

Updated Financial Forecast & Capital Financing Options

April 2, 2019



CUPERTINO

Presentation Outline

Need of FY19/20 & FY20/21-24/25 Capital Improvement Programs

Review of Various Budget Reserves and Policies

Updated Financial Forecast

Additional Revenue Options - General Fund

Financing Options - Capital Improvements

Total Road Improvement Program (T.R.I.P.)

Appendix

25

Need of FY19/20 Capital Improvement Program

Projects that Improve Health & Safety Conditions

- Lowest cost estimate - \$13M FY19/20; \$24M FY20/21-24/25

Projects with Grant Funding or Grant Eligible

- \$8.7M FY19/20; \$1.2M FY20/21-24/25

Projects with Cost Savings / Efficiencies

- \$2.3M FY19/20; \$25M FY20/21-24/25

Other Projects

\$1.7M FY19/20; \$38M FY20/21-24/25

Grant/External Funding FY19/20 - \$6.8M; \$5.4M FY20/21-24/25

TOTAL FY19/20 - \$19M; \$82.8M FY20/21-24/25

Review of Various Budget Reserves and Policies

Budget Reserves (Capital Infrastructure Only)

- Capital Reserve \$30M

Budget Reserve Policies

- Capital Reserve \$5M
- 9 Year History Amount of Annual Funding into Capital Reserves: \$61M includes current balance of \$30M

Debt Balance of Previously Completed Civic Center Projects:

- Total balance currently \$38M (\$57M original issuance), annual debt payment \$3.17M, to be fully paid off July 1, 2030

Updated Long-Term Financial Forecast for General Fund

Review & Update of General Fund Forecast

Developing a Baseline Forecast Model

- ✓ Ensure general level of reconciliation between the financial data in budget categories and CAFR
- ✓ Isolate and remove one-time revenues & expenses that obfuscate annual ongoing operational costs
- ✓ Disaggregate revenue & expense categories to ensure data driven by appropriate indexes
- ✓ Develop and apply indexes to drive each budget revenue and expense category
- ✓ Create graphical outputs of measurements and metrics that facilitate understanding and insight about General Fund's projected financial condition over forecast period

What is a “Baseline” Forecast?

Neutral, fiscal assessment and decision-making tool that establishes a common understanding of the status quo: “If the City makes no changes to its organization or operations, and there are no significant external economic impacts to the City, what is the predicted financial condition of the General Fund over the next ten years?”

Key Assumptions/Drivers - General Fund Forecast

- ✓ Sales Tax and Property Tax indexes are generally moderate to conservative – adjusted downward from mix of variables
- ✓ TOT and Franchise Fee indexes use adjusted historical trendline predictions
- ✓ Full-time Salary index set at 2.5% per year; Employee Benefit levels assumed to remain same with applicable indices
- ✓ Law Enforcement Contract is indexed based on current contract provisions (CPI + 2%)
- ✓ CalPERS – UAL payments follow current schedule; Normal Cost ratio reflect known adjustments (*does not include any predication of additional CalPERS losses or adjustments*)
- ✓ Revenue and expense assumptions become less reliable in years 3 to 5; for some indices in years 5 to 10 ratios are constant or trendline

Forecasts – Indexing the Drivers

Indexes primarily derived from local, regional and state economic indicators, adjusted where appropriate for:

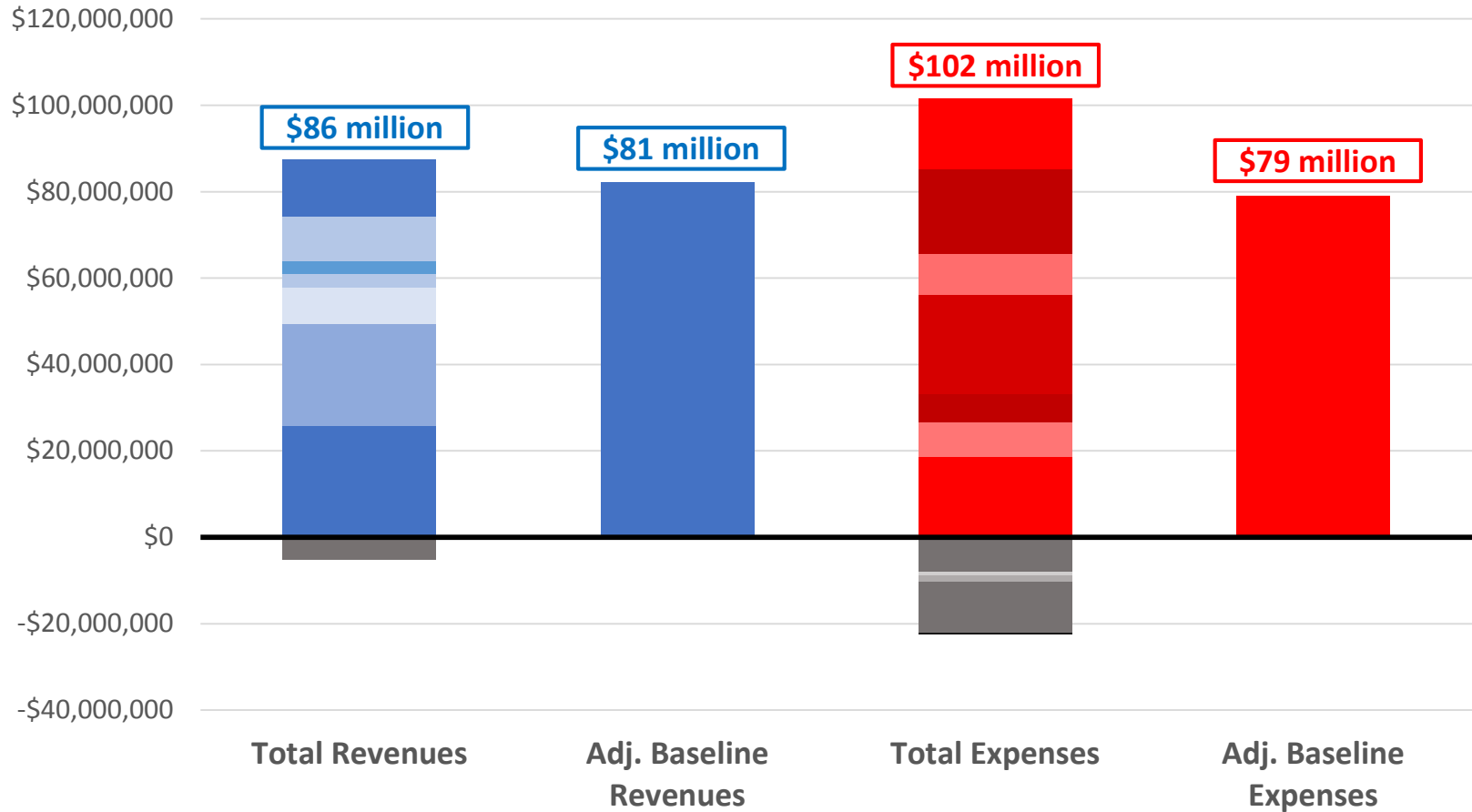
- City revenue and expense history (if strong correlation between data and trendline);
- Local economic or city operational particularities (e.g., sales tax base composition, development cycles, service delivery model (contract vs. in-house)).

Under/over performance of regional, state or national economy affects these indexes and underlying assumptions.

