



**CITY COUNCIL  
AGENDA REPORT**

**MEETING DATE:** 05/18/2021  
**AGENDA HEADING:** Regular Business

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**AGENDA TITLE:**

Consideration and possible action to identify a financing option for the Ladera Linda Community Center and Park Project.

**RECOMMENDED CITY COUNCIL ACTIONS:**

1. Based on a traditional procurement approach, review the financing option recommended by the Finance Advisory Committee for the Ladera Linda Community Center and Park Project using the following combined funding sources:
  - a. 50% of the American Rescue Plan Act;
  - b. Available funds in the Quimby Fund;
  - c. A 50/50 split between financing with iBank and the Capital Infrastructure Program Fund Reserve; and,
  - d. Create a framework to replenish CIP Fund with interest earnings, additional transfers from the General Fund when there is a surplus, and private funding such as donations and capital fundraisers.
2. If acceptable, affirm the FAC's recommendation and direct Staff to proceed with filing the necessary application with iBank.

**FISCAL IMPACT:** N/A

**Amount Budgeted:** N/A  
**Additional Appropriation:** N/A  
**Account Number(s):** N/A

**ORIGINATED BY:** Trang Nguyen, Director of Finance *tn*  
**REVIEWED BY:** Karina Bañales, Deputy City Manager *KB*  
**APPROVED BY:** Ara Mihranian, AICP, City Manager *Ara*

**ATTACHED SUPPORTING DOCUMENTS:**

- A. CIP Fund Forecasts (page A-1)
  - B. Sample iBank Amortization Schedule (page B-1)
  - C. April 22, 2021 Finance Advisory Committee staff report (page C-1)
  - D. May 6, 2021 Finance Advisory Committee staff report (page D-1)
  - E. Public comments received by May 11, 2021 (page E-1)
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## **BACKGROUND:**

On April 6, 2021, the City Council upheld the Planning Commission's approval of the Ladera Linda Community Center and Park Project. The summary of the approval are as follows:

- Adopted Resolution No. 2021-13 upholding the Planning Commission-approved planning entitlements, with conditions of approval, consisting of Conditional Use Permit, Major Grading Permit, Variance and Site Plan Review application findings (planning entitlements), thereby approving the project with certain modifications to the conditions.
- Directed Staff to proceed with the completion of construction documents and authorize advertisement of bids upon final completion of plans and specifications for the project.
- Directed Staff to relocate and optimize handicap parking spaces closer to the building and explore the cost and effective ways to install exterior shutters over glass surfaces to provide the necessary security.

Based on the City Council's directives on the project, which was estimated to cost approximately \$15.7 million at the April 6 meeting, potential financing options were presented to the Finance Advisory Committee (FAC) at a special meeting on April 22, 2021 (Attachment C). At the conclusion of the meeting, FAC formed two Subcommittees to review (1) financing options and (2) operating financial impacts of the new facility. The Subcommittee Members for the financing options are Vice Chair Lewis and Members MacAllister and Yourman. The Subcommittee for the operating financial impacts is comprised of Members Vlaco and Seal.

On May 6, 2021, the financing options Subcommittee presented its recommendations to the larger FAC, which, after considering the information presented, voted unanimously to forward the following recommendation to the City Council:

- Use up to 50% of the City's American Rescue Plan Act (ARPA) funding for the project. Currently estimated at \$3.9 million.
- Use any available funding from the Quimby Fund for the project. Currently estimated at \$943,500.
- For the remaining balance of the Project cost, fund the difference between a loan and the Capital Infrastructure Program (CIP) Fund reserve, as follows:
  - Use iBank to finance the remaining 50% of the project cost, after the use of ARPA and the Quimby Fund, with a term of 10 years. Currently, the estimated financing amount is \$5.5 million or 35% of the total estimated project cost as reported on April 6.
  - Use reserves from the CIP Fund to fund the remaining 50% of the project cost. Currently, it is estimated that \$5.3 million or 34% of the total estimated project cost, as reported on April 6, would be needed.

