9:15 a.m. A
2/3/09

City of
FRESNO

Lee Brand
Councilmember
District 6

February 3, 2009

TO: Councilmembers

FROM: Lee Brand
Councilman, District Six

SUBJECT: Council Workshop on Bond Issues

In the months preceding my swearing in as a new Council Member, I invested a considerable amount of time investigating City of Fresno finances. Part of my study of City finances included all aspects of City bonding. There were rumors in the community regarding our financial soundness because of excessive bond debt. There was a suspicion that the $18 million budget surplus was achieved at the expense of over-encumbering City assets and a developing financial crunch caused by a heavy debt burden.

Late last year, I drafted an email, in collaboration with Council Member Borgeas, to Budget Director Renena Smith to determine the exact state of City finances relative to bonding capacity and debt structure. Last week all Council Members and the Mayor received a concise, detailed answer to the questions that were raised on bonding and financial issues. The information in the response is vital to our decision-making on the City budget.

Consequently, I have requested this workshop for all Council Members to become familiar with our financial situation and to put to rest misinformation regarding our bonding capacity and debt structure.

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JAN 20 2009

City of
FRESNO
FINANCE DEPARTMENT

DATE: January 17, 2009

TO: HONORABLE MAYOR ASHLEY SWEARENGIN
COUNCIL PRESIDENT CYNTHIA STERLING
COUNCIL MEMBERS

THROUGH: ANDREW T. SOUZA, City Manager
City Manager's Office

BRUCE RUDD, Assistant City Manager
City Mangers Office

FROM: KAREN M. BRADLEY, Interim City Controller
Finance Department

SUBJECT: RESPONSE TO COUNCIL MEMBER BRANDS' REQUEST FOR CITY OF FRESNO FINANCIAL INFORMATION

At the request of New Council Member Brands' office, this memo is being provided in response to various financial questions as they relate to the City' debt and capital assets. Responses that are date specific have been labeled as such. Each question and the related responses follow:

1. Would you provide us a list of city real property assets used as collateral for bonds
   a) On this list would you show the appraised value of the properties and the amount of bond indebtedness (e.g. $1,000,000 property value and $500,000 bond debt)
   b) Would you break down those bonds in the general fund and those bonds in other city operations.

		Appraised Value *	Original Bonded Amount *	Remaining a/o 06/30/2008	Remaining a/o 12/31/2008
General Fund					
1	1996 Conference Center Certificates of Participation	10,040,000	11,990,000	4,550,000B	4,550,000
	Conference Center/Parking Garage	10,040,000			
1	1998 Exhibit Hall Expansion Lease Revenue Bonds	Unknown	32,609,535	27,785,937B	26,668,842
	New Exhibit Hall	Unknown			
1	2006 Convention Center Improvement Lease Rev. Bond	18,640,000	18,725,000	17,435,000B	8,250,000
	Ernie Valdez Exhibit Hall	5,720,000			
	Saroyan Theatre	12,920,000			
1	2008 Convention Center Improvement Lease Rev. Bond	13,200,000	24,815,000	B	24,815,000
	Selland Arena	13,200,000			