Baseline Forecast – FY 2019 Adjustments

FY2019 - Adjustments for One-Time Revenues & Expenses

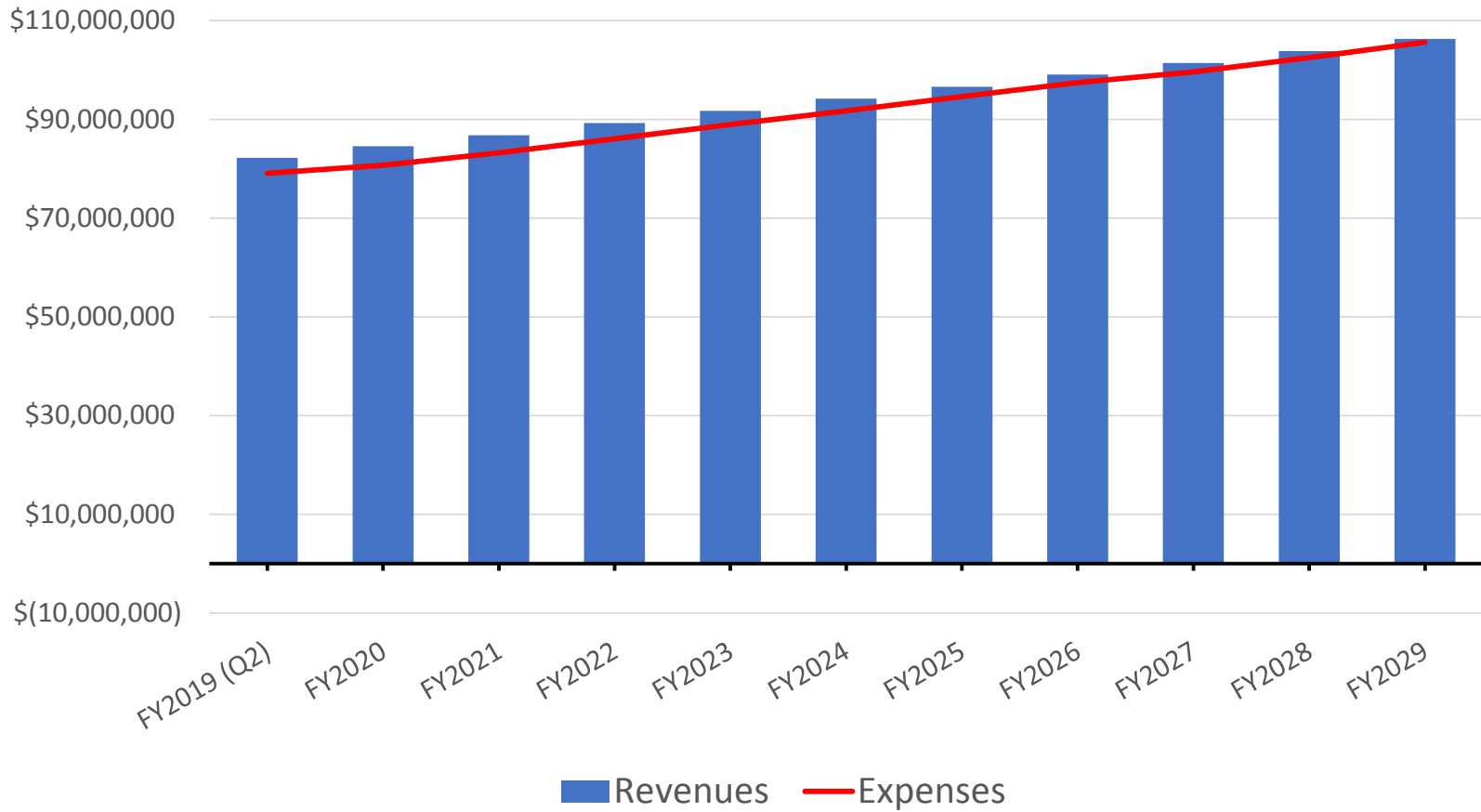
Baseline Forecast - General Fund



Baseline Forecast – Net Revenues and Expenses

Net Revenues & Expenses

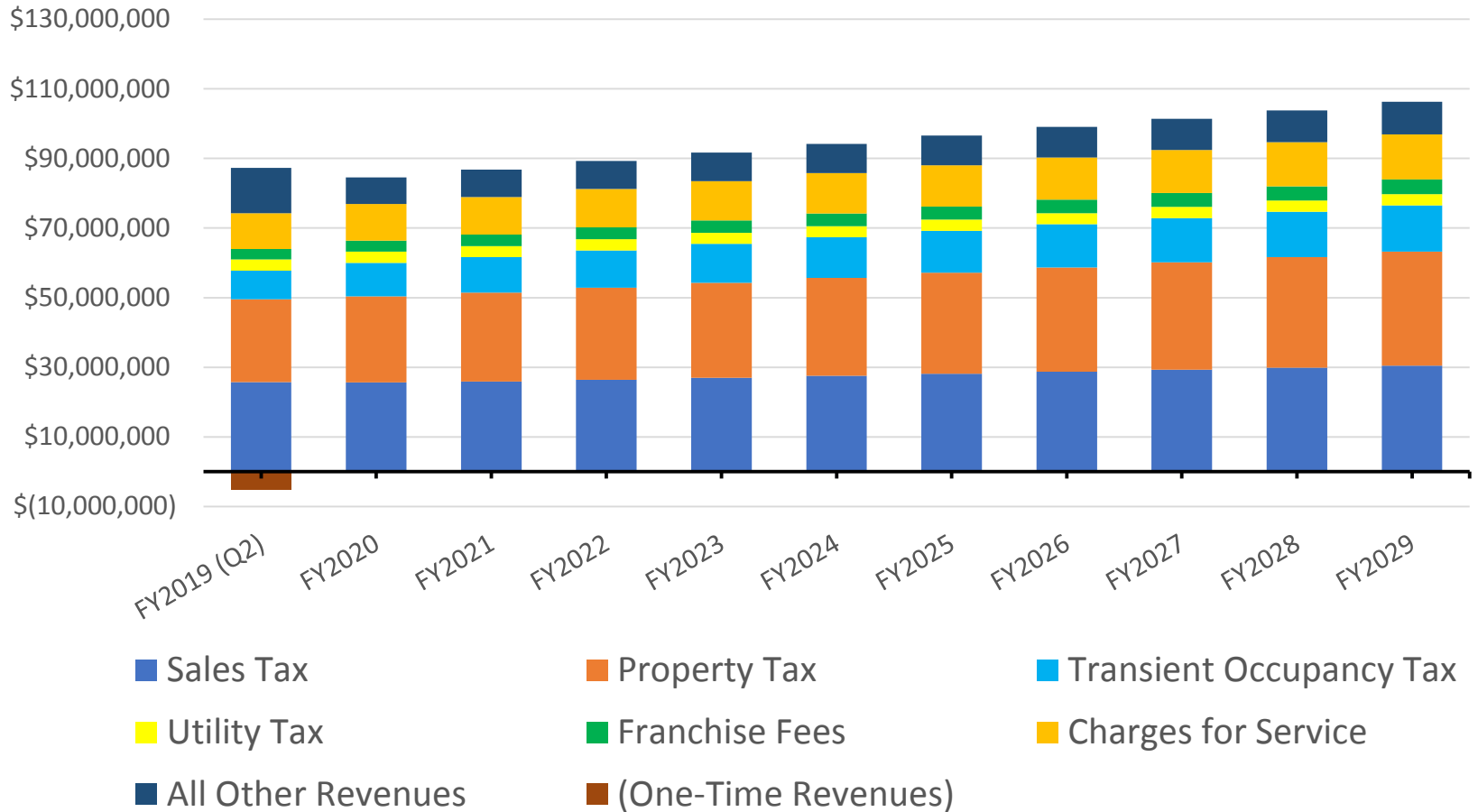
Baseline Forecast - General Fund



Baseline Forecast – Revenue Detail

Revenue Composition

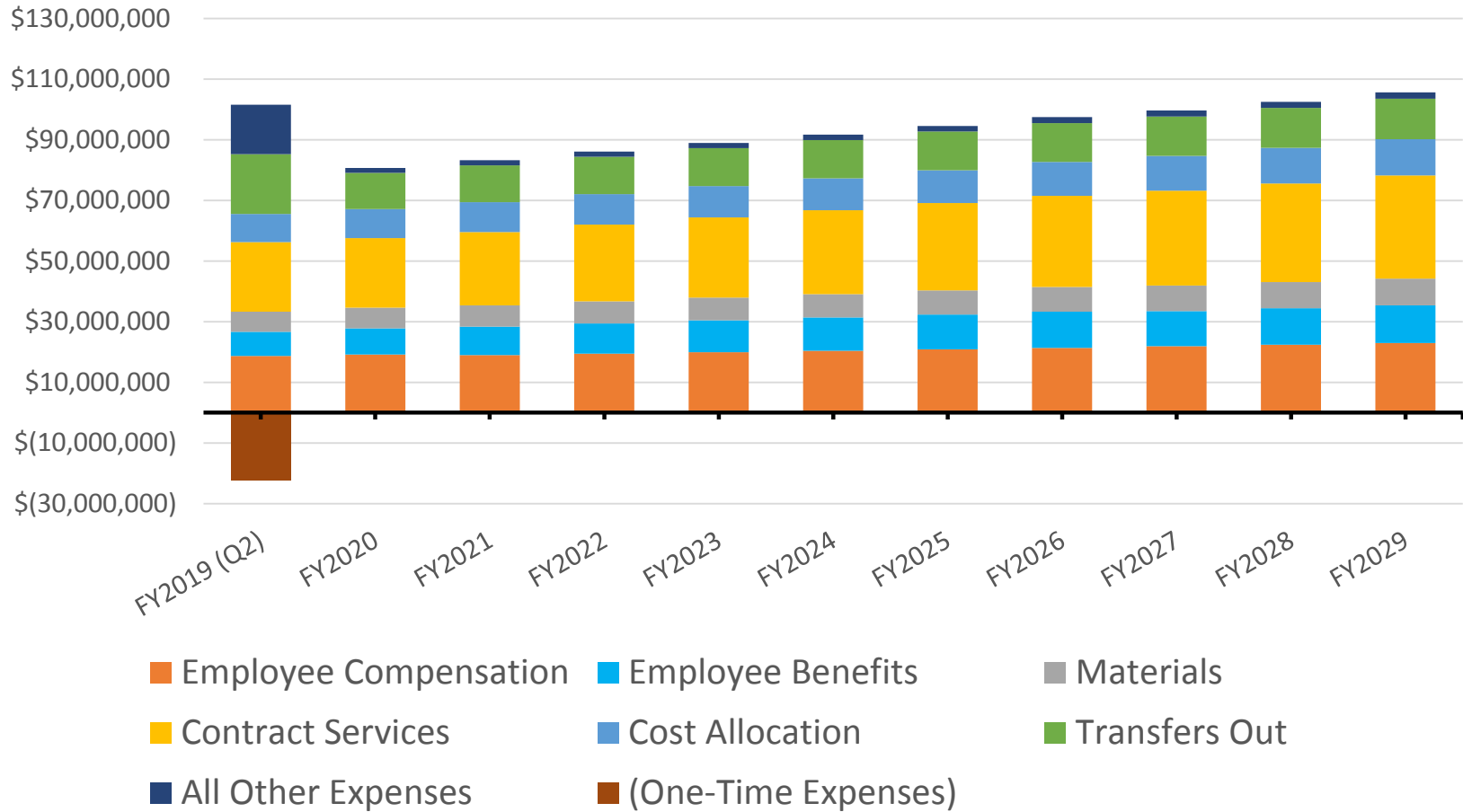
Baseline Forecast - General Fund



Baseline Forecast – Expense Details

Expense Composition

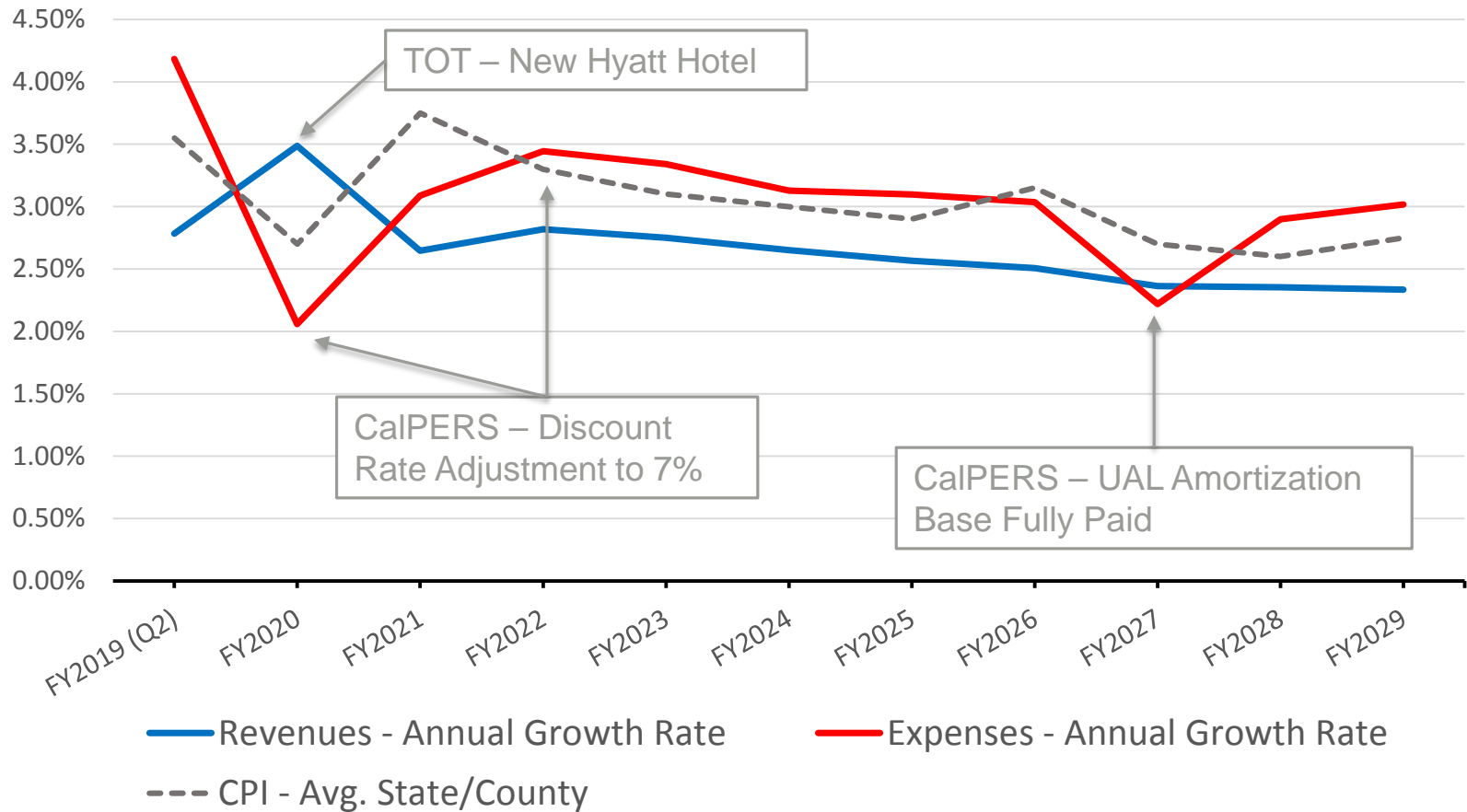
Baseline Forecast - General Fund



Baseline Forecast – Aggregate Growth Rates

Annual Growth Rate - Revenues & Expenses

Baseline Forecast - General Fund



Baseline Forecast – Key Drivers Analysis

4 KEY DRIVERS - REVENUES				
Category	Total Amount FY 2019	% of Total Revenues	Forecast 10- Year AAGR	% Difference from CPI
