City of Riverside
City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: FEBRUARY 5, 2019**

FROM: FINANCE DEPARTMENT **WARDS: ALL**

SUBJECT: NEW MAIN LIBRARY FINANCING OPTIONS

ISSUE:

Review financing options, presented herein, for construction costs related to the Main Library Project upon approval of bid award scheduled for the February 5, 2019 City Council meeting. Confirm that traditional bond financing, as recommended by City staff, is the preferred method of financing the Main Library project.

RECOMMENDATIONS:

That the City Council:

1. Receive and provide input on the financing options, presented herein, for construction costs related to the Main Library project; and

2. Direct staff to move forward with the traditional bond financing option with collateral as recommended by the Chief Financial Officer.

BACKGROUND:

On October 2006, the City Council included the Main Library as an expansion project in the Riverside Renaissance Plan. On April 2007, the City hired Pfeiffer Architects from Los Angeles to design a 45,000 square foot shared expansion for the Main Library, including a museum exhibit hall. Between 2008 and 2012, the City pursued various avenues to renovate and expand the existing library, relying on the expertise of design consultants and participation from the local community.

On July 20, 2016, City staff issued a Request for Qualifications (RFQ) for the development of a new Main Library design. Twenty-one firms responded to the RFQ. After scoring the proposals, an Architect Selection Committee (Committee) comprised of City staff, a Library Trustee and a local business member selected the top eight (8) firms to submit responses to a Request for Proposals (RFP).

On November 10, 2016, City staff issued the RFP to the top eight (8) firms with seven (7) companies responding. The Committee reviewed and scored the proposals and agreed to invite the top four (4) firms to participate in the interview phase of the selection process. The Committee held Interviews on March 2, 2017 and subsequently determined that Johnson-Favaro Architects

(Johnson-Favaro) was the most qualified firm to perform the design services pursuant to the conditions of the RFP.

On May 9, 2017, the City Council approved a Professional Consultant Services Agreement (PSA) with Johnson-Favaro for $1,725,000 for architectural and engineering design services for the new Main Library project.

On October 3, 2017, the City Council amended the Measure Z five-year spending plan by allocating an additional $9,692,600 to the new Main Library project, and approved a revised Main Library design to deliver a three-story library, instead of a two-story design as originally planned. At that time, the City Council approved an overall project budget of $39,692,600.

On December 19, 2017, the City Council amended the Measure Z five-year spending plan for a second time (See attachment #4), authorizing an additional allocation of $3.3 Million to construct a City Archive within the new Main Library. At that time, the approved overall project budget inclusive of the City Archive was $43.3 Million for the new Main Library.

On February 20, 2018, the City Council approved a financing team to secure new traditional bond financing for the Main Library project with fees related to the financing to be paid from the proceeds of the financing.

On February 27, 2018, the City Council approved a First Amendment to the PSA with Johnson-Favaro for $342,000 in additional design services, for a revised contract amount of $2,067,000, including $129,630 contingency, for a total not to exceed contract of $2,197,230. The additional design services included changing the library design from a two-story Library, as originally planned, to a three-story library and adding the City Archive to the new facility.

DISCUSSION:

Before City staff submitted a request for bids for the construction of the Main Library, Johnson-Favaro's construction cost estimator provided a revised Engineer's cost estimate of $35,760,000 to build the new Main Library project. This cost estimate includes $3.3 million to construct a City Archive in the new Main Library as approved by the City Council, and a construction escalation cost of $160,000. The $3.3 million City Archive component of the Main Library is included in the Measure Z five year spending and will not be included in debt financing. There is available budget to pay this amount as the construction costs are incurred.

On October 5, 2018, the City Finance/Purchasing Division posted Bid No. 7624 seeking bids from potential bidders for constructing the new Main Library, with a bid due date of December 4, 2018.

The revised overall projected cost for the new Main Library project is $43.3 million as summarized below:

Description	**Costs**
Construction Agreement (Icon West Inc.)	$34,266,308
10% Contingency	$3,426,630
Total Construction Cost	**$37,692,938**
Design Fees	$2,197,230
Project Management, Utility Fees and Permits	$500,000
Furniture, Fixtures & Equipment (FF&E)	$2,609,832
Main Library Overall Projected Costs	**$43,300,000**

A capital project this size has historically been financed by issuing bonds to pay for the construction costs with debt service incorporated into the biennial budget. Debt financing spreads the cost to construct a new facility over a specific time period that is in line with a particular funding stream, or the facility's useful life. Other options include paying for the construction of the facility out of City cash reserves, reimbursing the borrowed funds over a specific time period through an interfund loan or paying for construction via a pay-as-you-go method. Below is a comparison of traditional debt financing with its related costs as well as a potential option of an internal borrowing from the City's cash pool via an interfund loan. The pay-as-you-go method is an option that provides significant costs savings, but requires extensive discussion and input for all stakeholders. A brief description of pay-as-you-go is provided for informational purposes.

Traditional Financing

In a traditional debt financing structure, the City issues bonds in an amount equal to the project costs plus all associated debt issuance costs. To issue a bond is to borrow money. A bond is simply the evidence of the debt, in the same way that a promissory note is evidence of the obligation to repay an ordinary loan. The issuance of bonds in connection with borrowing results in the creation of securities that allow the loan to be bought and sold, i.e. "traded." The buyers of bonds are both individual and institutional investors, who loan money to the public agency issuer (or through the public agency issuer to conduit borrowers) through the purchase of bonds.

A bond typically specifies an obligation to pay a stated amount (the "principal") at a given time (the "maturity") with interest at a stated rate (the "coupon").

Below is a cost estimate using traditional debt financing at a current interest rate over 17 years, which corresponds to the expiration of the Measure Z Transaction & Use tax. While interest rates are volatile and can change rapidly, the current cost of capital in the financing market is still considered to be relatively inexpensive with debt service structured over the useful life of the asset. This structure provides for generational equity which allocates costs over the service life of the asset rather than placing all project costs on current users. Total estimated projects costs are $43.3 million; however, the financed amount is estimated at $40 million as $3.3 million for the City Archive is included in the Measure Z five year spending plan and will be paid out as construction costs are incurred.

	Traditional Financing
Debt Issuance	$40,000,000
Cost of Issuance	$350,000
Underwriter's Discount	$233,870
Premium	($4,608,852)
Term (Years)	17
Projected TIC (Interest)	3.53%
Annual Payment (Average)	$3,187,195
Total Interest Cost	$18,467,908
Total Cost of Debt	$54,442,926

In addition to the financing costs and one-time cost of issuance charges, the City is required to provide essential City assets as collateral for bond financing. To finance the construction of a new facility, collateral is an essential component to entice investors to purchase City bonds. Investors require collateral as a guarantee against the risk of a default.

