

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)

STAFF REPORT

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

Applicant: Pico Water District (District)		ISRF Project Type: Water Treatment and Distribution	
Financing Amount: \$2,020,200	Financing Term: 30 years	Interest Rate: 3.25%	
Source of Repayment: Water Enterprise Fund (Fund)		Fund Rating/Date: N/A	
Security: The ISRF Program financing (Financing) would be secured by a senior lien on the District's net system revenues (Net Revenues) and all legally available amounts in the District's Water Enterprise Fund (Fund) on parity with the IBank's lien for Installment Sale Agreement No. ISRF 16-112.			
Project Name: Pico Water District Well Replacement Project (Project)		Project Location: 6602 Rosemead Boulevard, Pico Rivera, CA 90660	
Project Description / Sources and Uses of Proceeds: The Pico Water District (District) requests ISRF Program financing in the amount of \$2,020,200 to fund the Pico Water District Well Replacement Project (Project). The Project includes, but is not limited to, the drilling of a new 2400 gallons per minute (GPM) well to replace an existing well; installing new discharge lines; landscaping the well site, and installing an emergency backup generator.			
Use of Financing Proceeds: The Financing would fund all components necessary to complete the Project, including, but not limited to equipment and machinery, design, engineering, construction, permitting, entitlement, and general project development activities. IBank's loan origination fee is included in the loan amount. Per the District there is a 5% construction contingency included in the project cost.			
		Project Sources	
		I-Bank	Total
Pico Water District Well Replacement Project		\$2,000,000	\$2,000,000
Origination Fee		\$20,200	\$20,200
Total		\$2,020,200	\$2,020,200

Credit Considerations:

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

Analysis of 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 1.20 or greater in three of the five years reviewed. Please note: The District does not charge a “Connection Fee”.

CASH FLOW					
For Fiscal Year Ending (FYE) December 31	2011	2012	2013	2014	2015
Operating Income (Loss)	(\$69,584)	\$10,503	\$116,098	(\$7,949)	\$66,969
+ Depreciation and Amortization	504,968	524,633	524,752	486,519	521,571
+ Interest Earnings	14,528	13,561	10,999	9,861	9,785
+ Rental Income	18,150	18,075	18,225	18,525	18,600
+ Rental House Repairs and Maintenance	(12,071)	(1,647)	(5,299)	(1,976)	(75)
Cash Available for Debt Service	455,991	565,125	664,775	504,980	616,850
Debt Service Calculation					
Total Existing Debt Service MADS	311,282	311,282	311,282	311,282	311,282
Proposed ISRF \$2,020,200 @3.25%, 30 yr.	111,826	111,826	111,826	111,826	111,826
Total Obligations MADS	423,108	423,108	423,108	423,108	423,108
Debt Service Coverage Ratio	1.08	1.34	1.57	1.19	1.46

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 estimated useful life of the Project is 60 years, which exceeds the 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. The District will covenant to provide an annual Certification to IBank that District payments made to IBank under the financing agreement (Financing Agreement) do not include any funds attributable to District revenues derived from the sale of recycled water that District had originally purchased from CBMWD.
3. Future debt senior to the Financing will be prohibited.

IBank Staff: Lina Benedict	Date of Staff Report: January 10, 2017
Date of IBank Board Meeting: January 24, 2017	Resolution Number: 17-02

Staff Recommendation:
Staff recommends approval of Resolution No. 17-02 authorizing ISRF Program financing to the Pico Water District for the Pico Water District Well Replacement Project in an amount not to exceed \$20,020,200.

PROJECT DESCRIPTION

The Pico Water District (District) requests ISRF Program financing (Financing) in the amount of \$2,020,200 to fund the Pico Water District Well Replacement Project (Project). The Project consists of the drilling of a new 2400 gallons per minute (GPM) well to replace an existing well; install new discharge lines; landscape the well site, and install an emergency backup generator.

The Project well will replace an existing well that was established in 1929. The District purchased the land located for the project site, i.e. 6602 Rosemead Boulevard, Pico Rivera, CA, at a cost of \$360,000 on September 16, 2016. Testing of the site and water quality has been completed and showed that site has sufficient water and the water quality was acceptable. The new well will be drilled to a depth of 700-1000 feet below surface. The District plans to have the new well operating by the end of June 2017.

The District has seven wells from which all of its potable water is acquired. Currently, three of these wells are non-operational as follows:

- Well # 9 cannot be used due to water quality issues.
- Well # 2 has been costly to operate and was in use for over 87 years. It was taken out of use in 2015.
- Well # 7 was taken out of use due to low water levels and issues of water quality.

The remaining four wells have been in use ranging from three to 90 years and are active and operational.

The new well will be energy efficient and bolster the District's groundwater production, which is its only source of water.

Project Benefits

The Project will afford several benefits to the District. The new well will be in an industrial area where noise disturbance is not an issue. The new well will help the District to:

- Reduce electrical costs
- Improve water source reliability
- Remove a well located within a residential neighborhood (as source of noise disturbance)
- Increase the District's well output

Public Benefits

The District anticipates 15 jobs to be created during the construction period.

GENERAL DISTRICT INFORMATION

The District is located in the City of Pico Rivera (City), in the County of Los Angeles (County). Formed in 1926 by the consolidation of five small water systems, the District is a County Water District formed under the County Water District Law, Water Code Sections 3000-33901.

The District encompasses 1,462 relatively flat acres (2.29 square miles) within the City. The portion of the City not served by the District receives water from the City. The District provides water to residential, commercial, industrial, and governmental users. The District meters its water.