		Appraised Value *	Original Bonded Amount *	Remaining a/o 06/30/2008	Remaining a/o 12/31/2008
	General Fund (Continued)				
	2000 City Hall Refinancing Lease Revenue Bonds	Unknown	42,035,000	30,150,000G	28,250,000
	Fresno City Hall	Unknown			
1	2001 Stadium Lease Revenue Bonds	Unknown	45,850,000	41,910,000B	41,005,000
	Chukchansi Stadium	Unknown			
	2002 Judgment Obligation Bonds	No Assets Pledged	5,370,000	4,355,000G	3,995,000
	2002 Pension Obligation Bonds	No Assets Pledged	205,335,000	182,785,000G	178,350,000
	2002 Street Light Acquisition Lease Revenue Bonds	Unknown	7,895,000	5,035,000G	4,510,000
	Street Lights pursuant to Title 31 of Superior Court Case #393325-6	Unknown			
	2004 Various Capital Projects Lease Revenue Bonds	Unknown	52,780,000	43,315,000G	41,670,000
	Boxcar Parking Lot & Boxcar Extension	Unknown			
	Stadium Parking Lot	Unknown			
	Promenade Parking Lot	Unknown			
	Convention Center Parking Garage	Unknown			
	Fire Station #2	Unknown			
	Fire Station #4	Unknown			
	Fire Station #13	Unknown			
	Fire Station #14	Unknown			
	Fire Station #15	Unknown			
	Fire Station #17	Unknown			
	Central District Police Substation	Unknown			
	Southeast District Police Substation	Unknown			
	East Fresno Boys & Girls Club	Unknown			
	Police Department Headquarters	Unknown			
2	2008 No Neighborhood Left Behind Lease Rev. Bonds	44,570,000	40,955,000	38,210,000G 2,745,000B	40,955,000
	Parking Garage #4	5,300,000			
	Parking Garage #8	18,900,000			
	Municipal Service Center (No FAX Property)	14,100,000			
	Memorial Auditorium	6,270,000			
3	2008 Parks Lease Revenue Bonds	59,400,000	37,685,000	35,205,000G 2,480,000B	37,685,000
	Portion of Woodward Park	59,400,000			
	California Energy Commission Loan (Solar @ MSC)	Unknown	2,661,000	2,157,950G	2,061,450
	HUD Loans (Regional Medical Center & FMAAA)	No Assets Pledged	4,500,000	3,120,000G	2,910,000
	HUD Loan (Neigborhood Streets/Parks)	2,815,000	1,500,000	1,285,000G	1,232,000
	Frank Romain Playground	1,350,000			
	Maple/Plymouth Park	650,000			
	Clinton/Brawley Expansion (Victory West Park)	415,000			
	Belmont & DeWitt Park Site	400,000			

	Appraised Value *	Original Bonded Amount *	Remaining a/o 06/30/2008	Remaining a/o 12/31/2008
Hupp Loan (Fire Station #21)	Unknown	140,000	24,000G	24,000
California Infrastructure Bank (Roeding Bus. Park)	Unknown	2,441,100	2,286,759G	2,231,638
City Hall Annex	Unknown			
Master Equipment Lease Purchase Agreement	Unknown	Varies	15,025,514G	13,295,378
Enterprise Funds				
1993 Sewer System Revenue Bonds	No Assets Pledged	196,280,000	92,415,000B	86,670,000
1995 Sewer System Revenue Bonds	No Assets Pledged	91,100,000	37,635,000B	5,195,000
2000 Sewer System Revenue Bonds	No Assets Pledged	74,000,000	74,000,000B	-
2008 Sewer System Revenue Bonds	No Assets Pledged	159,845,000	- B	159,845,000
Enterprise Funds (Continued)				
1998 Water System Revenue Bonds	No Assets Pledged	31,935,000	28,400,000B	28,400,000
2003 Water System Revenue Bonds	No Assets Pledged	16,155,000	12,190,000B	12,190,000
State Water Resources Control Board Loans	No Assets Pledged	5,761,567	1,503,144B	1,331,432
2000 Solid Waste System Revenue Bonds	No Assets Pledged	18,710,000	10,315,000B	10,315,000
2000 Airport Revenue Bonds	No Assets Pledged	43,045,000	38,970,000B	38,165,000
2007 Airport Revenue Bonds	No Assets Pledged	22,000,000	22,000,000B	22,000,000
Special Revenue Funds				
1991 Street Improvement Certificates of Participation	Unknown	10,925,000	3,350,000G	2,590,000
Rights-of-way & Public Streets as follows:				
Pottle Avenue: California to Merced				
Princeton Avenue: Maroa to Blackstone				
Eleventh Avenue: Olive to Floradora & Hedges; Cedar to 11th				
"Q" Street: Tulare to Belmont				
Van Ness: Merced to Divisidero & Inyo to Fresno				
Neighborhood Streets as follows:				
Llette/Route 99/Ventura/Merced				
Dakota/Ashlan/Wishon/Blackstone				
McKinley/Clinton/Maple/Sierra Vista				
Shaw/Barstow/Fresno/Angus				
Teilman/Fruit/Ashlan/Gettysburg				
Fresno Redevelopment Agency				
2001 Tax Allocation Lease Revenue Bonds	No Assets Pledged	10,000,000	7,260,000G	6,705,000
2003 Tax Allocation Refunding Bonds	No Assets Pledged	5,005,000	4,377,000G	4,377,000
California Infrastructure Bank (Roeding Business Park)	No Assets Pledged	2,118,000	1,984,087G	1,936,262
Nottoli Lease Agreement	Unknown	2,700,000	2,336,370G	2,304,662