City Hall is an essential asset that is partially encumbered on another bond transaction. Staff recommends using the remaining portion of City Hall's value as collateral for this transaction. In addition to City Hall, staff would recommend using the Mission Square facility as collateral in this financing deal. While Mission Square was purchased out of ratepayer funds by the Electric Fund, the use of Mission Square as collateral for City financing is legally permissible and would not adversely impact the Electric Fund. Upon completion of the library construction, the financing deal would include language that would substitute the completed library as collateral for the financing, replacing the City Hall and Mission Square assets. This would release those assets from encumbrance and free them up for any future borrowing opportunities. This is the preferred financing structure for construction of the Main Library project.

If the City is unable to provide sufficient collateral from its remaining essential assets for the financing, then the project would be financed via capitalized interest. This is a common financing practice where the primary source of repayment for interest on the debt obligation is built into the financing, essentially paying interest payments out of bond proceeds until such time that the facility is constructed and producing project revenue. Because this process essentially turns construction period interest into a project cost, it is said to be "capitalized." This practice can add an additional $4 - $5 million to the total borrowed amount and is a more expensive option. The City has financed large capital projects in this manner such as the Regional Water Quality Control Plant which was a $200 million project.

Below is the estimated cost of an alternative debt financing structure with a capitalized interest period from May 2019 to November 2020 at the same term and interest rate as the traditional debt financing. This capitalization period assumes a one-year construction phase with an additional six-month timeline cushion, which conforms to S&P Global Ratings credit guidelines for new construction.

	Traditional Financing Plus Capitalized Interest
Debt Issuance	$40,000,000
Capitalized Interest Fund	$2,783,103
Cost of Issuance	$350,000
Underwriter's Discount	$249,113
Premium	($5,061,422)
Term (Years)	17
Projected TIC (Interest)	3.53%
Annual Payment (Average)	$3,433,591
Total Interest Cost	$20,332,188
Total Cost of Debt	$58,652,982

The municipal bond market continues to experience historically low rates and the cost of borrowing is relatively inexpensive. As a result, staff recommends financing the library construction via the traditional financing mechanism using collateral for the bond issue as described above. This allows the City to maintain cash on hand to fund every day operating needs while utilizing debt proceeds to pay for the project. Debt service costs for the library financing has already been budgeted in the Measure Z five-year plan.

Interfund Loan

Government Code 53601 (See Attachment #3), City Charter (See attachment #2), and Interfund Loan Policy (See attachment #1), provide for an additional financing option consisting of an internal borrowing structure more commonly referred to as an interfund loan. The City Treasurer actively manages a cash investment pool of approximately $600 million. The investment pool is a combination of cash on hand across multiple City funds such as the General Fund, Measure Z, Electric, and Water Funds. The funds are available to pay operating costs of the respective funds and are frequently replaced with additional operating revenue. A certain component of the funds on hand are also part of the various City maintained required cash fund reserves.

The City has historically used interfund loans as a means of funding certain projects for which external, traditional bond or bank loan financing was either not available or not cost effective. All interfund borrowing must be authorized in advance by the City Council. Interfund loan projects have most often been in the three (3) to five (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.

In accordance with policy, interfund loans would include a variable interest rate recalculated annually, and equivalent to the City's pooled investment portfolio rate of return during that same fiscal year. As of June 30, 2018 that rate was 1.722%. Any loan made with an interest rate lower than the City's pool rate must be made from the City's General Fund, which has no interest restrictions, unlike the enterprise funds. Any loans with an interest rate other than the City's pool rate should be specifically disclosed when City Council authorization is obtained for the loan.

Below is a listing of several interfund loan options that vary by year and/or interest rate. These options include a potential savings comparison over traditional debt financing. This list is not exhaustive, but is intended to provide sample scenarios if the Council chooses one of these options.

Loan Amount	$ 40,000,000					
Current Cash Pool Rate is ~ 1.9%						
	Scenario 1	**Scenario 2**	**Scenario 3**	**Scenario 4**	**Scenario 5**	**Scenario 6**
Term (Years)	17	17	17	9	9	9
Interest Rate	2.00%	2.50%	3.00%	2.00%	2.50%	3.00%
Annual Payment	$ 2,798,794	$ 2,917,111	$ 3,038,101	$ 4,900,617	$ 5,018,276	$ 5,137,354
Total Interest Cost	$ 7,579,492	$ 9,590,884	$ 11,647,720	$ 4,105,557	$ 5,164,480	$ 6,236,189
Total Cost of Loan	$ 47,579,492	$ 49,590,884	$ 51,647,720	$ 44,105,557	$ 45,164,480	$ 46,236,189
Interest Savings over Traditional Financing Scenario	**$8,716,390**	**$6,704,998**	**$4,648,161**	**$12,190,324**	**$11,131,401**	**$10,059,693**

The interfund loan option is a fiscally prudent option given the estimated savings amount, but is not without its challenges. Reserves are meant to be used, whether for unplanned or unusual circumstances; however, the use of reserves should be limited for emergencies or unique operational costs. If the interfund loan option is selected, the City would be unable to access those funds until the loan is repaid. The City could not issue bond debt to refinance the interfund loan in the event of cash shortage or unplanned event. As the discussion continues on the CalPERS challenge and with the fiscal constraints ahead of us, the ability to utilize available cash on hand to meet long term financial obligations will be critical. In addition, several of the larger City funds that have available cash balances to loan also have cash reserve policies that require the fund maintain a certain level of cash on hand. These reserves were set to maintain the overall health of the fund and are considered a positive credit factor for the credit rating agencies, demonstrating the City's solvency and debt coverage ability.

If the City chooses to use the cash pool for an interfund loan, City Finance will analyze the various funds to ensure that borrowing will not adversely impact any fund. Rather than burden one fund by reducing it by the $40,000,000 needed for the library construction that is net of the $3.3 million City archive component cash contribution, City Finance will allocate the borrowing to several funds, attempting to mitigate any cash flow constraints or cash reserve implications to the extent possible. Interest will be paid to the lending fund (e.g. Electric, Water, Sewer fund) based on the average annual rate of return for the cash pool which is in accordance with the interfund loan policy.

In 2014, interfund loans received public scrutiny from citizens concerned that the practice was illegal. The City Attorney's Office opined that interfund loans were not illegal.

