

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)

STAFF REPORT

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

Applicant: City of Laguna Beach (City)		ISRF Project Type: Sewage Collection and Treatment	
Financing Amount: \$4,000,000	Financing Term: 20 years	Interest Rate¹: 3.40%	
Source of Repayment: Net sewer system revenues (Net Revenues) and all legally available amounts in the Sewer Service Fund (Fund)		Fund Rating/Date: None	
Security: The ISRF Program financing (Financing) would be secured by a senior lien on Net Revenues and all legally available amounts in the Fund, on parity with IBank's existing financing under the of the Enterprise Fund Installment Sale Agreement between IBank and the City dated as of June 1, 2004, with a current unpaid balance of \$2,718,868.			
Project Name: Sewer System Collection and Treatment Facility Rehab and Replacements (Project)		Project Location: Various locations within the City's boundaries.	
Project Description / Sources and Uses of Proceeds: The Project includes, but is not limited to, the following: 1) rehabilitation & replacement of deteriorated and over-capacity sewer mains and related sewer assets, and 2) replacement of approximately 16,600 linear feet of two existing parallel 4-inch pipelines with a single 6-inch force main. Use of Financing Proceeds: The Financing will provide funds for completion of the Project including, but not limited to: construction, construction contingency ² , equipping, machinery, installation, engineering, architecture, design, permitting, entitlement, environmental review, project administration, construction management, demolition and general project development activities.			
PROJECT USES		PROJECT SOURCES	
	IBank	City of Laguna Beach	Total
Sewer System Collection and Treatment Facility Rehab and Replacements	\$3,960,000	\$5,926,500	\$9,886,500
Origination Fee	\$40,000		\$40,000
Total	\$4,000,000	\$5,926,500	\$9,926,500
Source: Financing Application			

¹ As of March 7, 2018

² The contingency amount is at least \$950,000.

Credit Considerations:

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

CASH FLOW				
For Fiscal Year Ending (FYE) June 30	2014	2015	2016	2017
Cash Available for Debt Service	2,484,958	2,899,136	2,968,463	2,829,416
Debt Service Calculation				
Total Existing Debt Service MADS	499,794	499,794	499,794	499,794
Proposed IBank MADS ⁽¹⁾	290,475	290,475	290,475	290,475
Planned Clean Water State Revolving Fund Loan⁽²⁾	384,199	384,199	384,199	384,199
Total Obligations MADS	\$1,174,468	\$1,174,468	\$1,174,468	\$1,174,468
Debt Service Coverage Ratio	2.12	2.47	2.53	2.41

⁽¹⁾ Calculated as \$4,000,000 at 3.40% for 20 years

⁽²⁾ Calculated as \$6,000,000 at 2.0% for 20 years

The historical cash flow over the last four years demonstrates the Fund's ability to service existing debt and the proposed Financing with a debt service coverage ratio (DSCR) of 2.12 or greater in all four years reviewed. Starting in fiscal year (FY) 2014, the City began reporting the Fund as a major Enterprise Fund. Prior to this change, the Fund was reported as a special revenue fund within the General Fund, therefore only four years of history are shown in the above table, as well as all other financial tables in the staff report. The City is currently seeking a low interest rate loan from the Clean Water State Revolving Fund (CWSRF) in the amount of \$6 million for improvements to the sewer system, which will be an obligation of the Fund. Therefore, the planned CWSRF loan is included in the Cash Flow table. For further analysis, see the Credit Analysis section of this report.

Support for Staff Recommendations:

1. City to certify it is compliant with all covenants under its existing financing agreements.
2. Cash flow analysis demonstrates the Fund's ability to service existing debt and the proposed Financing.
3. City has successfully increased rates in order to cover expenses and service its debt.
4. The estimated useful life of the Project is at least 20 years, which meets or exceeds the term of the Financing.

Special Terms and Conditions:

1. In implementing rates and charges, the City will covenant to ensure its rate structure conforms to the requirements of Proposition 218 (Prop 218). Further, the City will notify IBank immediately upon the filing of any legal challenge to its rates or charges.