TOTAL BASELINE REVENUES	\$81,113,033	100%	2.65%	-0.35%
Property Tax	\$23,766,000	29%	3.26%	0.26%
Sales Tax - Business & Industry*	\$14,861,821	18%	1.30%	-1.69%
Transient Occupancy Tax (TOT)	\$8,252,000	10%	4.97%	1.97%
Utility Users Tax (UUT)	\$3,200,000	4%	-0.04%	-3.04%

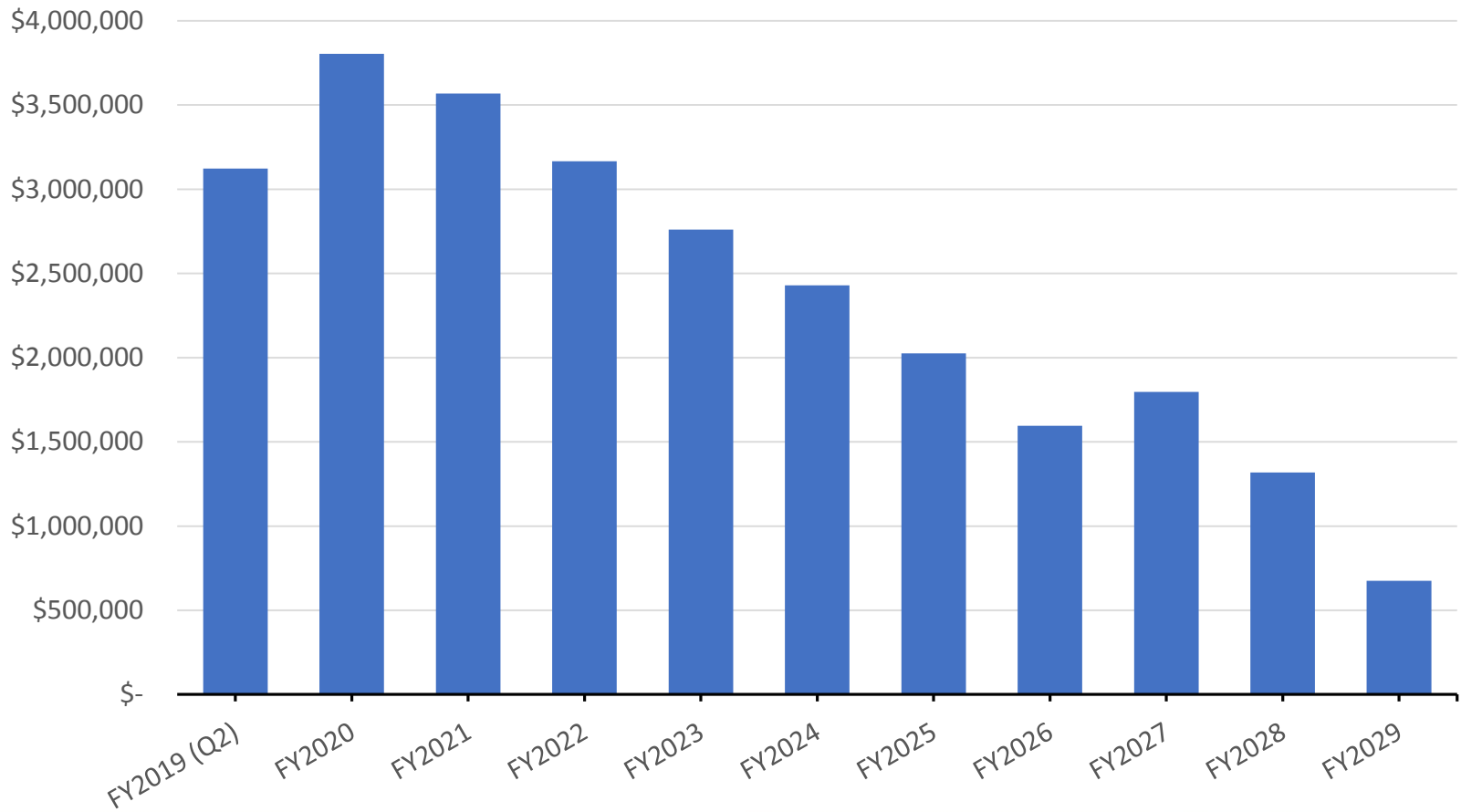
4 KEY DRIVERS - EXPENSES				
Category	Total Amount FY 2019	% of Total Expenses	Forecast 10- Year AAGR	% Difference from CPI
TOTAL BASELINE EXPENSES	\$79,097,539	100%	2.93%	-0.06%
Salaries - Full Time	\$16,665,113	21%	2.14%	-0.85%
Law Enforcement Services	\$12,663,360	16%	5.35%	2.36%
CalPERS (UAL & Normal Cost)	\$4,459,744	5%	4.56%	1.56%
Health Benefits	\$2,182,188	3%	5.99%	3.00%

* Net of Sales Tax Sharing Agreements

Baseline Forecast – Operating Surplus/(Deficit)

Annual Operating Surplus/(Deficit)