Interfund loans are authorized by Riverside City Charter Section 1110 stating ".... Transfers and loans may be made by the City Council from one fund to another as may be required." Additionally, California Government Code Section 53601 does not exclude them from permissible investments for the City's cash pool.

By way of background, the City has previously used interfund loans for many years as a legal and effective cash management tool and financing method to bridge capital project funding gaps, a practice that is used by many governmental entities throughout the State of California. The amount of funds required is significantly larger than previous interfund loans. Given the project costs and amount needed to fund construction, City staff does not recommend the use of an interfund loan for a project this size; however, consideration of an interfund loan for smaller capital projects should be discussed as a potential financing option.

In addition to these two primary options, City staff considered the pay-as-you-go (PayGo) option. The premise of PayGo is simple: pay for capital projects not with borrowed money or new revenues, but by saving or freeing up money from existing sources. While PayGo is a potentially viable option, staff considered it infeasible for the Main Library as a funding option due to the time-intensive process that would be necessary to revisit and re-adopt the Measure Z priorities (with the public, Budget Engagement Commission and the City Council) contained in the December 2018 City Council amended five-year Measure Z spending plan.

Summary

While there are other financing options available, City staff recommends the use of traditional debt financing and is a relatively cost-effective financing method with an approximate annual interest rate of 3.5% depending on market conditions at the time of debt issuance. The payoff term for a traditional debt financing is tied to Measure Z available funding, and the projected debt service payments are already included in the five-year spending plan. This option provides a longer term to pay back the debt, which reduces annual budgetary impact. Traditional debt financing also keeps cash on hand available for other projects. Conversely, once debt is issued the City is locked into that financing mechanism until it can either refinance it, or pay it off. Bonds are often restricted for a period of years before they can be refinanced or prepaid (called) them. The City can issue bonds that could be refinanced earlier, but generally the shorter the time period before you can refinance (call date) the higher the resulting interest rate. In addition, due to the longer timeframe of the traditional debt financing, the interest cost would be greater, resulting in a significantly higher final project cost.

With the interfund loan option, the cost of capital is tied to the cash pool rate, which is lower than the bond market average interest rate. The total all-in cost of an interfund loan would be several million dollars less than traditional debt financing, depending on the terms of the borrowing. There are no cost of issuance charges with an interfund loan, and subsequent annual disclosures are not required. This saves the City annual consulting fees and staff administrative time to prepare and file annual disclosure statements, legislative reports, and to meet special accounting and auditing requirements. There are no prepayment penalties on an interfund loan. The City can prepay or pay off the interfund loan any time, should Measure Z fund balance rise significantly higher than recommended reserves. Conversely, borrowing from the cash pool reduces the ability to access cash in the event of an emergency, or to meet policy reserve requirements. Overall cash position is also a component that credit rating agencies review on an annual basis. Any reduction in cash on hand could adversely impact the credit rating for that fund, reducing the City's ability to cost-effectively issue new debt through the sale of bonds.

FISCAL IMPACT:

Depending on the financing option, the total costs, including cost of issuance for construction of the Main Library, range from approximately $44 million using the Interfund loan option to approximately $58 million for a traditional financing with capitalized interest. Without capitalized interest, traditional debt financing would be approximately $54 million. Both traditional financing option estimates are dependent on market conditions at the time of debt issuance.

Prepared by: Edward Enriquez, Chief Financial Officer/City Treasurer
Certified as to availability of funds: Marie Ricci, Assistant Chief Financial Officer
Approved by: Lea Deesing, Assistant City Manager
Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. Interfund Loan Policy
2. City Charter Section 1110-Cash Management
3. California Government Code Section 53601
4. Five Year Spending Plan
5. Presentation

City of Riverside Finance Department

Interfund Loan Policy

Last Review Date: 01/2019
Prepared by: Budget and Revenue Division

PURPOSE:

To establish a framework for the approval and administration of interfund loans.

POLICY:

Periodically it may be advantageous to borrow internally through the use of interfund loans as opposed to using the external debt market. Interfund loans generally carry a variable interest rate equal to the City's pooled investment portfolio rate of return, which ensures that the lending fund does not suffer any economic penalty for making the loan. This internal interest rate is typically less than the cost of external borrowing using a public debt offering. The borrowing fund therefore incurs a savings in interest expense while the lending fund's interest revenue remains as it would have been had the loan not been made.

The Chief Financial Officer/Treasurer is the custodian of all funds under the control of the City (including the Successor Agency to the former Redevelopment Agency and other component units) and is responsible for the administration of existing interfund loans and ensuring that new interfund loans are made within appropriate guidelines. This policy establishes those guidelines, subject to waiver in unusual circumstances at the discretion of the City Manager.

Interest Rate Charged
Interfund loans should be made with an annual variable interest rate charged equal to the City's pooled investment portfolio rate of return during the same fiscal year. Any loan made with an interest rate lower than the City's pool rate should be made from the City's General Fund, which need not earn interest due to the unrestricted nature of the General Fund. Any loans made at an interest rate other than the City's pool rate should specifically disclose the interest rate to be charged when City Council authorization is obtained for the loan.

Repayment Term
In general, the repayment term of interfund loans should be limited to five years. However, to the extent that longer-term loans are needed for specific projects a longer loan term may be appropriate. The loan term should be specifically disclosed when City Council authorization is obtained for the loan.

Funds that May Make Loans
In general, interfund loans may be made from the City's larger internal service funds (Liability Insurance Trust Fund and Workers' Compensation Insurance Trust Fund) and larger enterprise funds (Sewer Fund, Electric Fund, and Water Fund). Other funds may be considered subject to specific circumstances. The lending fund should not be indicated when City Council authorization is obtained for the loan (language would indicate "a fund to be designated by the Chief Financial Officer"). However, any unusual loans, particularly those involving restricted funds, should have the terms clearly defined including the lending fund when City Council authorization is obtained for the loan. Restricted

funds should only be used when specific authorization exists to allow for loans to be made using the restricted funds (e.g. the Municipal Code allows the Regional Park Fund to make loans to the Local Park Fund).

Pursuant to authority delegated by the City Council to the Chief Financial Officer on July 8, 2008, the Chief Financial Officer may change the lending fund for any interfund loan at any time based on the changing cash needs of the City. Changes to the lending fund for any loan must be disclosed to the City Council in the Monthly Investment Summary and Financial Report provided to the City Council in the month following the change, consistent with the direction of the City Council's Finance Committee on September 8, 2008.

Assignment of a loan to the Electric Fund or Water Fund requires prior approval from the Board of Public Utilities and must be fully compliant with their Reserve Policy.