Criteria Waiver:

1. Readiness and Feasibility: Due to the amount of time needed to complete the Sewer Main Lining component of the Project, the City requests a waiver of IBank's Criteria that construction be completed within two years after IBank's Financing approval. The City is requesting 48 months from Financing Agreement closing to complete the Project.
2. The Criteria provides that contractors should be pre-qualified using the Model Questionnaire detailed in the Criteria. The City intends to use its internally-required contractor pre-qualification questionnaire, which substantially meets the intent of the Model Questionnaire. Therefore, the City seeks a waiver of the Criteria.

IBank Staff:

John Lee

Date of Staff Report:

April 17, 2018

Date of IBank Board Meeting:

April 24, 2018

Resolution Number:

18-06

Staff Recommendation:

Staff recommends approval of Resolution No.18-06 authorizing ISRF Program financing to the City of Laguna Beach, for the Sewer System Collection and Treatment Facility Rehab and Replacements Project.

PROJECT DESCRIPTION

The City of Laguna Beach (City) requests Infrastructure State Revolving Fund (ISRF) Program financing (Financing) in the amount of \$4,000,000 to fund the Sewer System Collection and Treatment Facility Rehab and Replacements (Project).

Project Background

The City's economy, based predominately on tourism, is dependent upon its unique coastal environment that showcases beaches and views that draw a variety of visitors to the area. In the recent past, aging pipelines and collections system equipment have been the cause of sewer spills, some of which have resulted in extended beach closures. The Project will rehabilitate aging infrastructure that is critical to the protection of the City's coastal environment, which is a beacon for the tourism that is the foundation of the local economy.

Generally, the Financing will provide funds for completion of the Project including, but not limited to: construction, construction contingency, equipping, machinery, installation, engineering, architecture, design, permitting, entitlement, environmental review, project administration, construction management, demolition, and general project development activities. More specifically, the Project consists of the following components:

Sewer Main Lining

Rehabilitation & replacement of deteriorated and over-capacity sewer mains and related sewer assets such as manholes and laterals. ThisThe Project component is expected to be completed in four annual phases.

Rehabilitation of the Export Sludge Force Main

Replacement of approximately 16,600 linear feet of two existing parallel 4-inch pipelines with a single 6-inch force main.

Project Benefits

The Project would provide health and safety benefits by preventing potential sewer spills and associated beach closures, thereby protecting human health and safety, area beaches, marine habitat, and the ocean. The rehabilitation of the aging infrastructure is critical to the protection of the City's seven miles of coastline that serve as a beacon for tourism, which is the foundation of the local economy.

Economic Development Benefits

The City anticipates approximately 33 temporary jobs will be created during the construction period as a result of the Project.

GENERAL INFORMATION

The City, a community of approximately 23,190 residents, is located midway between Los Angeles and San Diego, along the southern coast of Orange County. The City was incorporated in 1927 as a general law city, operates under a Council-Manager form of government, and is governed by a five-member council. The position of mayor is non-elected and chosen annually among the members of the city council.

The City's location on the Pacific Coast has enhanced its position as a regional arts and tourism center, and is home to more than 70 art galleries and 400 working artists and studios. An estimated three million visitors annually are drawn to the City for its picturesque beaches, art festivals, village-scale shopping district, and bluff top walkways. The City ranks No. 1 in the U.S. in economic impact of the arts on a per

capita basis, which includes total spending by both organizations and audiences, according to Visit Laguna Beach. Condé Nast Traveler named the City among “The Best Small Cities in the U.S.” in 2016.

The City has a history of environmental stewardship and historic preservation, and is the only Orange County city protected by a dedicated greenbelt inland and blue belt seaward. As of 2011, the City has successfully protected from development more than 20,000 acres of contiguous wildlands, the majority of which is located in The Laguna Coast Wilderness Park, Jim Dilley Preserve, Crystal Cove State Park, and the Aliso-Wood Canyons Wilderness Park. The coastal area of the City is a bird sanctuary and a marine life refuge. All of the City’s marine refuge system is a fully protected marine reserve - nothing can be fished for or removed from this area. The City is known throughout Southern California for its tide pools and the variety of marine life they support.

