



REPORT TO COUNCIL

City of Sacramento

915 I Street, Sacramento, CA 95814-2604
www.cityofsacramento.org

CONSENT
July 21, 2009

Honorable Mayor and
Members of the City Council

**Title: North Natomas Library: Interfund Loan of Development Impact Fees
Pending Receipt of State Grant**

Location/Council District: Council District 1.

Recommendation: Adopt a **Resolution** approving an interfund loan of development impact fees as needed to continue work on the North Natomas Library pending reimbursements from State grant funds.

Contacts: Mark Griffin, Fiscal Manager, 808-8788; Leyne Milstein, Director, 808-8491

Presenters: N/A

Department: Finance Department

Divisions: Public Improvement Financing

Organization No.: 22001411

Description/Analysis:

Issue: The City has an agreement with the State under which the City will receive a grant of \$7,013,889 to construct the North Natomas Library. The grant will reimburse the City for costs incurred and is to be funded by the sale of bonds the voters authorized in 2000.

Until recently, the State did not sell bonds and so was incapable of reimbursing under grant contracts. These reimbursements have become critical for the North Natomas Library, which is more than 75% complete. In late May, the State did allocate to the State Library for disbursement enough funding to reimburse all of the City's then-outstanding requests, representing about 60% of the grant eligible expenses. On July 13, \$3.7 million was received after months of uncertainty. Future reimbursements, though likely, cannot be guaranteed.

So that work on the library can continue uninterrupted, staff proposes that the

City Council approve a loan not to exceed \$1.3 million from the North Natomas Transit Fund to the North Natomas Public Facilities Fund. The loan would be made as needed up to \$1.3 million, would earn interest at the Pool A rate, and would be repaid on the earlier of the date the grant funds are received or five years after the date of the loan. Interest paid would be from savings already realized on the portion of the library project funded by the Public Facilities Fee Program.

It is remotely possible that the State may not make the reimbursements in full within five years. Were that to happen, the City Council would need to address the disposition of the loan balance.

The alternative to the loan is to close the project down. The project is 75% complete and employs approximately 310 people. The cost to demobilize, remobilize, and repair damages would be about \$2.5 million.

The decision must be made now to either continue the project or begin a shutdown process.

Under section 18.24.180 of the City Code, the City Council may, by resolution, authorize the City Manager to make a loan from the Transit Fund to the Public Facilities Fund to assure adequate cash flow to complete construction of the library so long as the loan does not unreasonably delay construction and acquisition of the Transit Fee projects. Staff does not believe that the loan will delay any of the projects funded by the Transit Fee, i.e., stations along the Downtown-Natomas-Airport ("DNA") line.

Key documentation of this issue is provided as attachments to this report: a letter from the City Manager to the State Treasurer (Attachment 2), the State Treasurer's response (Attachment 3), and a letter from the City Treasurer to City Council (Attachment 4). The situation has improved since the date of these writings, but the general concerns remain germane.

Policy Considerations: Adoption of the resolution is consistent with the 1994 Financing Plan and Nexus Study, as amended in 1999, 2002, 2005, and 2008. The resolution is also consistent with the City's Strategic Plan 3-Year Goal to "achieve sustainability and enhance livability."

Environmental Considerations: Adoption of the proposed resolution is not a project for the purpose of the California Environmental Quality Act (CEQA), as it concerns a government-funding mechanism that does not involve any commitment to any specific project that may result in a potentially significant physical impact on the environment. (Cal. Code Regs., § 15378 [CEQA Guidelines].)

Sustainability Considerations: The completion of the North Natomas Library fosters sustainability by facilitating the build-out of North Natomas in accordance with the North Natomas Community Plan.

Committee/Commission: None

Rationale for Recommendation: The loan will avoid a costly shutdown of the library project. Although staff believes that the City will be able to repay the loan when the State grant is received, the possibility remains, however remote and unprecedented, that the State will not make the grant. If that happens, then the City Council will need to revisit this matter.

