



# **PUBLIC FINANCING AUTHORITY (PFA) & OTHER LEASE FUNDS**

Operating and Capital Budget for FY 2011-12

Outstanding indebtedness, purposes, source of repayment  
Expenditure Details



# PUBLIC FINANCING AUTHORITY AND OTHER LEASE OBLIGATIONS

LIZ WARMERDAM, FINANCE DIRECTOR

## PURPOSE

The Public Financing Authority (PFA) provides the City with additional financing mechanism for funding capital projects and seeks to secure the most advantageous financing rates. Established in 2001, the Public Financing Authority is a legally separate entity from the City. Creation of the PFA facilitates long-term lease financing through the issuance of lease revenue debt issuances. The Authority has issued six debt obligations, three of which are discussed below. The remaining three PFA bond issues are for municipal utility enterprise funds and are discussed in that section of this budget book.

Additionally included in this section is a City lease obligations to Sun Trust for improvements to City facilities for energy efficiency building improvements, and several other loan obligations of the City. On the following page is a table listing the outstanding lease debt obligations of the PFA and the City, along with information on the purpose of the bond or loan proceeds, terms of the financing, and historic and current debt service.

Refer to the Utility Enterprise section of this document for a complete discussion of the PFA bond issues secured by the City's wastewater and HMU utility revenue.

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### **Lease Revenue Bonds Series 2003A, PFA (Defeased)**

The Public Financing Authority issued 2010 HMU Electric Utility Revenue Refunding Bonds to refund the Lease Revenue Bonds, Series 2003A. The Authority issued the Series 2003A for an initial principal amount of \$7,000,000 and refunded outstanding principal balance was \$6,495,000 as of June 30, 2010. The net proceeds of 2003 Series A bond were used to finance and refinance infrastructure for the Hercules Municipal Utility. As a financing mechanism, the City leased the Hercules Swim Center from the PFA; the PFA used the lease payments to service the debt. The economic effect of refunding the 2003A Series Bonds was a loss of \$213,306. The liability for these bonds has been removed from the City's financial statements, as the debt obligation is considered defeased.

### **Lease Revenue Bonds Series 2003B, PFA**

The initial principal amount for the 2003 Series B Lease Revenue Bonds was \$9,150,000. The bonds were issued to finance certain capital improvements, including, but not limited to, a portion of the construction of the public library and to refinance the 1994 Refunding Certificates of Participation (Capital Improvement Projects), which had a \$4,300,000 outstanding principal amount. As a financing mechanism, the City leases the Civic Center (City Hall, police headquarters, and senior

center) and the real property thereunder; the PFA uses the lease payments to service the debt. The interest rate is fixed with the interest rate ranging from 2.00% to 5.00%. Principal is paid yearly throughout the life of the bond, which matures on December 1, 2033. The FY 2011-12 Budget includes debt service payments for the 2003 Series B Bonds, of which are received by a transfer from the General Fund, of \$205,000 in principal and \$364,610 in interest, resulting in an estimated outstanding indebtedness balance at June 30, 2012 of \$7,650,000.

#### **Lease Revenue Bonds Series 2009 (Taxable), PFA**

The PFA issued taxable lease revenue bonds, series 2009, in July of 2009 totaling \$10,080,000. The purpose of the bonds were to finance the acquisition of certain commercial condominium properties, consisting of approximately 96,847 square feet located at 203 Linus Pauling Drive (known as the Bio-Rad Building) from the City, funding a reserve fund for the Bonds, and to pay the cost of issuance. The interest rates on the bonds range from 6.0% to 8.4%. The bonds are payable semiannually on January 1 and July 1, commencing on January 1, 2010, ranging from \$165,000 to \$845,000. The bonds are payable from and secured by revenues consisting primarily of the base rental payments of the Bio-Rad lease payment to the City and interest earnings from a guaranteed investment contract held by the trustee, both of which are accounted for in the General Fund. The bonds mature on July 1, 2038. The FY 2011-12 Budget includes debt service payments for the 2009 Lease Revenue Bonds of \$115,000 in principal and \$801,946 in interest, resulting in an estimated outstanding indebtedness balance at June 30, 2012 of \$9,850,000.

