

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)

STAFF REPORT

**INFRASTRUCTURE STATE REVOLVING FUND PROGRAM (ISRF) DIRECT FINANCING
EXECUTIVE SUMMARY**

Applicant: County of Santa Cruz Sanitation District (District)		ISRF Project Type: Sewage Collection and Treatment																				
Financing Amount: \$7,000,000	Financing Term: 30 years		Interest Rate: 3.46% ¹																			
Source of Repayment: Net Wastewater system revenues (Net Revenues) and all legally available amounts in the Wastewater Enterprise Fund (Fund)			Fund Rating/Date: S&P Rating of A+																			
Security: The ISRF Program financing (Financing) will be payable from, and secured by, a lien on the Net Revenues and all legally available amounts in the Fund. IBank's lien would be on parity with 2009 (Agreement # 09-848-550) and 2018 (Agreement # D17-01046) State Water Resource Control Board State Revolving Fund Loans.																						
Project Name: Capitola / Jewel Box Sewer Replacement Project (Project)		Project Location: Various locations within the City of Capitola ²																				
Project Description / Sources and Uses of Proceeds: The Project includes, but is not limited to: 1) replacing approximately 10,600 linear feet of existing clay sewer with PVC sewer line, 2) access upgrades, 3) installing various sewer line connections, and 4) Other components necessary or desirable in connection with an infrastructure project of this type and that are consistent with the applicable requirements of the Act.																						
Use of Financing Proceeds: The Financing would fund all components necessary to complete the Project, including, but not limited to equipping, installation, design, engineering, construction, demolition, permitting, entitlement, construction management, project administration, and general project development activities. IBank's loan origination fee is included in the Financing Amount. A construction contingency of \$693,000 (10%) is included in the Project Uses. Per the District, 10% is appropriate as it is consistent with the District's historical contingency figures for a project of this type. Contingency will be funded from the Financing proceeds.																						
<table border="1"> <thead> <tr> <th rowspan="2">Project Uses</th> <th colspan="3">Project Sources</th> </tr> <tr> <th>IBank</th> <th>County of Santa Cruz Sanitation District</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Project Uses</td> <td align="right">\$6,930,000</td> <td></td> <td align="right">\$6,930,000</td> </tr> <tr> <td>Origination Fee</td> <td align="right">\$70,000</td> <td></td> <td align="right">\$70,000</td> </tr> <tr> <td align="right">Total</td> <td align="right">\$7,000,000</td> <td align="right">\$0</td> <td align="right">\$7,000,000</td> </tr> </tbody> </table>				Project Uses	Project Sources			IBank	County of Santa Cruz Sanitation District	Total	Project Uses	\$6,930,000		\$6,930,000	Origination Fee	\$70,000		\$70,000	Total	\$7,000,000	\$0	\$7,000,000
Project Uses	Project Sources																					
	IBank	County of Santa Cruz Sanitation District	Total																			
Project Uses	\$6,930,000		\$6,930,000																			
Origination Fee	\$70,000		\$70,000																			
Total	\$7,000,000	\$0	\$7,000,000																			

¹ Interest Rate quoted October 22, 2018.

² The District covers the City of Capitola and so the District is responsible for all sewer infrastructure within Capitola's boundaries.

Credit Considerations:

Cash flow and debt service analysis for the Financing is summarized as follows:

CASH FLOW					
For Fiscal Year Ending (FYE) June 30	2013	2014	2015	2016	2017
Operating Income (Loss)	\$2,671,454	\$133,910	\$3,589,769	\$2,040,986	\$3,871,291
Transaction Specific Adjustments					
+ Depreciation	3,765,132	4,432,511	4,637,065	4,334,037	4,767,945
+ Interest Earnings	34,891	229,497	153,593	144,855	116,239
- Connection Fees	(296,977)	(298,531)	(170,959)	(194,900)	(432,954)
+ Special Assessments	92,170	93,064	90,297	91,598	91,703
Total of all Adjustments	3,595,216	4,456,541	4,709,996	4,375,590	4,542,933
Cash Available for Debt Service	6,266,670	4,590,451	8,299,765	6,416,576	8,414,224
Debt Service Calculation					
Total Existing Debt Service MADS	3,228,728	3,228,728	3,228,728	3,228,728	3,228,728
Proposed IBank MADS ⁽¹⁾	399,285	399,285	399,285	399,285	399,285
Total Obligations MADS	\$3,628,012	\$3,628,012	\$3,628,012	\$3,628,012	\$3,628,012
Debt Service Coverage Ratio ⁽²⁾	1.73	1.27	2.29	1.77	2.32

⁽¹⁾ Calculated as \$7,000,000 at 3.46% for 30 years

⁽²⁾ Existing Parity Debt Minimum Required DSCR 1.25

Analysis of the historical cash flow over the last five years demonstrates the Fund has the capacity to service the proposed Financing with a debt service coverage ratio (DSCR) of 1.27 or greater in all five years reviewed. Please refer to the Cash Flow and Debt Service Analysis section of this Staff Report for further details.

Support for Staff Recommendations:

1. Cash flow analysis demonstrates the Fund's ability to service the existing debt and the proposed Financing.
2. The District has successfully increased rates to maintain its debt service ability.
3. The District estimates the useful life of the Project to be 50 years or more, which exceeds the 20 year term of the Financing.

