CUPERTINO

OFFICE OF THE CITY MANAGER
CITY HALL
10300 TORRE AVENUE • CUPERTINO, CA 95014-3255
TELEPHONE: (408) 777-3212 www.cupertino.org

CITY COUNCIL STAFF REPORT

Meeting: November 17, 2015

Subject
Study Session on the Civic Center Master Plan – Financing Alternatives and Affordability Analysis

Background
On July 7, 2015, Council approved the Civic Center Master Plan along with the Initial Study/Mitigated Negative Declaration and gave direction to staff to proceed with design for implementation of the master plan. The major elements of the master plan are:

- City Hall: construct a new replacement building of 40,000 square feet, in the same general location on the civic center site as the existing city hall; to be a two-story building including an Emergency Operations Center (EOC) and space for community functions;
- Parking: to be located underground below the new City Hall with capacity to park approximately 118 vehicles;
- Library Program Room Expansion to be the "Perch" option to seat up to 130 people.

On August 18, 2015, the City Council heard an item recommending that implementation of the approved Civic Center Master Plan move forward by authorizing the City Manager to enter into a design consultant services contract, a master agreement for already-funded phases of work up to $5,500,000, and for other agreements for other professional services necessary for the implementation, not to exceed $2,000,000. A motion to approve these actions failed, with three Councilmembers requesting to add a future agenda item seeking additional information on conceptual financing for the project. Attached is the report for Council's discussion and consideration.

Prepared by: Katy Jensen, Capital Improvement Program Manager
Reviewed by: Timm Borden, Director of Public Works Department
Approved for Submission by: David Brandt, City Manager
Attachments:
A - City of Cupertino Civic Center Master Plan – Project Rationale and Financing Approach/Affordability Study

City of Cupertino Civic Center Master Plan
Project Rationale and Financing Approach/Affordability

Since 2012, City Staff, at the direction of the City Council, has been analyzing options to address a myriad of challenges associated with the existing City Hall/Civic Center site. These challenges include:

- A City Hall, constructed in the mid-1960's, that has exceeded its useful life, and
  - Is in need of significant seismic upgrades;
  - Contains mechanical systems that no longer meet Building Codes;
  - Has an inefficient electrical system that cannot accommodate current usage – causing unreliable service;
  - Does not meet the requirements to house an Emergency Operations Center;
  - Lacks accessibility;
  - Has a compromised public service interface, creating inefficiencies in providing community service;
  - Contains insufficient space for current staffing – requiring the City to lease an increasing amount of commercial space for certain departments and offering no room for future growth.
- A Library whose existing capacity and functionality cannot accommodate its current and growing popularity and community demand for more programming and meeting space, and
- Inadequate parking to meet the demands of Civic Center users.

After almost three years of intensive analysis, which included extensive public outreach, assessment of numerous alternatives with detailed budget estimates, and regular City Council feedback[1], the City Council adopted Resolution No. 15-060 on July 7, 2015 approving the Civic Center Master Plan (the "Plan"). The Plan includes the following key elements: a new two-story city hall building of up to 40,000 gross square feet, 118-space underground parking, and a library expansion consisting of a "perched" addition for a 130-seat program room.

The City Council directed staff to prepare a financing plan for its consideration relating to the implementation of the approved Civic Center Master Plan. This report is in response to that directive. This report has three parts.

- Part I: Reviews the implementation costs of the proposed Civic Center Master Plan and the economic rationale for that approach compared with the alternatives.

---

[1] Council either discussed, gave direction or took action with respect to the Civic Center Master Plan approximately nine times between December 2012 and August 2015.

- Part II: Reviews the proposed financing approach for the Civic Center Master Plan.
- Part III: Examines the financial impacts of such a financing on the City in the context of its general affordability and debt assessment criteria used by the rating agencies.

The conclusion of this report is:

- The Plan provides an overall cost-effective and comprehensive solution to the needs of the City and its residents;
- The Plan satisfies the criteria used by City staff in evaluating different master plan schemes;
- The Plan is in line with the size and cost of civic center projects implemented by comparable cities; and
- The Plan can be financed with traditional tax-exempt lease financing at an annual cost that is affordable to the City.

Part I The Civic Center Master Plan

In developing the recommended approach to addressing the challenges associated with the existing Civic Center, staff sought to design a plan that would achieve the following goals:

- Establish City Hall as a resilient building, designed to allow immediate occupancy after a sizable earthquake and to house an Emergency Operations Center;
- Resolve the existing parking shortage on the existing site and provide additional parking for library expansion;
- Provide additional program space for the library which frees up the Community Hall for other users;
- Provide more community meeting space; and
- Provide for a more customer-friendly interface in City Hall.

