendar year, which may include additional IBank financings in connection with the City's planned Theater renovation and the Convention Center expansion. The City is currently working with financial advisors and design consultants to develop a plan to finance and construct these projects. Once the City and its consultants have completed their analysis, the City may return to IBank with an application for an additional \$45 million of financing, specifically for the Theater and Convention Center projects.

Pension Plan

The City provides defined benefit retirement plans through the State of California's Public Employee's Retirement System (CalPERS) and the Sacramento City Employee's Retirement System (SCERS). All full-time and certain part-time City employees hired on or after January 28, 1977, and all City safety employees regardless of the date of hire, are eligible to participate in CalPERS. The SCERS plan has been closed to new members since 1977.

As of the most recent CalPERS actuarial valuations, dated June 30, 2016, the Miscellaneous, and Safety plans have a funded ratio of 70.8% and 66.5%, respectively. As of June 30, 2017, the City reported total net pension liability for the Miscellaneous, Safety, and SCERS plans as \$293.9 million, \$522.5 million, and \$48.4 million, respectively. For the year ended June 30, 2017, the City recognized pension expense of \$13.3 million attributable to the SCERS plan; and contributions for the miscellaneous and safety plans were \$30.1 million and \$47.2 million, respectively. The Community Center Fund is responsible for approximately 2.3% of the City's total PERS Miscellaneous plan liability.

In order to address pension costs, the City raised the retirement age for the Miscellaneous plan to 62 from 55, and for the Safety plan to 57 from 50, beginning January 1, 2013. The City contributed 100% of the CalPERS actuarially required contributions for the last 10 fiscal years. Going forward, the City has included estimated pension increases in its financial forecast and is paying the current requirements as outlined by CalPERS. Additionally, the City negotiated a 1% cost-sharing for employees to help in addressing the liability with all but two of the City's smaller employee groups.

Risk Factors

1. The City is not prohibited from incurring additional obligations payable from the Fund.
2. TOT Revenues account for a significant portion of the monies accumulated within the Fund, and amounted to 74.8% of total money contributed to the Fund in FY 2017.

Mitigating Factors

1. The City will be prohibited from issuing future debt senior to the IBank financing, and new parity debt would only be permitted if net revenues accumulated within the Fund are at least 1.20 times the MADS.
2. Projections for TOT Revenues were completed by CBRE October 2016, and have been estimated to grow 3.4% annually.

Compliance with IBank Underwriting Criteria

- The financing will be secured by a lien on TOT Revenues and all legally available amounts in the Community Center Fund.
- The useful life of the Project is at least as long as the proposed 30-year Financing term.

Through the Financing Agreements, the City would covenant to the following in accordance with the Criteria:

- Enter into a fixed-price construction contract.
- Obtain payment and performance bonds, builder's risk insurance, and liability and worker's compensation insurance.

Criteria Waiver:

1. The Criteria, Priorities, and Guidelines for the Selection of Projects for Financing under the Infrastructure State Revolving Fund (ISRF) Program (the Criteria) require that repayment of the ISRF Financing be targeted to begin within one year of Financing origination. The City requests that only capitalized interest be assessed for two years while the Project is under construction. Therefore, the City seeks a waiver of the Criteria requirement that repayments be targeted within one year of Financing origination.
2. The Criteria provides that contractor's 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 requirement that contractors be pre-qualified using the Model Questionnaire.

Interest Rate Setting Demographics

The interest rate for the proposed Financing was set based upon the following statistics obtained from the 2016 American Community Survey (1-year estimate); and the Employment Development Department Monthly Labor Force Data for California, as of January 19, 2018.

Unemployment Rate	The City unemployment rate was 4.1%, which is 93.4% of the State's rate of 4.3%.
Median Household Income	The City median household income was \$55,187, which is 81.5% of the State's median house income of \$67,739.

STAFF RECOMMENDATION

Staff recommends approval of Resolution No.18-03 authorizing Financing of the City of Sacramento's Memorial Auditorium Renovation Project.

1. **Applicant/Borrower:** City of Sacramento (City)
2. **Project:** Memorial Auditorium Renovation Project
3. **Amount of Financing:** \$15,000,000
4. **Maturity:** 30 years
5. **Repayment/Security:** Transient Occupancy Tax Revenues and all legally available amounts in the Community Center Fund (Fund)
6. **Interest Rate:** 3.00%
7. **Fees:** Origination fee of 1.00% of the Financing amount, \$150,000, and an annual fee of 0.30% of the outstanding principal balance.
8. **Not an Unconditional Commitment:** 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 City into a Financing Agreement, in form and substance satisfactory to IBank.
9. **Limited Time:** The Board's approval expires 90 days from the date of its adoption. Thus, the City and IBank must enter into the Financing Agreement no later than 90 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 City or consider extending the approval period.
10. **Financing Agreement Covenants:** The Financing Agreement shall include, among other things, the following covenants:
 - a. The City shall maintain Transient Occupancy Tax Revenues (TOT Revenues) and other revenues accumulating within the Community Center Fund (collectively, Fund Revenues), to ensure that the sum of Fund Revenues minus operating expenses of activities that generate Fund Revenues (Fund Net Revenues) produce a minimum 1.20 times annual debt service coverage ratio for the sum of actual annual debt service on the Financing and any outstanding obligations on parity with the Financing.
 - b. The City will be prohibited from issuing future debt senior to the IBank financing.
 - c. New parity debt permitted if Fund Net Revenues are at least 1.20 times the MADS taking into consideration the MADS payable in any Fiscal Year on the proposed parity debt.
 - d. Subordinate debt ("Subordinate Debt") permitted if Fund Net Revenues are at least 1.00 times the sum of the MADS on all outstanding debt, payable from Net Revenues, including the proposed Subordinate Debt.
 - e. Except as expressly waived by the Board of Directors, the City to comply with the requirements of the Criteria, Priorities, and Guidelines for the Selection of Projects for Financing under the Infrastructure State Revolving Fund (ISRF) Program (the Criteria) and all applicable laws, regulations, and permitting requirements associated with public works projects.
 - f. Provide to IBank within 180 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.
 - g. The City to submit other information to IBank as may be requested from time-to-time.
 - h. **Criteria Waivers:** IBank requests the Board waive the following requirements of IBank's Criteria, Priorities, and Guidelines:
 - a. Use of the contractor model pre-qualification questionnaire approved by the Department of Industrial Relations.
 - b. Repayment of the Financing be targeted within one year of Financing Origination.

Exhibit 1

Sacramento Memorial Auditorium