Special Terms and Conditions:

1. Changes to the District's rate structure will comply with the requirements of Proposition 218 (Prop 218), the statutes implementing it, and any case law interpreting it. Further, the District is to notify IBank immediately upon the filing of any legal challenge to its rates or charges.
2. No disbursements will be allowed until the District provides evidence that IBank is on parity with the State Water Resource Control Board liens.

IBank Staff:

Tom Dear

Date of Staff Report:

November 1, 2018

Date of IBank Board Meeting:

November 27, 2018

Resolution Number:

18-16

Staff Recommendation:

Staff recommends approval of Resolution No. 18-16 authorizing ISRF Program Financing not to exceed \$7,000,000 to County of Santa Cruz Sanitation District for the Capitola / Jewel Box Sewer Replacement Project.

PROJECT DESCRIPTION

County of Santa Cruz Sanitation District (District), requests Infrastructure State Revolving Fund (ISRF) Program financing (Financing) in the amount of \$7,000,000 to finance the Capitola / Jewel Box Sewer Replacement Project (Project).

The planned project is to upgrade and replace sewer lines located on various streets within the City of Capitola (See Exhibit I). This Project complies with the District's Sanitary Sewer Master Plan. The District's primary goal is to reduce the frequency of Sanitary Sewer Overflows (SSOs) and, wherever possible, prevent SSOs while meeting all applicable regulatory requirements. These sewer lines are old and deteriorated and by replacing them prior to their imminent failure, the likelihood of a SSO occurrence is decreased. It is less costly to complete the project as a planned event rather than an emergency repair.

The project includes the following components:

- Bypass pumping and dewatering
- Temporary trench sheeting and shoring
- Replacing of 10,600 linear feet of existing six (6) inch vitrified clay pipe (VCP) with eight (8) inch polymerizing vinyl chloride (PVC) sewer line
- Modifying and updating 47 sewer manholes
- Installing four drop connections
- Connecting 450 sewer laterals
- Removing and replacing various existing vertical curbs and gutters
- Repairing all effected streets by applying a slurry seal, traffic stripping, signage, and other markings

The District plans to commence work on the Project in March 2019 and complete it in March 2020.

PROJECT BENEFITS

Constructing this project will extend the life of the sanitary sewer system, reduce immediate repair and maintenance costs and decrease the likelihood of SSO occurrences. Completing the project will save the District money that would otherwise be spent on costly emergency repairs.

PUBLIC BENEFITS

The Project would provide health and safety benefits to the community by preventing potential sewer spills. The District anticipates as many as 10 direct and indirect temporary jobs with an average wage of \$50 an hour to be created with this project.

GENERAL DISTRICT INFORMATION

The District is a public agency that provides sewage collection, treatment, and disposal services to the cities of Live Oak, Capitola, Soquel, Aptos and areas of Santa Cruz County (County). The District's users generate approximately 5.6 million gallons of sewage daily.

The City of Santa Cruz (City) owns and operates the Neary Lagoon Plant (Plant). The District has a service agreement with the City to treat its sewage, since the District has no wastewater treatment plant of its own. Through this agreement, the District has a maximum treatment capacity right of eight million gallons per day. The Plant treats approximately 12 million gallons of wastewater per day to a quality level that meets or exceeds the Environmental Protection Agency (EPA) guidelines and the State's standards for a discharge into Monterey Bay.

The District is governed by a three-member board and is managed by the County's Department of Public Works under the direction of the District Board of Directors. The District is part of a larger organization that governs two other Special Districts and three County Service Areas. The District has various rolling equipment (boom trucks, sewer cleaning trucks, etc.) that it shares with the other County sanitary sewer system. The County of Santa Cruz Public Works Department is responsible for the administration, engineering, maintenance, emergency response and construction of all County sanitation services.

WASTEWATER SYSTEM INFRASTRUCTURE

The District pumps the wastewater approximately 4.2 miles through a 36" force main pipe from the Lode Street facility to the wastewater treatment Plant. The District's users generate approximately 5.6 million gallons of sewage a day. The District has treatment capacity rights up to eight-million gallons per day.

Some of the District's sewer pipeline originated prior to 1939, the majority of the system, approximately 132 miles, was built between 1960 and 1979 while 44 miles of the sewer pipeline is newer and was installed on or after 2000. The District serves and maintains approximately:

- 29,000 sewer lateral connections
- 201.41 miles of sanitary sewer pipeline
 - 187.66 miles of gravity lines
 - 13.75 miles of force main
- 18,284 manholes
- 35 sanitary sewer pump stations

WASTEWATER SYSTEM MANDATORY HOOK-UP ORDINANCE

The District has a Mandatory Hook-Up Ordinance and requires all occupied parcels to connect to the sewer system, but will grant a permit for a private sanitation system on a case-by-case basis. 1) the District generally requires all business and residences to connect to the sewer system, 2) the District occasionally will issue a permit to operate a private sewer system, 3) the District typically grants a private system permit only where it is not technically feasible to connect to the District's system or where the particular type of sewage generated necessitates discharge into a private system.

The following table displays the Number of Users by Category and reflects an overall stability in the number of users with a nominal increase in both Residential and Commercial from Fiscal Year (FY) 2014 to FY 2017. The table further reflects a high proportion of Residential users demonstrating a certain level of diversification.