In principle, the City could achieve these goals with a civic center plan that consists of a variety of library addition configurations, and either (a) a seismic code retrofit of City Hall and a separate parking garage, or (b) a new City Hall and underground parking.

New City Hall vs. Seismic/Accessibility Remodel of Existing City Hall

The assessment of the City Hall options involved a cost benefit analysis. Originally, the comparison was between a smaller new City Hall (recommended by staff) and the remodel of existing City Hall. However, the City Council approved a new City Hall that was larger than the staff-recommended approach to allow for additional community-programmed space and growth capacity.

The table below provides a high level summary of the benefits and costs of the three approaches:

	New City Hall **Council Approved** costs as of 07/07/15	**New City Hall** **Staff Recommendation** costs as of 07/07/15	**Seismic/Accessibility Remodel of Existing City Hall** costs as of 10/21/14
Project Benefits			
Useful Life	50 years	50 years	25 years
Square Footage	40,000	35,000	26,000
EOC Operations/Resilience	State of Art Emergency Communication System	State of Art Emergency Communication System	Existing Emergency Communication System
Parking	Underground	Underground	New structure east of Library
Sustainability	Meets LEED Silver/Cupertino Climate Action Plan, including lower utility costs – Projected impacts of $1/sf/yr in energy costs; 25 kBTU/sf/yr	Meets LEED Silver/Cupertino Climate Action Plan, including lower utility costs – Projected impacts of $1/sf/yr in energy costs; 25 kBTU/sf/yr	Cannot achieve similar efficiencies – Projected impacts of $3.63/sf/yr in energy costs; 106 kBTU /sf/yr
Public Interface	Improved with additional community space	Improved with additional community space	Improved - no additional community space
Functionality/Future Growth	Accommodated	Accommodated	Not accommodated – still need to lease satellite space
Estimated Cost ($MM)			
City Hall Structure	$56.20	$51.1	$14.30
EOC Operations	included	included	3.7
Parking	included	included	9
Total Costs	$56.20	$51.1	$27.00

We note the following with respect to the costs for each of these options:

- The costs shown in the chart above summarize underlying detailed cost elements that include: demolition and construction; site work; design consultants; direct and indirect City staff costs; construction management; financing costs; relocation and temporary leasing for City staff; furniture, fixtures and equipment ("FFE"); design contingency (15% of direct costs); hard cost contingency (10% of direct costs); and escalation (3 years to project midpoint).

- All of these costs are "industry standard" for budget estimates for projects at the high-level master planning stage. The estimates were prepared by a professional cost-estimating consultant, TBD Consultants (http://www.tbdconsultants.com) and are based on standard industry practice, professional experience and knowledge of the local construction markets. The estimates were then peer reviewed by the City's on-call estimating consultant, Cumming (http://www.ccorpusa.com). The consultants then met and reconciled their estimates to develop what was ultimately included in an appendix to the approved Civic Center Master Plan.

- Costs for completed municipal buildings are somewhat helpful for comparison purposes, however those are actual costs and no longer include design and construction contingencies. Published private construction costs are typically for building "shells" and also do not include design and construction contingencies, FF&E, any temporary lease costs, design costs, construction management costs, or financial advisors or bond counsels. Also, private contractors typically do not pay prevailing wage labor costs – which can account for a significant difference.

Focusing on the Council-approved approach vs. the remodel approach, the table suggests that the new City Hall would be approximately twice the cost of a seismic/accessibility upgrade of existing City Hall coupled with EOC Operations and additional parking. While the cost differential between the two approaches would narrow if the remodel costs were updated from the October 2014 value, the new City Hall clearly entail a greater outlay of funds. However, the new City Hall represents a prudent use of funds and a better investment by the City for the following reasons:

- The new City Hall will house an Emergency Operations Center that can provide state of the art emergency communication systems during and after a major seismic event. This need is a major driver for a new City Hall. With the remodel approach, the City must rely on its existing and outdated systems.
- The new City Hall will increase square footage by 50% over the remodel approach. The new City Hall will be able to house its existing employees, accommodate future staffing growth, and will eliminate the City's reliance on commercial office space to meet overflow needs (as is the case with the City Attorney's Office).
- The underground parking at a new City Hall preserves the site east of the Library for recreational or other uses or as a potential development opportunity. In addition, it provides for better circulation around the Civic Center area. By not constructing an above-ground parking garage, the City would retain the softer interface between the Civic Center and the neighborhood immediately to the east, and meets the popular desire of the community as expressed through project outreach.
- The new City Hall will be considerably more efficient to operate. The annual energy requirements (kBTU/square foot) will decline by more than 75% per square foot.
- The new City Hall will provide a useful life of 50 more years – double the useful life provided by a remodeled City Hall. Comparing costs of the two approaches today ignores the financial impacts on the City in the future.

