



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: APRIL 16, 2024

FROM: FINANCE DEPARTMENT WARD: 3

**SUBJECT: INTERFUND LOAN FROM GENERAL FUND INFRASTRUCTURE RESERVES
TO THE AIRPORT FUND FOR CRITICAL CAPITAL PROJECTS –
SUPPLEMENTAL APPROPRIATION AND INTERFUND TRANSFER**

ISSUE:

The issue for City Council consideration is an interfund loan from the General Fund to the Airport in the amount of \$2,000,000 to address critical infrastructure needs.

RECOMMENDATIONS:

That the City Council:

1. Authorize a loan of \$2,000,000 from General Fund Infrastructure Reserves to the Airport Fund for airport capital improvements;
2. With at least five affirmative votes, authorize the Chief Financial Officer, or designee, to record a supplemental appropriation and interfund transfer from General Fund Infrastructure Reserves to the Airport Fund in the amount of \$2,000,000;
3. With at least five affirmative votes, authorize the Chief Financial Officer, or designee, to record a supplemental appropriation in the amount of \$2,000,000 in the Airport Fund, Capital project accounts; and
4. Authorize the City Manager, or his designee, to execute the necessary interfund loan documents.

BACKGROUND:

The City has historically used interfund loans as a means of funding certain projects for which external, traditional bond, or bank loan financing was not available or cost effective. All interfund loan borrowing has been authorized in advance by the City Council. These projects have most often been in the 3–5-year repayment term, though some have been approved with longer repayment terms for various reasons, consistent with the terms of the Interfund Loan Policy (Attachment 1).

The City has a long history of utilizing the interfund loan program as a means to lower its borrowing costs and support its various departments' capital improvement projects. The City has approved over 82 interfund loans over a period of 37 years, totaling more than \$162.3 million loaned. The most recent interfund loan is the Utilities Plaza Loan for \$4.47 million issued in 2012 with a final maturity date of 2027.

The interfund loan program has previously supported the Airport's capital improvement projects with loans in 1991 for building repairs and improvements, in 1999 for Tarmac Rehabilitation, and most recently in 2007 with its Terminal Remodel capital project and Fire Rescue Truck purchase to support safety protocols. All three of these loans have since been paid back in full.

As of the First Quarter of Fiscal Year 2023-2024, the following interfund loans are outstanding:

Debt Issuance Name	Fiscal Year Issued	Final Maturity	Total Issue Size	Outstanding Principal as of 7/1/2023	Q1 2024 Principal Payments	Projected Outstanding Principal Balance 6/30/2024
Reid Park Acquisition Interfund Loan	2011	2028	\$ 720,000	\$ 257,604	\$ 57,272	\$ 200,332
Riverside Golf Course Acquisition Interfund Loan	2011	2028	\$ 4,837,500	\$1,745,296	\$382,641	\$1,362,655
Utilities Plaza Purchase Interfund Loan	2012	2027	\$ 4,469,221	\$1,130,945	\$306,072	\$ 824,873
Total Interfund Loans			\$10,026,721	\$3,133,845	\$745,985	\$2,387,860

Reports on all subsequent changes in the interfund loan program are reported quarterly as part of the Cash, Investments and Debt Report that is brought to Council for review.

DISCUSSION:

In November of 2023, Airport Staff presented a staff report to the City Council (Attachment 3) detailing the capital needs for projects estimated around \$3.34 million. At the time, the Airport proposed a public borrowing \$2,000,000 utilizing a program provided by CalTRANS, with a repayment period of 17 years. The CalTRANS loan borrowing bases its interest rate off the last General Obligation Bond issued by the State of California. The last General Obligation Bonds issued were on November 7th, 2023¹; details are below.

Name: State of California Various Purpose General Obligation Refunding Bonds
Type: General Obligation Bond
Amount: \$681,775,000
Interest Rate: 5%

The CalTRANS borrowing rate of 5% on a principal amount of \$2,000,000 with a repayment term of 17 years would result in a fiscal impact of \$3,015,770.82.