<u>Financial Condition of Borrowing Fund</u>

In general, interfund loans should only be made to funds that do not have sufficient cash on hand for the stated purpose of the loan. The projected future condition of the borrowing fund should also be taken into consideration in making this determination. If cash expenditures for a given purpose may compromise the fiscal health of the fund in the near- or long-term while a regular payment on an interfund loan would not do so, then an interfund loan is likely appropriate.

Funds that are frequently in the bond market should typically issue bonds in lieu of borrowing through interfund loans. Interfund loans would therefore typically be made to smaller funds that are not frequently in the bond market. However, larger funds may request interfund loans if there is a good reason for the loan's use, such as a lack of bonding capacity at the time that the loan is made or a sufficiently short duration to the borrowing so as to not necessitate the issuance of longer-term debt. For example, a borrowing of five years or less that will be repaid from a specific source may be more appropriately financed by an interfund loan while a capital improvement to construct new facilities may be more appropriately financed by the issuance of long-term debt.

<u>Financial Condition of Lending Fund</u>

Due to the sizable cash reserves of the City's larger internal service and enterprise funds for which there is no short-term use, they are the most appropriate source of borrowing for interfund loans. In order to prevent cash shortages in an emergency and to preserve flexibility, typically no more than 50% of the total cash reserves of the City's internal service and enterprise funds should be involved in interfund lending at any one time. In this way, flexibility is maintained to allow for the transfer of interfund loans to other funds should reserves need to be accessed that are tied up in interfund transactions. Additionally, typically no single lending fund should have more than 75% of its cash balance tied up in interfund transactions at any one time, though at the discretion of the CFO this may be deemed appropriate in certain circumstances.

<u>Permitted Loan Purposes</u>

Loans may be made for any purpose deemed appropriate by City staff, with the approval of the City Council. Loans for operating costs are not permitted. Loans should generally be for capital improvements, land acquisition, or equipment purchases. The specific purpose of an interfund loan will be disclosed when City Council authorization is obtained. Any material change in the use of the loan proceeds should be approved by the City Council prior to the funds being repurposed. For example, if a sizable portion of a loan's proceeds will be redirected to a different project, then City Council approval should be obtained. Minimal changes in the use of a loan's proceeds or failure to use a small amount of the proceeds for the stated purpose does not necessitate repayment of the unused or redirected balance or notification to the City Council. Reasonable discretion should be exercised in making this determination.

Accounting Treatment

Interfund loans should be recorded in the books of the City and reported in the Comprehensive Annual Financial Report consistent with accounting principles generally accepted in the United States and guidelines promulgated by the Governmental Accounting Standards Board (GASB). Interfund loans will be reviewed annually by the City's external auditors for compliance with these requirements.

PROCEDURE:

Responsibility	Action
Borrowing Department	1. Requests approval by the Chief Financial Officer and/or City Manager for any unusual elements to the loan contemplated.
	2. Prepares City Council report requesting interfund loan, to include the following information: 1. A recommendation specifying the borrowing fund, the term of the loan, the interest rate to be charged, and the purpose of the loan. 2. Details in the Council Report's fiscal impact section outlining any special circumstances surrounding the loan.
City Council	3. Approves the interfund loan.
Finance Division	4. Assigns the interfund loan to an appropriate lending fund.
	5. Records the interfund loan based on the terms outlined in the minutes of the City Council meeting approving the loan.
	6. Reports any subsequent changes in the lending fund to the City Council through the Monthly Investment Summary and Financial Report.

Sec. 1110. - Cash management.

Adequate cash shall be maintained to meet lawful demands of the City. Transfers and loans may be made by the City Council from one fund to another as may be required.

(Effective 1/18/2005 and 12/27/1995)

State of California

GOVERNMENT CODE

Section 53601

53601. This section shall apply to a local agency that is a city, a district, or other local agency that does not pool money in deposits or investments with other local agencies, other than local agencies that have the same governing body. However, Section 53635 shall apply to all local agencies that pool money in deposits or investments with other local agencies that have separate governing bodies. The legislative body of a local agency having moneys in a sinking fund or moneys in its treasury not required for the immediate needs of the local agency may invest any portion of the moneys that it deems wise or expedient in those investments set forth below. A local agency purchasing or obtaining any securities prescribed in this section, in a negotiable, bearer, registered, or nonregistered format, shall require delivery of the securities to the local agency, including those purchased for the agency by financial advisers, consultants, or managers using the agency's funds, by book entry, physical delivery, or by third-party custodial agreement. The transfer of securities to the counterparty bank's customer book entry account may be used for book entry delivery.

For purposes of this section, "counterparty" means the other party to the transaction. A counterparty bank's trust department or separate safekeeping department may be used for the physical delivery of the security if the security is held in the name of the local agency. Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. Where this section does not specify a limitation on the term or remaining maturity at the time of the investment, no investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement or securities lending agreement authorized by this section, that at the time of the investment has a term remaining to maturity in excess of five years, unless the legislative body has granted express authority to make that investment either specifically or as a part of an investment program approved by the legislative body no less than three months prior to the investment:

(a) Bonds issued by the local agency, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.

(b) United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

(c) Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

(d) Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.

(e) Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

(f) Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

(g) Bankers' acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days' maturity or 40 percent of the agency's moneys that may be invested pursuant to this section. However, no more than 30 percent of the agency's moneys may be invested in the bankers' acceptances of any one commercial bank pursuant to this section.

This subdivision does not preclude a municipal utility district from investing moneys in its treasury in a manner authorized by the Municipal Utility District Act (Division 6 (commencing with Section 11501) of the Public Utilities Code).

(h) Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or (2):

(1) The entity meets the following criteria:

(A) Is organized and operating in the United States as a general corporation.

(B) Has total assets in excess of five hundred million dollars ($500,000,000).

(C) Has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by an NRSRO.

(2) The entity meets the following criteria:

(A) Is organized within the United States as a special purpose corporation, trust, or limited liability company.

(B) Has programwide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond.

(C) Has commercial paper that is rated "A-1" or higher, or the equivalent, by an NRSRO.

Eligible commercial paper shall have a maximum maturity of 270 days or less. Local agencies, other than counties or a city and county, may invest no more than 25 percent of their moneys in eligible commercial paper. Local agencies, other than counties or a city and county, may purchase no more than 10 percent of the outstanding commercial paper of any single issuer. Counties or a city and county may invest in commercial paper pursuant to the concentration limits in subdivision (a) of Section 53635.