Governmental	382,261,680	
Business-Type	414,334,081	
Total Long – Term Debt	796,595,761	844,482,664

* *Values at time of bond issuance.*

1 *Listed in Business-type Activities in CAFR, but backed by the General Fund.*

2 *$2,745,000 of 06/30/2008 amount is listed in Business-type Activities in the CAFR (Refunding of Selland Arena).*

3 *$2,480,000 of 06/30/2008 amount is listed in Business-type Activities in the CAFR (Riverside Golf Course).*

G= *Governmental Activities per CAFR*

B= *Business-Type Activities per CAFR*

2. What percentage of total city real property assets is secured by bonds?

	Assets Securing Bonded Debt		Total Citywide Assets		Percentage Pledged	
Category	Cost	Net Book Value	Cost	Net Book Value	Cost	Net Book Value
Land	6,109,637	6,109,637	241,110,229	241,110,229	2.53%	2.53%
Buildings	117,106,484	73,056,017	472,209,934	346,259,928	24.80%	21.10%
Improvements	60,803,193	32,151,132	593,698,042	349,528,417	10.24%	9.20%
Infrastructure	7,994,783	1,194,729	1,202,413,748	578,219,797	0.66%	0.21%
Grand Total	192,014,097	112,511,515	2,509,431,953	1,515,118,371	7.65%	7.43%

3. What is, and the value of, the available non-collateralized city-owned real property assets?

There is no way to determine the appraised value of available non-collateralized city-owned real property assets without having an appraisal performed for each of these assets. When the City begins the process of planning for the issuance of bonds, assets are selected that are the most associated with the project at hand and arrangements are made with a third-party appraiser to make a determination of the current appraisal value of the asset to be pledged. Existing assets are pledged when the capital work to be performed is for extensive repairs and upgrades to already existing assets. The assets to be built are pledged when the capital work is for the construction of new assets. Asset appraisal values change depending on current market conditions, the condition of the assets pledged, etc. It is possible that the values listed in the response to Question 1 above are no longer reflective of the current value of the assets upon which the appraisal was performed. The projects to be funded determine the assets to be pledged.

4. Are any city-owned real property assets double collaterized, meaning divided interests in the same asset are being used to satisfy multiple notes?

No. Investors and lenders will not allow this to happen and it has not happened.

5. What is our available bonding capacity, consistent with our current rating and a projected bonding schedule if our rating decreases?

Municipal bonds are securities issued by state and local governments, their agencies, and/or political subdivisions to finance public improvement projects. The bond issuer borrows needed money by selling municipal bonds. The investors who buy municipal bonds become creditors and are essentially loaning money to the issuer to fund public projects. Each bond is, in effect, an IOU representing the issuer's promise to repay the borrowed amount in a stated period of time. In exchange for the use of the money, the issuer usually also makes interest payments to the bondholders until the bonds are repaid.

There are three major rating agencies that evaluate municipal credit. They are Moody's Investors Service, Standard & Poor's Corporation (S&P), and Fitch Investors Service. They research the issuer's ability to repay debt and then assign a rating symbol which ranks the quality of the bonds. The chart below describes the rating symbols used for bonds and notes.

Bonds

Moody's	S&P	Fitch	Definition
Aaa	AAA	AAA	Highest quality; extraordinary ability to repay principal and interest.
Aa	AA	AA	High quality; very strong capacity to repay.
A	A	A	Upper medium grade quality; strong capacity to repay.
Ba	BB	BB	Speculative; repayment protection moderate.
Baa	BBB	BBB	Medium grade quality; adequate capacity to repay.
Ba	BB	BB	Speculative; repayment protection moderate.
B	B	B	Highly speculative; lightly protected.
Caa	CCC	CCC	Of poor standing; possibility of default
Ca	CC	CC	Minimally protected; default probable.
C	C	C	In actual or imminent default
D	D		In default

Bond ratings listed above the line are considered "investment grade."
Those below are considered speculative or "below investment grade."

