PORTERVILLE CITY COUNCIL MINUTES
ADJOURNED MEETING - JULY 27, 2004
CONFERENCE ROOM - 6:00 P.M.

Call to Order: 6:00 p.m.
Pledge of Allegiance - Council Member Stadtherr
Invocation - Mayor Pedro Martinez
Roll Call: West, Irish, Hamilton, Stadtherr, Martinez

ORAL COMMUNICATIONS
None

SCHEDULED MATTERS
1. ANALYSIS OF LOAN PROGRAM FUNDING OPTIONS

Recommendation: That the City Council:
1. Authorize the Mayor to execute Exhibit A of the July 20th attachment, a resolution authorizing the City Manager to execute the “Enterprise Fund Installment Sale Agreement” in the amount of $5,356,000;
2. Authorize the named Department Heads or individuals to execute the various exhibits described in the July 20th staff report; and
3. Authorize the Public Works Director to deliver by certified mail said “Sale Agreement” to the CIEDB principals for proper counter signatures and full execution.

The Deputy City Manager presented the staff report. Mr. Pyle stated that the figures for the comparison to the certificates of participation came from John Fitzgerald.

Mayor Pro Tem Irish stated that he understood the urgency of it, but Council was only now getting to see the whole packet after working on it for a year and a half. He stated that it backed him up when he realized that they would be taking over $3 million just in interest and giving it away. He stated that he thought there might be a better way to do this, and he would like to see them look back within their savings and use their $32 million portfolio to come up with funds. Mayor Pro Tem Irish stated that there were times to go out to COP, times to borrow it, but there were times when, if they could save the money as a Council, they could borrow it back and put the interest back into them coffers. He stated that he would really like to look at the proposal on it--have staff find a way to borrow it from ourselves and pay the interest back to ourselves.

Council Member Stadtherr suggested taking this one at 3%, and doing Ron’s proposal in lieu of paying 5% for the water projects. He stated that if they took available funds now in place of the CIEDB loan, they would be giving up 3% financing, and maybe later having to come back and do a COP at 5%. He stated that if they did one or the other, they should take the lower interest rate at 3%, and then come back and have staff analyze a way to borrow from themselves to do the $9 million water projects. He stated that he didn’t think they could get CIEDB monies for that, and they didn’t have enough internal funds to do both.
Mayor Pro Tem Irish stated that he didn’t think they had enough either, and there was time to go for the COPS. He stated that it would bother him a little bit, to take more than $5 million out of the portfolio.

Council Member Hamilton clarified that the sewer rate increase was done to take care of the debt service.

Council Member West stated that he had the same concerns as Mayor Pro Tem Irish, but in looking down through there, where would they find money at that rate—they weren’t sure that the COPs rate would be four and half or five percent.

Council Member Hamilton stated that they would find it with themselves.

Mayor Pro Tem Irish stated that they needed to direct staff to see if they could find it, and all the legal loopholes, and staff could come back and say we can do it this way. He stated that if they were borrowing from themselves, they were putting the $3 million back into their own portfolio.

The Deputy City Manager stated that they had done some internal borrowing from one fund to another fund, usually from a cash-strapped fund like the golf course. A debt service schedule was set up—interest bearing for a fixed period of time, usually in the neighborhood of ten years. The amount was usually in the range of a couple of hundred thousand dollars. He stated he had not seen a loan that large, and what it would entail would be pieces from several funds to come up to $5 million, or $9 million. Mr. Pyle stated that from an accounting standpoint they knew how to do the paperwork to reflect the “due to”’s and “due from”’s in each of the accounts. He stated that what they would be looking at was a reduction in liquidity of about 18% in the overall portfolio. The interest rate that the City would pay in the market—they would have the option of doing a variable rate borrowing, which may be cheaper up front and then more expensive at the back end. What they had identified as fixed rate funding of 2.98%, and the only thing that they would want to confirm was, if they borrowed money from an Enterprise Fund other than the Sewer Fund to accomplish that task, that fund is entitled to earn the portfolio rate. It’s 2.9% now, so it’s right about there. If it was 5% in five years, and they were paying themselves back at a rate less what the portfolio was capable of earning, there could be an issue that would result from that.