SYSTEM DESCRIPTION

System Infrastructure

Per the City, the Sewer System (System) serves a population of approximately 22,723 in an 8.7 square mile service area. (Exhibit 1) The System serves 8,190 residential connections and 754 commercial, industrial and institutional customers as of 2018. The System consists of 85.7 miles of gravity sewers, 2,674 manholes, 9.4 miles of force mains, and 25 lift stations. The sewers range in size from 4 to 27 inches in diameter. The City is a member of the South Orange County Wastewater Authority (SOCWA), a 10-member joint powers authority. SOCWA maintains and operates a wastewater treatment plant that treats the sewage generated by its members. On average, SOCWA treats two million gallons per day of sewage for the City. The City provides sewage service in the northern part of the City from roughly Nyes Place to the northern City limits. Sewage services south of Nyes Place is provided by the South Coast Water District.

In addition to the sewer system facilities, the City maintains a system of 25 urban water diversion units that connect the storm drain system to the sewer system so dry weather nuisance flows may be diverted away from the receiving waters to the sanitary sewer system. These diversion units also divert sanitary sewer overflows within the watersheds they serve.

The City has a ten-year Capital Improvement Plan (CIP) through which it recommends upgrades to all of the elements of the System. It also has a “Financing Plan” that is used to project the rate increases and debt issuance needed to finance the CIP projects. This allows the City to implement the required rates and charges to finance any required debt service and to fund system operations. The CIP budget identifies the Project along with other improvements. The City estimates it still needs \$41.7 million in System improvements that will take until fiscal year (FY) 2027 to complete.

The following table displays the Number of Users by Category and reflects stability in the number of users. The City of Laguna Beach is fully built-out. There are no changes expected in service demand forecast in the next 5 years. The table further reflects a high proportion of residential users.

NUMBER OF USERS BY CATEGORY					
For Fiscal Year Ending (FYE) June 30	2014	2015	2016	2017	2018
Residential	8,174	8,177	8,185	8,189	8,190
Commercial	364	355	362	363	361
Other	427	415	407	402	393
Total	8,965	8,947	8,954	8,954	8,944
% change	N/A	-0.20%	0.08%	0.00%	-0.11%

Source: Financing Application Addendum

The table below displays Current System Usage and Revenue as of March 31, 2018. Residential customers represent more than 82.2% of the Gross Annual Revenues.

CURRENT SYSTEM USAGE & REVENUE		
	Gross Annual Revenue	% Gross Annual Revenue
Residential	\$6,498,800	82.2%
Commercial	\$1,214,600	15.4%
Other	\$189,800	2.4%
Total	\$7,903,200	100.0%

Source: Financing Application

The following table displays the Historical Rate Increases adopted over the past five years, and reflects that the City's ability to increase rates in order to meet its operational and capital improvement needs.

HISTORICAL RATE INCREASES PAST FIVE YEARS		
Date Adopted	Date Effective	Percent Increase
July 1, 2015	July 1, 2015	4.75%
July 1, 2015	July 1, 2016	4.75%
July 1, 2015	July 1, 2017	4.75%
July 1, 2015	July 1, 2018	4.75%
July 1, 2015	July 1, 2019	4.00%

Source: Financing Application Addendum

The following table displays the Historical and Current Average Monthly User Charge per Residential Unit and the year-over-year percent increase of the charge since FY 2015. The table also reflects each year's charge as a percent of the County's Median Household Income (MHI) for residential units as of FYE 2016.

HISTORICAL AND CURRENT AVERAGE MONTHLY USER CHARGE PER RESIDENTIAL UNIT				
For Fiscal Year Ending (FYE) June 30	2015	2016	2017	2018
Residential	\$48.42	\$50.75	\$52.50	\$55.67
% change	NA	4.8%	3.4%	6.0%
% of MHI	0.05%	0.05%	0.05%	0.06%

Source: Financing Application Addendum

The following table displays the Projected Average Monthly User Charge Per Residential Unit in FYs 2018 through 2022. The City projects increasing rates by 4% to 4.75% in the first two fiscal years presented, which is consistent with the adopted rate increases reflected in the Historical Rate Increases table above. At this time there is no planned rate increase beyond the current adopted rates that go into effect each year through FY 2020. The proposed Sewer Service Fund (Fund) budget continues to move forward with the ten year financial plan for the wastewater system that includes rate increases of 4.75% through FY 2018-19 and 4% in FY 2019-20, as well as setting aside funding toward a goal of reaching a \$1.8 million reserve by FY 2024-25.