The Council-approved City Hall option will result in an attractively designed facility that is appropriately sized for the site, is highly functional and efficient, and achieves all of the objectives of the City. It is also in keeping, if not modest by comparison, with city halls in other Bay Area communities with similar populations to the City:

Jurisdiction	Population	FTE	Operating GF Budget	Year Built	Square Feet
Cupertino	61,000	181	$68.2 million	1960's	26,000
Brentwood	56,000	305	43.6 million	2012	65,000
Dublin	52,000	94	63.3 million	2000*	53,000
Milpitas	70,000	328	76.6 million	2002	68,000
Redwood City	80,000	559	101.9 million	1997	42,500
Walnut Creek	65,000	348	77.6 million	2002*	70,000

*Renovation and Addition

Library Improvements
The improvements to the Library represent a project cost that is separate and distinct from the considerations associated with the City Hall analysis. The City Council evaluated four options for the Library with the goal of expanding seating capacity from 30 to 130 people:

- Option 1 – Expansion of the existing Library Story Room. Estimated cost of $5.1 million.
- Option 2 – Single story expansion to add a new room with a seating capacity of 130 people and modify the interior to provide support elements to the Program Room. Estimated cost of $5.3 million.
- Option 3 – Courtyard infill expansion that envisions a new single story building in the interior courtyard space. Estimated cost of $6.0 million
- Option 4 – Perch expansion involving the new construction of a two story building to be built over the Children's Reading Area. Estimated Cost: $6.9 million.

The City Council chose to pursue Option 4 as this option contains optimal proportions; allows seating flexibility; has no impact on Memorial Grove; retains the existing Story Room; is favored by Library Staff, the Cupertino Library Foundation and Friends of the Library; and entails minimal disruption of the Library during construction.

Part II Financing the New City Hall

The suggested plan of finance for the new City Hall involves a tax-exempt fixed rate, long-term lease financing transaction. The source of repayment would be annual appropriations from the City's General Fund. This approach is well established in California, is used frequently by the State and local governments to finance public facilities, and is the same approach implemented by the City to finance the public library and animal shelter in 2002 and other public improvements in the 1990's –

which obligations were refinanced in 2012. See Appendix A for a listing of California cities that have lease financed city hall or civic center improvements.

The reasons that governments implement tax-exempt lease financing for public facility projects include:

- Spread the cost of the facility over its useful life;
- Allocate the cost of the facility among the generation of residents that will benefit from it; and
- Preserve cash for other projects that cannot be tax-exempt financed.

Unlike General Obligation Bonds, lease financing does not require a public vote. General Obligation Bonds involve a pledge of the City's "full faith and credit" and its taxing power and, by State Constitution, requires a two-thirds vote of the electorate. Lease financing involves no such pledge and does not require an increase in taxes or any pledge to obligate tax revenues.

A. The Lease Financing Structure

1. Transaction Overview

The lease financing of a new City Hall, which likely will take the form of Certificates of Participation ("COPs"), involves the following elements:

- The City will cause the issuance of COPs in the public marketplace.
    - COP proceeds will be held by a trustee representing certificate holders (the "Trustee") and used to fund construction costs of the new City Hall.

- Concurrently with the sale of the COPs, the City will enter into a leasing arrangement with the Cupertino Public Facilities Corporation (the "CPFC") with respect to the new City Hall or other asset, as discussed later in this report (the "Asset").
    - Under a Site or Facilities Lease, the City will convey the Asset to the CPFC.
    - Under a Lease Agreement, the CPFC will lease the Asset back to the City.

- Under the Lease Agreement, the City will make semi-annual rental payments to the CPFC.
    - The CPFC will assign those rental payments to the Trustee.
    - The Trustee will apply the payments to make principal and interest ("P & I") payments to the COP holders.

See Appendix B for a diagram of the financing structure.

2. Rental Payments

The City's rental payments will fund the principal and interest payments to the COP Holders. Rental payments will be subject to the following requirements and conditions:

- The rental payments are to be annually appropriated from the City's General Fund.
  - The City will covenant to include rental payments in its annual budgets.
  - Annual rental payments will be fixed throughout the COP term.

- Rental payments may not exceed the fair rental value of the Asset.