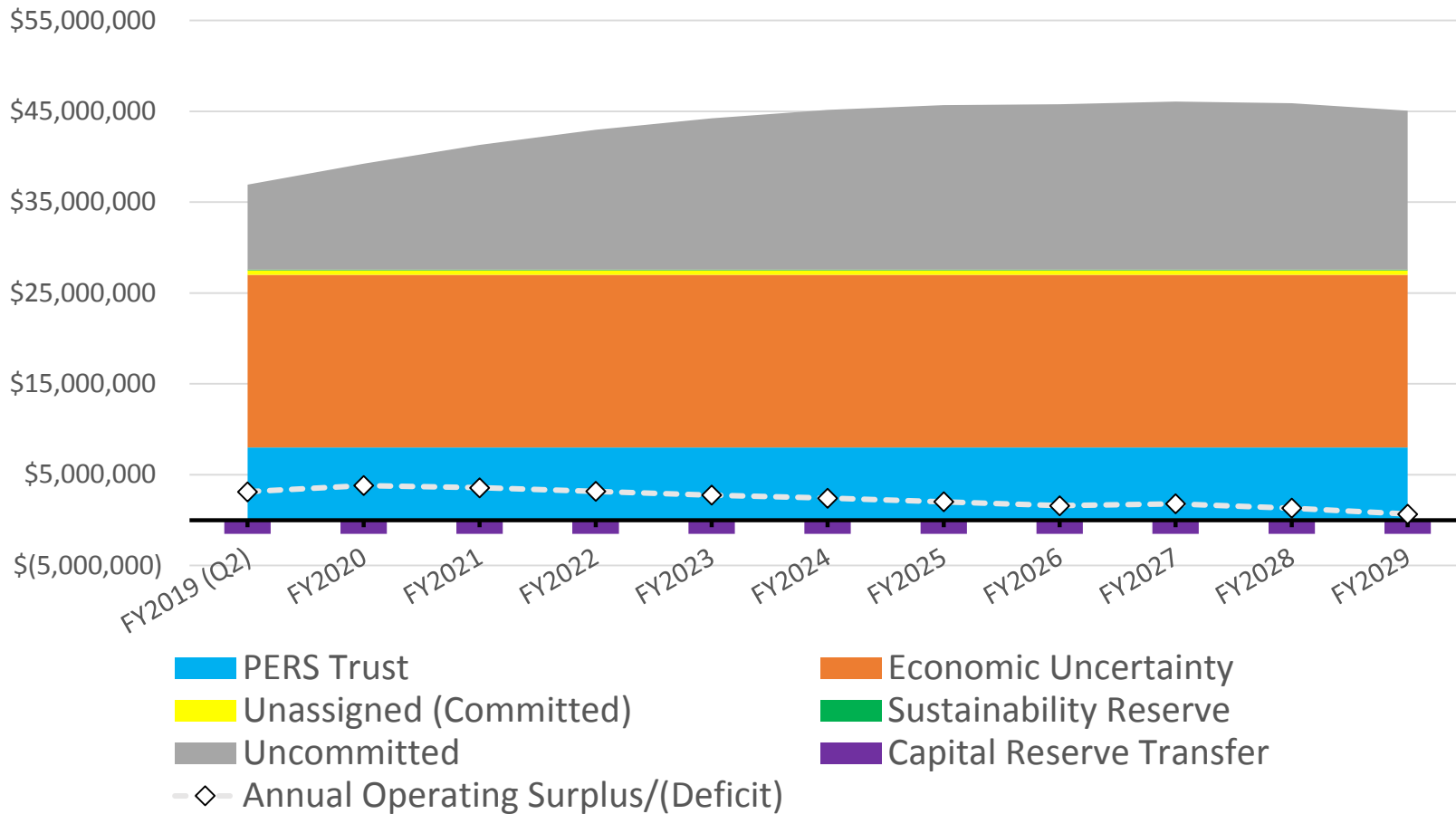
Baseline Forecast - General Fund



Baseline Forecast – Fund Balance & Reserves

Year End Fund Balance & Allocation to Reserves

Baseline Forecast - General Fund



Additional Revenue Options General Fund

General Fund Revenue Options – 4 Basic Criteria

1. Adequacy and Certainty

- sustainably generates annual needed revenue
- not subject to significant variation

2. Equity and Fairness

- fiscal burden appropriately spread
- proportionate to surrounding communities
- does not highly skew economic incentives

3. Transparency

- information on revenue/tax system and how operates easy to find/understand

4. Simplicity

- does not require multiple ballot measures (voter confusion and fatigue)
- not highly burdensome, costly or complicated to administer (by city or payors)

General Fund Revenue Options – Not Evaluated in this Study

Revenue Option	Reason
Business License Tax	City is separately studying an employer-based business license tax.
Documentary and Property Transfer Tax	Only charter cities can increase this tax beyond the statutory rate of \$0.55 per \$1,000 of property value (counties assess equal amount).
Benefit Assessment District/Area	Requires careful documentation/evidence that every parcel within district receives a “special benefit” over-and-above the benefit the public generally enjoys from use of the revenue. Few established since laws changed in 1996 to make process difficult and complex.
Economic Growth	City is primarily built-out. No remaining large tracts of land. Expansion of tax base will come through redevelopment, densification and intensification of uses. Slow and long-term growth strategy.
General Fund Cost Recovery	City recently updated cost allocation plan (CAP). City is in process of updating user fees this spring.

General Fund Revenue Options – Local Tax Measures

	General Tax	Special Tax
Purpose	Revenues can be used for any city government purpose	Revenues can only be used for purposes specified in tax measure
Vote Required	Majority Vote (50% + 1)	2/3 Vote (66.67%)
Election Timing	Only allowed on ballot during city's regular, general elections (biennial November election in even years), unless City Council unanimously declares fiscal emergency*	Can be on ballot at regular, general elections or City Council can call a special election*
Sunset Option	Yes	Yes
Advisory Measure	Yes (non-binding)	N/A

* New revenues not received until 2 quarters after election



Basics of a TUT

- Functionally similar to state Sales and Use Tax (SUT) with important differences:
 - SUT – Point of Sale
 - Where did transaction occur?
 - TUT – Point of Delivery/Use
 - Where did Buyer receive goods or put them to use?
- 2018 - 84% sales tax measures (69 in total) approved
- Current Countywide Rate = 9.0%

Santa Clara Countywide Base Rate	9.00%
State Sales Tax	6.25%
<i>Bradley-Burns Statewide Local Share</i>	1.00%
Santa Clara County Transit District	0.50%
Santa Clara County Valley Transportation Authority	0.50%
Santa Clara VTA BART O&M Transactions and Use Tax	0.125%
Santa Clara County Retail Transaction and Use Tax	0.125%
Silicon Valley Transportation Solutions Tax (Santa Clara TA)	0.50%

Transaction & Use Tax (TUT)



- **Available Options for Cupertino**

- Statewide Cap (default) = 9.25%
- Countywide Rate = 9.00%
- Max. TUT in Cupertino + 0.25%
- City TUT + Countywide Rate = 9.25%

- **Additional Annual Revenue (est.)**

- @ 0.25% = \$4 million annually
- Excludes over 90% business-to-business sales (67% of City's net sales tax from 2 large multi-nationals)
- Realization rate on most of remaining 40% is assumed close to 100% due to type of businesses (plus additional est. revenues from auto sales)

City/Area	Rate*
Santa Clara Countywide	9.0%
Campbell	9.25%
Los Gatos	9.125%
San Jose	9.25%
San Mateo Countywide	8.75%
Belmont	9.25%
Burlingame	9.0%
East Palo Alto	9.25%
Redwood City	9.25%
San Mateo	9.0%
South San Francisco	9.25%
San Francisco	8.50%
Alameda Countywide	9.25%

*Effective Rates as of April 1, 2019

Transaction & Use Tax (TUT)



➤ **Pros:**

- ✓ 0.25% maximum increase keeps City fairly proportional to surrounding areas
- ✓ Consumption tax - burden spread across residents, businesses and visitors
- ✓ Sales tax revenue growth continues to be strong in the City (but see below)

➤ **Cons:**

- Sales tax strongly correlated with overall economic trends (1% decline in GDP = 0.90% decline in sales tax)
- TUT not applicable to business-to-business sales when purchaser located outside the City
- Affects up to 60% of sales tax base (net of tax sharing agreements)



Basics of a UUT

- Percentage tax based on the consumption of utility services: electricity, gas, water, sewer, refuse, telephone (including mobile and long distance), and cable television
- Can establish different rate for residential and commercial
- 2002 to 2018 – Approval of New or Increased UUT (general purpose)
 - With Advisory – 4 of 6 approved
 - Without Advisory – 30 of 49 approved

Statewide Facts on UUTs*

- Over 155 cities throughout state have a UUT
- Rates range from 1% to 11%
- Statewide mean rate = 5.4%
- On average, UUT provides 15% of General Fund revenue (3% to 4% in Cupertino)
- All UUTs in state are currently levied for general purpose (majority vote)

*Data as of 2017 – CaliforniaCityFinance.com

Utility User Tax (UUT)



- **Current City UUT = 2.40%**
- **Additional Annual Revenue (est.)**
 - @ 3.0% = \$800,000
 - @ 4.0% = \$2.1 million
 - @ 5.0% = \$3.5 million
- City's UUT modernized in 2009 to ensure application to changing telecommunications services
- Trendline for UUT growth is flat with potential for slight negative growth (due to water conservation, solar generation, etc.), but volatility is less than other economic-sensitive revs.