NUMBER OF USERS BY CATEGORY					
For Fiscal Year Ending (FYE) June 30	2013	2014	2015	2016	2017
Residential	29,253	29,253	29,444	29,444	29,975
Commercial	2,560	2,560	2,561	2,561	2,571
Total	31,813	31,813	32,005	32,005	32,546
% change	N/A	0.0%	0.6%	0.6%	1.7%

Source: Financing Application Addendum

Residential users represent roughly 92.1% of the Total Users, account for 82.4% of Gross Annual Revenues, but represent only 80.6% of the Annual Usage. The District contracts a professional rate consultant to ensure an equitable distribution of the sanitary sewer system costs between commercial and residential users, thereby, meeting the requirements of Prop. 218. System costs are not determined solely by use volume. In addition to volume, costs and fees are based on the Biological

Oxygen Demand (BOD) and Suspended Solids (SS) of the particular sewage discharged. Residential customers are charged a flat rate per dwelling unit because the District has determined that residential sewage is generally of uniform strength. However rates for commercial customers are charged based on the particular customer's effluent volume and strength. The following table displays current System's Usage and Revenues, the Percent of Annual Usage, Gross Annual Revenue, and the Percentage of Gross Annual Revenue separated by Residential and Commercial users.

CURRENT SYSTEM USAGE & REVENUE				
	Annual Usage (HCF)⁽¹⁾	% Annual Usage	Gross Annual Revenue	% Gross Annual Revenue
Residential	1,647,418	80.6%	\$21,082,837	82.4%
Commercial	397,716	19.4%	\$4,491,211	17.6%
Total	2,045,134	100.0%	\$25,574,048	100.0%

Source: Financing Application

⁽¹⁾ Hundred cubic feet

The District reviews its rates each year by an independent consulting firm who specializes in revenue studies for utility districts and the recommendations are subject to final approval by the District's Board. Before the rates are set, a notice of public hearing is mailed to all property owners within the District, another notice is published in the Santa Cruz Sentinel, and then the public hearing is held. The public hearing is normally scheduled in April or May of each year, with the new rate schedule becoming effective on the first of July. Over the past five years, few customers have submitted written protests to the Proposition 218 rate increase notices and the District's Board of Directors (the District Board) has universally approved all proposed rate increases. The following table displays the Historical Rate Increases adopted over the past five years, and reflects the District's ability to increase rates to meet its operational and capital improvement needs.

HISTORICAL RATE INCREASES OF COUNTY OF SANTA CRUZ SANITATION DISTRICT OVER THE PAST FIVE YEARS		
Date Adopted	Date Effective	Percent Increase
5/21/2014	7/1/2014	2.30%
5/21/2015	7/1/2015	4.30%
5/19/2016	7/1/2016	2.60%
5/18/2017	7/1/2017	3.50%
5/17/2018	7/1/2018	3.50%

Source: Financing Application Addendum

The following table displays the Projected Average Monthly User Charge per Residential Unit in calendar years 2019 through 2022. The table reflects a 3.50% planned increase in each year. The District has not started the Proposition 218 process for a rate increases on or after FY 2019 as the District is planning to do one or more rate studies to determine if these rate increases are actually needed as presented. These future rate increases are not required to meet the proposed Project's debt service. Additionally, the table reflects each year's charge as a percent of the County of Santa Cruz's Median Household Income (MHI) for residential units as of FY 2016. The District's ratepayers are all below the 2.0% of the MHI affordability threshold established by the California Department of Public Health.

PROJECTED AVERAGE MONTHLY USER CHARGE PER RESIDENTIAL UNIT				
For Fiscal Year Ending (FYE) June 30	2019	2020	2021	2022
Residential	\$67.53	\$69.90	\$72.34	\$74.88
% change	3.50%	3.50%	3.50%	3.50%
% of Monthly Residential User Charge to MHI ⁽¹⁾	1.02%	1.05%	1.09%	1.13%

Source: Financing Application Addendum

⁽¹⁾ MHI Annually for the Santa Cruz County is \$79,705

The following table compares the District's Current Average Monthly System User Charge to Nearby Systems as of August 1, 2018. The table indicates the District's rate is the second highest of this grouping.

CURRENT AVERAGE MONTHLY SYSTEM USER CHARGE COMPARED TO NEARBY SYSTEMS				Percentage of Average Monthly Charge
System Name	Distance in Miles	Location	Average Monthly Residential Rate	
County of Santa Cruz Sanitation District		N/A	\$65.25	96.2%
City of Watsonville	17.2	Watsonville CA	\$39.92	58.9%
City of Santa Cruz	1.5	City of	\$46.30	68.3%
Freedom County Sanitation District	17.2	Watsonville CA	\$46.63	68.8%
Davenport County Sanitation District	12.5	Davenport CA	\$141.02	207.9%
Average Monthly Charge			\$67.82	

Source: Financing Application Addendum

The following table displays the Top 10 System Users, each User's Percent of System Use, and Percent of System Revenue as of January 1, 2018. The Table also indicates the user generating the greatest amount of system revenues generates only .88% of the total system revenues, which is in compliance with the below 15% underwriting requirement. The table further shows that the district meets another underwriting requirement that revenue derived from the top ten ratepayers does not exceed 50% of total system revenue.