The District is governed by a five-member Board of Directors (Board) elected by registered voters who reside within the District's service area. Board elections are held every two years. Each Director serves a four year term; terms are staggered to ensure continuity. The Board establishes

District policy and rates. The Board makes decisions based on the District's Mission Statement, goals, and operational needs. The Board's policies are administered and implemented by a General Manager who is hired by the Board.

SYSTEM DESCRIPTION

System Infrastructure

The water system (System) consists of: (1) four active wells capable of water production from 600 GPM to 1,800 GPM, (2) the Cate Reservoir with a 1.25 million gallon capacity, (3) one booster pump station with three pumps, (4) treatment facilities at each well site using a sand trap and chlorination treatment process, and (5) 58 miles of water pipes ranging from 2 to 14 inches. The District obtains all of its water from an underground aquifer known as the Central Basin, further described below.

A \$5,250,000 loan was approved by IBank's Board of Directors in April 2016 and funded June 1, 2016. That loan provided a portion of the funding needed for the District's planned \$24,000,000 of upgrades and system improvements identified in the District's Master Plan (MP). Additional improvements cited in the MP include, but are not limited to, rehabilitating the existing water-well pumps, increasing the size of the existing reservoir to hold an additional 750,000 gallons, replacing the remaining water mains with larger mains, and expanding the water recycling program.

The District plans to address these items on a pay-as-you-go basis as financing becomes available. Given the need for the improvements, the District's Financing Plan is updated annually to provide current estimates of appropriate charges for services to cover operational costs, to generate sufficient revenues to pay for future planned improvements, and to create a prudent reserve.

System Capital Improvements

The major capital asset additions since 2015 were:

- Installation of 10 new one-inch service laterals (pipelines)
- Installation and replacement of six fire hydrants
- Abandonment of one well and the upgrade of the building housing another well
- Purchase of seven office computers including two servers
- Installation of new twelve-inch and eight-inch ductile iron pipe in San Gabriel Parkway
- Connection of the District's twelve inch main to the City of Pico Rivera's ten-inch main in San Gabriel Parkway (District emergency connection).

Water Supply, Quality, and Storage

The District obtains its water from the groundwater of the Central Basin (CB), a sub-basin of the Los Angeles Groundwater Basin (LA Basin). The Central Basin Water Rights Panel (CBWRP) is the Water Master for the CB. The CBWRP is made up of seven CB water rights holders: the cities of Downey, Lakewood, Long Beach, Signal Hill, and Paramount, along with Golden State Water Company and Montebello Land and Water Company (CB Members). The CB was adjudicated in 1965 and the District, along with 28 other water districts (CB Members), were awarded annual pumping rights. The District is currently permitted to pump 3,624 acres feet per year (AFP), known as the District's Allowed Pumping Allocation (APA). Each CB Member is allowed to pump 20% over its APA as long as the over-extraction is made up the following year.

The table below, Historical District Water Supply AFP, reflects the amount of water pumped from each well and demonstrates that the District has not exceeded its APA in the last seven years. The District has, however, sold excess water to other CB Members. The District treats its water through chlorine disinfection

and sand removal. The District monitors its water quality, which continually meets or exceeds requirements.

HISTORICAL DISTRICT WATER SUPPLY (ACRE FEET) PER YEAR								
Source	2009	2010	2011	2012	2013	2014	2015	Average
Well No. 2 ⁽¹⁾	224	251	34	14	23	13	0	79.8
Well No. 4a	580	735	700	414	641	839	43	564.5
Well No. 5a	297	578	674	668	915	507	497	590.9
Well No. 7	51	0	0	0	0	0	0	7.4
Well No. 8	365	415	842	823	866	669	641	660.0
Well No. 10	1,920	1,226	963	1,276	839	1,125	1,575	1,274.7
Total	3,437	3,205	3,212	3,195	3,283	3,153	2,755	3,177.3
% of Legal Draw	94.8%	88.4%	88.6%	88.2%	90.6%	87.0%	76.0%	87.7%

Source: Pico Water District

(1) Well No. 2 was retired in 2015

In compliance with the Governor’s Executive Order B-29-15 for mandatory water restrictions, dated April 1, 2015, District users have successfully reduced water consumption to 82.5% of the District’s APA. This reduction was accomplished by expanding water recycling efforts by connecting five large water irrigation users (see table below) to the nearby CBMWD.

The following table displays the Number of Users by Category and reflects stability with only an increase of 52 users over the past five years. The table further reflects a high proportion of residential users.

NUMBER OF USERS BY CATEGORY					
For Fiscal Year Ending (FYE) December 31	2011	2012	2013	2014	2015
Residential	4757	4758	4770	4773	4778
Commercial	567	568	589	614	603
Industrial	3	3	4	4	4
Total	5327	5329	5363	5391	5385

Source: Financing Application

The table below displays current System Usage and Gross Revenues at the time of application. Residential users represent 68% of Annual Usage and 71% of the % of Total Revenues, consistent with the data presented in the above table.

SYSTEM USAGE AND GROSS REVENUES				
	Annual Usage	% of Usage	Annual Gross Revenues	% of Total Revenues
Residential	552,986	68%	\$1,516,258	71%
Commercial	237,676	32%	\$632,288	29%
Industrial	24	<1%	\$683	<1%
	790,686	1	\$2,149,230	100%

Source: Financing Application

The Board reviews rates on an annual basis and has adopted rate increases for the last five years with additional rate increases becoming effective 12/14/2017 and 12/13/2018. Effective December 14, 2014 a 5% rate increase for usage plus the introduction of a \$6.50 monthly flat charge. This flat fee is charged regardless of service type. These rate increases were carefully planned to begin the process of raising revenue to fund needed repairs and to construct capital improvements under the MP. The following table

displays the Historical Rate Increases adopted over the past six years, and reflects the Board's ability to increase rates to meet its operational and capital improvement needs.

