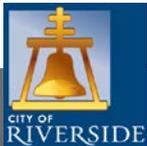


# Summary of Comments

- **Interfund Loans Explained**
- **Sewer Fund Interfund Loans**
- **2009 Sewer Revenue Bonds**



# Interfund Loans Explained



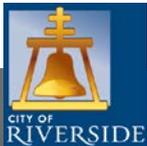
# Purpose of Interfund Loans

- The City has made interfund loans for decades
  - Loans in anticipation of upcoming bond issues in order to start projects
  - Loans for projects of a small size
- These loans are a common practice in municipal government
- Typical loan terms are shorter than traditional financings and in the range of 5-10 years or less, versus 20-30 years for bond financings
- Loans are made from a variety of funds, but primarily from the City's utility funds and internal service insurance trust funds
- **Loans are only made from available cash reserves**



# Cash Reserves and Rates

- The City's utility funds and internal service funds have historically held sizable cash reserves
- Cash reserves are an important part of these funds' sound financial management and long-term fiscal health
- Cash reserves are accumulated for purposes other than to fund ongoing operations
  - Utility cash reserves protect against a serious natural disaster or other unanticipated event
- **Utilizing cash reserves to make interfund loans in no way increases utility rates or encumbers funds that could otherwise be used for operations**



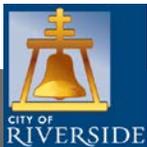
# Interfund Loan Interest Earnings

- The interest rate charged for interfund loans is set annually based on the average earnings of the City's investment portfolio during the previous 12 months
- Lending funds therefore receive the same interest they would have received if their reserve cash had been invested in the City's investment pool
- Interfund loans provide a cost-effective means of borrowing that saves the City money (the current interfund loan rate is less than 1% versus rates in the range of 2% - 4% for external financing)
- Flexibility is maintained to move loans between funds if the lending fund needs access to its cash reserves



# Interfund Loan Terminology

- There has been confusion regarding interfund loan-related terminology
- Interfund loans and interfund advances have been described by members of the public as two different things and it has been implied that advances remain outstanding that the City is not discussing
  - **There is no difference between an advance and a loan**
  - Accounting rules require standardized language for amounts due to or from other funds (“Advances To” or “Advances From”) in the City’s financial statements
  - “Interfund loan” is the Finance Department’s terminology to refer to these advances as it is a more descriptive term
  - **Every loan/advance ever made by the Sewer Fund has been paid in full, with interest, other than three outstanding loans still reflected in the City’s financial statements (details to follow)**



# Interfund Loan Terminology and Documents

- There has been additional confusion regarding “interfund” versus “interagency” loans
  - Accounting rules require interfund loans between the City and separate legal entities such as the Successor Agency to be classified differently
  - However, the accounting entries are identical and either type of loan is referred to as an “interfund loan”
- There has also been confusion regarding why some loans have executed loan documents and others do not
  - The City executes loan documents for loans from the City to separate legal entities such as the Successor Agency
  - The City does not execute loan documents for loans between two City funds because both funds are within the same legal entity
  - A loan agreement is therefore unnecessary



# Interfund Loan Accounting

- Detailed records are kept in the City's financial system of all interfund loans
- Interfund loans are fully disclosed to and discussed with the bond rating agencies
- Loan transactions are audited by the City's external auditors annually
- The City has a written interfund loan policy



# Interfund Loan Interest Capitalization

- A few interfund loans have been made requiring no payments until the loan is due
- When loans have this provision, accounting rules require that interest be “capitalized” annually, meaning that the interest due each June 30<sup>th</sup> is added to the principal balance of the loan
- The accounting entries recording these transactions are complicated and can give the appearance of the fund paying itself interest, but they are only recording the larger balance due from the borrowing fund



# Sewer Fund Interfund Loans



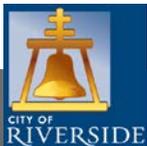
# Sewer Fund Lending Capacity

- Reference has been made to “\$200 million of advances” being made from the Sewer Fund and not repaid
  - The Sewer Fund has never had the resources to make loans in that magnitude, and has only been able to make the total amount of loans it has because earlier loans were repaid
  - The Sewer Fund cash reserve is currently approximately \$42 million and has not exceeded \$77 million in the past decade
- It has also been suggested that bond proceeds were “advanced” to other funds for unrelated projects
  - Bond proceeds are held by a trustee and can not be loaned to another fund or spent on projects outside the Sewer Fund
  - Bond proceeds are released to the City upon the City providing detailed records to the trustee demonstrating that the City has expended funds for eligible Sewer Fund projects