TOP 10 SYSTEM USERS AS OF JANUARY 1, 2018				
	User	% System Use	% System Revenues	Customer Class (Residential/ Commercial/ Industrial/Other)
1	Cabrillo Junior College	1.3%	0.81%	Commercial
2	Dominican Hospital	1.3%	0.88%	Commercial
3	Chaminade Conference Center	0.4%	0.37%	Commercial
4	Pleasant Care Rehab	0.4%	0.24%	Commercial
5	King's Plaza Shopping Center	0.3%	0.27%	Commercial
6	Fairfield Inn	0.3%	0.20%	Commercial
7	Hill Haven / Kindred nursing Care Home	0.3%	0.19%	Commercial
8	Crow's Nest Restaurant	0.3%	0.25%	Commercial
9	Seacliff Inn	0.2%	0.16%	Commercial
10	IN-Shape Fitness Center and Hair Dresser	0.2%	0.16%	Commercial
Total		5.0%	3.5%	

Source: Financing Application Addendum

CREDIT ANALYSIS

Source of Financing and Security

The District proposes pledging net system revenues and all legally available amounts in the Fund as security and the source of repayment for the proposed Financing.

Source of Revenue to Repay Proposed ISRF Financing:	Net water system revenues and all legally available amounts in the Wastewater Enterprise Fund.
Outstanding Obligations:	There are two existing parity obligations an one indirect debt: 2009 (Agreement # 09-848-550) and 2018 (Agreement # D17-01046) State Water Resource Control Board State Revolving Fund Loans to be on parity and The City of Santa Cruz 2013 Wastewater Revenue Refunding Bond (City's 2013 Bond), with the District's outstanding obligation at \$3,095,760 is an indirect debt.
Type of Audited Financial Documents Reviewed:	<input type="checkbox"/> Comprehensive Annual Financial Reports (CAFR) <input checked="" type="checkbox"/> Basic Financial Statements (F/S) <input type="checkbox"/> Other:
Fiscal Year Ends:	June 30
Audit Fiscal Years Reviewed:	2013-2017
The auditor's reports for all years indicate that the financial statements present fairly, in all material respects, the financial position of the District, and that the results of its operations and the cash flows are in conformity with generally accepted accounting principles.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No. [If no, explain]
Adopted Budget(s) Reviewed:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No. [If no, explain]
Budget Year(s) Reviewed:	2017-2018

Comparative Statement of Net Position

The Comparative Statement of Net Position – Wastewater Enterprise Fund for the last five fiscal years is as follows:

COUNTY OF SANTA CRUZ SANITATION DISTRICT WASTEWATER (SEWER) ENTERPRISE FUND STATEMENT OF NET POSITION										
For Fiscal Year Ending (FYE) June 30	2013		2014		2015		2016		2017	
Source:	Audit Fin Stmt	%	Audit Fin Stmt	%	Audit Fin Stmt	%	Audit Fin Stmt	%	Audit Fin Stmt	%
ASSETS AND DEFERRED OUTFLOW OF RESOURCES										
Current Assets										
Cash and Investments with County Treasurer Unrestricted	\$22,722,985	6.8%	\$27,648,822	8.8%	\$19,821,327	6.3%	\$14,081,483	9.3%	\$10,385,721	7.1%
Account Receivables					2,599	0.0%	155,904	0.1%	186,604	0.1%
Prepaid Insurance									2,143	0.0%
Inventories	14,190	0.0%	13,935	0.0%	13,935	0.0%	13,384	0.0%	13,212	0.0%
Total Current Assets	\$22,737,175	6.8%	\$27,662,757	8.8%	\$19,837,861	6.3%	\$14,250,771	9.4%	\$10,587,680	7.2%
Noncurrent Assets										
Cash and Investments with County Treasurer Restricted	652,928	0.5%	261,705	0.2%	969,937	0.7%	969,937	0.6%	969,937	0.7%
Cash and Investments with Fiscal Agents	969,937	0.7%	969,937	0.7%						
Capital Assets, Net	119,210,261	83.0%	118,455,757	80.4%	128,303,126	86.0%	135,868,817	89.9%	135,313,818	92.1%
Promissory Note Receivable	55,077	0.0%	55,077	0.0%	55,077	0.0%	55,077	0.0%	55,077	0.0%
Other Assets									4,286	0.0%
Total Other Non Current Assets	\$120,888,203	84.1%	\$119,742,476	81.2%	\$129,328,140	86.7%	\$136,893,831	90.6%	\$136,343,118	92.8%
SubTotal Assets	\$143,625,378	99.9%	\$147,405,233	100.0%	\$149,166,001	100.0%	\$151,144,602	100.0%	\$146,930,798	100.0%
DEFERRED OUTFLOWS OF RESOURCES										
Deferred Bond Issuance Cost	72,275	0.1%								
Loss of Refunding									39,230	0.0%
Total Deferred Outflow of Resources	72,275	0.1%							39,230	0.0%
Total of All Assets	\$143,697,653	100.0%	\$147,405,233	100.0%	\$149,166,001	100.0%	\$151,144,602	100.0%	\$146,970,028	100.0%
Current Liabilities										
Accounts Payable and Accrued Liabilities	333,931	0.2%	2,593,103	1.8%	3,950,663	2.6%	6,378,577	4.2%	1,378,915	0.9%
Accrued Bond Interest	351,204	0.2%	202,885	0.1%	234,128	0.2%	135,076	0.1%	151,293	0.1%
Capital Leases									963	0.0%
Due to Other County Funds							128,644	0.1%		
Bonds and Loans Payable, Current Portion	2,545,822	1.8%	2,868,614	1.9%	2,970,973	2.0%	3,062,801	2.0%	2,722,395	1.9%
Total Current Liabilities	\$3,230,957	2.2%	\$5,664,602	3.8%	\$7,155,764	4.8%	\$9,705,098	6.4%	\$4,253,566	2.9%
Noncurrent Liabilities										
Bonds and Loans Payable, Net	18,938,213	13.2%	20,344,124	13.8%	17,373,150	11.6%	14,310,350	9.5%	11,646,399	7.9%
Capital Leases									2,585	0.0%
Pollution Remediation Liability	4,848	0.0%	6,465	0.0%						
Total Non-Current Liabilities	\$18,943,061	13.2%	\$20,350,589	13.8%	\$17,373,150	11.6%	\$14,310,350	9.5%	\$11,648,984	7.9%
Total Liabilities	\$22,174,018	15.4%	\$26,015,191	17.6%	\$24,528,914	16.4%	\$24,015,448	15.9%	\$15,902,550	10.8%
Net Position:										
Net Investment In Capital Assets	97,726,226	68.0%	95,243,019	64.6%	107,959,003	72.4%	118,495,668	78.4%	120,980,706	82.3%
Restricted for Debt Service	1,255,964	0.9%	1,133,798	0.8%	968,799	0.6%	969,937	0.6%	969,937	0.7%
Unrestricted	22,541,445	15.7%	25,013,225	17.0%	15,709,285	10.5%	7,663,549	5.1%	9,116,835	6.2%
Total Net Assets	\$121,523,635	84.6%	\$121,390,042	82.4%	\$124,637,087	83.6%	\$127,129,154	84.1%	\$131,067,478	89.2%
Total Liabilities and Fund Balance	\$143,625,378	100.0%	\$147,405,233	100.0%	\$149,166,001	100.0%	\$151,144,602	100.0%	\$146,930,798	100.0%