HISTORICAL AND PROJECTED RATE INCREASES		
Date Adopted	Date Effective	Percent Increase
February 7, 2010	4/1/2010	5.5%
February 16, 2011	4/1/2011	5.0%
February 16, 2011	1/1/2012	5.0%
November 12, 2014	12/14/2014	5% Plus \$6.50 Mo
November 12, 2014	12/14/2015	5% Plus \$6.50 Mo
November 12, 2014	12/15/2016	5% Plus \$6.50 Mo
November 12, 2014	12/14/2017	5% Plus \$6.50 Mo
November 12, 2014	12/13/2018	5% Plus \$6.50 Mo

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 fiscal year (FY) 2011. The table also reflects each year's charge as a percent of the County's Median Household Income (MHI) for residential units as of fiscal year 2014. The table demonstrates the percentages paid by ratepayers are all well below the 2.0% of the MHI affordability threshold established by the California Department of Public Health.

HISTORICAL AND CURRENT AVERAGE MONTHLY USER CHARGE PER RESIDENTIAL UNIT					
For Fiscal Year Ending (FYE) June 30,	2011	2012	2013	2014	2015
Residential	\$59.13	\$62.08	\$63.95	\$65.22	\$66.79
% change		4.99%	3.01%	1.99%	2.41%
% to MHI (2014 at \$61,489)	1.15%	1.21%	1.25%	1.27%	1.30%

Source: Financing Application

The following table displays the Projected Average Monthly User Charge per Residential Unit in FYs 2016 through 2019. The table reflects a nominal increase planned in each year. The increases are supported by a Rate Analysis dated August 4, 2014 (Rate Analysis), submitted by the District. The Rate Analysis pre-dates the landmark San Juan Capistrano ruling, and although the Rate Analysis reflects that the District has a tiered rate structure, staff's review finds that the difference in each tier is minimal. Assumptions used to set rates includes a modest inflationary increase of 2% annually for consumers and commercial accounts, and an estimated 8% annual increase in energy cost associated with the cost of water delivery.

PROJECTED AVERAGE MONTHLY USER CHARGE PER RESIDENTIAL UNIT				
For Fiscal Year Ending (FYE) June 30,	2016	2017	2018	2019
Residential	\$68.84	\$70.75	\$72.35	\$74.18
% change	3.1%	2.77%	2.26%	2.53%

Source: Financing Application

The following table compares the District's Current Average Monthly System User Charge to Nearby Systems as of January 1, 2016. The table indicates the District's rate is lower than the average of Nearby

Systems. The highest rate is charged by the City Pico Rivera, the water system that serves the balance of the District's home city.

CURRENT AVERAGE MONTHLY SYSTEM USER CHARGE COMPARED TO NEARBY SYSTEMS			
System Name	Location	Distance in Miles	Average Monthly Residential Rate ⁽¹⁾
The City of Downey	Downey	13.0	\$59.98
The City of Paramount	Paramount	27.3	\$64.71
Pico Water District			\$76.48
The City of Lakewood	Lakewood	33.7	\$85.00
City of Pico Rivera	Pico Rivera	0.0	\$103.70
Average Rate			\$97.47

(1) as of January 1, 2016
Source: Financing Application

The following table displays the Top 10 System Users, each User's Percent of System Use and Percent of System Revenue, and reflects that the highest System User uses 5.1% of total water distributed by the System. The table further shows that the District is in compliance with IBank's underwriting requirements that revenues derived from the top ten ratepayers does not exceed 50% of total system revenue and that no single ratepayer is generating greater than 15% of annual system revenues.

TOP 10 SYSTEM USERS				
	User	% System Use	% System Revenues	Customer Class (Residential/ Commercial/ Industrial/Other)
1	Manning Beef	5.1%	3.3%	Commercial
2	El Rancho HS	4.6%	3.1%	Commercial
3	Rio Vista Elementary School	3.8%	2.1%	Commercial
4	Meller Elementary School	3.2%	2.5%	Commercial
5	Carron Drive Apartments	3.2%	4.0%	Commercial
6	Pico Rivera Gardens	2.2%	2.0%	Commercial
8	Colonial Gardens Nursing Home	2.0%	1.4%	Commercial
7	City of Pico Rivera	1.9%	1.4%	Commercial
9	Fast 5 Xpress Carwash	1.9%	1.2%	Commercial
10	Pico Park	1.6%	1.1%	Commercial
	Total	29.5%	22.1%	

Source: Financing Application Addendum

CREDIT ANALYSIS

Source of Financing and Security

The District proposes pledging the Net Revenues of its Fund as security and the source of repayment for the proposed Financing.