PROJECTED AVERAGE MONTHLY USER CHARGE PER RESIDENTIAL UNIT					
For Fiscal Year Ending (FYE) June 30	2018	2019	2020	2021	2022
Residential	\$55.67	\$58.33	\$60.67	\$60.67	\$60.67
% change	NA	4.78%	4.01%	0.00%	0.00%

Source: Financing Application Addendum

The following table displays the City's Average Monthly System User Charge Compared to Nearby Systems as of April 14 2015, the most recent comparison available. The City states the comparison cost are difficult to compile since there are various ways to manage a wastewater system, e.g. stand alone enterprise fund, an enterprise fund combined with a water system, etc. The City has the most lift stations per population served of any agency known in the state, due to its topography and need to lift waste water in areas where gravity flow is not possible. The additional lift stations required by the City's System drive up the cost for operating and maintaining the System as compared to nearby systems.

CURRENT AVERAGE MONTHLY SYSTEM USER CHARGE COMPARED TO NEARBY SYSTEMS			
System Name	Distance in Miles	Location	Average Monthly Residential Rate
Seal Beach	30.8	Seal Beach	\$53.21
South Coast Water District	3.7	South Laguna	\$51.61
City of Laguna Beach		N/A	\$48.42
San Clemente	14.1	San Clemente	\$38.70
Huntington Beach	15.5	Huntington Beach	\$37.03
Newport Beach	10.5	Newport Beach	\$35.03
		Average Monthly Charge	\$39.80

Source: Financing Application Addendum

The following table displays the Top 10 System Users and reflects that the City complies with IBank's underwriting requirements that revenues derived from the top ten ratepayers not exceed 50%, and that no single ratepayer generates 15% or greater of the System's annual revenues.

TOP 10 SYSTEM USERS as of April 10, 2018			
	User	% System Revenues	Customer Class
1	Apartment Building (211 Units)	1.44%	Residential
2	Apartment Building (210 Units)	1.44%	Residential
3	Surf and Sand Hotel	1.38%	Commercial
4	Las Brisas Restaurant	0.47%	Commercial
5	Hotel Laguna	0.38%	Commercial
6	Vons	0.33%	Commercial
7	Carmelita's Restaurant	0.26%	Commercial
8	Watermarc, Gelato, La Rue Chocolate	0.24%	Commercial
9	Earth Café	0.23%	Commercial
10	The Roof Top Lounge	0.23%	Commercial
	Total	6.40%	

Source: Financing Application Addendum

CREDIT ANALYSIS

Source of Financing and Security

The ISRF Program financing (Financing) would be secured by, and payable from, a senior lien on the City's net System revenues (Net Revenues) and all legally available amounts in the City's Fund. Such pledge would be on parity with IBank's lien for the Installment Sale Agreement dated as of June 1, 2004 for No. CIEDB-B04-052 (2004 IBank ISA).

Source of Revenue to Repay Proposed ISRF Program Financing:	Net water system revenues and all legally available amounts in the Sewer Service Fund
Outstanding Obligations:	IBank Installment Sale Agreement dated as of June 1, 2004 with a current unpaid balance of \$2,718,868.
Type of Audited Financial Documents Reviewed:	<input checked="" type="checkbox"/> Comprehensive Annual Financial Reports (CAFR) <input type="checkbox"/> Basic Financial Statements (F/S) <input type="checkbox"/> Other: _____
Fiscal Year Ends:	June 30
Audit Fiscal Years Reviewed:	2014-2017
The auditor's reports for all years indicate that the financial statements present fairly, in all material respects, the financial position of the City, 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:	2017-2019

Comparative Statement of Net Position Analysis

Analysis of the Fund's Comparative Statement of Net Position for the last four fiscal years is as follows:

SEWER SERVICE FUND									
COMPARATIVE STATEMENT OF NET POSITION									
	For Fiscal Year Ending (FYE) June 30	2014		2015		2016		2017	
	Source:	CAFR	%	CAFR	%	CAFR	%	CAFR	%
Assets									
Cash and Investments		\$2,666,994	5.6%	\$4,592,893	9.7%	\$3,683,555	7.5%	\$2,277,463	5.4%
Receivables:									
Taxes		85,665	0.2%	87,158	0.2%	40,114	0.1%	73,533	0.2%
Accounts		94,689	0.2%	169,235	0.4%	184,221	0.4%	21,895	0.1%
Total Current Assets		2,847,348	6.0%	4,849,286	10.3%	3,907,890	7.9%	2,372,891	5.7%
Noncurrent Assets									
Capital Assets, Not Being Depreciated		3,674,156	7.8%	1,235,312	2.6%	5,213,877	10.6%	380,743	0.9%
Capital Assets, Net of Depreciation		40,810,918	86.2%	41,206,015	87.1%	40,152,539	81.5%	39,141,980	93.4%
Total Noncurrent Assets		44,485,074	94.0%	42,441,327	89.7%	45,366,416	92.1%	39,522,723	94.3%
Total Assets		47,332,422	100.0%	47,290,613	100.0%	49,274,306	100.0%	41,895,614	100.0%
Deferred Outflows of Resources									
Deferred Amounts Related to Pensions				353,656	0.7%	377,788	0.8%	793,785	1.9%
Total Deferred Outflow of Resources				353,656	0.7%	377,788	0.8%	793,785	1.9%
Liabilities									
Current Liabilities:									
Accounts Payable and Accrued Liabilities		262,688	0.6%	212,506	0.4%	505,773	1.0%	324,144	0.8%
Compensated Absences Due Within One Year		8,328	0.0%	7,487	0.0%	9,881	0.0%	10,265	0.0%
IBank Installment Sale Agreement Due Within One Year		379,966	0.8%	390,339	0.8%	400,996	0.8%	411,943	1.0%
Total Current Liabilities		650,982	1.4%	610,332	1.3%	916,650	1.9%	746,352	1.8%
Noncurrent Liabilities									
Compensated Absences Due Within One Year		33,311	0.1%	29,947	0.1%	39,523	0.1%	41,061	0.1%
IBank Installment Sale Agreement		3,922,145	8.3%	3,531,806	7.5%	3,130,809	6.4%	2,718,867	6.5%
Net Pension Liability				2,153,142	4.6%	2,288,952	4.6%	2,661,436	6.4%
Total Noncurrent Liabilities		3,955,456	8.4%	5,714,895	12.1%	5,459,284	11.1%	5,421,364	12.9%
Total Liabilities		4,606,438	9.7%	6,325,227	13.4%	6,375,934	12.9%	6,167,716	14.7%
Deferred Inflows of Resources									
Deferred Amounts Related to Pensions				514,522	1.1%	173,171	0.4%	80,059	0.2%
Total Deferred Inflows of Resources				514,522	1.1%	173,171	0.4%	80,059	0.2%
Net Position									
Net Investment in Capital Assets		40,182,963	84.9%	38,519,182	81.5%	41,834,611	84.9%	36,391,913	86.9%
Unrestricted		2,543,021	5.4%	2,285,338	4.8%	1,268,378	2.6%	49,711	0.1%
Total Net Position		42,725,984	90.3%	40,804,520	86.3%	43,102,989	87.5%	36,441,624	87.0%

Effective FY 2014, the Fund is reported as a major Enterprise Fund. Prior to this change, the Fund was reported as a special revenue fund within the General Fund, therefore only four years of history are shown in the above table, as well as all other financial tables in the staff report.

Cash and Investments shows a 72.2% increase in FY 2015, primarily attributable to a reduction in the outflow of funds for projects completed, including the SOCWA Capital Improvements and 3rd Street projects. The decrease of 88.1% in Accounts Receivable for FY 2017 is primarily due to higher collections from an Orange County Transportation Authority grant.

