

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

HUD Section 108 Loan

On March 28, 2015, the City entered into a contract for Loan Guarantee Assistance with the Housing and Urban Development Department (HUD), pursuant to which the City will derive funds for the purposes permitted under the agreement, and will execute one or more City Notes in the maximum aggregate principal amount of up to \$9,390,000. During the fiscal year, the City executed a note numbered as B-12-MC-06-0005 (Community and Economic Development Fund – Industrial Waste Water Conveyance System Project) in the principal amount of \$4,000,000. The City of Salinas has pledged current and future Community Development Block Grants (CDBG) funds as principal security for the loan. The loan carries a variable interest rate of 20 points (0.2%) above the applicable LIBOR rate. As of June 30, 2019, \$2,820,000 of the loan balance is outstanding.

Debt service requirements to maturity is as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 425,000	\$ 63,947	\$ 488,947
2021	442,000	55,576	497,576
2022	460,000	45,795	505,795
2023	478,000	34,535	512,535
2024	497,000	21,721	518,721
2025 - 2029	518,000	7,382	525,382
	<u>\$ 2,820,000</u>	<u>\$ 228,956</u>	<u>\$ 3,048,956</u>

Bonds Payable

Certificates of Participation, Series A-1999 – Golf Courses (Portion Refunded by Series A-2005 in 2005 and refunded again by Series A-2015)

On March 16, 1999, the Salinas Public Financing Authority issued City of Salinas Certificates of Participation (Certificates) Series A-1999 totaling \$14,315,000. A portion of the Certificates was allocated for the construction of an animal shelter, \$1,250,338, and the balance of the Certificates, \$13,064,662 was allocated for construction of the new Twin Creeks (9-hole) Golf Course, \$8,221,604 and the renovation of Fairways Golf Course, \$4,843,058.

On August 24, 2004, the City entered into a sublease agreement with the Monterey Peninsula Foundation and its related foundation, Future Citizens Foundation, dba the First Tee of Monterey County providing for the lease of Twin Creeks golf course to Future Citizens Foundation. As a condition of the lease, the City repaid the portion of the 1999 Certificates attributable to the Twin Creeks golf course facility (about 57.5% of the lease payments of \$575,000) and refinanced that golf course portion with a new Refunding issue of Certificate of Participation.

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On September 14, 2005, the Salinas Public Financing Authority issued City of Salinas Refunding Certificates of Participation Series 2005A, in the amount of \$8,005,000, to refund the portion of the 1999 Certificates attributed to Twin Creeks. Refunding Certificates Series 2005A were issued for 24 years at 4.22%, and were secured by a lien on Twin Creeks golf course. The net value expense of the funding was \$117,298. The refunding was completed to issue qualified 501 (c) 3 bonds to provide for the operation of Twin Creeks golf course by First Tee of Monterey County.

With the closing of this financing, the sublease agreement with First Tee of Monterey County was finalized. Annual debt service for the 2005A Certificates (\$572,308) will be paid by the annual lease payments (\$575,000) from Future Citizens Foundation and guaranteed by the Monterey Peninsula Foundation. As with most City issued debt, the General Fund of the City backs the new Certificates and payment of debt service is ultimately the responsibility of the City.

At the request of First Tee of Monterey County, on December 6, 2011, the City approved a sublease payment reduction from \$575,000 to \$125,000 (an annual reduction of \$450,000). This request was the result of First Tee's significant unsustainable golf course operating losses experienced recently due to the downturn of the economy. With the goal of maintaining a quality of level of service to the thousands of golf youth participants and as the most cost effective alternative, the City Council approved the General Fund support through fiscal year 2015-16 to offset the reduced amount of the sublease to the First Tee of Monterey County.

On September 1, 2015, the City issued Refunding Certificates of Participation Series 2015, in the amount of \$11,440,000 at a 2.53% interest rate, to refund the outstanding portion of the 2005A Certificates of Participation (Twin Creeks) and the 2005B Certificates of Participation (Capital Improvements). Bond started September 1, 2015 and will end after 12 years on September 1, 2027.

The current refunding of the Certificates of Participation Series 2005-A (Business-type Activity) and 2005-B (Governmental Activity) reduced total debt service payments over the next 13 years by \$3,184,743. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,200,896.

Debt service requirements to maturity for the Twin Creeks Golf Course is as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 380,000	\$ 79,189	\$ 459,189
2021	390,000	69,448	459,448
2022	400,000	59,455	459,455
2023	410,000	49,209	459,209
2024	420,000	38,709	458,709
2025 - 2029	1,320,000	50,600	1,370,600
	<u>\$ 3,320,000</u>	<u>\$ 346,610</u>	<u>\$ 3,666,610</u>

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Certificates of Participation, Series A-2008 – Fairways Golf Course

On August 2008, the City of Salinas was issued Refunding Certificates of Participation Series 2008, in the amount of \$4,660,000 at a variable interest rate, to refund the outstanding portion of the 1999 Certificate pertaining to the Fairways Golf Project. Bond started September 1, 2008 and will end after 30 years on September 1, 2038. Following the execution and delivery of the Certificates of Participation Series 2008, the 1999 Certificates, attributed to the animal shelter, will remain outstanding.

The annual debt service requirements to maturity for Fairways Golf Course are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 80,000	\$ 196,200	\$ 276,200
2021	90,000	192,600	282,600
2022	105,000	188,550	293,550
2023	115,000	183,825	298,825
2024	130,000	178,650	308,650
2025 - 2029	910,000	790,425	1,700,425
2030 - 2034	1,305,000	546,750	1,851,750
2035 - 2039	1,625,000	226,125	1,851,125
	<u>\$ 4,360,000</u>	<u>\$ 2,503,125</u>	<u>\$ 6,863,125</u>

Series 2012 – Sanitary Sewer Revenue Bonds

On February 8, 2012, the City of Salinas issued Sanitary Sewer System Revenue Bonds, Series 2012 in the amount of \$17,995,000 to provide funds for the current refunding of the City's Sanitary Sewer System Revenue Bonds, Series 1998 and to finance capital replacement of existing sewer mains and other sewer related capital replacement. Maximum annual debt service is \$1,022,406, including interest ranging from 1.0% to 4.4% for 30 years. The City is authorized under Chapter 36, Article II, Division 5 of the Salinas City Code, to levy a sewer fee for the purpose of paying sanitary sewer related expenses of the City. On January 10, 2012, the City Council approved adjustments to wastewater collection fees effective February 1, 2012 to reflect the cost of wastewater conveyance through the Enterprise and an amount to cover debt service. The fee is billed by the Monterey Regional Water Pollution Control Agency. Debt payable of \$15,470,000 is recorded in the Sanitary Sewer Enterprise Fund at June 30, 2019.