Notes

Moody's	S&P	Fitch	Definition
MIG1 /VMIG1	SP-1+	F-1+	Best quality; Strong protection by established cash flows, superior liquidity support or broad-based access to the market for refinance.
	SP-1	F-1	Very strong or strong capacity to pay principal and interest.
MIG2 /VMIG2			High quality. Margins of protection are ample.
	SP-2	F-2	Satisfactory capacity to pay principal and interest.
MIG3 /VMIG3			Favorable quality. All security elements are accounted for but without the strength of higher grades. Liquidity and cash flow protection may be narrow. Market access for refinancing likely to be less established.
	SP-3	F-3	Speculative capacity to pay principal and interest
MIG4 /VMIG4			Adequate quality. Required protection is present. Although no distinctly or predominantly speculative, there is specific risk

The City of Fresno's Charter imposes a limit on the amount of general obligation bonds that the City can have outstanding at any given time to 20% of the assessed value of property in the City. For the City of Fresno this would equate to $5,994,503,273 at June 30, 2008. While the City could legally have this amount of general obligation debt outstanding, it most certainly must be recognized that debt of that magnitude cannot be supported with the City's current tax base and revenue stream. Given the current Federal, State and Regional financial crisis the City will be challenged to find sufficient revenue streams to take on any additional debt backed

by the General Fund beyond what is currently outstanding given the current economic situation. The City must be very cautious about issuing any additional debt subsequent to the issuance of the Public Safety bonds, which is anticipated at this time to occur in January/February 2009. With the pending decision by Council related to impact fees, Finance is very concerned about the issuance of any additional debt at this time that would need to be backed by the General Fund. There is a very strong likelihood that the General Fund would be required to make up the shortfall for debt service that is to be funded by impact fees were these fees to be deferred, done away with or frozen. Only Enterprise Departments that have fees in place to cover anticipated bond issuances for water and sewer infrastructure improvements are in a position to move forward with bond issuances.

For the City of Fresno, in the near term, debt capacity is more a question of affordability with respect to the amount of debt service the City can take on from a cash flow standpoint; the willingness of the market to buy the City's bonds and the interest rate the City can afford to pay. There is no way to estimate what impact a rating downgrade would have on the City other than to acknowledge that the cost of debt would be more expensive to the City. It is impossible to determine what a schedule would look like if our rating declined.

6. Has any city-owned real property, or interest therein, been sold or transferred by the city in the last 2 years?

Yes, please see the table below:

Asset Description	Date	Sales Proceed	Original Cost	Sold By Dept	Sold To
Sale of Modular Office Trailer	October 2006	$32,000	$144,698	Sewer (Old Amin Trailer)	J. R. Filanc
Sale of Cherta Farms Prop – 903 H Street	March 2007	$546,144	$254,888	Parking	EIE Alpha, LLC
Sale of land at Orange and Church	August 2007	$737,510	Unknown*	Parcs	Unified School Dist
Sale of land at Herndon and Golden State	August 2008	$355,306	Unknown*	Public Works	Samuel & Lisa Monaco

*Cannot locate on City's Fixed Asset Listing. The land cost is more than likely buried in with some other asset cost or many have been acquired many years ago before the creation of the City's comprehensive asset records.

7. In the past few years, I am aware of three major bond projects: no neighborhood left behind at approximately $40 million; parks at approximately $80 million; and public safety at approximately $45 million. My understanding is that these projects have a delayed debt service payment schedule. Is the debt service for any of these projects in the FY 2008-09 general fund budget?

Yes.

General Fund (No Neighborhood Left Behind Project)	3,844,200
General Fund (Selland Arena)	626,600
Total No Neighborhood Left Behind Debt Service	4,470,800
Parks Impact Fees	2,115,000
Riverside Golf Course Revenues	202,000
Total Parks Debt Service	2,317,000
Police Impact Fees	377,000
Fire Impact Fees	237,000
General Fund (City Impact Fee Match)	639,000
General Fund (Police Department Chiller)	-
Total Public Safety Debt Service	1,253,000

Amounts for Public Safety are estimates and subject to change because bonds have not yet been issued. Estimated time of issue is late January to early February 2009.