- Create a framework to replenish the CIP Fund with interest earnings, additional transfers from the General Fund when there is a surplus, and private funding such as donations and capital fundraisers.

The above recommendation from FAC ensures that construction of the project will not result in any tax increase to residents and that projects identified in the 5-year CIP continue to be funded based on the City's current practice of using transient occupancy tax (TOT) generated by Terranea and restricted funds.

At the same meeting, the operating financial impacts Subcommittee also reported that it met with Finance Director Nguyen, Recreation and Parks Deputy Director Trautner, and Recreation and Parks Senior Administrative Analyst Waters to discuss the project's operating revenues and expenditures after construction is completed. The discussion that ensued with the Subcommittee revealed that it is too early and there is not enough data or information to make any assumptions of the operating impacts of the new facility. Therefore, the FAC recommended, as part of the next fiscal year workplan, that the Subcommittee continue to analyze the operational, financial impacts of the project.

## **DISCUSSION:**

### **Project Procurement**

During the April 22, 2021, FAC special meeting, Staff reiterated to the FAC the following three procurement options that were previously presented by Kosmont Transaction Services (KTS) at the February 25 meeting:

- Traditional (design-bid-build)
  - The City's responsibility is from start to finish of the project.
  - Requires bidding out most components of the project.
  - May take longer to complete.
  - Flexible financing options.
- Total Project Delivery
  - The City is not responsible for the project installation.
  - Guaranteed delivery.
  - Limited to lease payment.
- Design-Build
  - The City's responsibility is from start to finish of the project.
  - One contractor to design and build.
  - Streamline the process to reduce the time to complete.
  - Flexible financing options.

At the April 22 meeting, the FAC was informed that the City is too far along the design process that the options of design-build and total project delivery are no longer viable. Therefore, the only procurement option the City has at this point is the traditional

approach (design-bid-build). The FAC agreed with the recommendation and did not discuss the procurement option at the subcommittee meeting or at the May 6 follow-up meeting.

### **Financing Options**

At the April 22 meeting, Staff also reintroduced the following four financing options that KTS previously presented at the February 25 meeting:

- Current Resources
  - Cash reserves
  - Grants
  - Special revenues
  
- Issue Securities
  - Loan
  - General Obligation Bonds – requires an affirmative vote of 2/3 of registered voters
  - Lease Revenue Bonds – no voter requirement
  
- Lease
  - Direct Lease – non-tax exempt, term of less than 30 years
  - Total Project Delivery – tax-exempt, 30-year term

During the discussion, FAC suggested a fifth option of private funding, such as donations and capital campaign fundraising. Staff and a couple of FAC members indicated that it is too late in the process to consider private funding as a financing option for the project. However, the FAC feels that private funding should be considered to try to replenish the CIP Fund Reserves used for the project.

After discussion ensued at the May 6 meeting, FAC agreed to finance the project from a combination of restricted funds, CIP Fund, and loan. The Committee agreed that the use of restricted funds for the project should be considered before using the CIP Fund and loan. FAC also noted that the balance of the total cost of the project, after the use of ARPA and Quimby Fund, should be split between the CIP Fund reserve and loan. For example, if the cost for the project increased to \$16 million from the current estimate of \$15.7 million, after using ARPA and Quimby Fund, the remaining balance of \$11,480,000 will be split evenly between the CIP Fund reserve and a loan.

Currently, the two restricted funds that the City can consider using for the project would come from the anticipated funds from the anticipated ARPA and Quimby Fund. The estimated funding from ARPA for the City is approximately \$7.8 million. The estimated fund balance in Quimby Fund on June 30, 2021, is approximately \$943,500. The FAC recommends using up to 50% of ARPA and all the available funds from the Quimby Fund for this project.

Table 1 below estimates how the project funding would be allocated based on the cost estimate of \$15.7 million presented at the April 6 meeting.