Council Member Stadtherr stated that they would have to subtract from the $3 million the income that the $5 million would generate. And if it was anywhere near the 3%, they would almost be money ahead to borrow it and leave the investments.

Council Member Hamilton stated that they had $3.2 million to play with, because that was what they would be paying back in interest and fees.

Council Member Stadtherr stated that at the same time, if they took from themselves, there would be $5 million less in the portfolio. So they would have to subtract from the $3.2 million.

Council Member Hamilton stated that they could earn off the $5 million. He stated that he thought they would also pay the loan off in less than thirty years—maybe ten.
Mr. Pyle stated that without a weight tied somehow to the portfolio, it might be a legal issue to use money from one fund for its “not originally intended purpose.”

The City Attorney stated that she honestly couldn’t tell the Council that this was appropriate. She honestly didn’t know, and she had some reservations as to whether they could take that kind of money—where the money was dedicated to a different fund for a different purpose. She stated that they had done it on a small scale, but to this extent she would have to look at it to see if that could be done.

Mayor Pro Tem Irish stated that they would be tying a revenue source back into it too.

The City Attorney stated that they were, but they were talking about uncertainties and so she didn’t know. When asked if she could find out about it, she stated that they could certainly look at it.

Mayor Pro Tem Irish stated that if they borrowed from themselves, there was $286,000 more that they could use for the project.

Council Member Stadtherr stated that if they borrowed from themselves at less than 3%—that was almost free money. He stated that if they were getting 2.5% rate of return on investments, that would be about a $2.5 million savings—so they would be down to $500,000 over thirty years. Then they were talking a couple of thousand dollars a month.

The Deputy City Manager stated that they would need to evaluate the rates, which were established based on the assumption that the CIEDB Loan was what they were setting the rates to repay. The rates would have to be reviewed in terms of their ability to repay a loan internally to make sure they were not over, or under, collecting in that same respect.

Council Member Hamilton stated that if they could do this he would rather, since they were going to have to borrow the $9 million to do the tanks. He stated that all of a sudden they were faced with another $15 million in debt on two projects.

Mayor Pro Tem Irish stated that when he was part of the COP Project for $20 million, they prioritized what needed to be done, and it changed. So five, six, seven years later, the intent of the $20 million was not all there—things have gone up, things have increased, land can’t be bought, whatever reason is, when he sits down to look at COPs again he wants to try and make sure that the money they are borrowing, and putting the citizens into debt for, was going to be used exactly for what they were saying it was going to be used for, not something else.

Council Member Hamilton asked if liquidity was including the Equipment Replacement Fund.

Mr. Pyle stated that was Equipment Replacement Fund, Risk Management Fund, Water Replacement Fund, Sewer Replacement Fund, a portion of the General Fund (about $4.5 million), and $1.8 million in the Building Replacement Fund. He stated that the money was spread pretty evenly amongst all the funds.
Mayor Pro Tem Irish stated that there should be a better way of going after the $5 million then putting us that much more in debt.

When asked how quickly he could get the numbers, Mr. Pyle stated that he would have them at the next Council meeting. He stated that the CIEDB staff would probably be in contact with them regarding the timing of the City to accept the funds, which may stimulate conversation with the people from the Regional Water Quality Control Board.

Council Member Stadtherr asked if they were prepared to explain why they dallied on this and now the City has to pay $2 million more than what they had in the bank.

Mayor Pro Tem Irish stated that they were not looking at COPs.

Council Member West questioned where they could borrow money anywhere cheaper than the CIEDB loan.

Mr. Pyle stated that he would summarize this in the subsequent report and give them a five-, ten-, twenty-, and thirty-year average of what the portfolio has done. He stated that he guessed on a thirty-year average it was around 5%

Council Member Stadtherr stated that they would be giving up a 5% yield to save 3% borrowing.