Financial Considerations: There is no impact to the General Fund. Loans will be made only as needed and repaid on the receipt of grant funds. The ultimate amount loaned may be less than the maximum amount. As of this writing, the state has processed a payment for \$3.7 million and has told the City that they are processing a \$0.5 million reimbursement. If received, the payment will reduce the amount ultimately needed under the requested authorization in this report.

The loan would be from the Transit Fund, which holds fees that landowners and developers pay to finance the light-rail stations of the DNA line. The loan would temporarily use funds programmed for these future authorized transit projects but not needed in the meantime. The Public Facilities Fee Program (PFFP) would pay the interest on the loan at the Pool A rate, reset monthly from savings realized in the PFFP-supported portion of the project. If, after five years, the State has not made the reimbursements in full—a remote possibility that would be unprecedented—then the City Council would need to address the disposition of the loan balance.

Because the PFFP is paying the interest, the attached resolution requires that grant funds be fully utilized. Any project savings will accrue to the benefit of the Public Facilities Fund. This approach is possible because the local funding far exceeds the grant match requirements.

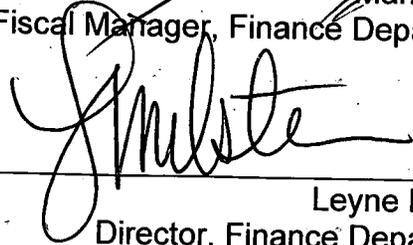
Savings are expected within the scope of the current project to be around \$2 million. For this reason, staff is not proposing a loan to cover the full amount of the grant. The grant will be fully billed and reimbursed if funds are available through the sale of bonds at the State level. The actual savings will accrue to the Public Facilities Fund since the local match requirement is more than satisfied.

The project is also supported by a \$951,199 State grant through the Natomas Unified School District. These funds were received July 6.

Emerging Small Business Development (ESBD): Council approval of this item is not affected by city policy related to the ESBD Program.

Respectfully Submitted by: 

Mark Griffin
Fiscal Manager, Finance Department

Approved by: 

Leyne Milstein
Director, Finance Department

Recommendation Approved:


Ray Kerridge
City Manager

For

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BACKGROUND

In December 2008, the Pooled Money Investment Board (PMIB) of the State Treasurer's Office suspended all disbursements of all bond funds. Projects at every level of government, as well as private-public partnership projects, were directly impacted. The situation has improved only somewhat with the successful sale of \$13 billion in General Obligation Bonds over the last several months. On May 20, the PMIB allocated \$35 million in these bond funds to the State Library for purposes of reimbursements under the California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000, under which the City was awarded a grant in 2005 for \$7,013,889.

Cash funding has been provided to date for the North Natomas Library from development impact fees of the North Natomas Financing Plan, Public Facility Fee Program (PFFP), which has \$8.7 million allocated to this \$17.2 million project. The State grant is to provide \$7 million. A School Construction Act Grant of \$951,199 has also been awarded to the Natomas Unified School District (NUSD) for the library. The remaining funding is coming from local funds of the NUSD, Los Rios Community College District, and the Sacramento Public Library Authority (Library JPA).

To date, the City Department of General Services has submitted grant reimbursement requests totaling \$4.3 million to the State Library. The requests have been approved and a payment of \$3.7 million has been received as of this writing. Cash needs to continue this project require this reimbursement and all remaining reimbursements. The State Library may have funds remaining for additional reimbursements in the near term. To take advantage of this possibility, the Department of General Services is submitting requests as quickly as possible.

If the State cannot fund a valid City request, a loan amount would be triggered, potentially resulting in a total loan of \$1.3 million. Additional funding is "reasonably certain" according to the State, but not guaranteed. Therefore, a loan may not be required, or be a fraction of the amount authorized.

The City's claims to reimbursements under the grant contract remain valid, but actual reimbursements are contingent on State funding. The contract also expires at the end of 2010, but here, again, we are orally assured that an extension is no problem under the circumstances. Given all the circumstances, it is reasonable to conclude that the grant funds will eventually be paid.