#### **Energy Efficiency Capital/Equipment Lease Obligation, City**

On September of 2007, the City entered into master lease agreements with SunTrust Leasing Corporation in order to provide funds for the financing of the EMS Project performed by Siemens Building Technologies for energy efficiency building improvements funding for City facilities. The rationale for this investment is based on analysis that the savings incurred from energy efficiencies would be sufficient or exceed the annual lease payments. Payments are due semiannually in September and March, at an interest rate of 4.73%. The master lease agreement matures in 2022. The FY 2011-12 Budget includes lease payments, of which are received by a transfer from the General Fund, of \$124,157 in principal and \$80,946 in interest, resulting in an estimated outstanding indebtedness balance at June 30, 2012 of \$1,679,072.

#### **H.E.L.P. Loan, City**

In April 2005, the City of Hercules entered into an agreement with the State of California Housing Finance Agency to develop a 50-unit multi-family rental project that is a component to a mixed-use development, also consisting of 26,825 square feet of ground-floor commercial space. The Housing Finance Agency authorized the \$1,600,000 loan through the Housing Enabling by Local Partnership (H.E.L.P.) to the City to assist in operating a local housing program. Under the terms of the agreement, the City agrees to reimburse the Housing Finance Agency the \$1,600,000 in April 2015 at a 3% simple per annum interest. As of June 30, 2010, \$1,600,000 is outstanding.

#### **R.D.L.P. Loan, City**

In February 2007, the City of Hercules entered into a loan agreement with the California Housing Finance Agency in the amount of \$3,750,000 to be used to assist with site acquisition, predevelopment, and construction costs for 23 affordable ownership units within a 52-unit condominium project, which is a component to the Sycamore Downtown Street project, a mixed-use, mixed-income development. Under the terms of the agreement, the City of Hercules agrees to repay the Agency \$3,750,000 plus simple per annual interest at 3% in February 2011. In August 2010 the repayment date was extended to August 2011. The City is currently working with the agency for approval of an additional extension.

City of Hercules, California Public Financing Authority and Other Lease/Loan Obligations  
 Outstanding Debt - FY 2009-10, Estimated FY 2010-11 and Budgeted FY 2011-12

	Purpose / Use of Bond Proceed	Source of Funding	Terms and Rates	Outstanding Debt	FY 2009-10 Actuals			Total Debt	FY 2010-11 Est.			Total Debt	FY 2011-12 Budget			Total Debt
					Principal Payments	Interest Payments	Service		Outstanding Debt	Principal Payments	Interest Payments		Service	Outstanding Debt	Principal Payments	
<b>General City Debt Obligations</b>																
2003A PFA Lease Revenue Bonds	HMU Electric Infrastructure	City General Fund	Deeded	0	6,630,000	55,801	6,685,801	0	0	0	0	0	0	0	0	0
2003B PFA Lease Revenue Bonds	Library construction, Refl \$4.3 Million in 1994 COPS	City General Fund	Rates 2% to 5%, Semi-annual P&I thru 2033	8,055,000	195,000	376,579	571,579	7,855,000	200,000	373,897	573,897	7,650,000	205,000	364,610	569,610	
2009 PFA Lease Revenue Bonds (Taxable)	Acquisition of Bio-Rad Building Energy efficiency City facility	BioRad Building lease payments and interest earnings on CIC	Semi-annual P&I thru 2038	10,080,000	0	343,991	343,991	9,865,000	115,000	804,815	919,815	9,850,000	115,000	801,366	916,366	
Capital / Equip. Facility Energy Efficiency Lease (SunTran Improvements)	Development of multi-family rental housing	City General Fund	Rate of 4.73%; P&I thru 2022	1,918,915	110,402	94,696	205,098	1,803,229	115,686	89,413	205,099	1,679,072	124,157	80,946	205,103	
H.E.L.P. (State Housing Finance Authority) Loan	Development of affordable housing in Sycamore Downtown Street project	City resources, non-specific	Rate of 3%; Term P&I payment due in full in August 2011	1,600,000	0	0	0	1,600,000	0	0	0	1,600,000	0	0	0	
R.D.L.P. (State Housing Finance Authority) Loan				3,750,000	0	0	0	0	3,750,000	187,500	3,937,500	0	0	0	0	
<b>Subtotal - General City Debt Obligations</b>				<b>\$25,403,915</b>	<b>\$6,935,402</b>	<b>\$871,067</b>	<b>\$7,805,469</b>	<b>\$21,223,229</b>	<b>\$4,180,686</b>	<b>\$1,455,625</b>	<b>\$5,636,311</b>	<b>\$20,779,072</b>	<b>\$444,157</b>	<b>\$1,246,922</b>	<b>\$1,691,079</b>	
<b>Municipal Utilities Enterprise Debt Obligations</b>																
2010 PFA Wastewater Treatment Plan Revenue Bonds	Wastewater treatment plan construction	Wastewater charges for service	Rates 2.0% to 5.0%; Semi-annual P&I thru 2040	0	0	0	0	11,765,000	230,000	465,000	695,000	11,535,000	230,000	504,712	734,712	
2010 PFA HMU Electric Utility Refunding Bond (2003A LRBs)	Refunding of \$6,495 million of Electric Sub-Station construction	Electric power charges for service	Rates 2.0% to 5.375%; Semi-annual P&I thru 2038	7,425,000	0	0	0	7,425,000	0	214,050	214,050	7,425,000	0	361,775	361,775	
2010 PFA HMU Electric Sub-Station Revenue Bonds	Electric Sub-Station construction	Electric power charges for service	Rates 2.0% to 5.375%; Semi-annual P&I thru 2040	0	0	0	0	5,775,000	0	121,176	121,176	5,775,000	0	139,818	139,818	
<b>Subtotal - Municipal Utilities Enterprise Debt</b>				<b>\$7,425,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$24,965,000</b>	<b>\$230,000</b>	<b>\$800,226</b>	<b>\$1,030,226</b>	<b>\$24,735,000</b>	<b>\$230,000</b>	<b>\$1,006,305</b>	<b>\$1,236,305</b>	
<b>Total - Public Financing Authority and Other Lease Obligations</b>				<b>\$32,828,915</b>	<b>\$6,935,402</b>	<b>\$871,067</b>	<b>\$7,805,469</b>	<b>\$46,188,229</b>	<b>\$4,410,686</b>	<b>\$2,255,851</b>	<b>\$6,666,537</b>	<b>\$45,514,072</b>	<b>\$674,157</b>	<b>\$2,253,227</b>	<b>\$2,927,384</b>	