Financial Statements for fiscal years (FYs) 2013 through 2017 were reviewed for the Fund and the following discussion is in order of the appearance of the tables.

The District's Cash and Investments with County Treasurer Unrestricted line item declined 54%, from fiscal year (FY) 2013 through FY 2017. The District had several cash funded projects such as Noble Gulch Trunkline, 14th and 16th Pump Station upgrades, Wet Weather Retention Basin, and the Seacliff State Park construction during this period. The line item, Capital Assets, Net conversely had a 14% growth in the same time period.

Capital Assets, Net showed year over year growth from FY 2014 through FY 2017, with a nominal decrease in FY 2014 as compared to the previous year's figure. The District's states it has been continually increasing its capital assets (e.g., pumping stations, transmission systems, mobile equipment, other equipment, and sewage treatment plant, along with construction in progress), in the most recent years. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for current or future debt payments.

Accounts Payable and Accrued Liabilities moved in both directions in the five years reviewed. These movements are based on the multiple cash funded projects previously discussed. As this line item reflects expenses that have not yet been paid nor logged under accounts payable during its accounting period for invoices that have not yet been received and supports the activity previously reported in this staff report.

Total Liabilities decreased by 28.3% to \$15.9 million (M) in the five years reviewed. FY 2014 showed the single increase of Total Liabilities as the City's 2013 Bond debt was incurred to retire the City's 2005 Wastewater Revenue Refunding Bond and a City's State Revolving Fund loan. Although the District did not originate this debt [and Net System Revenues are not encumbered], a payment agreement between the District and the City establishes that the District will pay for a portion of the City's 2013 bond debt. [The District's payment obligation is directly proportional to the benefit the District indirectly received from the City project financed with the 2013 Bonds.]

Unrestricted funds, at fiscal year-end (FYE) 2017, had a balance of \$9.1M. This fund decreased by 59% in the last five FYs. The decrease is due to the previously mentioned system improvement projects. Unrestricted funds is equivalent to 130% of the proposed financing amount.

ACCOUNTS RECEIVABLE AGING							
as of August 31, 2018							
	Current	Over 30	Over 40	Over 60	Over 90	Over 120	Total
	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
Percent of Billing	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%

Source: Financing Application Addendum

The revenues to operate the District are collected yearly from residents and businesses through property taxes. The District is paid by the Assessor's office whether the property owner pays their tax or not. Public schools and the community college are mailed bills since these entities are exempt from property taxation. Historically, the schools have paid their bills in a timely manner.