City/Area	Rate*
Santa Clara County	
Los Altos	3.5%
Mountain View	3.0%
Palo Alto	5.0%
San Jose	5.0%
San Mateo County	
Daly City	5.0%
East Palo Alto	5.0%
Menlo Park	1.0%
Pacifica	6.5%
Portola Valley	4.5%
Redwood City	5.0%
San Francisco	7.5%
Alameda – 9 Cities	3.25 to 7.5%

*Rates as of FY 2018



➤ **Pros:**

- ✓ Can establish different rates for residential vs. commercial
- ✓ Less volatility than other economic-sensitive revs. – but see below
- ✓ City built-out with largely white-collar industry so not as strong a deterrent to business compared to other regions

➤ **Cons:**

- Baseline UUT revenues are forecasted to be flat or slightly decline - less likely to keep pace with key expense drivers
- Historic voter approval rates are lower (60%) but advisory measure may help
- Doubling of existing rate to 5.0% puts City at top of range in region (equal with Daly City, Palo Alto, Redwood City, San Jose)



Basics of a TOT

- Authorized under Revenue and Tax Code s. 7280 (stays of 30 days or less) imposed on occupant based on room rate
- If add-on for tourism promotion – converts general tax into special tax
- TOT has been called a “painless” tax – paid by non-residents – but can impact future hotel growth if disproportionate
- 2018 – 43 TOT measures on ballot with 38 approved (88%)
- 2016 – 23 TOT measures on ballot with 14 approved (61%)

Statewide Facts on TOTs*

- Most cities and counties have a TOT (over 480 total)
- Rates range from 3.5% to 15.5% (Palo Alto)
- Statewide mean rate = 9.8%
- On average, TOT provides 7% of General Fund revenue (about 10% in Cupertino)

*Data as of 2017 – CaliforniaCityFinance.com

Transient Occupancy Tax (TOT)



- **Current City TOT = 12.0%**
- **Additional Annual Revenue (est.)***
 - @ 13.0% = \$850,000
 - @ 14.0% = \$1.7 million
 - @ 15.0% = \$2.5 million
- **Recent Trends in City's TOT**
 - Estimates include new hotels
 - City's TOT ordinance recently updated to improve collection from short-term rentals (e.g., Airbnb, VRBO, etc.) – increase in City revs. est. \$350,000
 - Trendline for TOT growth is more positive than other taxes, but total revenue generation is less

City/Area	Rate*
Santa Clara County	
Santa Clara	9.5%
Los Gatos, Mountain View, San Jose, Saratoga	10.0%
Los Altos, Morgan Hill	11.0%
Campbell, Sunnyvale	12.0 - 12.5%
Los Altos, Milpitas	14.0%
Palo Alto	15.5%
San Mateo County	
Belmont, Brisbane, Burlingame, Colma, East Palo Alto, Foster City, Menlo Park, Millbrae, Pacifica, Redwood City, San Bruno, San Mateo	12.0%
Daly City	13.0%
San Carlos, South SF	14.0%
San Francisco	14.0%

*Rates as of FY 2018



➤ **Pros:**

- ✓ Paid by non-residents
- ✓ Recent TOT measures in 2016 and 2018 have high approval rates (61% and 88% respectively)
- ✓ Trendline points to stronger growth in TOT revenue compared to other local taxes

➤ **Cons:**

- Total revenue from 1% to 3% increase in TOT may not be sufficient to help General Fund avoid operating deficits in long-term
- City is currently in middle of regional TOT rates @ 12%, but adding 3% would place it second only to Palo Alto for the region (and make it one of the highest in state)



Basics of a Parcel Tax

- Non-ad valorem (non-value based) tax on parcels of property
- Methodology: Either a flat rate per-parcel or a variable rate depending on the size, use, or number of units on the parcel
 - Can establish different rate schedules for residential & commercial prop. but methodology must be same
- Can include inflationary index (revenue stream keeps pace with rising costs)
- Voter approval required: 2/3 vote required (funds restricted to specified purposes)
- Can be placed on ballot at general or special election; can include sunset date

Statewide Facts - Parcel Tax

- Parcel tax used most often by school districts for capital financing (only majority vote)
- Most commonly methodology: flat rate per parcel
- 53% of non-school parcel taxes approved from 2003-2018



- **No current City parcel tax**
 - City’s clean water and storm protection assessments are prop. related fees (not taxes)
 - Cupertino Union School Dist. – flat \$250 per parcel tax (expires 2022)
- **2008 to 2018 – proposed parcel tax measures in region**
 - 16 non-school parcel taxes on ballot in Santa Clara & San Mateo counties
 - 81% approved
 - All for special purposes: libraries, roads, police, water and open space
 - Typically small flat rate

City/Area	Rate/yr.*
Santa Clara County	
Santa Clara - Libraries	\$34 parcel
Santa Clara – Open Space	\$24 parcel
San Jose – Libraries	\$30 parcel
North County - Libraries	\$76 parcel
Santa Clara Water Dist.	\$54 parcel
El Matador - Roads	\$350-\$750 parcel
San Mateo County	
E. Palo Alto – Office Space	\$2.50 sf
Portola Valley – Roads	\$950 parcel
Highlands – Police	\$65 parcel
San Mateo – Police & Fire	\$65 parcel
Atherton – Police	\$750 parcel*

*Not renewed in 2017



- Additional Annual Revenue (est.)**

Flat Rate per Parcel by Type of Use			
Parcel Type	# of Parcels	Per Parcel Tax	Annual Revs. (est.)
Residential	15,838	\$200	\$3.2 million
Multi-Family	79	\$400	\$31,000
Commercial/Office/Ind.	473	\$600	\$284,000
Total			\$3.5 million

Variable Rate per SF by Type of Use			
Parcel Type (avg. annual cost)	Total Acres	Per SF Tax Rate	Annual Revs. (est.)
SFR – 5,000 sf & condos (\$72)	159	\$0.015	\$104,000
SFR – 5,000 to 10,000 sf (\$111)	1,510	“	\$987,000
SFR – 10,000 to 17,500 sf (\$170)	420	“	\$274,000
SFR – Over 17,500 sf (\$418)	460	“	\$301,000
Multi-Family (\$3,600)	79	\$0.05	\$130,680
Commercial/Office/Ind. (\$3,700)	473	\$0.05	\$1.8 million
Total			\$3.6 million



➤ **Pros:**

- ✓ City can define specific purpose(s) for revenues (2/3 approval): parks, libraries, police, etc.
- ✓ Tax revenue not impacted by overall economic trends (non-ad valorem), plus inflationary index help revs. keep pace with rising costs
- ✓ Flexibility in designing tax structure – allocation between types of property uses and applicable tax rates

➤ **Cons:**

- Requires 2/3 approval of electorate – usually dependent on strength of community support for specific purpose of tax
- Flat parcel tax often considered very regressive
- Amount of tax required to generate \$3 to \$4 million may require per parcel levy significantly greater than most other parcel taxes approved in the region

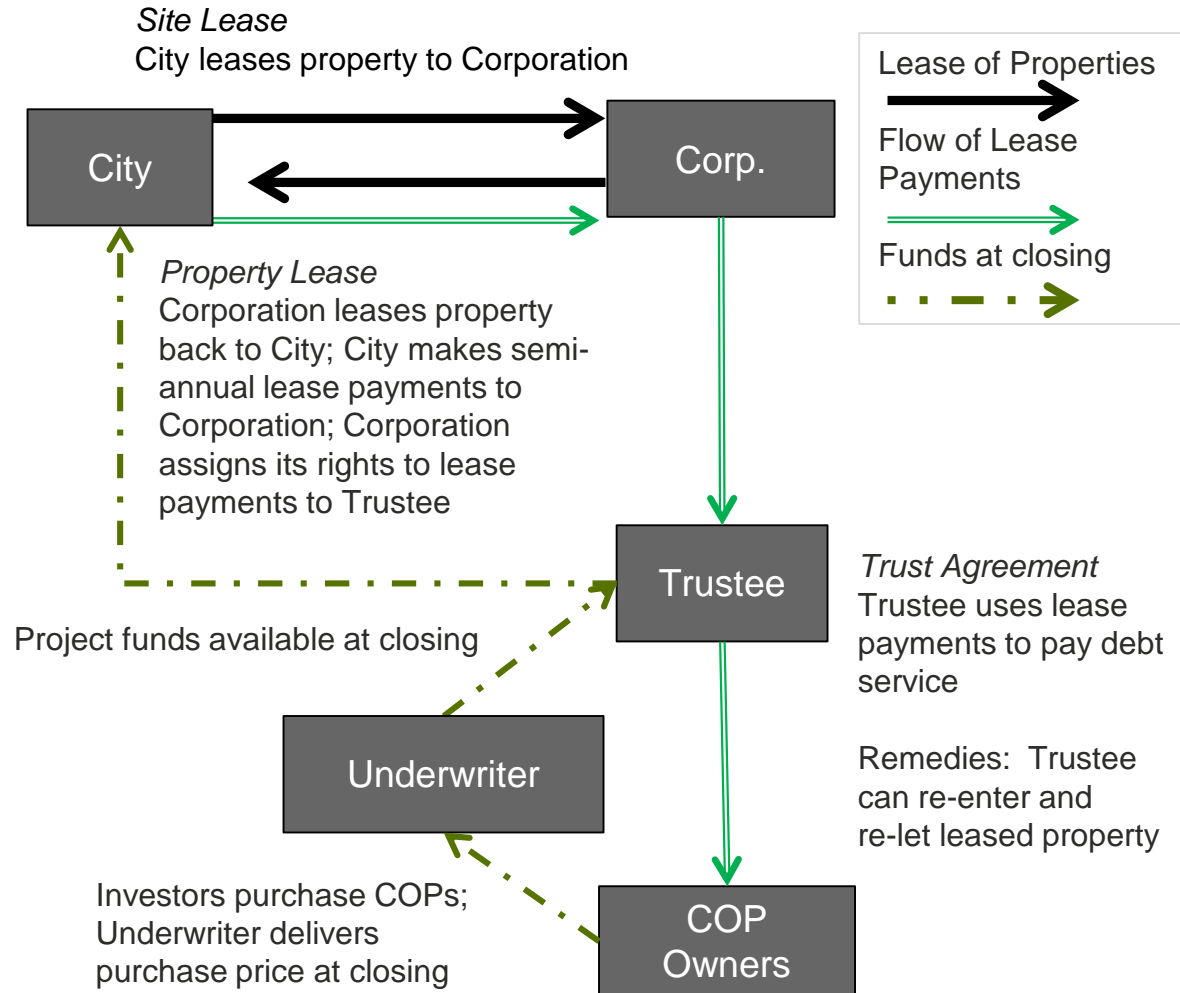
Financing Options for Capital Improvements