Source of Revenue to Repay Proposed ISRF Financing:	Water Enterprise Fund
Outstanding Obligations:	IBank ISRF 16-112
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:	December 31
Audit Fiscal Years Reviewed:	2011-2015
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:	2016-2017

Comparative Statement of Net Position

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

PICO WATER DISTRICT WATER ENTERPRISE FUND STATEMENT OF NET POSITION											
For Fiscal Year Ending (FYE) December 31		2011		2012		2013		2014		2015	
Source:		CAFR	%	CAFR	%	CAFR	%	CAFR	%	CAFR	%
ASSETS AND DEFERRED OUTFLOW OF RESOURCES											
Current Assets											
Cash and Investments		\$3,755,559	31.5%	\$4,135,920	33.9%	\$3,943,305	31.3%	\$3,490,954	27.0%	\$3,514,589	28.7%
Receivables											
Accounts Receivable, Billed Net		278,206	2.3%	266,340	2.2%	270,377	2.1%	259,982	2.0%	253,928	1.9%
Unbilled		172,924	1.4%	161,817	1.3%	182,897	1.5%	198,827	1.5%	202,312	1.5%
Accrued Interest Receivables		2,784	0.0%	2,552	0.0%	2,194	0.0%	1,985	0.0%	2,732	0.0%
Other Receivables		4,924	0.0%	25,352	0.2%	61,575	0.5%	26,071	0.2%	47,568	0.4%
Inventory of Material Supplies		83,046	0.7%	87,383	0.7%	194,153	1.5%	216,562	1.7%	172,009	1.3%
Prepaid Expenses		64,957	0.5%	64,988	0.5%	49,125	0.4%	47,678	0.4%	80,940	0.6%
Total Current Assets		4,362,400	38.5%	4,744,352	38.9%	4,703,626	37.4%	4,242,059	32.8%	4,274,078	32.5%
Noncurrent Assets											
Capital Assets Not Being Depreciated											
Land		21,578	0.2%	21,578	0.2%	21,578	0.2%	21,578	0.2%	0	0.0%
Water Rights		216,000	1.8%	216,000	1.8%	216,000	1.7%	216,000	1.7%	0	0.0%
Construction Progress		287,496	2.4%	255,834	2.1%	294,640	2.3%	692,042	5.4%	0	0.0%
Capital Assets Being Depreciated											
Investments		0	0.0%	0	0.0%	0	0.0%	0	0.0%	495,370	3.8%
Wells and Reservoirs		2,660,382	22.3%	2,660,382	21.8%	2,777,028	22.1%	2,877,645	22.3%	0	0.0%
Pumps and Tanks		539,297	4.5%	547,182	4.6%	658,155	5.2%	713,315	5.5%	0	0.0%
Water Treatment and Equipment		47,661	0.4%	41,738	0.3%	45,698	0.4%	47,678	0.4%	0	0.0%
Transmission and Distribution		9,512,069	79.7%	9,873,309	80.9%	10,513,567	83.5%	11,182,717	86.5%	0	0.0%
General Plant		1,639,531	13.7%	1,693,395	13.9%	1,739,265	13.8%	1,800,987	13.9%	0	0.0%
Rental House		35,888	0.3%	35,888	0.3%	35,888	0.3%	35,888	0.3%	0	0.0%
Less Accumulated Depreciation		(7,383,730)	-61.8%	(7,890,420)	-64.7%	(8,414,192)	-66.8%	(8,900,711)	-68.8%	0	0.0%
Total Other Non Current Assets		7,576,172	63.5%	7,454,886	61.1%	7,887,627	62.8%	8,687,139	67.2%	8,275,776	62.9%
Total Assets		11,938,572	100.0%	12,199,238	100.0%	12,591,253	100.0%	12,929,198	100.0%	13,045,224	99.1%
DEFERRED OUTFLOWS OF RESOURCES											
Deferred Amount Pension Obligation		0	0.0%	0	0.0%	0	0.0%	0	0.0%	113,252	0.9%
Total Deferred Outflow of Resources		0	0.0%	0	0.0%	0	0.0%	0	0.0%	113,252	0.9%
Total Assets and Total Deferred Outflow of Resources		11,938,572	100.0%	12,199,238	100.0%	12,591,253	100.0%	12,929,198	100.0%	13,158,476	100.0%
Current Liabilities											
Accounts Payable		252,689	2.1%	244,636	2.0%	282,203	2.2%	373,965	2.9%	343,973	2.6%
Retention Payable		23,018	0.2%	5,841	0.0%	5,841	0.0%	30,701	0.2%	0	0.0%
Accrued Expenses		34,129	0.3%	14,375	0.1%	18,579	0.1%	20,742	0.2%	28,009	0.2%
Compensated Absences Payable		7,158	0.1%	10,024	0.1%	12,868	0.1%	8,777	0.1%	17,096	0.1%
Refundable Deposits		325,898	2.7%	336,456	2.8%	349,691	2.8%	395,004	3.1%	432,412	3.3%
Total Current Liabilities		642,892	5.4%	611,332	5.0%	669,182	5.3%	829,189	6.4%	821,490	6.2%
Long Term Liabilities											
Compensated Absences Payable		89,656	0.8%	92,762	0.8%	98,262	0.8%	102,283	0.8%	103,524	0.8%
Net Pension Liability		0	0.0%	0	0.0%	0	0.0%	0	0.0%	64,847	0.5%
OPEB Liability		443,089	3.7%	613,759	5.0%	612,463	4.9%	634,580	4.9%	619,129	4.7%
Total Long Term Liabilities		532,745	4.5%	706,521	5.8%	710,725	5.6%	736,863	5.7%	787,500	6.0%
Total Liabilities		1,175,637	9.8%	1,317,853	10.8%	1,379,907	11.0%	1,566,052	12.1%	1,608,990	12.2%
Deferred Inflows of Resources											
Deferred Amount Pension Obligation		0	0.0%	0	0.0%	0	0.0%	0	0.0%	264,169	2.0%
Total Deferred Inflows		0	0.0%	0	0.0%	0	0.0%	0	0.0%	264,169	2.0%
Total Liabilities and Total Deferred Inflows		1,175,637	9.8%	1,317,853	10.8%	1,379,907	11.0%	1,566,052	12.1%	1,873,159	14.2%
Net Position											
Net Investments in Capital Assets		7,576,172	63.5%	7,454,886	61.1%	7,887,627	62.8%	8,687,139	67.2%	8,275,776	62.9%
Unrestricted or Unassigned		3,186,763	26.7%	3,426,499	28.1%	3,323,719	26.4%	2,676,007	20.7%	3,009,541	22.9%
Total Fund Balances		10,762,935	90.2%	10,881,385	89.2%	11,211,346	89.0%	11,363,146	87.9%	11,285,317	85.8%
Total Liabilities and Fund Balance		11,938,572	100.0%	12,199,238	100.0%	12,591,253	100.0%	12,929,198	100.0%	13,158,476	100.0%