(i) Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section. For purposes of this section, negotiable certificates of deposit do not come within Article 2 (commencing with Section 53630), except that the amount so invested shall be subject to the limitations of Section 53638. The legislative body of a local agency and the treasurer or other official of the local agency having legal custody of the moneys are prohibited from investing local agency funds, or funds in the custody of the local agency, in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency, or a person with investment decisionmaking authority in the administrative office manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit.

(j) (1) Investments in repurchase agreements or reverse repurchase agreements or securities lending agreements of securities authorized by this section, as long as the agreements are subject to this subdivision, including the delivery requirements specified in this section.

(2) Investments in repurchase agreements may be made, on an investment authorized in this section, when the term of the agreement does not exceed one year. The market value of securities that underlie a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day.

(3) Reverse repurchase agreements or securities lending agreements may be utilized only when all of the following conditions are met:

(A) The security to be sold using a reverse repurchase agreement or securities lending agreement has been owned and fully paid for by the local agency for a minimum of 30 days prior to sale.

(B) The total of all reverse repurchase agreements and securities lending agreements on investments owned by the local agency does not exceed 20 percent of the base value of the portfolio.

(C) The agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security.

(D) Funds obtained or funds within the pool of an equivalent amount to that obtained from selling a security to a counterparty using a reverse repurchase agreement or securities lending agreement shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the reverse repurchase agreement or securities lending agreement, unless the reverse repurchase agreement or securities lending agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security.

(4) (A) Investments in reverse repurchase agreements, securities lending agreements, or similar investments in which the local agency sells securities prior to purchase with a simultaneous agreement to repurchase the security may be made only upon prior approval of the governing body of the local agency and shall be made only with primary dealers of the Federal Reserve Bank of New York or with a nationally or state-chartered bank that has or has had a significant banking relationship with a local agency.

(B) For purposes of this chapter, "significant banking relationship" means any of the following activities of a bank:

(i) Involvement in the creation, sale, purchase, or retirement of a local agency's bonds, warrants, notes, or other evidence of indebtedness.

(ii) Financing of a local agency's activities.

(iii) Acceptance of a local agency's securities or funds as deposits.

(5) (A) "Repurchase agreement" means a purchase of securities by the local agency pursuant to an agreement by which the counterparty seller will repurchase the securities on or before a specified date and for a specified amount and the counterparty will deliver the underlying securities to the local agency by book entry, physical delivery, or by third-party custodial agreement. The transfer of underlying securities to the counterparty bank's customer book-entry account may be used for book-entry delivery.

(B) "Securities," for purposes of repurchase under this subdivision, means securities of the same issuer, description, issue date, and maturity.

(C) "Reverse repurchase agreement" means a sale of securities by the local agency pursuant to an agreement by which the local agency will repurchase the securities on or before a specified date and includes other comparable agreements.

(D) "Securities lending agreement" means an agreement under which a local agency agrees to transfer securities to a borrower who, in turn, agrees to provide collateral to the local agency. During the term of the agreement, both the securities and the collateral are held by a third party. At the conclusion of the agreement, the securities are transferred back to the local agency in return for the collateral.

(E) For purposes of this section, the base value of the local agency's pool portfolio shall be that dollar amount obtained by totaling all cash balances placed in the pool by all pool participants, excluding any amounts obtained through selling securities by way of reverse repurchase agreements, securities lending agreements, or other similar borrowing methods.

(F) For purposes of this section, the spread is the difference between the cost of funds obtained using the reverse repurchase agreement and the earnings obtained on the reinvestment of the funds.

(k) Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated in a rating category of “A” or its equivalent or better by an NRSRO. Purchases of medium-term notes shall not include other instruments authorized by this section and shall not exceed 30 percent of the agency’s moneys that may be invested pursuant to this section.

(*l*) (1) Shares of beneficial interest issued by diversified management companies that invest in the securities and obligations as authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (q), inclusive, and that comply with the investment restrictions of this article and Article 2 (commencing with Section 53630). However, notwithstanding these restrictions, a counterparty to a reverse repurchase agreement or securities lending agreement is not required to be a primary dealer of the Federal Reserve Bank of New York if the company’s board of directors finds that the counterparty presents a minimal risk of default, and the value of the securities underlying a repurchase agreement or securities lending agreement may be 100 percent of the sales price if the securities are marked to market daily.

(2) Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.).

(3) If investment is in shares issued pursuant to paragraph (1), the company shall have met either of the following criteria:

(A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs.

(B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years’ experience investing in the securities and obligations authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (q), inclusive, and with assets under management in excess of five hundred million dollars ($500,000,000).

(4) If investment is in shares issued pursuant to paragraph (2), the company shall have met either of the following criteria:

(A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs.

(B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years’ experience managing money market mutual funds with assets under management in excess of five hundred million dollars ($500,000,000).

(5) The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include commission that the companies may charge and shall

not exceed 20 percent of the agency’s moneys that may be invested pursuant to this section. However, no more than 10 percent of the agency’s funds may be invested in shares of beneficial interest of any one mutual fund pursuant to paragraph (1).

(m) Moneys held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements, may be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.

(n) Notes, bonds, or other obligations that are at all times secured by a valid first priority security interest in securities of the types listed by Section 53651 as eligible securities for the purpose of securing local agency deposits having a market value at least equal to that required by Section 53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.

(o) A mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond. Securities eligible for investment under this subdivision shall be rated in a rating category of “AA” or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less. Purchase of securities authorized by this subdivision shall not exceed 20 percent of the agency’s surplus moneys that may be invested pursuant to this section.

(p) Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (q), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:

(1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.

(2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive.

(3) The adviser has assets under management in excess of five hundred million dollars ($500,000,000).

(q) United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of “AA” or its equivalent or better by an NRSRO and shall not exceed 30 percent of the agency’s moneys that may be invested pursuant to this section.

(Amended by Stats. 2018, Ch. 271, Sec. 1. (AB 1770) Effective January 1, 2019.)