Mayor Pro Tem Irish stated that they just needed to look at the numbers, and if they tied the interest rate they were paying back, then they were not giving up anything.

Council Member Stadtherr stated that if the portfolio would have earned more, then they would lose money.

The Public Works Director pointed out that the study done by Bartle Wells was tied to what they perceived at that time to be the loan interest rate on the CIEDB loan, and Council authorized the rate increased on those fees. Now if they were trying to pay themselves back at a quicker rate, or pay it back at a higher interest rate, then they may have to raise the fees.

Pete McCracken asked if the portfolio returns right now were fixed returns over the next twenty years. He was told that they were variable rate market returns based on a multitude of investments. He clarified that if the City locked themselves into a 2.98% loan, and the return on the portfolio drops because of market conditions, then the CIEDB loan costs the City money. If the interest rates go up, the CIEDB loan was a fixed cost so it would be a better deal.

Mr. Pyle spoke about the benefits of liquidity.

Mayor Pro Tem Irish stated that he would like to see the numbers staff puts together, and the legality of it, before he made up his mind. Council Member Hamilton stated that he would also like to see those things.
Council Member West stated that they should make a stand that after Mr. Pyle brings back the information on Tuesday, Council should make a decision–yea or no, up or down.

COUNCIL ACTION

MOVED by Mayor Pro Tem Irish, SECONDED by Council Member Hamilton to carry over this item to next Tuesday, August 3. The motion carried unanimously.

The Deputy City Manager stated that it would be a scheduled matter on the next agenda, and the City Attorney stated that she would have her law partner review the legality of the matter.

Adjourn to a meeting of the Porterville Redevelopment Agency at 6:23 p.m.

PORTERVILLE REDEVELOPMENT AGENCY MEETING

JULY 27, 2004

Roll Call: Redevelopment Agency: West, Irish, Hamilton, Stadtherr; Chairman Martinez

WRITTEN COMMUNICATIONS

None

ORAL COMMUNICATIONS

None

SCHEDULED MATTER

PRA-1. CASAS BUENA VISTA HOUSING GROUP LLC - MODIFICATIONS TO DISPOSITION AND DEVELOPMENT AGREEMENT

Recommendation: That the Redevelopment Agency:

1. Approve the modifications to the Development and Disposition Agreement (DDA) that would allow the Agency to lend the developer the additional purchase price funds and the flexibility to lend the Redevelopment Low and Moderate Income Housing funds designated for debt service. These funds would be used to fund the construction of the remaining homes at Casas Buena Vista, in phases, subject to the homes being sold and the funds being available in the account to lend;

2. Approve the modification to the DDA that the developer’s $80,000 remain in the project for use in construction of the homes until the end of the project at which time it would be returned to them;

3. Approve the modification to the DDA to increase the term of the affordability covenants to twenty years with shared equity provisions on the forty-nine lots that are currently required to have a ten year covenant; and

4. Amend all Deeds of Trust, Loan Promissory Notes, and homebuyer loan documents to reflect these modifications to the DDA.

Deputy City Manager Pyle presented the item.

AGENCY ACTION:

MOVED by Agency Member Irish, SECONDED by Agency Member Stadtherr to approve recommendations one through four. The motion
M.O. PRA 01-072704 carried unanimously.

Disposition: Approved

Adjourn the Redevelopment Agency Meeting at 6:25 p.m. to a meeting of the City Council.

OTHER MATTERS

• Council Member West asked to see a status report on where they were on the Skateboard Park. Council stated that staff should provide them a memo.
• Mayor Pro Tem Irish stated that he would like some more shirts for the Council.

ADJOURNMENT

The Council adjourned at 6:27 p.m. until August 3, 2004 at 6:00 p.m.

_________________________________
Georgia Hawley, Deputy City Clerk

SEAL

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Pedro R. Martinez, Mayor