Review of the Comparative Statement of Net Position for the last five years found the District's overall financial position grew from \$11,938,572 in Fiscal Year (FY) 2011 to \$13,158,476 in FY 2015, a total of 10.22%.

Total Current Assets decreased 2% from \$4,362,400 in FY 2011 to \$4,274,078 in FY 2015. Cash and Investments decreased at the end of the five year period by 6.4% to \$3,514,589 (with fluctuations within these five years). The decline in Total Current Assets and Cash and Investments is due to the District's investments in capital assets.

Within Receivables, over the five years reviewed, the change in Inventory of Material Supplies is most notable reflecting an increase of 107% from \$83,046 to \$172,009. A similar trend is found in Construction Progress that mirrors the above mentioned growth given the increase of 141% from \$287,496 in FY 2011 to \$692,042 in FY 2014. This is a result of the ongoing capital improvement projects. The District began these projects in 2013 through self-funding. In the FY 2015 CAFR, Total Other Non Current Assets (depreciated and undepreciated) are not broken down into further detail. Total Other Non Current Assets grew 9.2% from \$7,576,172 to \$8,275,776 over the five year period reviewed. The increase is centered in Pumps and Tanks, Transmission and Distribution, and General Plant. The growth is the result of the installation of backup generators on four pumps in the last few years and reflects the District's focus on rehabilitation and capital improvements.

Total Current Liabilities grew from \$642,892 to \$821,490, or 27.8% in the five years reviewed, primarily due to the increase in Accounts Payable. Accounts Payable increased by \$91,284 due to the capital improvements in progress. Refundable Deposits increased by \$106,514 primarily due to an increase in customer deposits related to a larger 17 unit townhome construction deposit of \$80,198. The District has no historical debt to report under Long Term Liabilities and reflects liabilities for only Compensated Absences Payable, OPEB obligations and Net Pension Liability. The OPEB Liability increased since first reported, and it has remained fairly consistent for the last three years with a balance of \$619,129 in FY 2015. Total Liabilities have grown from \$1,175,637 in FY 2011 to \$1,608,990 by FY 2015; but in terms of a percentage of Total Assets, remains less than 13% in all years reviewed.

As of December 31, 2015, the District implemented GASB Statements No. 68 and 71, and reported its proportionate share of the net pension liability of \$64,847, pension expense and deferred inflow of resources of \$264,169, and deferred outflow of resources of \$113,252 for the pension plan. (More detail on Pension can be found in the Pension Obligation section of this staff report).

In summary, the Total Fund Balance shows slight to moderate growth over the period reviewed. The District maintained a large Unrestricted or Unassigned Fund Balance, between 23% and 27% of Total Fund Balances, during the period reviewed with a balance in the amount of \$3,009,541 in FY 2015. The District retained a similar Cash and Investment position in the years reviewed, with \$3,514,589 reported in FY 2015, providing flexibility in handling unexpected expenses.

The following table displays accounts receivable aging as of September 7, 2016, reflecting the District collects over 99% of receivables within 30 days of billing, suggesting a strong collection process.

ACCOUNTS RECEIVABLE AGING AS OF September 7, 2016							
	Current	Over 30	Over 40	Over 60	Over 90	Over 120	Total
	\$265,194	\$7,300	(\$342)	(\$512)	(\$4,433)	\$0	\$267,207.00
Percent	99.2%	2.7%	-0.1%	-0.2%	-1.7%	0.0%	100.0%

Source: Financing Application Addendum

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

Summary of the Fund's Comparative Statement of Revenues, Expenses and Changes in Net Position for the last five years is as follows: The % change is based on the Sale of Water.