- If the Asset is damaged or condemned, the rental payments will be subject to abatement.

- The obligation to make rental payments is annual.
  - Under California, this obligation does not constitute "debt" that is subject to voter approval.

- Failure to make a rental payment will not result in an acceleration of the COPs.
  - The City may be sued for past due rental payments (on an annual basis).
  - The Trustee may have the right to enter and re-let the facilities.

3. The Leased Asset

The value of the Asset must equal or exceed the par amount of the COPs. The outstanding COPs currently have leases against City Hall, the Community Hall, the Library, and the land on which all three facilities are located. With the proposed Project and the lease structure, there are two options:

- Lease the Asset being constructed, expanded, or improved (may require amendment of the existing lease agreement)
  - Requires the funding of interest during construction,
  - Effect: funded interest increases the COP borrowing amount and annual rental payments, but defers payments until after construction.

- Asset Transfer
  - Lease an alternate asset that is already in existence and unencumbered,
    - Value of Asset must equal or exceed COP par,
  - City can begin rental payments in first year, eliminating the need to fund interest during construction,
  - Effect: lower City's cost of borrowing.

C. Credit Matters

1. Rating Agency Considerations

Rating agencies tend to rate COPs one notch lower than the issuer's general obligation credit or issuer credit rating. As the City is rated AAA by Standard & Poor's ("S&P"), the COPs will likely be rated "AA+" similar to the 2012 Refunding COP transaction. The credit analysis will focus on the following factors:

- **City's General Creditworthiness** – This will be evaluated on the basis of the following factors:
  - Overall debt structure and burden – rating agencies will look at traditional debt (i.e,, other outstanding financings) and unfunded pension/OPEB liabilities,
  - Economic and tax base factors – these refer to income levels, assessed values, unemployment and similar metrics. These will be strong for the City (as well as most Bay Area cities),
  - Financial flexibility, performance and position – these generally pertain to the (a) City's overall reserves and liquidity position, and (b) trend of financial operations – to insulate itself from unexpected contingencies,
  - Administrative and management factors – these are more qualitative assessments which are positively impacted by the existence of strong financial policies, budgetary practices and accuracy, and other indications of fiscal discipline.

- **Documentation and Security** – The rating agencies will consider the following factors:
  - Whether the financing term is appropriate for the asset being financed or leased,
  - Inclusion of a covenant to budget and appropriate – this is a central feature of California leases,
  - Timing – whether payment dates accommodate a potential delay in adopting a budget for the following fiscal year
    - Payment dates of September/March or October/April are ideal,
    - Alternatively, the City can fund a debt service reserve,
  - Approach to abatement risk
    - During construction risk – either capitalize interest or use the asset transfer option,
    - Rental interruption insurance – in the event the leased asset is damaged or destroyed,
  - Other insurance provisions – title insurance, and property & casualty (earthquake insurance is not required),
  - Lease remedies – is the remedy of re-entering/re-letting available?

- **Essentiality of the Leased Asset** – this is an important consideration for Moody's (which currently does not rate the City), but it is less important to S&P. Buildings that perform essential government functions – such as City Halls, Public Safety Buildings, Courts – are favored as their essential functions increase the likelihood that an appropriation will be made in times of fiscal stress.

D. The Financing Process

The financing process involves the following basic steps once a decision to finance the City Hall project is made among the City, Bond Counsel and Financial Advisor.

1. General Timing Considerations

- Generally, the financing occurs when the project is in a sufficient state of readiness with the project fully designed and costed,
  - Approvals obtained
  - No environmental or planning issues
  - Ideally, contract is bid
- From a Federal tax law standpoint, the City must have the reasonable expectation to spend 85% of the COP proceeds within 3 years.

2. Threshold Decisions

- Form of lease financing – COPs vs. lease revenue bonds,
- Structure – Asset transfer or lease project to be constructed,
- Manner of sale – Competitive vs. Negotiated sale,
  - Competitive sale – All underwriters are invited to bid with award made to firm bidding the lowest true interest cost
  - Negotiated sale – Pre-select an underwriter to pre-market the COPs to investors and fine tune the structure based on market inputs
  - Key factors: stability of bond market; complexity of transaction
    - The City could likely sell the COPs through a competitive sale.

3. Documentation Process

- Legal documents – Resolution, Lease Agreement, Assignment and Indenture,
- Sale documents – Official Statement, Notice of Sale (if competitive sale), Purchase Agreement (if negotiated sale),
- Council approval of substantially final documents.

4. Rating Process

- Submit documents, cash flows, and City CAFRs to rating agencies,
- Prepare credit presentation,
- Receive rating.