Measure Z Spending Plan

Updated November 2018

Item #	Funding Item	Category	Year 1 FY 2016/17 Committed [1]	Year 2 FY 2017/18 Committed [1]	Year 3 FY 2018/19 Projected	Year 4 FY 2019/20 Projected	Year 5 FY 2020/21 Projected	Year 6 FY 2021/22 Projected	Year 7 FY 2022/23 Projected	Measure Z Spending Plan (7-Year Totals)	Overview of Item
1	20% General Fund Reserve	Financial Discipline/ Responsibility	$ 5,549,224	$ 15,000,000	$ -	$ -	$ -	$ -	$ -	**$ 20,549,224**	Provide funding to increase General Fund Reserve to a Minimum of 15%, with an aspirational goal of 20%.
2	Payoff of the Balloon $32 million Pension Obligation Bond	Financial Discipline/ Responsibility	$ -	$ 1,706,290	$ 1,673,554	$ 1,674,490	$ 1,674,489	$ 1,674,478	$ 1,673,062	**$ 10,076,363**	Refinance of interest only bond anticipation note (BAN) into a fixed rate pension obligation bond (POB). The revised 10-year financing reflects approximately $40 million in total principal and interest payments. The total amounts presented are the General Fund portion only. Issued June 2017.
3	Funding for Workers Comp and General Liability	Financial Discipline/ Responsibility	$ -	$ 2,500,000	$ 2,500,000	$ -	$ -	$ -	$ -	**$ 5,000,000**	Contribution to increase Self-Insurance Reserve.
4	Measure Z Spending Contingency	Financial Discipline/ Responsibility	$ -	$ -	$ 2,000,000	$ 2,000,000	$ 2,000,000	$ 2,000,000	$ 2,000,000	**$ 10,000,000**	As a new sales tax, Measure Z revenues will take between 6-12 months take shape. Amounts can cover either an overage in expense or a decrease in revenue.
5	Additional Sworn Police Positions	Public Safety	$ -	$ 2,671,321	$ 5,672,185	$ 8,068,849	$ 9,662,335	$ 11,011,488	$ 11,592,714	**$ 48,678,892**	Year 2: Add back 17 sworn officers reduced during FY 2016-18 Two-Year Budget Year 3: Add 16 additional officers Year 4: Add 14 additional officers Year 5: Add 13 additional officers * 60 total sworn positions; all positions have an estimated 5% annual increase for salaries, benefits, etc.
6	Public Safety Non-Sworn Positions and Recruitment Costs	Public Safety	$ -	$ 450,834	$ 1,076,026	$ 1,148,157	$ 1,203,364	$ 1,237,364	$ 1,260,968	**$ 6,376,713**	Civilian: Year 2: Add back all non-sworn FY 2016-18 Two-Year Budget Reductions, including records specialist (2), sr. office specialist (2), assistant range master (0.75), sr. police records specialist (2), background investigator (1.25), custodian (1), general service worker (1), office specialist (1) * 11 total civilian (non-dispatchers); all positions have an estimated 3% annual increase for salaries, benefits, etc. Recruitment: Includes vacation bank accruals and testing/background expenditures. HR Analyst: Total salary and benefits - based on existing position. Final amounts may differ based on starting salary and CalPERS tier. Current costs anticipated 5% annual increases
7	Police Officer Lateral Hire Incentives and Recruitment Costs	Public Safety	$ -	$ -	$ 344,360	$ 344,360	$ 344,360	$ 354,691	$ 365,332	**$ 1,753,102**	Includes hiring and retention bonuses, vacation bank accruals, and testing/background expenditures.

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Measure Z Spending Plan

Updated November 2018

Item #	Funding Item	Category	Year 1 FY 2016/17 Committed [1]	Year 2 FY 2017/18 Committed [1]	Year 3 FY 2018/19 Projected	Year 4 FY 2019/20 Projected	Year 5 FY 2020/21 Projected	Year 6 FY 2021/22 Projected	Year 7 FY 2022/23 Projected	Measure Z Spending Plan (7-Year Totals)	Overview of Item
8	Additional Dispatchers	Public Safety	$ -	$ 254,112	$ 398,661	$ 644,859	$ 1,024,673	$ 1,064,317	$ 1,102,207	**$ 4,488,829**	Year 2: Add 3 additional dispatchers Year 3: Add 2 additional dispatchers Year 4: Add 2 additional dispatchers Year 5: Add 2 additional dispatchers * 9 total dispatchers are all net "new" positions; all positions have an estimated 5% annual increase for salaries, benefits, etc.
9	Reinstatement of Fire Squad	Public Safety	$ 448,496	$ 838,477	$ 843,730	$ 942,565	$ 1,043,233	$ 1,110,746	$ 1,142,054	**$ 6,369,301**	Approved by City Council in December 2016. Estimates include 5% annual increases (salaries, benefits, etc.).
10	Reinstatement of Captains (Training and Arson)	Public Safety	$ 1,504	$ 522,192	$ 364,762	$ 385,486	$ 399,188	$ 406,926	$ 414,448	**$ 2,494,506**	Estimates include 5% annual increases (salaries, benefits, etc.).
11	Reinstatement of Battalion Chief	Public Safety	$ -	$ 355,402	$ 262,693	$ 276,296	$ 287,301	$ 292,734	$ 297,695	**$ 1,772,121**	Estimates include 5% annual increases (salaries, benefits, etc.).
12	Revised PD Vehicle Replacement and Maintenance Plan	Public Safety	$ -	$ 2,147,576	$ 2,055,119	$ 2,096,221	$ 2,138,146	$ 2,180,909	$ 2,224,527	**$ 12,842,498**	Annual allocation toward the replacement of Police vehicles.
12a	Police Fixed Wing Aircraft	Public Safety	$ -	$ 382,870						**$ 382,870**	Allocation from PD Vehicle Replacement and Maintenance Plan toward the purchase of a fixed-wing aircraft, approved by City Council on October 17, 2017.
13	Refurbish PD Vehicle (Pilot Program)	Public Safety	$ -	$ 50,000	$ -	$ -	$ -	$ -	$ -	**$ 50,000**	$25,000 per vehicle - 2 vehicle pilot program.
14	Revised Fire Vehicle Replacement and Maintenance Plan	Public Safety	$ -	$ 823,208	$ 1,967,578	$ 3,376,252	$ 3,725,105	$ 3,445,525	$ 2,366,452	**$ 15,704,120**	One-time replacement of 16 vehicles; 10-year financing ($13.7 million). Additional layering in of vehicle replacement for remainder of vehicles.
15	Fleet Facility Capital Repairs Needed	Public Safety	$ -	$ 100,000	$ -	$ -	$ -	$ -	$ -	**$ 100,000**	Facility improvements to doors, lifts and drive approach.
16	Additional Fleet Mechanics for Police Department (2)	Public Safety	$ -	$ 179,543	$ 198,177	$ 218,153	$ 227,692	$ 230,489	$ 232,198	**$ 1,286,252**	Total salary and benefits - based on existing position. Final amounts may differ based on starting salary and CalPERS tier. Current costs anticipated 5% annual increases for first 5-years with 2% increases thereafter.
17	Additional Fleet Mechanics for Fire Department (2)	Public Safety	$ -	$ 181,062	$ 207,017	$ 228,155	$ 241,183	$ 244,272	$ 246,203	**$ 1,347,892**	Total salary and benefits - based on existing position. Final amounts may differ based on starting salary and CalPERS tier. Current costs anticipated 5% annual increases for first 5-years with 2% increases thereafter.
18	Funding Gap - Existing Services (based on the FY 16-17 2nd Qtr. General Fund Operating Deficit estimate)	Critical Operating Needs	$ 3,939,526	$ 5,482,007	$ 13,238,623	$ 18,266,026	$ 11,734,277	$ 12,086,305	$ 12,448,894	**$ 77,195,658**	Based on 5-Year Model and largely associated with union contracts and a slowing of revenue growth. Model assumes no-raises for SEIU in Year 5.