**Table 1: Ladera Linda Funding Summary**

| <b>Funding Description</b> | <b>Amount</b>       |     |
|----------------------------|---------------------|-----|
| ARPA Fund                  | \$3,908,500         | 25% |
| Quimby Fund                | 943,500             | 6%  |
| CIP Fund                   | 5,338,000           | 34% |
| iBank Loan                 | 5,500,000           | 35% |
| <b>Total Funding</b>       | <b>\$15,690,000</b> |     |

The following discussion provides details to the above allocation.

American Rescue Plan Act (ARPA)

The ARPA was approved by Congress and subsequently signed into law by President Biden on March 11, 2021. The relief package provides funding in several areas such as state and local aid, education, rental assistance, and transit. Based on the preliminary information that the City received from the Government Finance Officers Association and the League of California Cities, the City’s allocation under the state and local fiscal aid of \$350 billion is estimated to be \$7.8 million. Based on the most current information, eligible uses may include:

- Revenue replacement for the provision of government services to the extent of the reduction in revenue due to the COVID-19 public health emergency relative to revenues collected in the most recent fiscal year prior to the emergency;
- Premium pay for essential workers;
- Assistance to small businesses, households, and hard-hit industries, and economic recovery
- Investments in water, sewer, and broadband infrastructure.

The FAC recommends using up to 50% of the allocation from the ARPA to fund the project based on the following reasons:

- The project is ready and eligible for ARPA funds under revenue replacement.
  - Due to the sudden revenue loss from the TOT over the last 18 months, the City may use ARPA funds for the purpose of revenue replacement. As illustrated in Table 2 below, the City’s estimated TOT revenue loss is \$4.5 million.
  - Since over 90% of the City’s TOT is transferred to the CIP to fund capital projects, it would be an opportunity to utilize this grant and replace the revenue loss in the CIP caused by the pandemic.

- Additionally, by applying for the revenue replacement section of the ARPA, the City may have more control on how funds can be used for capital projects. Whereas the other eligible uses are restricted for a specific purpose (i.e., infrastructure is listed for water, sewer, and broadband).
- Timing
  - The funding for ARPA must be spent, not committed, by December 2024. Based on the current staffing capacity and the scheduled projects from the five-year CIP presented to the City Council on April 12, 2021, it would seem unattainable to schedule additional capital projects and spend more than 50% of the ARPA funds by 2024.

**Table 2: Estimated Revenue Losses**

|                   | TOTAL REVENUE LOSSES | FY 18-19 Actuals  | FY 19-20 Actuals | FY 19-20 Losses    | FY 20-21 YE Est. | FY 20-21 Losses    |
|-------------------|----------------------|-------------------|------------------|--------------------|------------------|--------------------|
| TOT               | (4,545,195)          | 5,645,497         | 3,909,799        | (1,735,698)        | 2,836,000        | (2,809,497)        |
| Sales tax         | (1,186,720)          | 2,661,181         | 2,163,342        | (497,839)          | 1,972,300        | (688,881)          |
| Permits & fees    | (718,290)            | 2,217,106         | 1,916,822        | (300,284)          | 1,799,100        | (418,006)          |
| Business License  | (280,418)            | 945,792           | 896,166          | (49,626)           | 715,000          | (230,792)          |
| Interest Earnings | (214,586)            | 366,409           | 358,232          | (8,177)            | 160,000          | (206,409)          |
| Rental/Leases     | (702,382)            | 478,729           | 189,076          | (289,653)          | 66,000           | (412,729)          |
| PVIC Sales        | (174,708)            | 137,551           | 92,494           | (45,057)           | 7,900            | (129,651)          |
| <b>TOTAL</b>      | <b>(7,822,299)</b>   | <b>12,452,265</b> | <b>9,525,931</b> | <b>(2,926,334)</b> | <b>7,556,300</b> | <b>(4,895,965)</b> |

*\*FY 2020-21 year-end estimates is based on the third quarter review as presented in the preliminary budget report.*

### Quimby Fund

The Quimby Fund is a restricted fund for parks and recreation usage. Therefore, the project is an eligible use of funds. The revenue sources for this fund are from developer fees and dedication of land for park and recreation purposes. At the beginning of FY 2020-21, the Quimby Fund had a fund balance of almost \$1.1 million and is projected to end the year with just over \$943,500. The reduction is due to the outstanding contract balance with Johnson Favaro, the project designer. The FAC recommends using all available funds in Quimby Fund.