What will be the debt service amount for the FY2009-10 budget and more specifically, how is the cost allocated between the general fund, impact fees, and state and federal sources? Would you provide a schedule and source.

General Fund (No Neighborhood Left Behind Project)	3,853,200
General Fund (Selland Arena)	626,500
Total No Neighborhood Left Behind Debt Service	4,499,700

Parks Impact Fees	2,199,400
Riverside Golf Course Revenues	157,500
Total Parks Debt Service	2,356,900
Police Impact Fees	1,153,000
Fire Impact Fees	372,000
General Fund (City Impact Fee Match)	1,200,000
General Fund (Police Department Chiller)	201,000
Total Public Safety Debt Service	2,926,000

Amounts for Public Safety are estimates and subject to change as the bonds have not yet been issued. Estimated time of issue is late January to early February 2009.

8. In your response to Councilman Borgeas you showed total long term liabilities of $793,837,135 that included certificates of participation for $7,900,000, notes payable for $12,360,835 and $17,361,884 for capital lease obligations. Would you please explain, in more detail, certificates of participation and notes payable. Do either of these long term liabilities have shorter financing (e.g. less than 10 years) than bond debts? Would you explain, in more detail, the capital lease assets used as collateral. Are these leasehold improvements and leased equipment? What is the length of financing?

   Certificates of Participation are essentially a mortgage on the project that is being funded. The City uses the land and buildings as collateral for investors who lend the money. Unlike general obligation debt, voter approval is not needed because the net effect to the balance sheet of the City is zero, so the transaction is not considered "debt". This is accomplished by recording the project that is being funded as an asset with a liability of equal value for the bonds associated with construction of the asset.

   Loans are money that is borrowed from a single lender, usually a bank or other governmental agency. Loans are typically held by the lender and not traded in the stock market as are bonds. The term of the loan is dictated by the useful life of the asset it is funding.

   The capital lease obligations are mostly for equipment necessary to conduct City operations. Most are for vehicles that are purchased from a vendor under a requirements contract, and funded through the City's Master Equipment Lease Purchase Agreement. The equipment purchased secures the lease until it is paid off. At the time of purchase, the City takes ownership of the equipment but places a lien on the title in the name of the lender. Once that piece of equipment is paid off, the lien is removed by the lender. The financing term of each piece of equipment is based on its estimated useful life. Police cars and computers, for example, are typically leased for three years while fire engines are leased for ten years.

   The table below agrees the responses in item 1. above to the soon to be release CAFR. And the way in which it discloses Long-Term Liabilities.

LONG-TERM LIABILITIES

Long-term liabilities are liabilities with a future benefit over more than one year, such as bonds and notes payable that mature in periods greater than one year.

In financial accounting, a **liability** is defined as an *obligation* of an entity arising from *past* transactions or events, the settlement of which may result in the transfer of or use of assets, the provision of services or other, yielding of economic benefits in the future.

The following is a summary of the City of Fresno's long-term liabilities as presented in the soon to be release Comprehensive Annual Financial Report. Balances are reported as of June 30, 2008 and tie to the responses in Question 1 above.

SUMMARY OF LONG-TERM DEBT

	Governmental Activities	Business-Type Activities	Total Government
Long-term Debt			
Revenue and Other Bonds	$ 339,055,000	$ 408,280,937	$ 747,335,937
Tax Allocation Bonds	11,637,000	-	11,637,000
Certificates of Participation	3,350,000	4,550,000	7,900,000
Deferred Charges	907,766	(3,666,287)	(2,758,521)
Notes Payable	10,857,796	1,503,144	12,360,940
Capital Lease Obligations	17,361,884	-	17,361,884
	383,169,446	410,667,794	793,837,240
Add back deferred charges	(907,766)	3,666,287	2,758,521
Total Long-Term Debt	382,261,680	414,334,081	796,595,761

We believe this memo responds to the financial questions asked, however if further explanation is needed, we would be delighted to discuss these matters at greater length. If there are any further questions, or if we can assist in any way, please do not hesitate to let us know.