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Measure Z Spending Plan

Updated November 2018

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19	General Plan Update (Includes Zoning Code Changes)	Critical Operating Needs	$ -	$ 2,000,000	$ 1,500,000	$ 1,500,000	$ -	$ -	$ -	**$ 5,000,000**	Over the past 20 years, the City's regulatory environment for development has become burdensome. In order to make an investment in the future of Riverside, funding is needed for a General Plan Update, including zoning code, in the near future.
20	Homeless Services	Critical Operating Needs	$ -	$ 500,000	$ 500,000	$ 500,000	$ 500,000	$ 500,000	$ 500,000	**$ 3,000,000**	BEC recommended to add $500,000 per year for Homeless Services. A comprehensive plan will return to the City Council for approval at a later date.
21	Principal Analyst - City Manager's Office	Critical Operating Needs	$ -	$ 108,724	$ 144,623	$ 161,100	$ 177,241	$ 191,202	$ 203,571	**$ 986,461**	Fully burdened cost of a Principal Management Analyst position in the City Manager's Ofice to support critical administrative functions.
22	Budget Engagement Commission Support	Critical Operating Needs	$ 4,311	$ 10,280	$ 27,000	$ 27,000	$ 27,000	$ 28,000	$ 28,000	**$ 151,591**	Supplies, printing and mailing, video and security staff.
23	New Downtown Main Library	Facility Capital Needs	$ 8,479	$ 2,188,751	$ 2,204,500	$ 3,819,500	$ 3,816,825	$ 3,817,954	$ 3,817,954	**$ 19,673,963**	Estimated cost of debt service to fund the construction of a new library based on anticipated debt issuance of $40 million. City Council approved a swap of Main Library and Police headquarters funding of approx. $10 million on October 3, 2017
23a	New Downtown Main Library - Archives	Facility Capital Needs	$ -	$ 1,000,000	$ 1,000,000	$ 1,300,000	$ -	$ -	$ -	**$ 3,300,000**	On December 19, 2017, the City Council approved a redirection of Contingency Funds for FY 2017/18 and FY 2018/19 for Archives for the New Main Library (Item 4).
24	Eastside Library Site Selection	Facility Capital Needs	$ -	$ 100,000		$ -	$ -	$ -	$ -	**$ 100,000**	6-month community outreach project to find a replacement site for the Eastside Library.
25	New Police Headquarters	Facility Capital Needs	$ -	$ -	$ -	$ 2,132,000	$ 3,652,000	$ 3,649,954	$ 3,649,954	**$ 13,083,908**	Estimated cost of debt service to fund the construction of Police headquarters based on anticipated debt issuance of $35 million. City Council approved a swap of Main Library and Police headquarters funding of approx. $10 million on October 3, 2017.
26	Museum Expansion and Rehab	Facility Capital Needs	$ -	$ -	$ -	$ -	$ 807,550	$ 1,533,265	$ 1,533,265	**$ 3,874,080**	Estimated cost of debt service to fund the Museum expansion and rehabilitation based on anticipated debt issuance of $13.7 million. On December 19, 2019, the City Council approved a reduction in the estimated costs for the project of $1.3 million to fund the Main Library Archives (Item 23a), reducing funding for this item from $15 million to $13.7 million.
27	Downtown Parking Garage	Facility Capital Needs	$ -	$ -	$ -	$ -	$ 807,550	$ 1,533,265	$ 1,533,267	**$ 3,874,082**	Estimated cost of debt service to fund the parking garage expansion and rehabilitation based on anticipated debt issuance of $15 million.
28	Annual Deferred Maintenance (Existing Facilities) - Partial Funding	Facility Capital Needs	$ -	$ 1,000,000	$ 1,000,000	$ 1,000,000	$ 1,000,000	$ 1,000,000	$ 1,000,000	**$ 6,000,000**	Funding to address deferred maintenance on many City facilities.
29	Maximize Roads/Streets (Pavement Condition Index)	Quality of Life	$ -	$ 2,875,000	$ 2,875,000	$ 2,875,000	$ 2,875,000	$ 2,875,000	$ 2,875,000	**$ 17,250,000**	After the Pavement Condition Index survey is completed, Public Works will return to the City Council with a comprehensive plan for street/road/side rehabilitation.