General Obligation Bonds vs. Certificates of Participation

	General Obligation Bonds	Certificates of Participation
Mechanics	<p>Levy special ad valorem property tax dedicated to pay debt service on General Obligation Bonds</p> <ul style="list-style-type: none"> • Requires 2/3 vote • No collateral required • Only 43% (14 total) of GO bond measures approved in 2018 	<p>Lease-leaseback structure</p> <ul style="list-style-type: none"> • No voter approval required • Secured by use & occupancy of leasable City assets • Value of leasable City assets must be greater or equal to borrowing amount
Payment source	<p>Special ad valorem property tax</p> <ul style="list-style-type: none"> • Distinct from general prop. tax • Tax revenues pledged/dedicated to repay bond (cannot be used for other purposes) 	<p>Appropriations from the General Fund</p> <ul style="list-style-type: none"> • Supported by all GF revenues • Tax revenues from TUT, TOT, UUT or Parcel Tax not pledged/dedicated to repay bond but strengthen credit
Bond term	<p>Typically 30-years maximum; shorter terms based on policy pref.</p>	<p>Useful life of project</p>
Credit	<p>Strength of credit dependent on nature of tax base, local economy, income levels, etc.</p>	<p>Similar to a general obligation credit with additional risk from factors that affect General Fund operating balance</p>

Certificates of Participation (COPs)

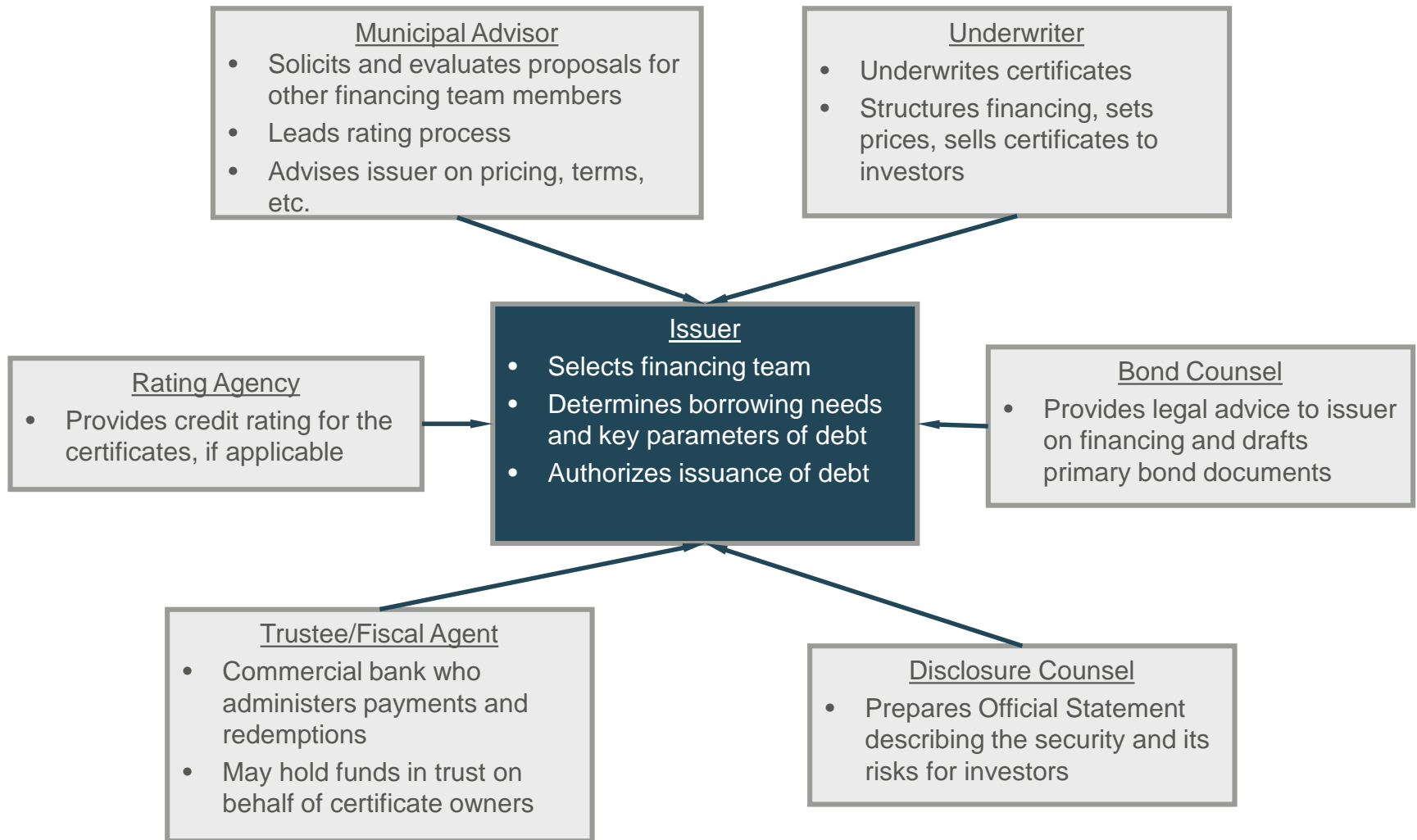
1. City leases an asset to Corporation for nominal amount (~\$1)
2. Corporation then “rents” asset back, with value amortized over time
3. City’s lease payments for “rental” used to pay debt service
4. Requires “use and occupancy” of leased asset
5. Trustee can re-enter and re-let asset if issuer doesn’t make payments



Certificates of Participation (COPs)

- COPs are not bonds; each COP represents a proportional interest in lease payments to be made by the City under a Lease Agreement
- City leases an existing unencumbered City-owned real property asset (e.g., City Hall, Corporation Yard, etc.) to a Nonprofit Corporation under a Site Lease
- Nonprofit Corporation leases City-owned property back to City under a Lease Agreement
- Corporation assigns lease and lease payments along with its rights and obligations to a Trustee who executes the certificates
- Requires approval of legal documents by City Council and Nonprofit Corporation
- COP proceeds can be used for the City's project list; City must have a reasonable expectation of using proceeds within 3 years of issuance under Federal tax law
- COPs are a liability to the General Fund, but are not subject to the Constitutional Debt Limit and voter approval
- Requires use and occupancy of leased property
- Requires leasable assets of value greater than or equal to borrowing amount

Financing Team Members



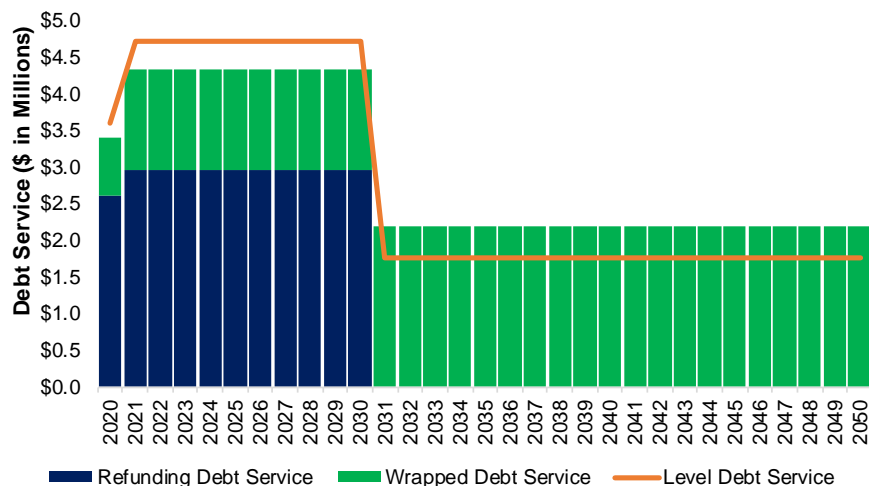
Public Offering Timeline

Date	Activity	Participants
Week 1	Draft Debt Management Policy (if necessary) Select Nonprofit Corporation as counterparty to lease Issue underwriter and bond/disclosure counsel RFP's	MA/City City MA
Week 3	City Council meeting to approve Debt Management Policy	City
Week 3	Underwriter and bond/disclosure counsel RFP's due	UW/BC/DC
Week 3	Selection of underwriter and bond/disclosure counsel	City/MA
Week 4	Kick-off meeting Determination of leased asset(s)	All City
Week 6	First draft of legal documents distributed	BC
Week 7	Conference call to discuss legal documents	All
Week 8	First draft of POS and BPA distributed Second draft of legal documents distributed	DC/UWC BC
Week 9	Conference call to discuss legal documents, POS and BPA	All
Week 10	2 nd draft of POS distributed Submit CDIAC report about upcoming issuance Submit staff reports, Resolutions, POS and legal documents for Council Meeting	DC BC MA/BC/City
Week 10	First draft of credit presentation distributed Revised draft of legal documents and BPA distributed	MA/UW BC
Week 11	Conference call to discuss POS and credit presentation	All
Week 12	City Council and Nonprofit Corporation meetings to approve documents and financing	All
Week 12	Revised draft of credit presentation and POS distributed Distribute documents and seismic forms to S&P	MA/UW/DC MA
Week 12	Finalize credit presentation	MA/UW
Week 13	"Dry run" of credit presentation Meeting with S&P Due diligence call Final comments on POS	All All All DC
Week 14	Receive S&P rating Post POS	City/MA DC
Week 15	Pre-pricing Pricing	UW/MA/City
Week 17	Pre-closing Closing	All