Capital Assets, Not Being Depreciated increased to \$5.2 million in FY 2016 due to an increase of construction in progress. Total Assets shows a 15.0% decrease between FY 2016 and FY 2017, primarily due to the above mentioned decrease in the Capital Assets Not Being Depreciated and Cash and Investments line items.

Beginning FY 2015, Net Pension Liability and Deferred Pension Inflows of Resources, reflect the implementation of Governmental Accounting Standards Board Statement No. 68 (GASB 68).

The City collects the sewer system payments through annual property tax bills, and given this method it collects approximately 98% of revenues each year, with 100% collected within five years.

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

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

SEWER SERVICE FUND									
COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION									
For Fiscal Year Ending (FYE) June 30	2014		2015		2016		2017		
	Source:	CAFR	%	CAFR	%	CAFR	%	CAFR	%
	% Change		4%		4%		4%		N/A
Operating Revenues									
Charges for Services	\$6,814,418	100.0%	\$7,093,423	100.0%	\$7,400,257	100.0%	\$7,699,521	100.0%	
Total Operating Revenues	6,814,418	100.0%	7,093,423	100.0%	7,400,257	100.0%	7,699,521	100.0%	
Operating Expenses									
Personnel Services	1,401,236	20.6%	1,171,641	16.5%	1,245,199	16.8%	1,401,478	18.2%	
Contractual Services	1,912,367	28.1%	2,076,394	29.3%	2,198,632	29.7%	2,418,256	31.4%	
Material and Supplies	1,009,196	14.8%	958,211	13.5%	1,012,652	13.7%	1,047,823	13.6%	
Administration	6,661	0.1%	13,371	0.2%	11,011	0.1%	20,635	0.3%	
Depreciation	1,184,398	17.4%	3,242,893	45.7%	1,399,232	18.9%	1,746,598	22.7%	
Total Operating Expenses	5,513,858	80.9%	7,462,510	105.2%	5,866,726	79.3%	6,634,790	86.2%	
Operating Income (Loss)	1,300,560	19.1%	(369,087)	-5.2%	1,533,531	20.7%	1,064,731	13.8%	
Nonoperating Revenues (Expenses)									
Investment Income			25,330	0.4%	35,700	0.5%	18,087	0.2%	
Intergovernmental	276,923	4.1%	555,307	7.8%	172,837	2.3%			
Interest Expense	(122,496)	-1.8%	(106,933)	-1.5%	(96,277)	-1.3%	(85,322)	-1.1%	
Gain (Loss) on Disposal of Capital Assets			(6,537)	-0.1%					
Other Revenue	25,103	0.4%	252,214	3.6%	262,564	3.5%	21,895	0.3%	
Total Nonoperating Revenues (Expenses)	179,530	2.6%	719,381	10.1%	374,824	5.1%	(45,340)	-0.6%	
Income (Loss) Before Contributions and Transfers	1,480,090	21.7%	350,294	4.9%	1,908,355	25.8%	1,019,391	13.2%	
Capital Contributions and Transfers									
Transfer In	100,000		233,957		390,114		546,074		
Transfer Out							(106,000)		
Total Transfers			233,957		390,114		440,074		
Change in Net Position	1,580,090		584,251		2,298,469		1,459,465		
Net Position at Beginning of Year	41,145,894		42,725,984		40,804,520		34,982,159		
Prior Period Adjustment (=/-)			(2,505,715)				(8,120,830)		
Net Position at End of Year	\$42,725,984		\$40,804,520		\$43,102,989		\$36,441,624		

Total Operating Revenues increased each year of four years reviewed, and overall by 16.9%, primarily due to a steady increase in Charges for Services that reflect annual rate increases. The latest 5-year rate increase was implemented in FY 2016, and increases rates 4 to 4.75% each year.

Total Operating Expenses increased 20.3% between FYs 2014 and 2015, primarily attributable to annual increases in Contractual Services, and an increase in Depreciation for FY 2015. The increase in Contractual Services is primarily due to SOCWA Operations & Maintenance share increases each year. The increase in Depreciation if FY 2015 is primarily due to an adjustment by auditors for accumulated depreciation in sewer plant & lines.