### Capital Infrastructure Program (CIP) Fund

The CIP Fund is the primary funding source for the City's capital projects. At the start of FY 2020-21, CIP had a fund balance of over \$25.3 million. This fund is estimated to end the year with \$24.5 million in fund balance. The City Council Reserve Policy requires the CIP Fund to maintain a reserve of \$5 million, leaving the fund with an estimated excess reserve of over \$19.5 million on June 30, 2021.

CIP Fund spending can be split into two general categories: annual capital projects, which are funded by annual transfers from the General Fund, and one-time City Council-directed projects, which are funded by the CIP excess fund reserve. Based on past City Council policy when Terranea was being entitled, it was determined that TOT generated from the hotel would not support General Fund operations but rather transferred to the CIP to fund annual capital projects. That has been the practice of the City until FY2017-18, when the TOT began funding the increases to the Los Angeles County Sheriff’s contract. Funds for some CIP projects that were not completed in the past were moved to the CIP Reserve, as well as the occasional transfer of funds from the General Fund. The intent was to build a healthy reserve for unforeseen projects and/or fund one-time City Council-directed capital projects for the public’s benefit and use.

Staff reviewed the CIP Fund and less than 40% of the budget was typically spent by June 30 of each fiscal year, with an average of \$3.3 million spent on capital project over the last three fiscal years between FY 2018-19 and FY 2020-21. In other words, the remaining unspent funds were returned to the fund balance. Based on the 10-year forecast for transfers from General Fund to CIP Fund, the average transfer is estimated at over \$3.4 million from FY 2022-23 to FY 2030-31 (Attachment A). The estimated transfer amount includes the estimated reduction of \$2 million from public safety increases. Therefore, the FAC is comfortable with making the recommendation of using the CIP excess reserve to fund the project and the annual payment for any debt service.

Based on the current estimated project cost of \$15.7 million, the projected use of the CIP excess reserve as recommended by the FAC, is approximately \$5.3 million plus the annual payment of any debt service for the next 10 years of just over \$6.3 million for a total use of CIP reserve of about \$11.6 million (see next section on debt service). With conservative estimates of \$2,200,000 on interest earnings and \$2,200,000 on additional transfers from the General Fund over 10 years, the net impact on the CIP Fund is \$7.3 million over the next 10 years, bringing the CIP Fund balance to approximately \$16.8 million in FY 2030-31. This fund balance would enable the City to fund one-time unforeseen capital project or other City Council-directed projects, such as the Portuguese Bend Landslide Remediation or Western Avenue Beautification projects, if desired. This does not account for potential grant funds available for future capital projects, such as the Portuguese Bend Landslide Remediation project as currently being sought.

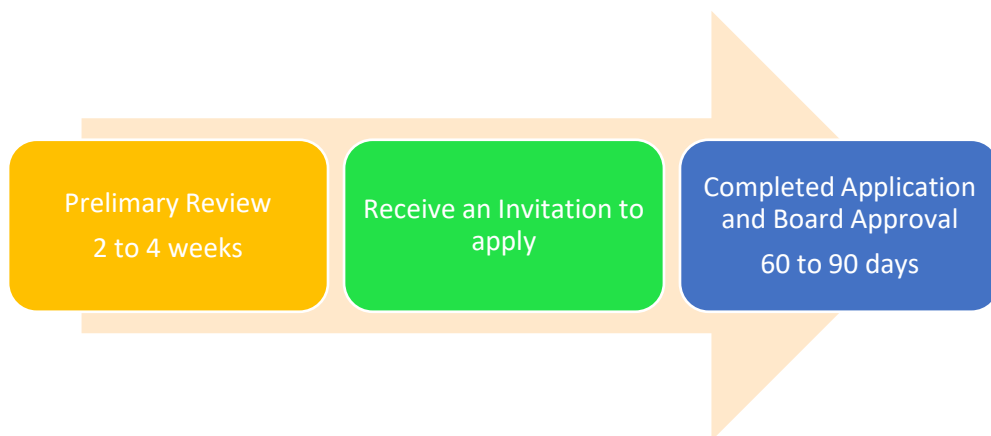
**Table 3: Estimated Net Impact on the CIP Fund**