If the State Library cannot continue with or does not make reimbursements, staff recommends the Council authorize a loan from the North Natomas Transit Fund as needed of up to \$1.3 million to cover anticipated cash-flow needs in the absence of

grant funding. Section 18.24.180 of the City Code allows a loan as a viable option to shutting down the project. It allows the City Council to adopt a resolution authorizing the City Manager to make a loan from the North Natomas Transit Fund to the North Natomas Public Facilities Fund to assure adequate cash flow to complete construction of the library. The only requirement is that the loan not unreasonably delay construction and acquisition of the Transit Fee's projects. The proposed loan will not delay any of the projects funded by the Transit Fund, which has about \$9 million in cash available that will not be needed for at least five years.

Interest payments are required because the loan is from a development impact fee program. Interest on the loan would be paid at the Pool A rate, reset monthly. This interest will be paid by project savings in the PFFP-funded portion of the project. The loan would be repaid as grant reimbursements are received and no later than five years after the date of the initial loan. Eventual reimbursement is highly likely but not guaranteed. If, after five years, the State has not made the reimbursements in full—a remote possibility that would be unprecedented—then the City Council will need to revisit this matter.

The decision must be made now to either continue the project or begin a shutdown process. Staff estimates the cost of demobilizing, remobilizing, and repairing damage to be approximately \$2.5 million. The project also involves 310 jobs. The North Natomas Library is also a joint-use facility with NUSD and Los Rios Community College District. Their facilities are fully functional but lack permanent library facilities.

The City Manager has sent a letter to the PMIB on this issue that is included as Attachment 2. The response from the State Treasurer is included as attachment 3. These correspondences are several months old but remain relevant.

The City Treasurer and staff from General Services and Finance have also met with State Library and Library JPA staff and NUSD to facilitate a resolution to this matter and consider all necessary and available options. The City Manager, the City Treasurer, the Library JPA, the NUSD, and the Los Rios Community College District are in support of this action.

A memo to Council from City Treasurer, Russell Fehr, addressing the advance of City funds to bridge the current situation is included as Attachment 4. The next to the last paragraph and last paragraph are especially pertinent to the library.

July 21, 2009

Attachment 2



OFFICE OF THE
CITY MANAGER

CITY OF SACRAMENTO
CALIFORNIA

February 20, 2009

CITY HALL
915 I STREET
5TH FLOOR
SACRAMENTO, CA
95814-2604

PH 916-808-5704
FAX 916-808-7618

State Treasurer Bill Lockyer
915 Capitol Mall, Suite 110
Sacramento, CA 95814

Dear Mr. Lockyer,

RE: Urgent Request for funding for the City of Sacramento under the California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000 pursuant to Award 3070

On behalf of the City of Sacramento, we are requesting your prioritization and release of the previously approved funding for the North Natomas Joint Use Library. This facility is a model joint use facility in partnership with the Natomas Unified School District and the Los Rios Community College District. Each entity is providing funds and/or in-kind services. The facility will be open to the community and will function as the library for both Inderkum High School Natomas and the Natomas Los Rios College campus. Both educational entities are fully functioning but without library facilities.

The California State Library approved Award 3070 in 2005 for \$7,013,889. The project itself is 45% complete through match and supplemental local bond funds. The Award funds must be available in the very near future or consideration must be given to a costly shutdown of the project.

Award 3070 is to the City of Sacramento, which is sponsoring the project. The Natomas Unified School District also has a grant award for the project of \$911,000. These funds are also delayed by the freeze. A letter under separate cover seeking a high priority for these funds is forthcoming from the District. The City endorses this request.

The City estimates that the financial cost to demobilize, remobilize and then mitigate damage to the project caused by vacancy and partial construction to be at least \$2.5 million. The City does not have these funds. Also affected would be approximately 310 active jobs in addition to unspecified number of manufacturing, material production and services related jobs.

For these reasons we implore you to place this critical project on a priority list for funding as soon as money is available from sale of bonds.