Intergovernmental increased 97.1% from FY 2014 to FY 2015, due to an increase in operating grants received. Transfer In has increased each year for FYs 2014 to 2017, primarily attributable to the use of an internal service fund to acquire vehicles.

Net Position, End of Year decreased 14.7% between FY 2014 and FY 2017. The decrease was primarily attributable to Prior Period Adjustments of \$2.5 million in FY 2015 due to implementation of GASB 68 and 71, and \$8.1 million in FY 2017, which accounts for capital assets and accumulated depreciation for infrastructure assets not previously depreciated.

Pension Plan

The City participates in the California Public Employees' Retirement System (CalPERS), a pension plan available to all qualified employees. The Safety Plan is a cost-sharing multiple employer defined benefit pension plan. The Miscellaneous Plan is an agent multiple employer defined benefit pension plan. As of the most recent CalPERS actuarial valuations dated June 30, 2017, the Net Pension Liability for the Safety and Miscellaneous plans are \$33.5 million and \$26.1 million, respectively. As of June 30, 2017, the funded ratio of the Safety and Miscellaneous plan was 74.2% and 74.0%, respectively. The portion of the City's pension liability allocated to the Fund is \$2.7 million, as of June 30, 2017.

Existing Obligations Payable from the Fund

The table below shows the Fund's outstanding obligation payable from the Fund, the outstanding balance of the obligation (as of March 30, 2018), the proposed Financing for the Project, and the planned Clean Water State Revolving Fund (CWSRF) loan.

SEWER SERVICE FUND OBLIGATIONS					
Debt Issued	Date Issued	Maturity	Amount Issued	Outstanding Balance	Parity Lien Position
2004 IBank ISA	2004	2023	\$7,000,000	\$2,718,868	Senior
Proposed IBank Financing		2038	\$4,000,000	\$4,000,000	Senior
Planned CWSRF Loan		2039	\$6,000,000	\$6,000,000	Senior
	Total		\$17,000,000	\$12,718,868	

The above outstanding obligation permits subsequent parity debt upon certain conditions including satisfying a 1.10 debt service coverage ratio (DSCR). As shown in the following Cash Flow table, the City meets the 1.10 DSCR requirement, as well as the 1.20 DSCR that would be a requirement of IBank's proposed Financing.

Fund Cash Flow and Debt Service Analysis

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

CASH FLOW				
For Fiscal Year Ending (FYE) June 30	2014	2015	2016	2017
Operating Income (Loss)	\$1,300,560	(\$369,087)	\$1,533,531	\$1,064,731
Transaction Specific Adjustments				
+ Depreciation	1,184,398	3,242,893	1,399,232	1,746,598
+ Interest Earnings		25,330	35,700	18,087
Total of all Adjustments	1,184,398	3,268,223	1,434,932	1,764,685
Cash Available for Debt Service	2,484,958	2,899,136	2,968,463	2,829,416
Debt Service Calculation				
Total Existing Debt Service MADS	499,794	499,794	499,794	499,794
Proposed IBank MADS ⁽¹⁾	290,475	290,475	290,475	290,475
Planned CWSRF Loan ⁽²⁾	384,199	384,199	384,199	384,199
Total Obligations MADS	\$1,174,468	\$1,174,468	\$1,174,468	\$1,174,468
Debt Service Coverage Ratio	2.12	2.47	2.53	2.41

⁽¹⁾ Calculated as \$4,000,000 at 3.40% for 20 years

⁽²⁾ Calculated as \$6,000,000 at 2.00% for 20 years

The historical cash flow over the last four years demonstrates the Fund's ability to service existing debt, the proposed IBank Financing, and the planned CWSRF loan with a DSCR of 2.12 or greater in all four years reviewed. The City is currently seeking a low interest loan from the CWSRF in the amount of \$6 million for improvements to the sewer system, which will be an obligation of the Fund. Therefore, the planned CWSRF loan is included in the Cash Flow table. If the City is unsuccessful in securing a loan through the CWSRF program, then it plans to return to IBank for the \$6 million in financing. Additionally, the 2004 IBank ISA will be paid off in 2023, and represents 43% of the Fund's annual debt service payment, inclusive of all the debt noted above.