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Measure Z Spending Plan

Updated November 2018

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30	Tree Trimming	Quality of Life	$ -	$ 1,023,600	$ 1,000,000	$ 1,000,000	$ 1,000,000	$ 1,000,000	$ 1,000,000	**$ 6,023,600**	Increase tree-trimming and reduce grid cycle period.
31	Ward Action Team - Deputy City Attorney II (City Attorney's Office)	Quality of Life	$ 21,907	$ 173,578	$ 257,082	$ 282,065	$ 303,921	$ 324,298	$ 342,186	**$ 1,705,037**	Staff dedicated to addressing the most pressing quality of life concerns in each ward of the City.
32	Ward Action Team - City Manager's Office	Quality of Life	$ -	$ -	$ 129,046	$ 142,883	$ 155,001	$ 165,861	$ 175,265	**$ 768,056**	Staff dedicated to addressing the most pressing quality of life concerns in each ward of the City.
33	Technology Improvements	Technology	$ -	$ 2,000,000	$ 2,000,000	$ 2,000,000	$ 2,000,000	$ 1,000,000	$ 1,000,000	**$ 10,000,000**	Includes funding for future technology projects and needs based on Citywide audit programs and other assessments. Funding may be used for hardware, new software, and cybersecurity. Technology spending plan approved by City Council on October 17, 2017.
34	4-Person Staffing on Fire Trucks	Public Safety	$ -	$ -	$ 263,821	$ 1,069,497	$ 1,122,355	$ 1,174,120	$ 1,218,930	**$ 4,848,723**	Hire 6 firefighters to bring staffing levels on fire trucks to 4 firefighters each for all shifts: 3 firefighters to be hired January 2019; 3 firefighters to be hired July 2020.
35	Fire Equipment and One-Time Operating Needs	Public Safety	$ -	$ -	$ 250,000	$ -	$ -	$ -	$ -	**$ 250,000**	Miscellaneous equipment and operating needs of Fire Department, inlclduing firefighter turnouts and HazMat monitors.
36	Contingency - Fire Radios	Public Safety	$ -	$ -	$ 2,500,000	$ -	$ -	$ -	$ -	**$ 2,500,000**	Replacment of outdated Fire radios.
37	Recreation - Summer Pools	Public Safety	$ -	$ -	$ 50,000	$ 50,000	$ -	$ -	$ -	**$ 100,000**	Funding for 2 years only to maintain service levels at City swimming pools; staff will seek sponsorships for future funding.
38	Arlington Youth Innovation Center Furniture, Fixtures & Equipment	Public Safety	$ -	$ -	$ 600,000	$ -	$ -	$ -	$ -	**$ 600,000**	One-time allocation of funding to provide furniture, fixtures and equipment to the new Arlington Youth Innovation Center.
	Total Expenditures		**$ 9,973,447**	**$ 46,624,826**	**$ 49,103,557**	**$ 57,528,914**	**$ 53,949,789**	**$ 56,133,163**	**$ 56,244,146**	**$ 329,557,841**	
	Projected Revenue		**$ 12,606,428**	**$ 56,222,806**	**$ 56,560,000**	**$ 57,125,600**	**$ 57,696,856**	**$ 58,273,825**	**$ 58,856,563**	**$ 357,342,077**	
	Surplus/(Deficit)		**$ 2,632,981**	**$ 9,597,980**	**$ 7,456,443**	**$ (403,314)**	**$ 3,747,067**	**$ 2,140,662**	**$ 2,612,417**	**$ 27,784,236**	
	Projected Fund Reserves		**$ 2,632,981**	**$ 12,230,961**	**$ 19,687,404**	**$ 19,284,090**	**$ 23,031,157**	**$ 25,171,819**	**$ 27,784,236**	**$ 27,784,236**	

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MAIN LIBRARY FINANCING OPTIONS

Finance Department

City Council
February 5, 2019

FINANCING OPTIONS

1. Traditional bond financing secured with collateral

2. Traditional bond financing no collateral – capitalized interest

3. Internal borrowing from City cash pool – interfund loan

TRADITIONAL BOND FINANCING

1. Variable or fixed rate debt tied to current market conditions
   a. Current market conditions fixed rate total interest cost is approximately 3.5%
2. Fixed term tied to the asset's useful life
3. Collateral pledge required to secure bonds
   a. City Hall and Mission Square buildings
4. Cost of financing is approximately $600,000
5. Takes several months to complete
6. Disclosure, reporting, and accounting requirements are for the life of the bonds

BOND FINANCING – CAPITALIZED INTEREST

1. Similar to traditional financing but no collateral required
2. Repayment for interest on debt obligation during construction built into the financing
   a. Use debt proceeds to make interest payments until 6 months after project completion
3. Construction period interest becomes project cost (Capitalized)
   a. Adds $4-5 million to a project of this size

INTERNAL BORROWING – INTERFUND LOAN

1. Funds borrowed from City cash pool
   a. Lower interest rate
   b. Shorter payment term results in lower interest cost
      i. Higher annual payments
   c. Significant financing cost savings (Millions)
   d. Loan can be executed quickly
   e. Debt obligation phased-in, lowering overall interest costs
      i. Funds drawn down as needed
   f. No prepayment penalty

INTERFUND LOAN FINANCING

Loan Amount	$ 40,000,000					
Current Cash Pool Rate is ~ 1.9%						
	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
Term (Years)	17	17	17	9	9	9
Interest Rate	2.00%	2.50%	3.00%	2.00%	2.50%	3.00%
Annual Payment	$ 2,798,794	$ 2,917,111	$ 3,038,101	$ 4,900,617	$ 5,018,276	$ 5,137,354
Total Interest Cost	$ 7,579,492	$ 9,590,884	$ 11,647,720	$ 4,105,557	$ 5,164,480	$ 6,236,189
Total Cost of Loan	$ 47,579,492	$ 49,590,884	$ 51,647,720	$ 44,105,557	$ 45,164,480	$ 46,236,189
Interest Savings over Traditional Financing Scenario	**$8,716,390**	**$6,704,998**	**$4,648,161**	**$12,190,324**	**$11,131,401**	**$10,059,693**

COST COMPARISON

	Traditional Financing with Collateral	Traditional Financing with Capitalized Interest	Interfund Loan - 9 Year Term with Current Estimated Pool Rate (1.9%)
Amount Borrowed	$40,000,000	$42,783,103	$40,000,000
Issuance Costs (Consultants)	$583,870	$599,113	$0
Term (Years)	17	17	9
Projected TIC (Interest)	3.53%	3.53%	1.90%
Annual Payment (Average)	$3,187,195	$3,433,591	$4,877,257
Total Financing Cost	$18,467,908	$20,332,188	$3,895,317
Total Project Cost	$54,442,926	$58,652,982	$43,895,317

BENEFITS/DRAWBACKS

Traditional Financing with Collateral	Traditional Financing with Capitalized Interest	Interfund Loan - 9 Year Term with Current Estimated Pool Rate (1.9%)
Benefits		
Longer payback term - to end of Measure Z		Lowest cost of financing
Cost of construction tied to useful life		Less ongoing administrative requirements
Maintains cash reserves for unforseen circumstances		
Lowest annual payment	No collateral required	No prepayment penalty, can pay down if Measure A fund balance increases
Drawbacks		
Significant financing and interest costs		Reduction in cash liquidity over life of loan, reduces ability to overcome fiscal challenges
Highest overall project cost		Could reduce credit rating, making future traditional debt financing more costly
Prepayment and refunding penalties make it difficult to refund or prepay the debt		Locked into loan for full term unless repaid
Continuing disclosure, reporting and accounting requirements		Highest annual payment

RECOMMENDATIONS

That the City Council:

1. Receive and provide input on the financing options, presented herein, for construction costs related to the Main Library project; and
2. Direct staff to move forward with the traditional bond financing option with collateral as recommended by the Chief Financial Officer.