Sincerely,


Ray Kerridge
City Manager

**North Natomas Library: Interfund Loan of
Development Impact Fees Pending Receipt of State Grant**

July 21, 2009

**cc: Mayor and City Councilmembers
Steve Farrar, Superintendent, Natomas Unified School District
Brice W. Harris, Chancellor, Los Rios Community College**

July 21, 2009

Attachment 3



BILL LOCKYER
TREASURER
STATE OF CALIFORNIA

RECEIVED
CITY MANAGER'S OFFICE
CITY OF SACRAMENTO

2009 MAR -5 1 A 9 17

March 2, 2009

Mr. Ray Kerridge
City Manager
City of Sacramento
915 I Street, 5th Floor
Sacramento, CA 95814-2604

Dear Mr. Kerridge:

Thank you for your recent letter regarding the work being done in the City of Sacramento through grants from Propositions 12 and 40. I am always amazed at the energy and productivity of Californians such as yourself and the City of Sacramento, and all the good that is accomplished with California bonds.

In light of the Legislature's recent passage of a spending plan, staff of the Pooled Money Investment Board (PMIB) is analyzing and revising the state's cash flow position. In addition, my office is working diligently to begin again to issue state bonds. We expect to hold a PMIB meeting in the near future to review the state's cash position and reconsider the freeze due to changed circumstances.

I appreciate all the work you are doing for California. The action taken by the PMIB was not one any of us on the Board wished to take. I commit to do everything I can to begin providing loans to bond funded projects as soon as possible so that we can get back to building a better California and a lasting economic recovery.

Sincerely,

A handwritten signature in black ink that reads "Bill Lockyer".

BILL LOCKYER
California State Treasurer

cc: William Dowell, PMIB

Comments from the City Treasurer: Advancing City Funds to Externally Funded Projects and Cash Flow Concerns

In the new grim financial reality in which the City is struggling to maintain service levels, there must be very careful and deliberate approach to advancing City funds to externally funded projects. There are projects to which the State has committed ten of millions in bond funding, but the timing of the receipt of these funds is uncertain. Due to lower levels of City cash holdings, the capacity to advance funds for extended periods of time is impaired and is no longer a sound course of action. This situation presents are real challenge to economic development and the growth of the City.

A certain and worrisome aspect of the prolonged financial pressure on the City is a deteriorating cash position, the City's average daily cash balances in the Treasury Pool and our bank are shrinking. Regardless of the budget plan, the City must have real money in the bank to pay employees, vendors, and bond holders. Current estimates indicated a reduction in average daily balances of approximately \$250 million between Fiscal Years 2008 and 2010. While the City is still in a cash surplus position the surplus quickly dwindling.

The reasons for the dwindling cash balances are two fold:

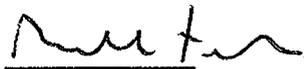
- 1) The extensive use of reserves and other one time funding sources to balance budgets in recent years. From FY 2007 to FY 2009 \$67.5 million in reserves have been used to balance the General Fund Budget. More cash is expended than comes in as revenue. In several other major funds, such as the utility funds, there has been a similar situation where reserves and fund balances have been used to balance budgets. These actions have been taken to avoid service reductions, but the reduction in cash holdings has been a consequence.
- 2) Bond funds and capital reserves are being spent on projects. This is part of the reduction in cash balances, but this is also not the cause of the emerging cash flow problem.

For the General Fund, even when expenditures are in balance with on-going revenues, there is a cash flow challenge. In only three months of a fiscal year do revenues exceeds expenditures: January, May, and June. For the first six months of a fiscal year, General Fund expenditures are greater than General Fund revenues. This is due to the timing of allocation of property tax revenue to the City. If there is not a healthy beginning cash balance at the start of the fiscal year, then the General Fund could run out of cash. As overall cash holdings decline, this will become a real problem.

If the trend of declining cash balances continues, then the City may have to return to the practice of annual, short-term cash flow debt issues. This does expose the City to financial market risk; there is no guarantee that a cash flow bonds issue would be successful. The City would also incur interest costs and the costs of issuing bonds.