RISK FACTORS

1. The City is not prohibited from incurring additional obligations payable from the Fund.

MITIGATING FACTORS

1. The City 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 1.20 times the MADS.

Compliance with IBank Underwriting Criteria

- The financing will be secured by a lien on Net Revenues, on parity with the 2004 IBank ISA.
- 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 City has the power to establish and enact rates and charges without the approval of any other governing body.
- The useful life of the Project meets or exceeds the 20 year term financing.

Interest Rate Setting Demographics

The interest rate for the proposed Financing was set based upon the following statistics obtained from the 2012-2016 American Community Survey (5-year estimate); and the Employment Development Department Monthly Labor Force Data for California, as of January 19, 2018.

Unemployment Rate	The City's unemployment rate was 2.1%, which is 50.0% of the State's rate of 4.2%.
Median Household Income	The City's median household income was \$100,506, which is 157.6% of the State's median house income of \$63,783.

STAFF RECOMMENDATION

Staff recommends approval of Resolution No.18-06 authorizing ISRF Program financing to the City of Laguna Beach (City), for the Sewer System Collection and Treatment Facility Rehab and Replacements Project.

1. **Applicant/Borrower:** The City of Laguna Beach
2. **Project:** Sewer System Collection and Treatment Facility Rehab and Replacements Project
3. **Amount of Financing:** \$4,000,000
4. **Maturity:** Twenty (20) years
5. **Repayment/Security:** The ISRF Program financing (Financing) would be a senior lien on the City's net system revenues (Net Revenues) and all legally available amounts in the City's Sewer Service Fund (Fund) on parity with IBank's lien for the Installment Sale Agreement dated as of June 1, 2004 No. CIEDB-B04-052.
6. **Interest Rate:** 3.40%
7. **Fees:** The City to pay an origination fee of 1.00%, \$40,000, included in 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 an unconditional commitment to finance the Project, but rather IBank's approval pursuant to the Resolution is conditioned upon entry by IBank and the City into a Financing Agreement, in form and substance satisfactory to IBank.
9. **Limited Time:** The Board's approval expires on June 15, 2018. Thus, the City and IBank must enter into the Financing agreement no later than June 15, 2018. Once the approval has expired, there can be no assurances that IBank will be able to provide the Financing to the City 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 City will be required to maintain rates and charges in an amount sufficient to ensure that Net Revenues produce a minimum 1.20 times aggregate annual debt service ratio for obligations on parity with the Financing.
 - b. The City has no senior liens and the City will be prohibited from issuing future debt senior to the Financing.
 - c. Parity debt will be allowed if Net Revenues amount to at least 1.20 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 1.00 times the sum of the MADS on all outstanding debt, payable from the Fund, including the proposed Subordinate Debt.
 - e. The City 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, The City 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, the City to covenant to notify IBank immediately upon the filing of any legal challenge to its rates or charges.

- g. The City to comply with the requirements of the Criteria and all applicable laws, regulations, and permitting requirements associated with public works projects.
 - h. The City to provide to IBank annually within 180 days of the end of each of the City'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.
11. **Criteria Waivers:** IBank requests the Board waive the following requirements of IBank's Criteria, Priorities, and Guidelines:
- a. IBank's Criteria provides that ISRF Program Financing applicants must demonstrate project readiness and feasibility to complete construction within 2 years after IBank's financing approval. The City is not able to complete the Project within a two-year time frame. Accordingly, the City seeks a waiver of this aspect of the Criteria and instead requests that it be allowed 48 months from entering into the Financing Agreement to complete the Project.
 - b. The Criteria provides that contractors should be pre-qualified using the Model Questionnaire detailed in the Criteria. The City intends to use its internally-required contractor pre-qualification questionnaire, which substantially meets the intent of the Model Questionnaire. Therefore, the City seeks a waiver of the Criteria.

Exhibit 1

OVERVIEW OF THE LAGUNA BEACH SEWER SYSTEM



Source: Google Earth