



Report to the City Council
Council Meeting of September 13, 2016

Agenda Section: New Business

Subject: Report to City Council on the regularly scheduled State Revolving Loan Fund (SRF) payment of \$526,805 for the Comprehensive Flood Control Project for FY 16/17

CEQA Status: Not a CEQA project

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Approved By: Jennifer Phillips, City Manager

BACKGROUND

In 2008, the City borrowed \$9.1 million from the State of California – State Water Resources Control Board (SWRCB) to partially finance the Comprehensive Flood Control Project through the State Revolving Loan Fund (SRF). The primary source of repayment is Measure A sales tax revenues. The City made a payment of \$143,922 in 2009 and another payment in the amount of \$327,756 in 2010. In FY 2010-11 the City began making full principal and interest payments in the amount of \$526,804.64 annually. Payments for Fiscal Years (FYs) 14/15 and 15/16 were paid from the General Fund. Other payments have been made through Fund 235. These payments are scheduled to continue through 2028.

DISCUSSION

The regular payment due in November 2016 for the SRF loan is \$526,805. FY 16/17 anticipates revenue from Measure A of \$1,358,000 that will be placed in Fund 235. This revenue is to be used to make the regularly scheduled SRF payment of \$526,805 and an additional principal payment to the SRF debt as Measure A funds were pledged revenues for repayment of the SRF loan. These revenues and expenditures were part of the FY 16/17 adopted budget (page 63 of the adopted FY 16/17 budget).

There are several facets to the process to drawdown additional Measure A funds. The facets include an audit of previous drawdown expenditures, submission of qualifying expenditures to the Flood Control District and the Measure A Financial Oversight Committee (FOC) – via the County of Napa, and finally a contract amendment to include SRF repayment as an allowable expenditure.

Over the past year the City and County of Napa have been working together to audit previous Measure A drawdowns to ensure the appropriate controls of Measure A finances. Once this audit is complete the City and County will be undertaking the process to qualify the SRF loan as a qualifying expenditure for use of Measure A funds. If this is approved, additional drawdowns can be done and will be used towards paying down the SRF loan.

Due to the complexity of the Comprehensive Flood Control Project ("Project") the City has retained the services of Nigro & Nigro to conduct a forensic audit of the Project financials as well as review of the City's internal control processes, as noted in the January 26, 2016 report to City Council. The review of the Project financials includes analyzing revenues and expenses, contract compliance, and procurement processes and procedures. City staff is currently working with Nigro & Nigro on the audit and anticipate their report will be completed by end of calendar year 2016.

As stated at the August 23, 2016 City Council meeting during the Grant Update, City staff is holding off on submitting paperwork for our required Measure A audit until the forensic accounting firm has had a chance to thoroughly review and vet the information so we are confident that the information we are submitting to them is the most accurate information the City can provide.

During the development of the FY 16/17 budget staff anticipated all required audits and contract amendments would be complete and a drawdown from Measure A would be done prior to November 2016 when the FY 16/17 annual payment is due. This was stated in the March 22, 2016 report to City Council, at the May 4, 2016 Budget Workshop, and at the June 14, 2016 City Council meeting during the final budget presentation. Due to timing of the forensic auditor's report, completion of the audit with the County of Napa, and required amendments the drawdown will not take place in the originally anticipated timeframe but is still expected by the end of FY 16/17; however, this is not guaranteed.

In late October or early November, the City will be making the regular scheduled SRF payment of \$526,805 from Fund 235. Following Generally Accepted Accounting Principles (GAAP) under the accrual basis of accounting, which the City follows, this is allowable and part of normal course of government. Any additional payments to principal will only take place when a Measure A drawdown is received.

Staff is providing this informational item to the City Council to explain that if a drawdown from Measure A cannot be done prior to close of FY 16/17 use of General Fund Reserves or a loan from the General Fund will be necessary as a fund cannot carry a negative balance from one fiscal year to the next. If this is necessary, staff will bring an item back to City Council to either authorize use of General Fund Reserves or authorize a loan from the General Fund to Fund 235 to cover the SRF regular loan payment of \$526,805 being made in November 2016. Use of General Fund Reserves or making a loan from the

General Fund to Fund 235 will be dependent on where the City is at in the process of the contract amendment with the Flood Control District and the FOC.

FISCAL IMPACT

None at this time; however, if use of General Fund Reserves is necessary, the fiscal impact would be the General Fund reserve level would be at approximately 19%.

RECOMMENDED ACTION

Receive and file.

ATTACHMENTS

None



Report to City Council on the Regularly Scheduled SRF Payment of \$526,805

By: April Mitts, Finance Director

Finance Department

September 13, 2016 City Council Meeting



Background

- In 2008, the City borrowed \$9.1 million through the State Revolving Fund Loan (SRF) for the Comprehensive Flood Control Project
- Measure A is listed as a source of repayment of the SRF loan
- The City has been making payments to SRF since 2008
- These payments are scheduled through 2028



Discussion – SRF Payments

- SRF payment due in November 2016 - \$526,805
- FY 16/17 anticipates revenues from Measure A of \$1.4 million
- Revenue will be used for:
 - Regular payment of \$526,805
 - Additional principal payment to SRF of approximately \$831,000
- Revenues and expenditures budgeted in FY 16/17



Discussion – Measure A Drawdown

- Drawdown is Dependent On:
 - Completion of audit for previous expenditures
 - Submission of qualifying expenditures to the Flood Control District and the Financial Oversight Committee (FOC)
 - Contract amendment to include SRF repayment as an allowable expenditure



Discussion – Measure A Drawdown

- Audit for previous expenditures:
 - City working with the County to complete the audit for previous expenditures
 - City retained Nigro & Nigro to conduct a forensic audit of the Project – estimated to be completed by 12/31/16
 - Staff is holding off on submitting paperwork for the required Measure A audit until the forensic accounting firm has had a chance to thoroughly review and vet the information



Discussion – SRF Payment

- During the development of the FY 16/17 budget staff anticipated all required audits and amendments for Measure A would be completed prior to the November 2016 SRF payment
- Due to timing of the forensic auditing report, Measure A audit, and contract amendments the drawdown will not take place until after the regular SRF payment is due
- Drawdown is anticipated prior to June 30, 2017
 - This is not guaranteed



Discussion – Informational Item

If a Measure A drawdown can not be done prior to 6/30/17, one of two things will need to happen (dependent on where the City is in the contract amendment process):

1. \$526,805 will be transferred from the General Fund Reserves to Fund 235 - would bring the General Fund Reserves to approximately 18%, or
2. The General Fund will loan Fund 235 a total of \$526,805 – the loan will be paid when Measure A funds are received



Discussion – Informational Item

- If a General Fund Reserve drawdown or a General Fund loan is necessary, City staff will bring a resolution to City Council for approval
- Informational Report Only
- Receive and File



Discussion – SRF Payment

- Questions?