|   |                       |
|---|-----------------------|
| <b>FY 2020-21 Estimated ending fund balance</b> | <b>\$ 24,098,510</b>  |
| Initial funding for Ladera Linda                | (5,338,000)           |
| 10-year of annual payments                      | (6,355,400)           |
| Projected 10-year interests                     | 2,200,000             |
| Projected 10-year of additional transfers       | 2,200,000             |
| <b>FY 2030-31 Estimated ending fund balance</b> | <b>\$ 16,805,110</b>  |
|   |                       |
| <b>Estimated Net impact on CIP Fund</b>         | <b>\$ (7,293,400)</b> |

## iBank Financing Process

The Infrastructure State Revolving Fund (ISFR) Program with iBank offers low-cost public financing to state and local governments. ISRF financing is available between \$50,000 to \$25 million with the loan terms up to a maximum of 30 years or the useful life of the project.

Below is an estimated processing timeline to obtain an ISFR loan with iBank.



The first step is a preliminary review in which iBank's credit committee reviews the City's financials and the proposed project to ensure that the financing complies with underwriting criteria. Once the credit committee approves the project, the City would receive an invitation to apply for the loan. iBank would work with Staff to draft the resolution for the City Council's consideration at a future meeting and assist with the application and the preparation of the staff report for the iBank's Board of Directors. Once the board approves the loan, its legal counsel would prepare the legal documents to fund the loan.

If the City Council proceeds with the FAC's recommendation, the total estimated project cost may have to be revised to include the cost for financing the project with iBank over a 10-year term. The financing cost for the 10-year loan is estimated at \$855,400 at this time. The annual payment for the 10-year loan is estimated at \$635,540 coming from the CIP excess fund reserve based on a proposed \$5.5 million loan.

If the City Council approves using iBank as a lending option, Staff seeks authorization from the City Council to proceed with Step 1, preliminary review, and specific details on the financing process. Staff would bring back a report to update the City Council on the process and details as they become available. It is also important to note that the loan would not be finalized until approved and accepted by the City Council at a public meeting.



## Framework to Replenish the CIP Fund

Besides reviewing, evaluating, and providing a recommendation for financing options for the project, the FAC also recommends the combined use of the following to replenish the CIP Fund Reserves:

- Using interest earnings from CIP's fund balance.
- Transferring any surplus from the General Fund to the CIP Fund Reserve; and,
- Developing a capital campaign to raise private donations.

### Interest Earnings

Over the last two years, the CIP Fund has earned almost \$1 million in interest earnings. In FY 2018-19, the interest earned was \$509,000 and \$471,000 in FY 2019-20. For the current fiscal year, the estimated interest-earning is approximately \$300,000. The Subcommittee recommends using the interest earned to replenish the fund balance. Staff has taken a conservative approach and projected a flat \$200,000 annually in interest earnings in the forecast model. This is to account for the timing of the disbursement of funds on the project compared to the interest earning from the loan disbursement and the ARPA allocation. The FAC supported this recommendation.

### Surplus Transfers from the General Fund

Typically, in December, the Finance Department brings forward a staff report on the City's unaudited actuals of the previous fiscal year. This report highlights any surplus/deficit in the General Fund, revenues minus expenditures. Looking back at the last four years, the General Fund ended the year with a surplus ranging from \$223,000 to \$1.9 million. The estimated surplus for FY 2020-21, as presented in the preliminary budget report, is over \$700,000.