Comparative Statement of Revenues, Expenses, and Changes in Net Position

Analysis of the Fund's Comparative Statement of Revenues, Expenses, and Changes in Net Position for the last five years is as follows:

COUNTY OF SANTA CRUZ SANITATION DISTRICT WASTEWATER (SEWER) ENTERPRISE FUND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION										
For Fiscal Year Ending (FYE) June 30	2013		2014		2015		2016		2017	
Source:	Audit Fin Stmt	%	Audit Fin Stmt	%	Audit Fin Stmt	%	Audit Fin Stmt	%	Audit Fin Stmt	%
% Change		N/A		3%		2%		5%		1%
Operation Revenue										
Charges for Services	\$21,326,540	100.0%	\$21,977,224	100.0%	\$22,412,016	100.0%	\$23,491,067	100.0%	\$23,814,123	100.0%
Total Operating Revenues	\$21,326,540	100.0%	\$21,977,224	100.0%	\$22,412,016	100.0%	\$23,491,067	100.0%	\$23,814,123	100.0%
Operating Expenses										
General and Administrative	\$4,603,651	21.6%	\$4,438,926	20.2%	\$4,639,987	20.7%	\$5,331,941	22.7%	\$5,357,032	22.5%
Services and Supplies	\$10,286,303	48.2%	\$12,971,877	59.0%	\$9,545,195	42.6%	\$11,784,103	50.2%	\$9,817,855	41.2%
Depreciation	\$3,765,132	17.7%	\$4,432,511	20.2%	\$4,637,065	20.7%	\$4,334,037	18.4%	\$4,767,945	20.0%
Total Operating Expenses	\$18,655,086	87.5%	\$21,843,314	99.4%	\$18,822,247	84.0%	\$21,450,081	91.3%	\$19,942,832	83.7%
Operating Income (Loss)	\$2,671,454	12.5%	\$133,910	0.6%	\$3,589,769	16.0%	\$2,040,986	8.7%	\$3,871,291	16.3%
Nonoperating Revenues (Expenses)										
Special Assessments	\$92,170	0.4%	\$93,064	0.4%	\$90,297	0.4%	\$91,598	0.4%	\$91,703	0.4%
Aid From Other Government Agencies	(\$17,440)	-0.1%	\$21,898	0.1%			\$1,586,016	6.8%	\$307,000	1.3%
Interest Earnings	\$34,891	0.2%	\$229,497	1.0%	\$153,593	0.7%	\$144,855	0.6%	\$116,239	0.5%
Contributions and Donations	\$347,000	1.6%	\$238,396	1.1%						
Bond Interest and Related Fees	(\$699,181)	-3.3%	(\$855,013)	-3.9%	(\$671,143)	-3.0%	(\$401,514)	-1.7%	(\$447,909)	-1.9%
Gains on Sale of Fixed Assets	\$31,819	0.1%	\$4,655	0.0%	\$84,529	0.4%	\$600	0.0%		
Net Non-operating Revenues (Expenses)	(\$210,741)		(\$267,503)		(\$342,724)		\$1,421,555		\$67,033	
Income (Loss Before Operating Transfers)	\$2,460,713		(\$133,593)		\$3,247,045		\$3,462,541		\$3,938,324	
Increase (decrease) in Net Position	\$2,460,713		(\$133,593)		\$3,247,045		\$3,462,541		\$3,938,324	
Beginning Net Assets	119,062,922		121,523,635		121,390,042		123,666,613		127,129,154	
Prior Period Adjustment (=/-)					(970,474)					
Ending Net Assets	\$121,523,635		\$121,390,042		\$123,666,613		\$127,129,154		\$131,067,478	

Analysis of the Comparative Statement of Revenues, Expenses, and Changes in Net Position.

The District has only one revenue line item, Charges for Services, and this grew year over year in all five years reviewed by a total of 11.7%. Charges for Services does include revenue for connection fees (this was addressed within the cash flows). The annual increases are consistent year over year, tracks to the historical annual rate increases, and appear nominal.

General and Administrative expenditures increased a total of 16.4% in the years reviewed. This increase appears in line with increases in the cost of running the utility. Total Operating Expense increase 6.9% in the five years reviewed, this indicates a well-run enterprise.

Operating Income (Loss) show an unusually low value in FY 2014 when comparing it to the other four years. The decrease in value is attributed to an increase in expenditures specific to the line item Services and Supplies. The District states it had three events that were abnormal: 1) a comprehensive condition assessment, at a cost of \$611,472, was performed of its primary transmission lines; 2) the District expensed \$394,460 for minor projects; and 3) the District's share of the City of Santa Cruz sewage treatment increased by \$1,276,104 - due to the 4th quarterly payment from the previous year being paid in 2014.

Non-operating Revenue (Expenses) had a variety of line items, both revenues and expenditures. Two of these line items were considered when compiling the District's cash flow, Special Assessments and Interest Earnings. Special Assessment revenue has been consistent in the years reviewed; this is revenue collected within a subgroup of the District and is earmarked for the City's 2013 Bond. The Interest Earnings is the passive revenue the District receives on its various investments. Three of other four line items were not considered as the revenues or expenditures were too inconsistent. One line item, Bond Interest and Related Fees is captured in the District's cash flow within the Total Existing Debt Service MADS (Maximum Annual Debt Service).

The District recorded a prior period adjustment to the beginning net position in the amount of \$970,474 related to a fiscal year 2015 4th quarter invoice that was not properly accrued in the 2015 financial statements. This resulted in the beginning net position being decreased by \$970,474 and beginning accounts payable being increased by \$970,474.

Ending Net Assets increased by nearly \$10M in the five years reviewed, a 7.9% growth, with a single year, FY 2015, that recorded a decline in growth.