PICO WATER DISTRICT WATER ENTERPRISE FUND STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION										
For Fiscal Year Ending (FYE) December 31	2011		2012		2013		2014		2015	
Source:	CAFR	%	CAFR	%	CAFR	%	CAFR	%	CAFR	%
% Change		N/A		6%		3%		0%		-13%
Operating Revenues										
Sale of Water	\$3,016,676	95.6%	\$3,188,892	96.0%	\$3,298,470	94.9%	\$3,288,618	94.0%	\$2,869,257	81.5%
Water Services	\$114,686	3.6%	\$118,159	3.6%	\$167,275	4.8%	\$192,239	5.5%	\$618,749	17.6%
Other Income	\$24,806	0.8%	\$14,283	0.4%	\$11,707	0.3%	\$19,309	0.6%	\$33,043	0.9%
Total Operating Revenues	\$3,156,168	100.0%	\$3,321,334	100.0%	\$3,477,452	100.0%	\$3,500,166	100.0%	\$3,521,049	100.0%
Operating Expenses										
Source of Supply	\$784,007	24.8%	\$841,115	25.3%	\$907,726	26.1%	\$935,471	26.7%	\$851,045	24.2%
Pumping	\$329,532	10.4%	\$375,843	11.3%	\$398,841	11.5%	\$467,353	13.4%	\$432,687	12.3%
Water Treatment	\$56,603	1.8%	\$56,701	1.7%	\$50,698	1.5%	\$67,878	1.9%	\$64,687	1.8%
Transmission and Distribution	\$164,542	5.2%	\$215,118	6.5%	\$185,615	5.3%	\$198,842	5.7%	\$206,982	5.9%
Customer Accounts	\$221,244	7.0%	\$160,986	4.8%	\$156,077	4.5%	\$197,894	5.7%	\$224,178	6.4%
<i>Depreciation and Amortization</i>	\$504,968	16.0%	\$524,633	15.8%	\$524,752	15.1%	\$486,519	13.9%	\$521,571	14.8%
General and Administrative	\$1,164,856	36.9%	\$1,136,435	34.2%	\$1,137,645	32.7%	\$1,154,158	33.0%	\$1,152,930	32.7%
Total Operating Expenses	\$3,225,752	102.2%	\$3,310,831	99.7%	\$3,361,354	96.7%	\$3,508,115	100.2%	\$3,454,080	98.1%
Operating Income (Loss)	(\$69,584)	-2.2%	\$10,503	0.3%	\$116,098	3.3%	(\$7,949)	-0.2%	\$66,969	1.9%
Nonoperating Revenues (Expenses)										
Interest and Investment Revenue	\$14,528		\$13,561		\$10,999		\$9,861		\$9,785	
Rental Income	\$18,150		\$18,075		\$18,225		\$18,525		\$18,600	
Rental House Repairs and Maintenance	(\$12,071)		(\$1,647)		(\$5,299)		(\$1,976)		(\$75)	
Other Non-operating Revenue	\$1,100		\$2,161		\$0		\$0		\$0	
Net Non-operating Revenues (Expenses)	\$21,707		\$32,150		\$23,925		\$26,410		\$28,310	
Income (Loss Before Operating Transfers)	(\$47,877)		\$42,653		\$140,023		\$18,461		\$95,279	
Capital Contributions and Transfers										
Capital Contributions	\$10,631		\$74,797		\$189,938		\$133,339		\$123,882	
Change in Net Assets	(\$37,246)		\$117,450		\$329,961		\$151,800		\$219,161	
Beginning Net Assets	11,088,707		10,762,938		10,881,385		11,211,346		11,363,146	
Prior Period Adjustment (=/-)	(288,508)		0		0		0		(296,990)	
Ending Net Assets	\$10,762,953		\$10,880,388		\$11,211,346		\$11,363,146		\$11,285,317	

Analysis of the Comparative Statement of Revenues, Expenses, and Changes in Net Position show Total Operating Revenues increased 11.6% in the five year period reviewed. Total Operating Expense increased by 15.8%. The increase in expenses is tied to the cost of obtaining and pumping water.

The District shifted some revenue from the traditional Sale of Water (water pumped directly from the aquifer) to Water Services, the District's water recycling service as more water users with significant landscaping areas began using this service. Water usage between FYs 2011 and 2015 averaged 86.8% of the District's legal draw (high of 90.6% and a low of 76.6%), while water revenues (Sale of Water) increased between FYs 2011-2013 and declined a slight 0.3% in FY 2014 with a decrease of 12.7% in 2015 due to voluntary conservation. While revenue of Sale of Water generally increased as a result of the District raising rates (noted in the Historical Rate Increases table earlier in this report), in FY 2015 water revenues decreased significantly, despite the rate increase, influenced by a State mandated water conservation.

While comparing the recent Staff Report submitted to the Board; the District's total revenues were projected to be \$3,756,150 in FY 2015, however due to the State imposed conservation mandate to reduce water consumption by 8% the District's total operating revenues came in lower at \$3,521,049 missing the projected revenue by \$235,101. However, the District still shows an increase of \$20,882 over 2014's Total Operating Revenues. The rate increase, effective for the first billing after December 14, 2014, assisted in offsetting the loss of revenue due to the reduction of water consumption. Operating Expenses (exclusive of depreciation) decreased by \$89,087 primarily due to the decrease of Source of Supply, yielding an increase in Operating Income of \$67,361 in 2015.

The District's primary expense for Source of Supply is the cost incurred from the Water Replenishment District (WRD). The WRD manages groundwater for nearly four million residents in 43 cities of southern Los Angeles County. The 420 square mile service area uses about 250,000 acre-feet of groundwater per year, which equates to nearly 40% of the total demand for water. The WRD ensures that a reliable supply of high quality groundwater is available through its clean water projects, water supply programs, and effective management principles. WRD charges the District \$283 for every acre foot of groundwater pumped. The District reports this cost had historically increased gradually; however, in the most recent years the increase has been in double digits.

This District's Net Non-Operating Revenues (Expenses) contributed to the District's cash flow and ranged between \$21,707 in FY 2011 to \$32,150 in FY 2012; FY 2015 is at \$28,310. The District owns a rental property located on the site of one of the District's water wells. This rental property produces a consistent source of income annually, \$14,000 as an average net revenue. The second reason was the earnings of Interest and Investment Revenues; this line item has decreased nearly \$5,000 over the last five years as the District used its savings to support the capital improvements.

Per the District Capital Contributions were derived from a combination of accumulated water revenue and unrestricted funds. The District states these funds were used for work identified in the Master Plan and began in FY 2012. These funds were used for a variety of upgrades to the water treatment plant, pumps, tanks, wells, reservoirs, and the water transmission and distribution systems.