CITY OF FRESNO
FINANCE DEPARTMENT
DEBT PER CAPITA COMPARISONS WITH OTHER CALIFORNIA CITIES
AS OF JUNE 30, 2007

	Governmental		POB		Net Governmental		Business Type		Population	Per Capita Debt[1]					Comparable Rankings				
	$	Per Capita	$	Per Capita	$	Per Capita	$	Per Capita		Governmental w/ POB	Governmental w/o POB	Business	Total w/ POB	Total w/o POB	Governmental w/ POB	Governmental w/o POB	Business	Total w/ POB	Total w/o POB
City & County of San Francisco	2,200,585,000	2,946	148,578,000	199	2,052,007,000	2,747	5,525,949,000	7,397	747,069	2,946	2,747	7,397	10,342	10,144	3	3	1	1	1
City of Long Beach	670,060,000	1,367	64,529,646	132	605,530,454	1,235	1,844,968,000	3,764	490,193	1,367	1,235	3,764	5,131	4,999	8	8	2	2	2
City of Anaheim	826,993,000	2,393	48,023,000	139	778,970,000	2,254	816,949,000	2,364	345,559	2,393	2,254	2,364	4,757	4,618	4	4	4	3	3
City of San Jose	3,342,646,000	3,432	97,729,000	100	3,244,917,000	3,332	1,216,830,000	1,249	974,000	3,432	3,332	1,249	4,681	4,581	2	1	8	4	4
City of Riverside	667,941,000	2,318	144,450,000	501	523,491,000	1,816	492,393,000	1,708	288,203	2,318	1,816	1,708	4,026	3,525	5	5	6	5	6
City of Oakland	1,593,113,000	3,834	313,625,000	755	1,279,488,000	3,079	63,431,000	153	415,492	3,834	3,079	153	3,987	3,232	1	2	15	6	7
City of Los Angeles	3,824,295,000	952	224,946,000	56	3,599,349,000	896	10,439,300,000	2,598	4,018,080	$ 952	$ 896	$ 2,598	$ 3,550	$ 3,494	10	9	3	7	5
City of San Diego	1,393,837,000	1,058	158,162,000	120	1,235,675,000	938	1,852,436,000	1,407	1,316,837	1,058	938	1,407	2,485	2,345	9	9	7	8	8
City of Clovis	38,773,918	420	5,977,000	65	32,796,918	355	176,296,448	1,900	92,269	420	355	1,900	2,320	2,255	15	13	5	9	9
City of Sacramento	582,172,000	1,246	43,318,000	93	538,854,000	1,153	379,324,000	812	467,343	1,246	1,153	812	2,057	1,965	7	7	10	10	10
City of Stockton	322,517,000	1,113	125,310,000	432	197,207,000	681	171,266,000	591	289,769	1,113	681	591	1,704	1,272	8	11	12	11	11
City of Fresno	**539,838,940**	**706**	**186,990,000**	**389**	**152,848,940**	**317**	**430,719,482**	**885**	**481,035**	**706**	**317**	**885**	**1,601**	**1,213**	**11**	**15**	**9**	**12**	**12**
City of Modesto	92,285,938	441	12,214,853	58	80,071,085	383	126,834,909	606	209,174	441	383	606	1,048	989	14	12	11	13	13
City of Merced	37,925,439	476	7,200,000	90	30,725,439	385	38,316,854	481	79,715	476	385	481	956	866	13	14	13	14	14
City of Santa Ana	244,034,576	690	19,088,000	54	224,946,576	636	32,033,421	91	353,428	690	636	91	781	727	12	10	18	15	15
City of Visalia	20,320,580	173	30,288,417	257	(9,967,837)	(85)	27,816,078	235	117,744	173	(85)	235	407	150	16	16	14	16	16
City of Bakersfield	27,278,221	84	17,480,696	54	9,797,525	30	13,054,738	40	323,213	84	30	40	125	71	17	17	17	17	17
City of Madera	100,000	2	-	-	100,000	2			55,780		2								
Average									614,718	1,391	1,120	1,546	2,938	2,732					

[1] Excludes Compensated Absences, Worker's Compensation, Claims, and Environmental liabilities.
Represents City's contribution to Retirement Systems in FY2007.