PENSION PLAN

The District is part of the County's retirement system, and the County participates in the California Public Employees Retirement System (CalPERS) pension fund. The County has made 100% of its annual minimum required contribution in the last three years. The contribution percentage of covered employee payroll has increased annually. In the most recent year reported, fiscal year FY 2016, it stated that 22.6% of total payroll cost (TPC) is dedicated to pension expenses; this is an increase from 18.2% of TPC in FY 2014.

The County has an unrestricted net position of (\$357,785,230) increased by \$18,317,760 from the prior year. This amount consists of all net position that does not meet the definition of restricted net position or net investment in capital assets. The majority of negative unrestricted net position is primarily the result of the County's unfunded pension and other post-employment benefit (OPEB) obligations, due to the implementation of Governmental Accounting Standards Board (GASB) Statement Numbers 68 and 71, offset by positive unrestricted net position predominantly in the County's General Fund.

Existing Obligations Payable from the Fund

The District has two existing parity debts (two recently retired debts) and one indirect debt. One of the retired debts, the 2005 Wastewater Revenue Refunding Bond, had the Standard & Poor's credit rating that was used, in part, to establish the proposed Financing's interest rate.

WASTERWATER ENTERPRISE FUND OBLIGATIONS					
Debt Issued	Date Issued	Parity / Subordinate Debt Allowed	Maturity	Amount Issued	Outstanding Balance
The City of Santa Cruz 2013 Wastewater Revenue Refunding Bond	12/1/2013	N/A	11/1/2022	\$3,095,760	\$2,013,027
2009 SWRCB SRF Loan	12/18/2009	Parity	3/31/2032	\$16,725,699	\$12,382,069
2018 SWRCB #D1701046	5/4/2018	Parity	7/31/2049	\$5,000,000	\$5,000,000
	Total			\$24,821,459	\$19,395,096

The City's 2013 Bond is not a direct debt of the District, however the District established a payment agreement with the City for the District's portion of for the City's 2013 Bond debt; the funding agreement does not encumber IBank's lien on the revenue stream. The dollar amounts shown in the above existing obligations table represents the District's portion. Since there is an intergovernmental payment agreement, parity is not an issue for this specific debt. Although the funding agreement does not create a lien on System Revenues, a conservative approach was adopted and the Financing was underwritten as if it did.

The 2009 SWRCB has a parity covenant that all senior debts relying of the pledged revenue source are at least 1.2 times the highest year's debt service (IBank refers to this as Maximum Annual Debt Service or MADS). The District is able to meet the debt service guideline, however there is an additional restriction stating if the borrower is not a disadvantage community then the additional obligation must be rated "A" or higher by at least two nationally recognized rating agencies. The District has requested a waiver for this covenant from the SWRCB; based on past experience the SWRCB is likely to grant the request.

The 2018 SWRCB has a clear and typical parity obligation covenant relying of the pledged revenue source to be at least 1.25 times the highest year's debt service.

Fund Cash Flow and Debt Service Analysis

Fund cash flow table and debt service analysis for the Financing is as follows:

CASH FLOW					
For Fiscal Year Ending (FYE) June 30	2013	2014	2015	2016	2017
Operating Income (Loss)	\$2,671,454	\$133,910	\$3,589,769	\$2,040,986	\$3,871,291
Transaction Specific Adjustments					
+ Depreciation	3,765,132	4,432,511	4,637,065	4,334,037	4,767,945
+ Interest Earnings	34,891	229,497	153,593	144,855	116,239
- Connection Fees	(296,977)	(298,531)	(170,959)	(194,900)	(432,954)
+ Special Assessments	92,170	93,064	90,297	91,598	91,703
Total of all Adjustments	3,595,216	4,456,541	4,709,996	4,375,590	4,542,933
Cash Available for Debt Service	6,266,670	4,590,451	8,299,765	6,416,576	8,414,224
Debt Service Calculation					
Total Existing Debt Service MADS	3,228,728	3,228,728	3,228,728	3,228,728	3,228,728
Proposed IBank MADS ⁽¹⁾	399,285	399,285	399,285	399,285	399,285
Total Obligations MADS	\$3,628,012	\$3,628,012	\$3,628,012	\$3,628,012	\$3,628,012
Debt Service Coverage Ratio ⁽²⁾	1.73	1.27	2.29	1.77	2.32

⁽¹⁾ Calculated as \$7,000,000 at 3.46% for 30 years

⁽²⁾ Existing Parity Debt Minimum Required DSCR 1.25

Analysis of the historical cash flow over the last five years demonstrates the Fund has the capacity to service the proposed Financing with a debt service coverage ratio (DSCR) of 1.27 or greater in all five years reviewed.

Depreciation and Interest Earnings are typical adjustments to cash flow as Depreciation is an accounting method of allocating the cost of tangible assets over their useful life and is used to account for declines in value and it does not represent real cash flow. Interest Earnings are consistent non-operating Revenues added to the Statement of Revenues, Expenses, and Changes in Net Position below Operating Income and (Loss), and without this adjustment would not reflect in the District's cash flow.

The annual Connection Fee revenue, (included in the Charges for Services on the Statement of Revenues, Expenses, and Changes in Net Position) were deducted from the cash flow. The District has a new fee scheduled and the connection fee increased in FY 2017, which in part, is the reason for the increase in this revenue source in FY 2017.