The Prior Period Adjustment of (\$296,990) and inclusion of Deferred Outflows of Resources of \$124,543 in 2015 were due to the inclusion of Net Pension Liability of (\$421,533) resulting from the adoption of Governmental Accounting Standards Board (GASB) Statement No. 68. The cumulative effect of both effected a change of (\$296,990).

The District's Ending Net Assets decreased by \$77,829 in 2015 as compared to 2014 due to two significant issues that impacted the District for the first time. The first was a State imposed conservation mandate that required the District to cut back its water sales by 8% or risk being fined \$10,000 per day by the State Water Resources Control Board. This conservation mandate caused

the District to lose a projected \$235,101 in water sales. The second significant issue that impacted the District's 2015 audit is the recognition of GASB Statement No. 68 (Accounting and Financial Reporting for Pensions) and Statement No. 71 (Pension Transition for Contributions Made Subsequent to the Measurement Date). The combined effect that these two significant issues had on the District's net position for 2015 was to lower its net position by \$77,829.

Pension Plan

The District participates in CalPERS; currently the full portion of employees' obligation, 7%, is paid by the District with no employee contributions. In addition to pension, the District provides health benefits to qualified retired employees. Currently, the District has eight individuals receiving benefits. The District has allocated \$70,000 annually to reduce the outstanding pension shortfall; based on this payment schedule the District will be brought current in less than 30 years.

As of December 31, 2015, the District implemented GASB Statements No. 68 and 71, and as a result, reported its proportionate share of the net pension liability of \$64,847 in FY 2015, pension expense and deferred inflow of resources \$264,169 for the pension plan and deferred outflow of resources of \$113,252 for the pension plan.

Existing Obligations Payable from the Fund

IBank Installment Sale Agreement. No. ISRF 16-112 is the District's only outstanding debt. The first payment is scheduled to be made on February 1, 2017.

The lien will not encumber any revenues derived from the sale of recycled water that District had originally purchased from Central Basin Municipal Water District (CBMWD). There are no other existing liens on the Fund and net system revenues and the liens of both of IBank's Installment Sales Agreements will be senior to or on parity with any future liens on the Fund and Net Revenues.

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) December 31	2011	2012	2013	2014	2015
Operating Income (Loss)	(\$69,584)	\$10,503	\$116,098	(\$7,949)	\$66,969
+ Depreciation and Amortization	504,968	524,633	524,752	486,519	521,571
+ Interest Earnings	14,528	13,561	10,999	9,861	9,785
+ Rental Income	18,150	18,075	18,225	18,525	18,600
+ Rental House Repairs and Maintenance	(12,071)	(1,647)	(5,299)	(1,976)	(75)
Cash Available for Debt Service	455,991	565,125	664,775	504,980	616,850
Debt Service Calculation					
Total Existing Debt Service MADS	311,282	311,282	311,282	311,282	311,282
Proposed ISRF \$2,020,200 @3.25%, 30 yr.	111,826	111,826	111,826	111,826	111,826
Total Obligations MADS	423,108	423,108	423,108	423,108	423,108
Debt Service Coverage Ratio	1.08	1.34	1.57	1.19	1.46

The above table demonstrates the Fund's historical ability to service the proposed ISRF Program financing from cash flow at a minimum 1.20 debt service coverage ratio (DSCR) in the last three of the five years reviewed. Cash Available for Debt Service includes a residential rental property the District owns that has recorded positive net revenue for the last five years. The District treats rental income as part of its operating revenue.

IBank conducted a stress test by reviewing the year-to-date usage and income of the District as of August 31, 2015. Commercial users were found to be charged less than the average residential

users for the same amount of water consumed. If the District were required to conform its water rates to the San Juan Capistrano ruling, commercial rates would be increased while residential rates decreased with no adverse effect to total revenues received to the District.

RISK FACTORS

1. The State Water Resources Control Board (SWRCB) mandated a 25% conservation reduction in response to Governor Brown’s April 1, 2015, Executive Order B-29-15. The mandate, still in effect, began June 1, 2015, was effective February 2016 and negatively impacted the District’s water revenue.
2. 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.
3. The District obtains 100% of its water through an adjudicated water basin with an annual limit on the amount of water the District can pump.

MITIGATING FACTORS

1. The District has been voluntarily meeting the mandated 8% water reduction and had been using less than 100% of its APA prior to the directive. Conservation methods have proven to be effective to reduce water consumption.
2. The District has implemented rate increases to maintain revenues at needed levels for the District to maintain its ability to meet its expenses and service debt, and to mitigate the decrease in water demand experienced over the last two years due to conservation efforts.
3. In implementing rates and charges, District has covenanted that its rate structure conformed to the requirements of Prop 218 and statutes implementing it or case law interpreting it. Further, in its loan agreement the District will covenant to notify IBank immediately upon the filing of any legal challenge to its rates or charges.
4. Although the District has not used 100% of its annual allotment for the past four years, the District has the ability to purchase additional water from other water systems with water rights to the CB.
5. Being a member of an adjudicated water basin, in cases of overdraft, courts have historically ruled all users of the basin to share equitably in both the water and any necessary reduction.

Compliance with IBank Underwriting Criteria

- 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 60 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 2010-2014 American Community Survey (5-year estimates and the 1 year estimate) or the ISRF program cost of funds.

Unemployment Rate	The City of Pico Riviera’s unemployment rate was 4.7%, which is 85.4% of the State’s rate of 5.5%.
Median Household Income	The City of Pico Riviera’s median household income was \$56,576, which is 87.7% of the State’s median household income of \$64,500.