5. Sale Process

- If competitive sale:
  - Publish notice of intention to sell COPs in Bond Buyer

  - Post Preliminary Official Statement and Notice of Sale to I-deal website
  - Receive bids electronically through PARITY system
  - Close transaction approximately two weeks later

- If negotiated sale:
  - Post Preliminary Official Statement to printer's website
  - Underwriter pre-markets the COPs
  - Set date for sale
    - Underwriter sets initial scale
    - Underwriter takes orders based on scale
    - Underwrite finalizes scale based on investor demand
    - Sign Purchase Agreement
    - Close transaction two weeks later

Part III Financial Impacts on the City and Affordability

A Financial Impacts of a Lease Financing

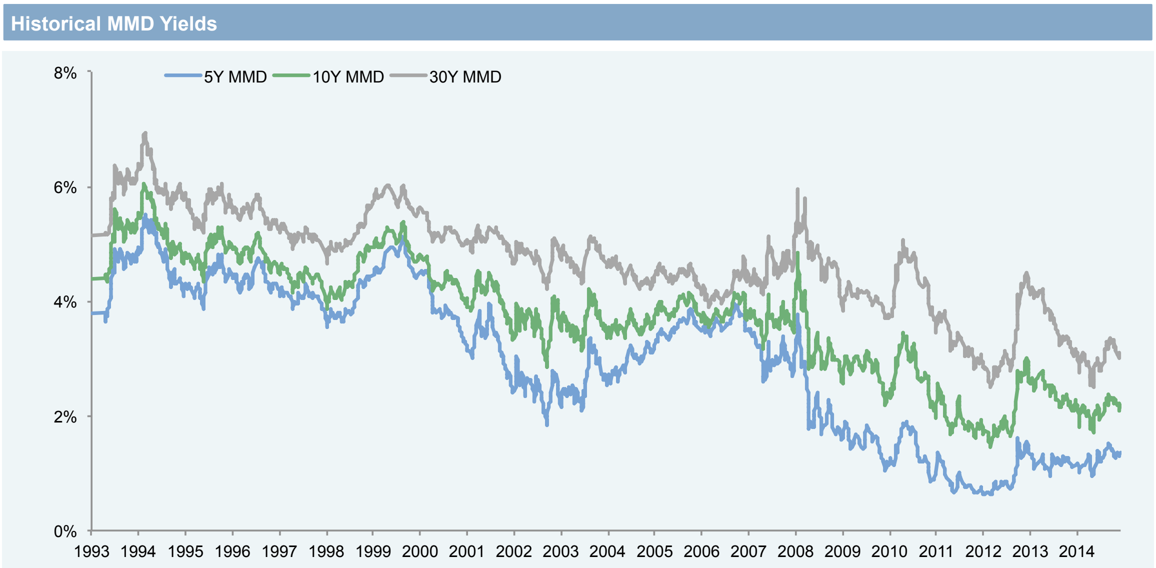
1. General

The lease financing will entail annual appropriations from the City's General Fund to pay principal and interest on the COPs. The amount of those appropriations will depend on the following factors:

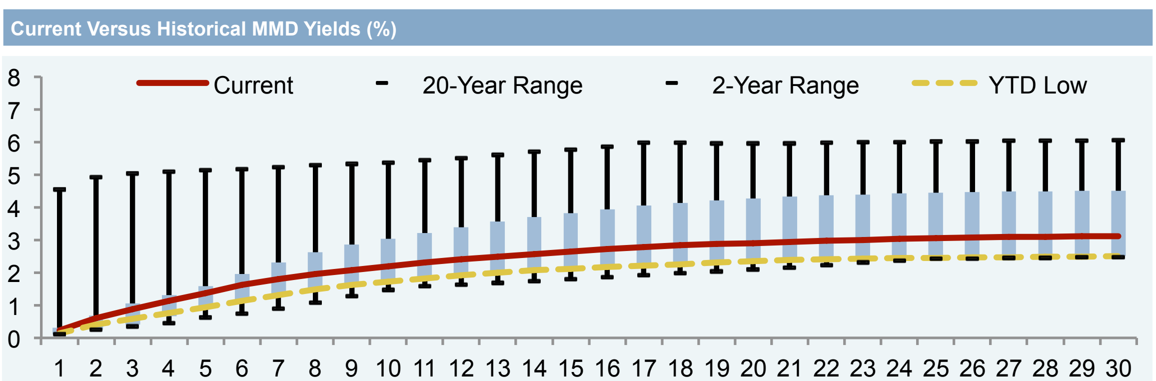
- Interest rates
- Amount borrowed
- Term of financing
- Amortization structure
- Credit rating

Interest rates are set at the time of the COP sale. While one cannot predict future interest rate, current rates remain near historic lows.