# Historical Sewer Fund Interfund Loans

- Over the past 10 years, the Sewer Fund has loaned a total of \$87,351,434, of which \$11,973,136 is outstanding
- The outstanding balance of interfund loans has never exceeded \$54 million and has never exceeded \$33 million other than briefly during fiscal year 2006/07
- The outstanding loan balance was \$0 in 2008, when the Sewer Fund's cash was required to pay off the 1993 Sewer Revenue Bonds and fund projects in anticipation of issuing the 2009 Sewer Revenue Bonds
- As of June 30, 2013, the Sewer Fund held a balance of \$11,973,136 of interfund loans, an amount that has declined steadily since 2010



# Historical Sewer Fund Cash Balances

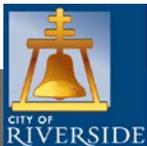
- The table below illustrates annual interfund loan balances as compared to total cash reserves available in the Sewer Fund

Fiscal Year Ending	Total Cash	Less: Loans	Cash Not Loaned
6/30/2004	\$ 76,790,000	\$ 7,731,000	\$ 69,059,000
6/30/2005	69,522,000	10,728,000	58,794,000
6/30/2006	65,224,000	32,810,000	32,414,000
6/30/2007	56,106,000	22,104,000	34,002,000
6/30/2008	43,603,000	--	43,603,000
6/30/2009	12,056,000	10,018,000	2,038,000
6/30/2010	28,265,000	20,554,000	7,711,000
6/30/2011	36,159,000	18,439,000	17,720,000
6/30/2012	36,093,000	12,196,000	23,897,000
6/30/2013	42,141,000	11,973,000	30,168,000



# Specific Sewer Fund Loan Transactions

- Over the past 10 years, the Sewer Fund has entered into 28 interfund loan transactions
  - 10 short-term loans to the Redevelopment Agency in anticipation of issuance of the 2007 RDA tax allocation bonds that were made and paid within fiscal year 2006/07
    - Loans were paid in full before the end of the fiscal year and as a result were never assigned a loan number or recorded in the City's interfund loan records
    - Interest was paid in full
  - 18 traditional, multi-year interfund loans
    - 9 loans to the Redevelopment Agency (8 paid in full)
    - 5 loans to the General Fund (4 paid in full)
    - 4 loans to other City funds (3 paid in full)
- **All but 3 loans have been paid in full with interest**



# Specific Sewer Fund Loan Transactions

- Short-term RDA loans - \$20,763,793
  - Repaid from 2007 RDA tax allocation bond proceeds
  - Outstanding for less than one year

Loan Purpose	Loan Amount	CC Approval	Repaid
2791 University Ave. Acquisition	\$ 515,000	7/25/2006	6/1/2007
Imperial Hardware Acquisition	2,510,000	7/25/2006	6/1/2007
3372 University Ave. Acquisition	1,300,000	8/8/2006	6/1/2007
University Ave. Streetscape	1,960,993	8/22/2006	6/1/2007
Monroe Canal Project	3,900,000	9/5/2006	6/1/2007
University Ave. & Ottawa Acquisitions	2,887,800	9/5/2006	6/1/2007
University Ave. Acquisitions	990,000	9/5/2006	6/1/2007
3893 Mission Inn Ave. Acquisition	1,300,000	9/12/2006	6/1/2007
Olivewood House Covenants	400,000	9/19/2006	6/1/2007
La Sierra/Arlanza Project Area Formation	5,000,000	9/19/2006	6/1/2007

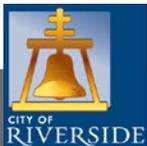


# Specific Sewer Fund Loan Transactions

- Redevelopment Agency loans - \$35,778,670
  - 9 loans over 10 years
  - 1 loan remains outstanding

Loan Purpose	Loan Amount	CC Approval	Repaid
Magnolia Center Projects	\$ 3,000,000	3/8/2005	6/1/2007
Hunter Park/NS Project Area Formation	4,000,000	9/13/2005	6/1/2007
Merrill Avenue Acquisitions	3,500,000	2/7/2006	6/1/2007
First to Third Project Loan #1 <sup>1</sup>	5,999,171	9/19/2006	1/25/2012
First to Third Project Loan #2 <sup>1</sup>	5,450,938	2/13/2007	2/13/2012
Olivewood Property Assembly <sup>1</sup>	4,018,391	5/1/2007	Outstanding
Utilities Plaza Purchase (by RDA) <sup>1</sup>	4,910,170	3/11/2008	3/30/2012
Doty/Trust Park Improvements	3,625,000	1/25/2011	6/16/2011
Pierce Street Acquisitions	1,275,000	3/1/2011	6/16/2011

<sup>1</sup> Loan amount is the balance as of the date the loans were reassigned to the Sewer Fund.