Source: City of Hercules, Finance Department

					FY 2009-10	FY 2010-11	FY 2010-11	FY 2011-12	% Change
					ACTUALS	ADOPTED	YEAR-END	BUDGET	from
						BUDGET	ESTIMATE	PLAN	FY 2010-11 Est.
<b>CITY FACILITIES ENERGY EFFICIENCY LEASE (SUN TRUST) FUND (383)</b>									
Fund No: 383; Dept/Division No: 9999									
<b>OTHER EXPENSES</b>									
639	50	99	LEGAL SERVICES		0	0	0	0	
<b>OTHER EXPENSES TOTAL:</b>					<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>na</b>
<b>DEBT SERVICE</b>									
650	10	00	PRINCIPAL PAYMENTS		110,402	115,686	115,686	124,157	
650	20	00	INTEREST PAYMENTS		94,696	89,413	89,413	80,946	
650	30	00	COST OF ISSUANCE		0	0	0	0	
650	40	01	TRUSTEE FEES		0	500	500	400	
650	40	02	ADMINISTRATOR FEES		0	0	0	0	
650	40	04	CONT. DISCLOSURE		0	0	0	0	
650	40	05	ARBITRAGE CALCULATION		0	0	0	0	
650	40	06	LETTER OF CREDIT FEES		0	0	0	0	
650	40	07	REMARKETING FEES		0	0	0	0	
650	50	00	MISC EXP		24,250	0	0	0	
642	06	11	ENERGY CONSERVATION PRG		0	0	0	0	
690	10	00	GENERAL FUND		0	0	0	0	
690	30	00	SINGLE FUNDED PROJECTS		0	0	0	0	
<b>DEBT SERVICE TOTAL:</b>					<b>229,348</b>	<b>205,599</b>	<b>205,599</b>	<b>205,503</b>	<b>0%</b>
<b>GRAND TOTAL - FUND EXPENDITURES &amp; TRANSFERS-OUT</b>					<b>229,348</b>	<b>205,599</b>	<b>205,599</b>	<b>205,503</b>	<b>0%</b>