Tax-exempt municipal bonds are benchmarked off the Municipal Market Data (MMD) index for high-grade bonds. The MMD provides yields for each maturity between 1 to 30 years. The chart below tracks MMD yields for 5, 10, and 30 years since 1993. Generational lows were attained in the early part of 2015 and have not risen materially.



The chart below compares recent MMD yields (red line) with historical MMD yields over a 2 year (shorter thick gray shaded area) and a 20 year period (taller dark line). In addition, the chart shows the lowest year-to-date MMD yields (broken yellow line). While current interest rates exceed year-to-date lows, they remain towards the low end of their two-year range and very low in comparison to the range of interest rates experienced over the past 20 years.



The conclusion is that for issuers with projects to be financed, the current market is extremely favorable. For a 30-year lease financing, the City's borrowing rate would approximate 3.5%.

2. Financial Impacts Under Different Scenarios

Any of the approaches the City may take with respect to the Civic Center improvements likely will involve a lease financing. The par amount issued will be based on the amount projects cost, transaction costs and debt service reserves that are funded. The City can reduce the amount it borrows by cash funding a portion of the project costs.

Assuming the City cash funds from existing resources a portion of the project costs to reduce the amount borrowed, a lease financing may range from an estimated low of $30 million (remodel + library improvements + transaction costs/reserves) to an estimated high of $60 million (Council-approved new City Hall + library improvements + transaction costs/reserves).

The table below shows the approximate annual impact of borrowing these amounts – and a middle ground of $45 million – under different interest rate and lease term assumptions:

$30,000,000			$45,000,000			$60,000,000		
20 years	25 years	30 years	20 years	25 years	30 years	20 years	25 years	30 years
3.00% $2,016,471	**3.25%** $1,771,180	**3.50%** $1,631,140	**3.00%** $3,024,707	**3.25%** $2,656,770	**3.50%** $2,446,710	**3.00%** $4,032,942	**3.25%** $3,542,360	**3.50%** $3,262,280
3.50% $2,110,832	**3.75%** $1,869,951	**4.00%** $1,734,903	**3.50%** $3,166,248	**3.75%** $2,804,926	**4.00%** $2,602,354	**3.50%** $4,221,665	**3.75%** $3,739,901	**4.00%** $3,469,806
4.00% $2,207,453	**4.25%** $1,971,436	**4.50%** $1,841,746	**4.00%** $3,311,179	**4.25%** $2,957,154	**4.50%** $2,762,619	**4.00%** $4,414,905	**4.25%** $3,942,871	**4.50%** $3,683,493
4.50% $2,306,284	**4.75%** $2,075,554	**5.00%** $1,951,543	**4.50%** $3,459,426	**4.75%** $3,113,331	**5.00%** $2,927,315	**4.50%** $4,612,569	**4.75%** $4,151,108	**5.00%** $3,903,086

If the City were to consider a 30-year financing, similar to original transaction refunded by the City's 2012 Certificates of Participation, the annual cost would range between approximately $1.63 million to $3.26 million in the current market and between $1.84 million to $3.68 million if rates were to increase 100 basis points (1%) at the time of actual issuance.

A critical issue relates to the City's ability to afford the annual debt service associated with any of these scenarios.

B. Affordability of the City Hall Lease Financing

1. General

A financing of up to approximately $60 million for a new City Hall/library improvements would represent a significant financial undertaking for the City. The City is in the fortunate position of being able to afford such an undertaking for the following reasons:

- The City has limited outstanding debt – $37.925 million of the 2012 Certificates of Participation remain, with an annual debt service requirement of approximately $3.17 million.
- The City unfunded pension liability ($28.3 million as of the most recent CalPERS valuation) is relatively small and highly manageable largely because the City has contracted out public safety.
- The City's recurring operating revenues have exceeded recurring operating expenses (prior to payment of capital expenditures) by more than 1.05x on average for the past 5 fiscal years and are projected to exceed future recurring operating expenses by more than $11 million/year over the next five years.
- The City has a considerable cash balance of $91.8 million as a result of conservative budgeting practices and the collection of significant impact fees.