# Specific Sewer Fund Loan Transactions

- General Fund loans - \$18,677,221
  - 5 loans over 10 years
  - 1 loan remains outstanding

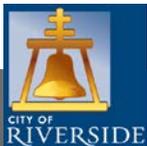
Loan Purpose	Loan Amount	CC Approval	Repaid
Pellisier Ranch Purchase	\$ 8,508,000	12/6/2005	7/1/2008
Utilities Plaza Purchase (Initial)	4,000,000	12/20/2005	6/30/2008
Corporation Yard Parking Lot Paving	400,000	9/19/2006	7/1/2010
Hulen Place Shelter Parking Lot	1,300,000	12/19/2006	6/30/2008
Utilities Plaza Purchase (From RDA)	4,469,221	3/30/2012	Outstanding



# Specific Sewer Fund Loan Transactions

- Other loans to City funds - \$12,131,750
  - 4 loans over 10 years
  - 1 loan remains outstanding

Loan Purpose	Loan Amount	CC Approval	Repaid
Measure A Fund: Van Buren Widening	\$ 5,000,000	6/7/2005	2/1/2009
Parking Fund: Garage 6	3,000,000	9/27/2005	11/30/2009
Parking Fund: Parking Meters	729,750	5/23/2006	6/30/2008
Park Fees Fund: Renaissance Debt Svc.	3,402,000	6/21/2011	Outstanding

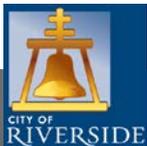


# 2009 Sewer Revenue Bonds



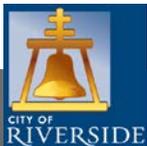
# Purpose of Bond Issue

- Sewer revenue bonds were issued in 2009 totaling \$240,910,000
  - Series A – Tax-Exempt Bonds of \$36,835,000
  - Series B – Build America Bonds of \$204,075,000
- Bonds issued to fund the Sewer Capital Improvement Program
  - Plant rehabilitation and expansion
  - Collection system and other miscellaneous projects
  - Reimbursement of \$15 million of prior sewer project expenditures (from Series A bonds under a reimbursement resolution)
  - Also funded three years of interest and a cash reserve fund
- Reimbursements only for project expenditures made 60 days prior to adoption of a reimbursement resolution and thereafter
  - While some projects for which expenditures were reimbursed had been in progress longer, only those expenditures from the allowable timeframe were reimbursed
  - Older expenditures were funded with cash reserves



# Planned Use of Bond Proceeds

- The bond official statement contemplated the diversity of projects ultimately funded from bond proceeds
  - “to reimburse certain previous expenditures related to the Sewer System”
  - “rehabilitation or replacement of...collection system piping”
  - “expansion of treatment capacity and the replacement of treatment facilities”
- The official statement also clearly indicated that “actual components to be financed...may change based on the City’s needs and priorities”



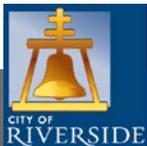
# Actual Use of Bond Proceeds

- There has been confusion regarding the actual use of bond proceeds
  - Original project fund \$200,759,383
  - Interest earnings \$ 10,532,220
- **100% of the proceeds were used for Sewer Fund projects**
  - Reimbursements \$ 15,000,000
  - Plant Rehab & Expansion \$127,917,435
  - Other Plant Projects \$ 19,986,112
  - Collection System \$ 44,198,056
  - Jurupa Avenue Extension \$ 4,190,000



# Jurupa Avenue Extension

- There have been comments regarding expenditure of Sewer Fund money, including bond proceeds, on the construction of the Jurupa Avenue Extension being an ineligible use of funds
- Construction of this project was pursuant to an agreement with the developer of the Agricultural Park property, which was approved by the City Council
- Construction of the road by the City was in lieu of the City incurring other Sewer Fund related expenditures for environmental remediation activities for the Agricultural Park property, the site of a former sewer treatment plant
- **As such, the project is an eligible use of Sewer Fund money and the road construction, being a public works project, is an eligible use of bond proceeds**



# Summary

- All interfund loans made from the Sewer Fund have been repaid in full, with interest, except for three loans that remain outstanding
- Outstanding interfund loans total \$12 million of a \$42 million Sewer Fund cash reserve as of June 30, 2013
- There have been no loans or advances made from bond proceeds
- Bond proceeds have only been used for Sewer Fund projects, including one road construction project funded in exchange for other Sewer Fund project costs being paid by a developer
- Interfund loans and interfund advances are interchangeable terms as used by the Finance Department
- Interfund loans and interagency loans are interchangeable terms as used by the Finance Department