**Table 4: Five-Year History of the General Fund Surplus**

|                          | <b>FY 2020-21</b> | <b>FY 2019-20</b> | <b>FY 2018-19</b> | <b>FY 2017-18</b> | <b>FY 2016-17</b> |
|--------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Revenues                 | 28,529,200        | 29,499,005        | 31,911,048        | 30,682,619        | 29,449,666        |
| Expenditures             | (27,802,800)      | (28,538,827)      | (29,201,461)      | (29,429,062)      | (27,692,362)      |
| PO Carry-forward         | -                 | (167,175)         | (341,432)         | (715,164)         | (963,643)         |
| Continuing appropriation | -                 | (569,400)         | (400,000)         | (300,000)         | (415,000)         |
| <b>Surplus</b>           | <b>726,400</b>    | <b>223,603</b>    | <b>1,968,155</b>  | <b>238,393</b>    | <b>378,661</b>    |

*\*FY 2020-21 surplus is an estimate based on the third quarter review in preliminary budget report.*

Based on this information, the FAC recommends transferring a portion of the surplus calculated at year-end to the CIP Fund to replenish the excess reserve. For the purpose of the model, Staff used \$200,000 annually as the additional transfer from the General Fund, which is the lowest surplus over five years. The FAC supported this

recommendation. If acceptable, this option will be included in the year-end report that goes to the City Council every December.

### Capital Campaign

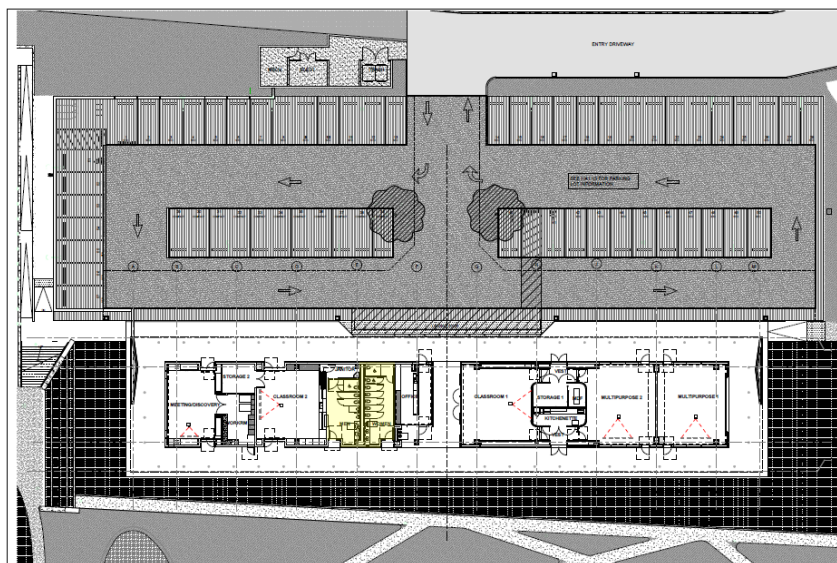
The Subcommittee also recommended the use of private donations to replenish the CIP fund balance. The approach for this recommendation would be a more inclusive approach by developing a donation program for the City's various capital projects. To encourage donations, the capital campaign could provide a donor wall and naming opportunities pursuant to City Council Policy No. 37. Any donation received would go directly to replenish the CIP Fund.

If acceptable, the FAC recommends that the City Council appoint a City Council subcommittee or create a new committee and onboard a consultant to develop a capital campaign program. At this time, the City Council may wish to have the Public Facilities Subcommittee, consisting of Mayor Alegria and Councilman Cruikshank, to serve in this capacity.