2. Rating Agency Metrics

The rating agencies, Government Financial Officers Association, and State Treasurer's Office have promulgated several specific metrics that allow for an objective and quantitative assessment of debt affordability[2]. During the rating process, the rating agencies will develop a "local government scorecard" which also includes socio-economic and management-related metric in additional to financial. In addition, Moody's publishes medians for cities of various population sizes by rating category[3]. The City, then, can measure the affordability of future debt by reference to established benchmarks.

a. Debt Affordability Metrics

The debt affordability metrics used by rating agencies to score a local government's finances include the following:

- ***Fund balance as % of Revenues*** – Fund balance refers to the net financial resources available to the City in the short term. It includes both the General Fund balance and any other reserves available for operating purposes. Both restricted and unrestricted fund balance is considered.

- ***Cash Balance as % of Revenues*** – Cash is a component of fund balance (which is an accounting concept) and is the ultimate measure of liquidity.

- ***Debt/Pensions*** - Within this category, there are four components:

[2] See: Moody's Investors Service, US Local Government General Obligation Debt (January 15, 2014); Standard & Poor's Rating Services, U.S. Local Governments General Obligation Ratings: Methodology and Assumptions (September 12, 2013); Rowan Miranda and Ronald Picur, Benchmarking and Measuring Debt Capacity, (GFOA Budgeting Series 2000); California Debt and Investment Advisory Committee – Municipal Debt Essentials – Accessing the Debt Market (February 2, 2011)
[3] See: Moody's Investors Service, US Local Government – Updated 2013 Medians (August 13, 2015);

- Debt to Full Assessed Value – This measures a local government's debt burden relative to the assessed value in its jurisdiction.
- Gross Debt to Operating Revenues – This metric reflects the potential budgetary impact of future debt service. Moody's considers all operating revenues, not just General Fund revenues.
- Net Pension Liability – Rating agencies will factor the magnitude of a local government's pension obligations in a manner similar to debt burden.
- Net Pension Liability to Operating Revenues – This metric measures the net pension liability relative to the size of a local government's budget.

The local government scorecard includes the following metrics, as well as socio-economic, financial and management factors:

Local Government Scorecard				
	Very Strong	Strong	Moderate	Cupertino
Economy/Tax Base				
Full Tax Base (Full Value)	>$12B	$1.4B to $12B	$240M to $1.4B	$18.2 B
Full Value/Capita	>$150M	$65M-, $150M	$35M - $65M	$301M
Income (% US Median)	>150%	90% - 150%	75%-90%	300%
Finances				
Fund Balance as % Revenues	>30%	15%-30%	5%-15%	76.7%*
Cash Balance as % of Revenues	>25%	10%-25%	5%-10%	64.1%
Management				
5 year Avg Rev vs. Oper Exp	>1.05%	1.02%- 1.05%	0.98%- 1.02%	1.055%**
Debt/Pensions				
Debt***/Full Value	<0.75%	0.75% - 1.75%	1.75% - 4%	0.21%
Debt/Operating Rev	< 33%	33%-67%	67%- 3x	26.7%
Net Pension****/Full Value	<0.9%	0.9%-2.1%	2.1%-4.8%	0.16%
Net Pension/Rev	<40%	40%-80%	80%-3.6x	20.0%

*Projected FYE 15 fund balance of $109,790,874 vs. overall operating revenues of $143,230,304 (excluding capital projects); Project FYE 15 cash balance is $91,762,599.
**Based on aggregate operating revenues from FY11 to FY15 divided by aggregate expenditure over same period
***Debt consists of $37,925,000 of outstanding certificates of participation
****Based on unfunded liability of $28,373,566 shown in October 2014 CalPERS valuation

A State Treasurer's Office presentation on debt affordability added these metrics in:

	High	Medium	Low	Cupertino
Debt Per Capita	>5,000	$2,000 - $5,000	< $2,000	$626
Debt Service as % of Operating Expense	>15%	7% - 15%	< 7%	2.23%*
Debt as % of Assessed Value	>8%	3% - 8%	<3%	0.21%

*$3.17 million in annual debt service vs. FY15 operating expenses of approximately $141,968,992 (excludes capital expenditures).

The rating agencies will evaluate and weigh each of these metrics, adjust for such factors as forecast results, management practices, major contingent liabilities and other items, and may consider other analytic issues not addressed in the above list. Based on anticipated fiscal year end 2015 operating results, the City's debt metrics exceed those in the "Very Strong" assessment by Moody's and in the "Low" category by the State Treasurer's Office.

The increase in outstanding debt from a new lease financing likely would move the City out of the "Very Strong" category and into "Strong" for that one metric. Using projected fiscal year end revenues as the benchmark, the City would stay in the "Strong" category even with a new financing of approximately $60 million. A decrease in fiscal year 2016 operating revenues and operating expenses could lead to a different result – and a decision for greater cash infusion to reduce the amount borrowed.