Refunding and New Money COPs Issued in April 2020

	Refunding	New Money	
	Series 2012	Wrapped	Level
Par	\$24,850,000	\$27,345,000	\$27,180,000
Refunded Par	\$29,300,000	--	--
True Interest Cost	2.55%	4.28%	4.13%
Dated Date	4/7/2020	4/7/2020	4/7/2020
Final Maturity	11/1/2030	11/1/2050	11/1/2050
Average Life	6.004	22.665	19.437
Project Fund	--	\$30,000,000	\$30,000,000
NPV Savings (\$)	\$518,202	--	--
NPV Savings (%)	1.77%	--	--
Avg. Annual Savings	\$196,620	--	--
Total Savings	\$2,162,824	--	--
Avg. Annual Debt Service	\$2,933,715	\$1,881,743	\$1,728,626
Total Debt Service	\$32,270,870	\$58,334,025	\$53,587,402

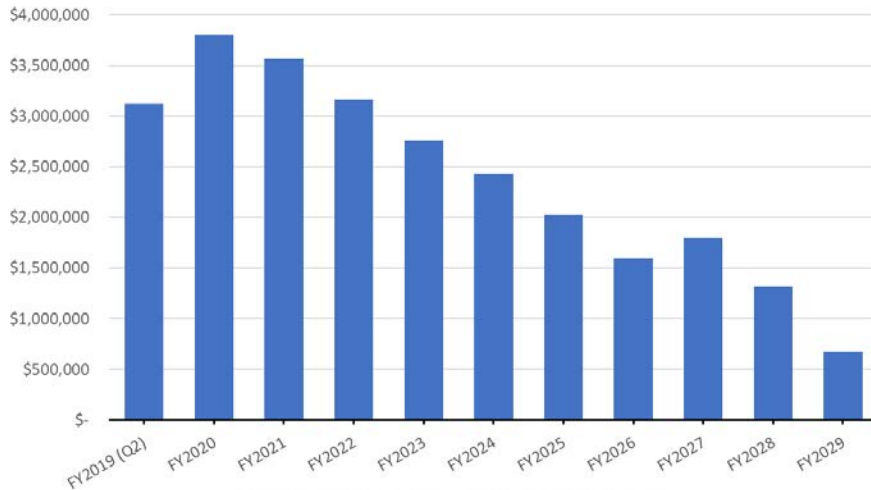
Debt Service Schedules			
Year	Refunding	Wrapped	Level
2020	\$2,617,720	\$774,775	\$991,502
2021	2,962,400	1,367,250	1,753,650
2022	2,964,000	1,367,250	1,752,250
2023	2,968,500	1,367,250	1,751,000
2024	2,968,000	1,367,250	1,753,750
2025	2,967,500	1,367,250	1,755,250
2026	2,961,750	1,367,250	1,750,500
2027	2,965,750	1,367,250	1,754,750
2028	2,968,750	1,367,250	1,752,500
2029	2,965,500	1,367,250	1,754,000
2030	2,961,000	1,367,250	1,754,000
2031		2,192,250	1,752,500
2032		2,196,000	1,754,500
2033		2,192,500	1,754,750
2034		2,192,000	1,753,250
2035		2,194,250	1,755,000
2036		2,194,000	1,754,750
2037		2,196,250	1,752,500
2038		2,195,750	1,753,250
2039		2,192,500	1,751,750
2040		2,196,500	1,753,000
2041		2,192,250	1,751,750
2042		2,195,000	1,753,000
2043		2,194,250	1,751,500
2044		2,195,000	1,752,250
2045		2,197,000	1,755,000
2046		2,195,000	1,754,500
2047		2,194,000	1,750,750
2048		2,193,750	1,753,750
2049		2,194,000	1,753,000
2050		2,194,500	1,753,500



Assumes a "AA" category rating, no debt service reserve fund, and interest rates 60 basis points above market conditions as of March 6, 2019.

\$30 Million COPs (level) – Impact to Baseline Forecast

Annual Operating Surplus/(Deficit)
Baseline Forecast - General Fund

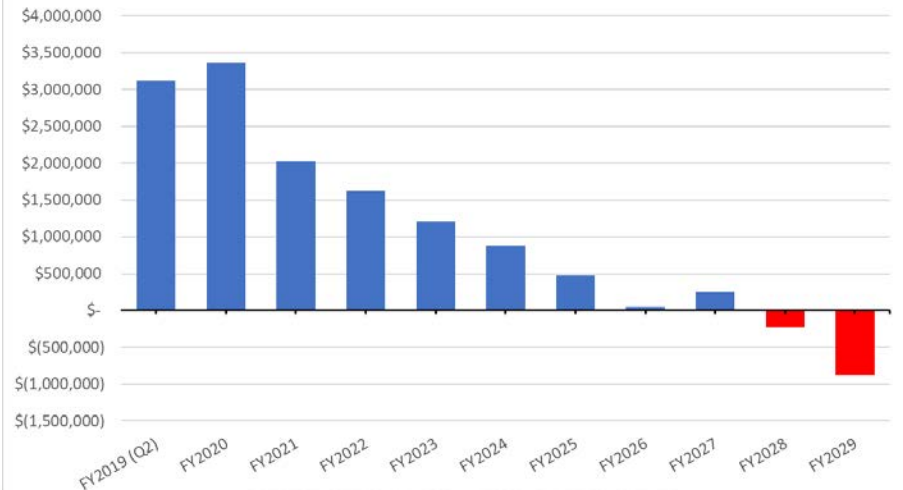


**\$30 million for
Capital Projects**

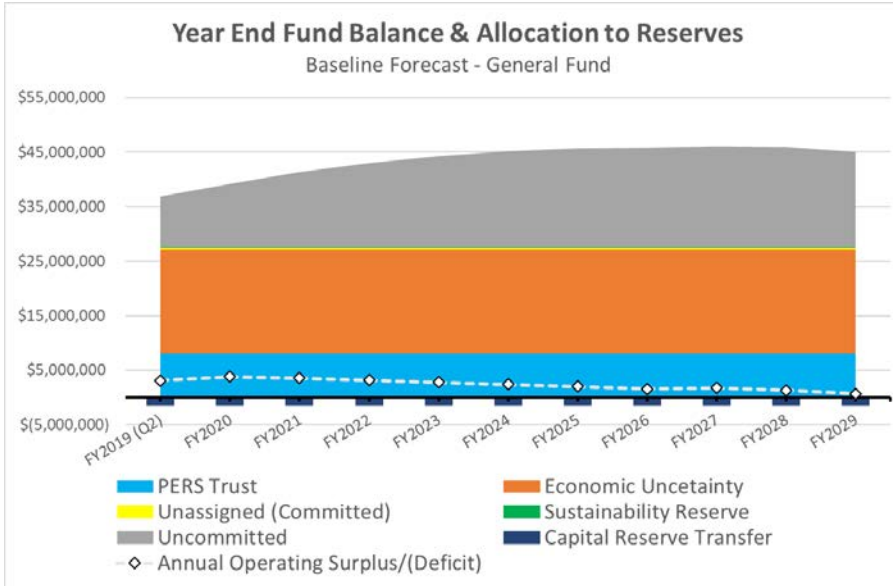
Impact on Annual Operating Budget

- \$1.5 million annual net cost
- Increases structural imbalance between revenues/expenses
- Annual operating deficit develops within 10-Year Forecast

Annual Operating Surplus/(Deficit)
Baseline Forecast + \$30 Million New Money COPs (refunding 2012 COPs)