Of particular concern are projects funded with state bond proceeds. The State currently has a backlog of approximately \$54 million in voter approved bonds which have not yet been sold. The State, given the budget situation and a limited capacity to support new debt service plans to sell these bonds at a rate of approximately \$12 billion per year. It would take over four years to sell the currently authorized bonds at the rate. In addition, there will be four primary or general elections over those four years at which the voters may approve new bonds. At this point, it is not possible to determine when bonds funding City of Sacramento projects are sold and when the City will receive funds.

The advance of City funds to this library construction project does not present a significant cash flow problem. The proposal is to use restricted North Natomas Community Facilities funding and then provide for reimbursement when the state bond funds are received. Due to the fact the project is under construction, it is appropriate to find the funds to replace the state bond funding until such time as the City and the project receive the bond funding. It is important to note; however, that there is no way of knowing when the City will be reimbursed for this cash advance; it is likely to be several years.



Russell T. Fehr

City Treasurer

RESOLUTION NO.

Adopted by the Sacramento City Council

NORTH NATOMAS LIBRARY APPROPRIATIONS: INTERFUND LOAN OF DEVELOPMENT IMPACT FEES PENDING RECEIPT OF STATE FUNDS

BACKGROUND

- A. The city has a grant agreement with the State Library for the North Natomas Library, covering \$7 million of the \$17.2 million cost.
- B. The project is 75% complete.
- C. Grant reimbursements have been delayed and remain uncertain because the state has issued few bonds during the worldwide and state financial crisis.
- D. Available funding for the North Natomas Library could be exhausted unless bridge funding is in place.
- E. The alternative to bridge funding would be a suspension of the project at an additional cost of \$2.5 million.
- F. The city can avoid the costly suspension by having the North Natomas Transit Fee Fund loan up to \$1.3 million to the North Natomas Public Facilities Fund on an as-needed basis and in accordance with §18.24.180(B) of the City Code.
- G. The loan will not delay construction of improvements and facilities financed by the Transit Fund.
- H. The City Council intends that the loan be repaid as grant reimbursements are received and that the loan be repaid in full no later than five years after the date of the initial loan. If, after five years, the State has not made the reimbursements in full—a remote possibility that would be unprecedented—then the City Council intends to reconsider this matter at its first regularly scheduled meeting after the five-year period expires and direct staff regarding repayment of the outstanding balance.
- I. The decision must be made now to either continue the project or begin a shutdown process. The project involves 310 jobs. The North Natomas Library is also a joint-use facility with Natomas Unified School District and Los Rios Community College District. Their facilities are fully functional but lack permanent library facilities.

**BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL
RESOLVES AS FOLLOWS:**

Section 1. Construction of the North Natomas Library (Project No. B13000700) shall be continued despite the delay in reimbursements under the City's grant agreement with the California State Library (City Agreement No. 2005-0216). To ensure that adequate cash is available to pay project expenditures, the City Manager is authorized to do the following:

- (a) Record loans from the North Natomas Transit Fund (i.e., the transit fee portion of North Natomas Community Improvement Fund, Fund 3201) to the North Natomas Public Facilities Fund (i.e., the public facilities fee portion of North Natomas Community Improvement Fund, Fund 3201) of up to a total of \$1.3 million as needed to cover expenditures for the project
- (b) Make any necessary appropriation adjustments.
- (c) Pay interest on the loan, at the Pool A rate reset monthly, from the North Natomas Public Facilities Fund to the North Natomas Transit Fund.
- (d) Repay the loan as grant reimbursements are received.

Section 2. If, after five years from the first draw on the loan, the City has not repaid the loan in full from grant reimbursements, then at the first regularly scheduled meeting after the five-year deadline passes the City Council shall reconsider this matter and direct staff regarding repayment of the outstanding balance. In addition, if, after the five-year deadline passes, the City receives additional grant reimbursements, then the City shall apply those reimbursements to repayment of the loan. It is the explicit intent of the City Council that the actions authorized by this resolution not delay or impair in any manner the completion of projects to be funded from the Transit Fund.