A new lease financing would not appear to materially affect the other categories and, on an overall basis, should not affect the assessment of such debt as clearly affordable. An analysis of Moody's medians for cities with similar populations confirms this conclusion.

b. Comparison with Other Cities with Similar Populations

As noted, Moody's published its medians for U.S. local cities most recently on August 13, 2015, based on 2013 data. The chart below shows: (a) the medians by rating category (Aaa and Aa ratings) for U.S. cities with populations between 50,000 to 100,000 and (b) the current metrics for the City. The focus is primarily on General Fund revenues and balance.

	Aaa	Aa	Cupertino
Total General Fund (GF) Revenues	$57,976M	$56,433M	$88.353M
GF Balance as % of GF Revenue	38.53%	32.66%	54.42%*
Available GF Balance as % of Revenue	36.09%	29.88%	52.32%**
Debt as % of Full Value	0.69%	1.13%	0.21%
Overall Debt as % of Full Value	2.20%	3.04%	0.36%
Total Full Value	$9.976B	5.691B	$18.2B
Population	64,206	67,895	60,550
Full Value per capita	$138,422	$82,268	$300,000

*Projected FY15 General Fund balance of $48,082,756

**Reduces forecast General Fund balance by $1,860,396 reflecting restricted and non-spendable funds

In each category, the City's metrics are superior to those of Aaa rated cities with a similar population base. Those metrics likely would not change following a lease financing for City Hall.

Part IV Conclusion

The City is in a unique position among its peers. It has compelling demographics in terms of overall assessed value and median income. Its debt levels, including traditional debt and unfunded pension liabilities, are low relative to assessed value and operating revenues. The City has implemented conservative budgetary practices that have resulted in very high fund balance and cash balance – enabling it to cash fund improvements to its infrastructure and to minimize deferred maintenance. The most valuable company in the world is headquartered in the City and is in the process of making an extraordinary investment that speaks to its long-term commitment to Cupertino. In short, the City's financial present is strong and its future looks even stronger. A lease financing for a new City Hall will not change the City's financial profile – even if the cost of the project is more expensive than any other project undertaken by the City.

If the City Council and staff can conclude that a new City Hall of 40,000 square, with underground parking and a library expansion, is, in fact, affordable, the question becomes whether such a project makes sense or whether the City should simply try to remodel its existing facility. Both approaches have their merits. But while the new City Hall is more expensive, it solves existing problems that a remodel cannot, including: a state of the art Emergency Operations Center, more space for existing and future employees, better public interface, greater operating efficiency per square foot and a significantly longer useful life.

In conclusion, the City Council is right to have expressed concern over the cost associated with this and any potential long-term investment. However, it should take great comfort in its ability to afford the cost of the debt without impacting its overall credit profile or the services it currently provides to the community. If it chooses to move forward with a financing, the City Council should take further comfort in knowing that, absent a major spike in interest rates, it will be borrowing at near-historically low interest rates.

Appendix A
Cities That Have Financed City Hall and Civic Center Improvement Projects Through Lease Financing

• Arcata	• Moreno Valley
• Agoura Hills	• Mountain View
• Auburn	• Murrieta
• Bellflower	• Newport Beach
• Beverly Hills	• Oakland
• Big Bear Lake	• Oakley
• Blythe	• Oceanside
• Brentwood	• Oxnard
• Brisbane	• Palmdale
• Calabasas	• Palo Alto
• Campbell	• Pasadena
• Chino Hills	• Pismo Beach
• Chowchilla	• Rancho Cordova
• Chula Vista	• Rancho Mirage
• Compton	• Rancho Santa Margarita
• Corona	• Redding
• Costa Mesa	• Redwood City
• Cypress	• Richmond
• Downey	• Ridgecrest
• Dublin	• Sacramento
• El Cerrito	• San Bernardino
• Escondido	• San Fernando
• Fresno	• San Dimas
• Gardena	• San Francisco
• Grand Terrace	• San Jose
• Hayward	• San Leandro
• Huntington Beach	• Santa Ana
• Inglewood	• Santa Cruz
• La Canada Flintridge	• Sausalito
• La Mesa	• Solana Beach
• Laguna Hills	• Suisun City
• Lincoln	• Temecula
• Loma Linda	• Tracy
• Los Angeles	• West Covina
• Lynwood	• West Hollywood
• Malibu	• Westlake Village
• Martinez	• Westminster
• Mission Viejo	• Windsor

Appendix B
Certificates of Participation Diagram