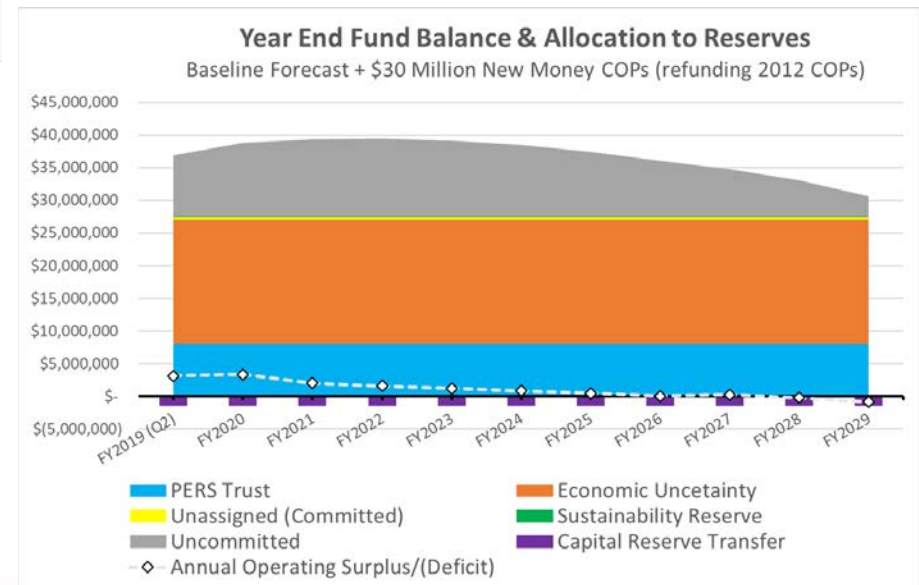
\$30 Million COPs (level) – Impact to Baseline Forecast



**\$30 million for
Capital Projects**

Impact on Fund Balance & Reserves

- Uncommitted fund balance begins declining mid-forecast
- Reserves fully funded in forecast + annual Capital Reserve transfer
- End of forecast – close to hitting reserves



Appendix

Regulatory Disclosures

Disclosure of Conflicts of Interest and Legal or Disciplinary Events. Pursuant to Municipal Securities Rulemaking Board (“MSRB”) Rule G-42, on Duties of Non-Solicitor Municipal Advisors, Municipal Advisors are required to make certain written disclosures to clients and potential clients which include, amongst other things, Conflicts of Interest and any Legal or Disciplinary events of Urban Futures, Inc. (“UFI”) and its associated persons.

Conflicts of Interest. Compensation. UFI represents that in connection with the issuance of municipal securities, UFI may receive compensation from an Issuer or Obligated Person for services rendered, which compensation is contingent upon the successful closing of a transaction and/or is based on the size of a transaction. Consistent with the requirements of MSRB Rule G-42, UFI hereby discloses that such contingent and/or transactional compensation may present a potential conflict of interest regarding UFI’s ability to provide unbiased advice to enter into such transaction. This conflict of interest will not impair UFI’s ability to render unbiased and competent advice or to fulfill its fiduciary duty to the Issuer.

It should be noted that other forms of compensation (i.e. hourly or fixed fee based) may also present a potential conflict of interest regarding UFI’s ability to provide advice regarding a municipal security transaction. These other potential conflicts of interest will not impair UFI’s ability to render unbiased and competent advice or to fulfill its fiduciary duty to the Issuer.

Other Municipal Advisor Relationships. UFI serves a wide variety of other clients that may from time to time have interests that could have a direct or indirect impact on the interests of another UFI client. These other clients may, from time to time and depending on the specific circumstances, have competing interests. In acting in the interests of its various clients, UFI could potentially face a conflict of interest arising from these competing client interests. UFI fulfills its regulatory duty and mitigates such conflicts through dealing honestly and with the utmost good faith with its clients.

If UFI becomes aware of any additional potential or actual conflict of interest after this disclosure, UFI will disclose the detailed information in writing to the issuer or obligated person in a timely manner.

Legal or Disciplinary Events. UFI does not have any legal events or disciplinary history on UFI’s Form MA and Form MA-I, which includes information about any criminal actions, regulatory actions, investigations, terminations, judgments, liens, civil judicial actions, customer complaints, arbitrations and civil litigation. The Issuer may electronically access UFI’s most recent Form MA and each most recent Form MA-I filed with the Commission at the following website:

www.sec.gov/edgar/searchedgar/companysearch.html.

There have been no material changes to a legal or disciplinary event disclosure on any Form MA or Form MA-I filed with the SEC. If any material legal or regulatory action is brought against UFI, UFI will provide complete disclosure to the Issuer in detail allowing the Issuer to evaluate UFI, its management and personnel.

Total Road Improvement Program (T.R.I.P.)

T.R.I.P. Program Overview

- Total Road Improvement Program (T.R.I.P.) was created in 2007 for local agencies to finance eligible street projects by issuing Certificates of Participation
 - Secured only by local transportation sales tax revenues (installment sale structure)
 - General Fund revenues not pledged (no leased assets required and no voter approval)
 - Each agency responsible only for own payments
- All street improvements that are “capital” facilities can be financed through T.R.I.P.
 - General street maintenance cannot be financed
- T.R.I.P. COPs have been issued for 15 cities throughout Monterey, Los Angeles, Riverside, Orange and San Bernardino Counties
 - Funded over \$200 million of transportation-related projects throughout California
 - Most recent financing used Measure X funds for the City of Salinas

Program Highlights

- ✓ **League of CA Cities and CSAC sponsored**
 - Team selected through RFP process
- ✓ **Potential for economies of scale**
 - Lower issuance costs if issued through a pooled financing
 - Larger pool size creates greater investor demand; may lower costs
- ✓ **Streamlined documentation**
 - Draft docs can be provided within 24 Hours
- ✓ **Streamlined approval process**
 - Draft staff reports and presentations are readily available
 - One resolution adopted by Council

T.R.I.P. Program Benefits

- Experienced team already hired through Request for Proposal (RFP) process
- No General Fund exposure
- No voter approval required
- No leased assets required
- Flexible financing terms
- Potential for economies of scale
- Tested and proven program
 - 15 local agencies throughout CA; >\$200 million of transportation projects funded
 - Proven market reception, seamless rating process & project approval
- Post-closing disclosure compliance
 - Annual disclosure assisted by dissemination agent and municipal advisor

Overview of Credit, Revenue Pledge, & Structure

- Installment sale structure
- Sole pledge of transportation sales tax revenues
- Up to 150% debt service coverage
- Typical S&P rating: “A” category
 - City of Salinas received an “A+” rating in June 2018
- To date, all T.R.I.P. transactions have qualified for “AA” municipal bond insurance
- Typical transaction timeframe: ~3 months
- Cupertino has estimated bonding capacity of \$12.3 million (assuming ~\$1.14 million of annual local return)
 - Average annual debt service of \$755,000 through 2047



Program Timing

- From start (kick-off call or meeting) to finish (receipt of funds), a typical transaction can take approximately 3 months

Date	Action	Responsibility
MONTH 1 (Application Period; City Approval)	Kick-Off Call/Meeting	All
	Distribute 1 st Drafts of Bond Documents (Board Resolution, Indenture, Installment Sales Agreement, etc.)	BC
	Distribute 1 st Draft of Preliminary Official Statement (POS)	UWC
	Submit Documents & Staff Report for City Council Meeting	City
	City Approval of Documents	City
	Conference Call to Review Documents	All
MONTH 2 (Finalize Documents, POS; Credit Package)	Draft of CSCDA Staff Report Distributed	Conduit Issuer
	2 nd Draft of Documents and POS Distributed	BC; UWC
	Conference Call to Review Documents	All
	Deadline to Submit Docs & Staff Report for Board Package	Conduit Issuer
	Issuer Board Approval	Conduit Issuer
	3 rd Draft of POS Distributed (if Necessary)	UWC
	Send Credit Package to Rating Agency; Bond Insurer	UW
	Rating Agency Credit Rating Call	All
MONTH 3 (Credit Rating; Price/Close Bonds; Receive Funds)	Receive Credit Rating	All
	Receive Bond Insurance Bid	All
	Print/Post POS	UW
	Pre-Market Bonds to Investors	UW
	Pre-Pricing Call	UW
	Pricing Call	UW
	Pre-Closing	All
	Closing (Funds Delivered)	All

T.R.I.P. Case Study – City of Salinas

- Salinas was the first city in Monterey County to issue COPs backed by new countywide Measure X funds passed by voters in 2016
 - Finance plan included funding for various street improvement programs intended to mitigate traffic, ensure pedestrian safety, update intersections and facilitate future growth
 - Key projects include Boronda Road, Alisal Street and Laurel Drive
- Salinas issued \$37.5M of COPs in June 2018
 - Generated more than \$40.6 million in project proceeds
 - 1.64x coverage on Measure X revenues
 - Received “A+” underlying S&P rating
 - Validation completed in May 2018
- Salinas took advantage of the market to lock in favorable interest rates and construction prices
 - City achieved an interest rate of 3.59% (30 years)
 - City received strong bids for bond insurance and a surety to maximize proceeds

\$37,500,000
CSCDA - City of Salinas
Certificates of Participation, Series 2018B
(T.R.I.P. Total Road Improvement Program)

S&P Underlying Rating	A+
Insured Rating	AGM (AA)
10 Year Treasury	2.90%
10 Year MMD	2.47%

Maturity	Coupon	Yield
2019	4.00%	1.51%
2020	4.00%	1.65%
2021	4.00%	1.77%
2022	5.00%	1.88%
2023	5.00%	2.00%
2024	5.00%	2.13%
2025	4.00%	2.24%
2026	4.00%	2.37%
2027	5.00%	2.47%
2028	5.00%	2.55%
2029	5.00%	2.64%
2030	4.00%	2.83%
2031	5.00%	2.81%
2032	5.00%	2.85%
2033	5.00%	2.92%
2034	5.00%	2.96%
2035	5.00%	3.00%
2036	5.00%	3.03%
2037	5.00%	3.05%
2038	5.00%	3.07%
2041	5.00%	3.15%
2046	3.50%	3.70%