**2003A SERIES LEASE REVENUE BONDS DEBT SERVICE FUND (671)**

Department: PUBLIC FINANCE AUTHORITY

Fund No: 671; Dept/Division No: 9999

**DEBT SERVICE**

650	10	00	PRINCIPAL PAYMENTS		6,630,000	0	0	0	
650	20	00	INTEREST PAYMENTS		55,801	0	0	0	
650	40	01	TRUSTEE FEES		5,644	0	1,500	0	
650	40	04	CONT. DISCLOSURE		227	0	0	0	
650	40	05	ARBITRAGE CALCULATION		79,276	0	0	0	
650	40	06	LETTER OF CREDIT FEES		141,109	0	0	0	
650	40	07	REMARKETING FEES		8,826	0	0	0	
690	10	00	GENERAL FUND		0	0	0	0	
690	43	00	HERCULES MUNICIPAL UTILIT		0	0	0	0	
690	67	40	2010 DEBT SERVICE HMU		0	0	1,293,194	0	
<b>DEBT SERVICE TOTAL:</b>					<b>6,920,883</b>	<b>0</b>	<b>1,294,694</b>	<b>0</b>	<b>-100%</b>
<b>GRAND TOTAL - FUND EXPENDITURES &amp; TRANSFERS-OUT</b>					<b>6,920,883</b>	<b>0</b>	<b>1,294,694</b>	<b>0</b>	<b>-100%</b>

**2003B SERIES LEASE REVENUE BONDS DEBT SERVICE FUND (672)**

Department: PUBLIC FINANCE AUTHORITY

Fund No: 672; Dept/Division No: 9999

**DEBT SERVICE**

650	10	00	PRINCIPAL PAYMENTS		195,000	200,000	200,000	205,000	
650	20	00	INTEREST PAYMENTS		376,579	373,897	373,897	364,610	
650	40	01	TRUSTEE FEES		3,200	4,000	4,000	3,500	
650	40	04	CONT. DISCLOSURE		3,000	0	0	3,000	
650	40	05	ARBITRAGE CALCULATION		0	2,500	2,500	0	
<b>DEBT SERVICE TOTAL:</b>					<b>577,779</b>	<b>580,397</b>	<b>580,397</b>	<b>576,110</b>	<b>-1%</b>
<b>GRAND TOTAL - FUND EXPENDITURES &amp; TRANSFERS-OUT</b>					<b>577,779</b>	<b>580,397</b>	<b>580,397</b>	<b>576,110</b>	<b>-1%</b>

**2009 SERIES LEASE REVENUE BONDS DEBT SERVICE FUND (673)**

Department: PUBLIC FINANCE AUTHORITY

Fund No: 673; Dept/Division No: 9999

**DEBT SERVICE**

650	10	00	PRINCIPAL PAYMENTS		0	115,000	115,000	115,000	
650	20	00	INTEREST PAYMENTS		343,991	804,815	804,815	801,366	
650	30	00	COST OF ISSUANCE		644,944	0	0	0	
650	40	01	TRUSTEE FEES		1,000	1,000	1,000	2,500	
650	40	04	CONT. DISCLOSURE		3,000	0	0	2,500	
650	40	05	ARBITRAGE CALCULATION		0	2,500	2,500	0	
641	05	71	VENTURE CORP		0	0	0	0	
<b>DEBT SERVICE TOTAL:</b>					<b>992,935</b>	<b>923,315</b>	<b>923,315</b>	<b>921,366</b>	<b>0%</b>

**TRANSFERS**

690	10	00	GENERAL FUND			0	0	0	
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				FY 2009-10 ACTUALS	FY 2010-11 ADOPTED BUDGET	FY 2010-11 YEAR-END ESTIMATE	FY 2011-12 BUDGET PLAN	% Change from FY 2010-11 Est.
690	30	00	SINGLE FUNDED PROJECTS	0	1,435,477	1,435,477	0	
690	31	10	LIBRARY	0	0	0	0	
690	60	10	RDA OPERATING	0	0	0	0	
690	61	10	94 COPS	0	0	0	0	
690	63	00	CAPITAL PROJECTS	0	0	0	0	
<b>TOTAL - TRANSFERS-OUT TO OTHER FUNDS:</b>				<b>0</b>	<b>1,435,477</b>	<b>1,435,477</b>	<b>0</b>	<b>-100%</b>
<b>GRAND TOTAL - FUND EXPENDITURES &amp; TRANSFERS-OUT</b>				<b>992,935</b>	<b>2,358,792</b>	<b>2,358,792</b>	<b>921,366</b>	<b>-61%</b>