### **ADDITIONAL INFORMATION:**

#### Minor Modification No. 1

On May 5, 2021, the Director of Community Development issued a Notice of Decision (NOD) for approval of Minor Modification No. 1 to the City Council-approved Conditional Use Permit, Variance, Grading Permit, and Site Plan Review for the Ladera Linda Community Center and Park Project (Case No. PLCU2020-0007). The design modifications include the reconfiguration of the proposed open-air restroom configuration (individual water closets and communal wash area) into enclosed, and separate men's and women's restrooms consisting of traditional stalls and washbasins, and minor reconfiguration of the parking lot, as seen in the revised site plan below:



The NOD provides for a 15-day period to appeal the Director's decision to the City Council. A \$2,275.00 appeal fee must accompany any appeal letter. If no appeal is filed, the Director's decision will be final at 5:30 PM on Thursday, May 20, 2021.

### Project Cost Estimate Update

As a result of the approval of Minor Modification No. 1, Staff is working on estimating the full cost of enclosing the bathrooms to accommodate a separate men's and women's bathroom. At this time, the anticipated cost of enclosing the bathrooms remains approximately \$175,000 as stated in the April 6, 2021 Staff Report plus any escalation, associated soft costs, and contingency. Additionally, Staff is working to estimate the cost of installing security shutters on glass surfaces, which is anticipated to be approximately \$250,000 plus escalation, associated soft costs, and contingency.

In response to community feedback, Staff is working with the project's cost estimator (MGAC Inc.) to reformat the project cost estimate document to include more detailed information that can be presented in a format that is easily interpreted by the general public. The updated and re-formatted cost estimate is expected to be complete in the next several weeks, at which time it will be made available to the public and presented to the City Council at a future meeting.

The design of the enclosed bathrooms and security shutters, as well as the cost estimate updates and format changes are an additional service that will require an amendment to the Johnson Favaro contract. This contract amendment is estimated to be brought to City Council as early as June 2021.

In the coming weeks and months, Staff will bring other contract amendments to the City Council as the design progresses further towards construction documents. These will include hiring a security sub-consultant and a dry utility coordination sub-consultant, among others. Such sub-consultants and similar contract amendments were accounted in the overall project cost estimate presented to the City Council on April 6 and do not represent a cost increase.

### Project Construction Manager

Based on City Council directive at the April 12 CIP workshop, Staff is in the process of publishing a request for proposal to on-board a project construction manager. Between now and the adoption of the budget in June 2021, staff will collect proposals and conduct selection interviews, that may include the participation on the interview panel by the City Council Public Facilities Subcommittee, so that a professional service agreement may be considered by the City Council soon after the budget is adopted.

## Finance Advisory Committee

The Chair, Vice-Chair, and a member of the subcommittee have been invited to attend the May 18 City Council meeting to answer any questions pertaining to their recommendation.

## KTS Consulting

On February 25, Kosmont Transaction Services (KTS) provided a high-level overview of the procurement and financing options to the FAC. At the April 22 FAC meeting, KTS provided Staff with three amortization schedules to finance the project with a Lease Revenue Bond at 50%, 75%, and 100%. After comparing the cost of financing through bond and loan, FAC recommended not to consider a bond to fund the project for the following reasons:

- High cost of issuance
- The City would have to go through a public credit rating
- The debt amount is relatively small
- The projected interest rate is higher

Staff has provided the FAC recommendation to KTS, who suggest the City consider (1) a private direct lending with a term of 5- to 15-years at an expected cost between \$100,000 to \$125,000, or (2) a public offering with a term of 5- to 30-years with the expected costs between \$150,000 to \$175,000. Although the City may be able to obtain a competitive interest rate, the City will have an additional cost of borrowing on top of the interest cost. FAC recommends that the added cost associated with issuance and the public credit rating for the amount of debt that it recommends is not worth pursuing at this time.

## Public Comments

As of May 11, the City received 34 public comments (Attachment E). The majority of the public comments express opposition to the project and using public funds to pay for the project.

## **CONCLUSION:**

The FAC recommends, unanimously, that the City Council consider financing the project using 50% of the ARPA funds, the Quimby Fund, and the remaining balance to be split between a 10-year loan from iBank and the CIP Fund Reserve. The approval of the funding option as proposed will not result in any tax increases to the community.