1 Source EMMA website, State of California Treasurer's Issuance Page, weblink: <https://emma.msrb.org/IssueView/Details/P2425916>

Following discussion, the City Council unanimously approved the application for the CalTRANS loan and authorized the Chief Financial Officer and Airport Manager, or authorized designees, to execute all documents necessary to complete the financing transaction.

After a thorough analysis of the Airport's net income (cash flows) and borrowing rates, the Finance Department has determined that a more prudent and efficient approach to funding the capital improvement plan presented in the November City Council report is an interfund loan from the General Fund Infrastructure Reserve (lender) to the Airport (borrower). This approach would result in a minimum fiscal savings of \$504,571.

While conducting this analysis, Airport Management was tasked with evaluating additional items and concerns in relation to each capital improvement item. An itemized list of the work is detailed below:

Riverside Municipal Airport	Work Type	Budget	Concerns & Unforeseen Items
BUILDING Q. / FAA / FLAT ROOF	Reroof	\$ 450,000	Wood decking / asbestos / ponding
BUILDING Q. / FAA / TILE ROOF	Reroof	\$ 215,000	Wood decking / fascia / tile
HANGER E	Reroof	\$ 225,000	Wood decking / fascia / weight / ponding
CIVIL AIR PATROL / CAVU	Restoration	\$ 220,000	Rust / Skylights
MAIN BUILDING	Restoration	\$ 225,000	Wood decking / drainage
ATP HANGER	Restoration	\$ 120,000	
HANGER F - FLIGHT ACADEMY	Reroof	\$ 90,000	Wood decking / fascia / weight / ponding
HANGER F - HANGERS	Reroof	\$ 190,000	Wood decking / fascia / weight / ponding
AIRPORT OPS/MAINTENANCE	Reroof	\$ 100,000	Wood decking / asbestos / ponding
CAF	Restoration & Repairs	\$ 130,000	Rust / Skylights
BUILDING J. / RAS JETPORT	Restoration & Reroof	\$ 240,000	Rust / wood decking
HANGER L	Restoration	\$ 110,000	Rust
HANGER M	Restoration	\$ 100,000	
HANGER T	Restoration	\$ 160,000	Skylights
HANGER T1	Restoration	\$ 65,000	Skylights
HANGER W	Restoration	\$ 610,000	
HANGER V	Restoration	\$ 470,000	
	Total	\$ 3,720,000	

At this time, the Airport will prioritize roof replacements with the \$2,000,000 interfund loan. Although the total cost estimate to address all roofs is greater than the \$2,000,000 loan amount, the Airport has several initiatives in place that will allow sufficient capital reserves to be accrued over time. Additionally, the Airport will soon be contracting with a consultant to examine all airport rates and fees to ensure Airport fees are market competitive. In this way, additional roof replacements and deferred maintenance can be funded through accrued funds, eliminating the need to acquire additional loan funds.

The Finance Department proposes the following interfund loan structured as detailed below:

INTERFUND LOAN STRUCTURING DETAILS:

Fund Lending:	General Fund
Fund Borrowing:	Airport Fund
Term Length:	12-year term
Payment Frequency:	Annual
Payment Dates:	June 30 th
Payment Structure:	Level Debt Service (except for the last payment which is the remainder due)
Interest rate:	City Pool Rate (reset annually at end of fiscal year)
Borrowing Amount:	\$2,000,000

interfund Loan Estimated Debt Service schedule:

Fiscal Year Ending Date	Fiscal Year Beginning Date	Total Loan Payment	Principal Due	Interest Due	Loan Balance	Interest Accrual Rate	Number of Days in period
2025	7/1/2024	\$ (2,000,000)			\$ 2,000,000		
2026	7/1/2025	\$ 250,000	\$ 170,000	\$ 80,000	\$ 1,830,000	4.00%	360
2027	7/1/2026	\$ 243,200	\$ 170,000	\$ 73,200	\$ 1,660,000	4.00%	360
2028	7/1/2027	\$ 236,400	\$ 170,000	\$ 66,400	\$ 1,490,000	4.00%	360
2029	7/1/2028	\$ 229,600	\$ 170,000	\$ 59,600	\$ 1,320,000	4.00%	360
2030	7/1/2029	\$ 222,800	\$ 170,000	\$ 52,800	\$ 1,150,000	4.00%	360
2031	7/1/2030	\$ 216,000	\$ 170,000	\$ 46,000	\$ 980,000	4.00%	360
2032	7/1/2031	\$ 209,200	\$ 170,000	\$ 39,200	\$ 810,000	4.00%	360
2033	7/1/2032	\$ 202,400	\$ 170,000	\$ 32,400	\$ 640,000	4.00%	360
2034	7/1/2033	\$ 195,600	\$ 170,000	\$ 25,600	\$ 470,000	4.00%	360
2035	7/1/2034	\$ 188,800	\$ 170,000	\$ 18,800	\$ 300,000	4.00%	360
2036	7/1/2035	\$ 182,000	\$ 170,000	\$ 12,000	\$ 130,000	4.00%	360
2037	7/1/2036	\$ 135,200	\$ 130,000	\$ 5,200	\$ -	4.00%	360
		\$ 511,200	\$ 2,000,000	\$ 511,200		4.00%	
		Total Fiscal Impact		\$ 2,511,200			
		Net Savings to CalTRANS		\$ 504,571			
Debt schedule can be supported with current net income average of approximately ~\$200k							

The schedule above represents estimated debt service obligations based upon an interest rate of 4.0%. The interest rate is derived from the City's Variable Pool Rate and resets annually upon fiscal year end close. Over the last 15 fiscal years, the City Pool Rate has ranged from 0.86% to 3.46%, with an average of 1.49%. Using 4.0% for budgetary purposes represents a conservative estimate of the obligation.

STRATEGIC PLAN ALIGNMENT:

This action contributes to the City's **Strategic Priority 5 – High Performing Government and Goal No. 5.4** Achieve and maintain financial health by addressing gaps between revenues and expenditures and aligning resources with strategic priorities to yield the greatest impact.

This item aligns with each of the five Cross-Cutting Threads as follows:

- Community Trust** –The recommended interfund Airport Loan demonstrates the City's commitment to the community and airport users to maintain City infrastructure and to be transparent about the financing source for planned capital improvements.
- Equity** – The Airport ensures that services are provided in an equitable fashion and endeavors to replace roofs on all airport buildings and make capital improvements that will benefit all airport tenants.
- Fiscal Responsibility** – The interfund loan presents lower borrowing costs than the public markets and CalTrans, and it will allow the Airport to proceed with its strategic capital improvement plans in a timely manner.

4. **Innovation** – The proposed interfund loan is a creative alternative to traditional capital financing, meeting the Airport's unique needs and resulting in fiscal savings as compared to other financing options.
5. **Sustainability & Resiliency** – The proposed interfund loan preserves the Airport's current operating funds, improves the Airport's ability to operate as a self-sustaining enterprise fund, and aligns the amortization of capital expenses with the life of the improvements.

FISCAL IMPACT:

The total fiscal impact of this action is estimated at \$2,511,200 over the life of the loan, including principal and interest. The \$2,000,000 Airport Loan will require estimated annual debt service payments of \$170,000, with estimated interest costs totaling \$511,200 over the 12-year repayment term, resulting in a total estimated payback amount of \$2,511,200 payable to the General Fund. Appropriations for debt service obligations will be included in the Airport's budget submissions for future fiscal years to be presented to the City Council for approval.

If approved, a supplemental appropriation in the amount of \$2,000,000 will be recorded in the General Fund for the interfund transfer to the Airport, and an equal amount in the Airport Fund for the capital improvements.

Prepared by:	Meline Carranza, Debt and Treasury Manager
Approved by:	Kristie Thomas, Finance Director/Assistant Chief Financial Officer
Certified as to availability of funds:	Kristie Thomas, Finance Director/Assistant Chief Financial Officer
Approved by:	Edward Enriquez, Assistant City Manager/Chief Financial Officer/City Treasurer
Approved as to form:	Phaedra A. Norton, City Attorney

Attachments:

- 1) Interfund Loan Policy
- 2) Interfund Loan Debt Service Proposal 12yr
- 3) Staff Report City Council Meeting November 14, 2023
- 4) Presentation