The District also receives Special Assessments revenue. This revenue is paid through the property taxes like the majority of the District's revenue. The Special Assessments are connected to City's 2013 Bond and since this debt will retire prior the propose Financing, this revenue stream is in the cash flow.

RISK FACTORS

1. Certain aspects of the District's rate structure are similar to those successfully challenged in a recent California appellate court case as having violated Prop. 218 requirements.
2. The District is not prohibited from incurring additional obligations payable from the Fund.

MITIGATING FACTORS

1. In implementing rates and charges, the District will covenant that its rate structure will conform to the requirements of Prop. 218 and statutes implementing it and case law interpreting it. Further, in its financing agreement, the District will covenant to notify IBank immediately upon the filing of any legal challenge to its rates or charges.
2. The District will be prohibited from issuing future debt senior to the IBank financing, and new parity debt would only be permitted if Net Revenues accumulated within the Fund are at least 1.25 times the MADS.

Compliance with IBank Underwriting Criteria

- The financing will be secured by a lien on Net Revenues, on parity with two existing liens.
- Revenues derived from the top ten System ratepayers do not exceed 50% of annual System revenues.
- Revenues derived from any single ratepayer do not exceed 15% of annual System revenues.
- The estimated useful life of the Project is 50 years, which exceeds the term of the Financing.
- The District has the power to establish and enact rates and charges without the approval of any other governing body.

Interest Rate Setting Demographics

The interest rate for the proposed Financing was set based upon the following statistics obtained from the California State Department of Finance - The 2017 American Community Survey (one year estimate), The State of California Employment Development Department, or the ISRF program cost of funds.

Unemployment Rate	The District, located in the County of Santa Cruz, has an unemployment rate was 3.5%, which is 111.43% of the State's rate of 3.9%.
Median Household Income	The District, located in the County of Santa Cruz, had a median household income was \$79,705, which is 111% of the State's median household income of \$71,805.

STAFF RECOMMENDATION

Staff recommends approval of Resolution No. 18-16 authorizing ISRF Program financing to County of Santa Cruz Sanitation District for the Capitola / Jewel Box Sewer Replacement Project as follows:

1. **Applicant/Borrower:** County of Santa Cruz Sanitation District (District)
2. **Project: Delta Diablo** Capitola / Jewel Box Sewer Replacement Project
3. **Amount of ISRF Program Financing:** \$7,000,000
4. **Maturity:** Thirty (30) years
5. **Repayment/Security:** ISRF Program financing (Financing) would be secured by a senior lien on the District's net wastewater system revenues and all legally available amounts in the Wastewater Enterprise Fund (Fund)
6. **Interest Rate:** 3.46%
7. **Fees:** The District to pay an origination fee of 1.00%, \$70,000, which is included in the loan amount, and an annual fee of 0.30% of the outstanding principal balance.
8. **Not an Unconditional Commitment:** IBank's resolution shall not be construed as unconditional commitment to finance the Project, but rather IBank's approval pursuant to the Resolution is conditioned upon entry by IBank and the District into a Financing Agreement, in form and substance satisfactory to IBank.
9. **Limited Time:** The Board's approval expires in five months. Thus, the District and IBank must enter into the Financing agreement no later than April 23, 2019. Once the approval has expired, there can be no assurances that IBank will be able to provide the ISRF Program financing to the District or consider extending the approval period.
10. **ISRF Program Financing Agreement Covenants and Conditions:** The Financing Agreement shall include, among other things, the following covenants:
 - a. The District will be required to maintain rates and charges in an amount sufficient to ensure that Net Revenues produce a minimum 1.25 times aggregate annual debt service ratio for obligations on parity with the Financing.
 - b. The District has no senior liens and the District will be prohibited from issuing future debt senior to the Financing.
 - c. Parity debt will be allowed if Net Revenues amount to at least 1.25 times the Maximum Annual Debt Service (MADS) taking into consideration the MADS payable in any Fiscal Year on all existing debt and the proposed parity debt.
 - d. Subordinate debt will be allowed if Net Revenues are at least 1.10 times the sum of the MADS on all outstanding debt, payable from the Fund, including the proposed Subordinate Debt.
 - e. The District will covenant against reducing rates below levels used for all debt service payable from the Fund, and to take actions to increase rates or fund a rate stabilization fund if the debt service coverage ratios fall below required levels.
 - f. Upon implementing rates and charges, District to covenant to ensure that its rate structure conforms to the requirements of Proposition 218 and those of the statutes implementing it and the cases interpreting it. Further, District to covenant to notify IBank immediately upon the filing of any legal challenge to its rates or charges.
 - g. The District to comply with the requirements of the Criteria and all applicable laws, regulations, and permitting requirements associated with public works projects.
 - h. The District to provide to IBank annually within 180 days of the end of each of District's fiscal year a copy of its audited financial statements together with an annual certificate demonstrating compliance with the foregoing covenants, as well as other information as IBank may request from time to time.
 - i. No disbursements will be allowed until the District provides evidence that IBank is on parity with State Water Resource Control Board lien.

MAP OF THE COUNTY OF SANTA CRUZ SANITATION DISTRICT'S PROJECT AREA

Exhibit I