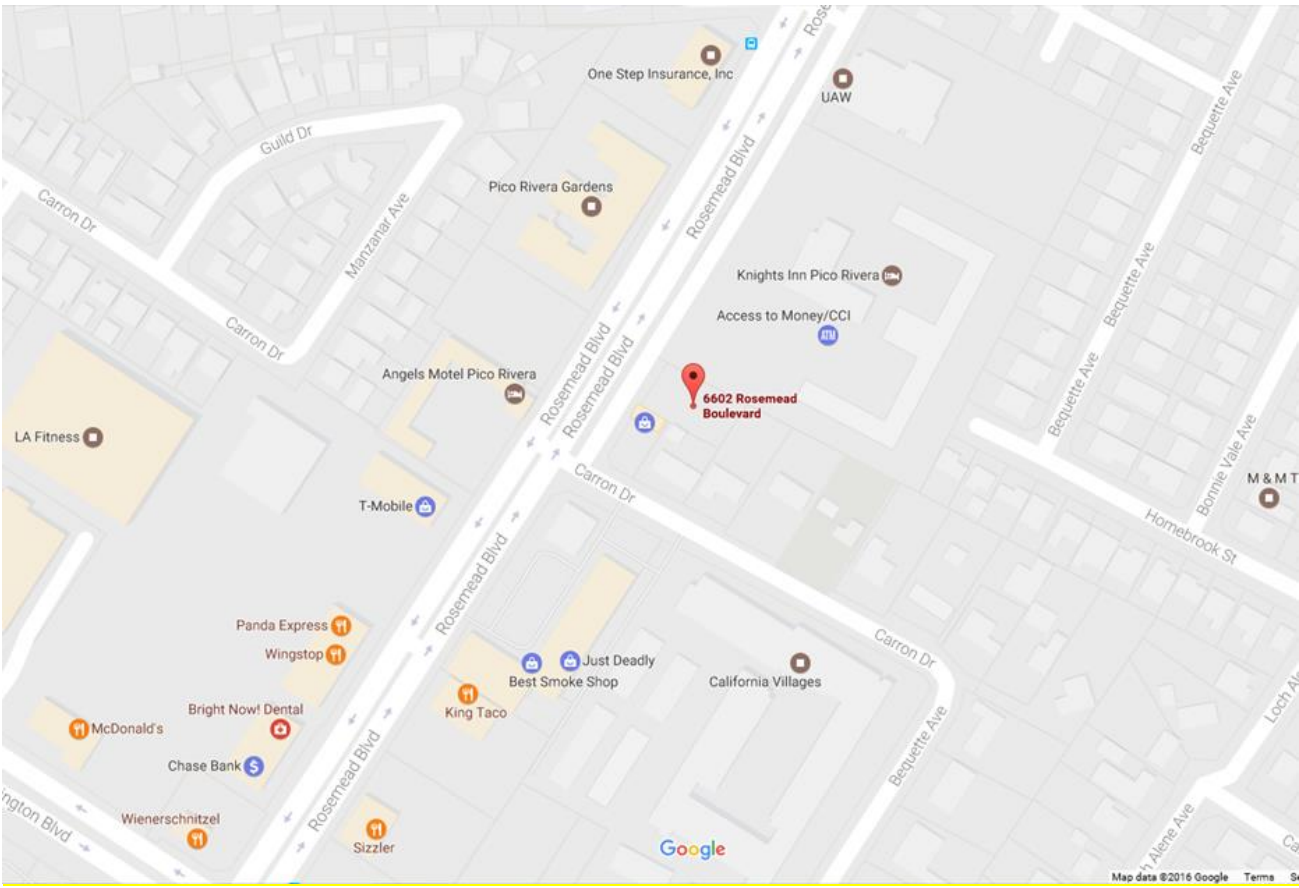
STAFF RECOMMENDATION

Staff recommends approval of Resolution No. 17-02 authorizing ISRF Program financing to the Pico Water District for the Pico Water District Well Replacement Project as follows:

1. **Applicant/Borrower:** Pico Water District
2. **Project:** Pico Water District Well Replacement Project
3. **Amount of ISRF Program Financing:** \$2,020,200
4. **Maturity:** Thirty (30) years
5. **Repayment/Security:** ISRF Program financing (Financing) would be secured by a senior lien on the District's net system revenues (Net Revenues) and all legally available amounts in the District's Water Enterprise Fund (Fund) on parity with the IBank's lien for Installment Sale Agreement No. ISRF 16-112. The lien will not encumber any revenues derived from the sale of recycled water that District had originally purchased from Central Basin Municipal Water District (CBMWD). There are no other existing liens on the Fund and Net Revenues and the liens of both of IBank's Installment Sale Agreements will be senior to or on parity with any future liens on the Fund and Net Revenues.
6. **Interest Rate:** 3.25%
7. **Fees:** District to pay an origination fee of 1.00%, \$20,200, 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 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 180 days from the date of its adoption. Thus, the District and IBank must enter into the Financing agreement no later than 180 days from such date. 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. District 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 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 1.20 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. 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. District to comply with the requirements of the Criteria and all applicable laws, regulations, and permitting requirements associated with public works projects.

- h. District to covenant to provide an annual certification to IBank that District payments made to IBank under the Financing Agreement do not include any funds attributable to District revenues derived from the sale of recycled water that District had originally purchased from CBMWD.
- i. District to provide to IBank annually within 240 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.

PROJECT AREA MAP



PROJECT LOCATION



6602 Rosemead Blvd
Pico Rivera, CA 90660