

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)

STAFF REPORT

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

Applicant: Coastside County Water District (District)		ISRF Project Type: Water Treatment and Distribution	
Financing Amount: \$5,628,000	Financing Term: 30 years	Interest Rate⁽¹⁾: 3.44%	
Source of Repayment: Water Enterprise Fund (Fund)		Fund Rating/Date: NA	
Security: The ISRF Program financing will be secured by and payable from net revenues of the District's Water System (Net Revenues), subordinate to the lien on Net Revenues by the California Statewide Communities Development Authority 2006 Water Revenue Bonds, and on parity with the existing 2011 IBank Enterprise Fund Installment Sale Agreement (2011 IBank Financing).			
Project Name: Coastside County Water District System Reliability Improvements Project (Project)		Project Location: Various locations within the District's boundaries	
Project Description/Sources and Uses of Proceeds: The Project includes the installation of new pipelines, replacement of existing pipelines, replacement of existing connections, renovation of a 250,000 gallon storage tank, and construction of a new 1,500 gallon per minute booster pump station.			
Use of Financing Proceeds: The ISRF Program financing will fund the Construction, Renovation, Construction Contingency, Machinery & Equipment, Engineering, Design, Permits, Environmental, Project Administration, Construction Management, Legal and Financial Advisor Fees, and Easements. IBank's origination fee will be paid by the District upon execution of the agreement.			
PROJECT SOURCES and USES COASTSIDE COUNTY WATER DISTRICT SYSTEM RELIABILITY IMPROVEMENTS			
Uses	Sources		
	IBank	District	Total
Construction, Renovation, Construction Contingency, Machinery & Equipment	\$4,616,000		\$4,616,000
Engineering, Design, Permits, Environmental, Project Administration, Construction Management, Legal and Financial Advisor Fees, Easements	\$1,012,000		\$1,012,000
IBank Origination Fee		\$56,280	\$56,280
Total	\$5,628,000	\$56,280	\$5,684,280
Source: Financing Application			

⁽¹⁾ As of September 2, 2015

Credit Considerations:

Cash flow and debt service analysis for the ISRF Program financing is as follows:

CASH FLOW					
For Fiscal Year Ending June 30	2010	2011	2012	2013	2014
Senior Debt Service Coverage Ratio	2.66	3.85	3.24	5.25	5.82
Debt Service Coverage Ratio	1.14	1.65	1.39	2.25	2.50

The historical cash flow over the last five years demonstrates the Water Enterprise Fund (Fund) ability to service existing and proposed debt at greater than 1.20 times Maximum Annual Debt Service (MADS) in the last four of five years.

Staff Analysis for Funding and Extraordinary Covenants:

1. District is compliant with all covenants under its existing financing agreements.
2. Cash flow analysis demonstrates the District's ability to service existing debt and proposed ISRF Program financing.
3. District has successfully increased rates to maintain its debt service ability.

Covenants:

1. Rates and charges shall be maintained sufficient to ensure Net Revenues of at least 1.20 times aggregate annual debt service for all senior and parity obligations.
2. Issuance of future debt senior to the proposed ISRF Program financing will be prohibited.
3. Parity debt will be allowed if Net Revenues are at least 1.20 times maximum annual debt service (MADS), including MADS payable in any fiscal year on the proposed parity debt.
4. Subordinate debt (Subordinate Debt) will be allowed if Net Revenues are at least 1.00 times the sum of MADS on all outstanding debt, including the proposed Subordinate Debt.
5. In implementing rates and charges, District to covenant to ensure that its rate structure conforms to the requirements of Proposition 218 (Prop 218) and those of the statutes implementing it and the cases interpreting it. Further, District to notify IBank immediately upon the filing of any legal challenge to its rates or charges.

IBank Staff:

John Lee

Date of Staff Report:

12/3/2015

Date of IBank Board Meeting:

12/15/2015

Resolution Number:

15-20

Staff Recommendation:

Staff recommends approval of Resolution No.15-20 authorizing ISRF Program financing to the Coastsides County Water District for the Coastsides County Water District System Reliability Improvements Project.

PROJECT DESCRIPTION

Coastside County Water District (District) requests ISRF Program financing in the amount of \$5,628,000 to fund the Coastside County Water District System Reliability Improvements Project (Project). The Project includes the installation of new pipelines, replacement of existing pipelines, replacement of existing connections, renovation of a 250,000 gallon storage tank, and construction of a new 1,500 gallon per minute booster pump station.

The Project has four components described as follows:

1. **El Granada Pipeline - Final Phase**

Replaces the final section of 70-year-old deteriorated steel pipe along Main Street, Purissima Street, Mill Street, and downtown Half Moon Bay. Approximately 420 feet of existing pipe under Pilarcitos Creek will be replaced with high density polyethylene (HDPE) pipe (20-inch diameter and 16-inch inner diameter), installed by horizontal directional drilling. The remaining 700 foot section of existing pipe will be replaced with ductile iron pipe (DIP) installed by the standard method of cut-and-cover. This component will eliminate water service interruptions due to failure of the existing pipes.

2. **Ventura-Washington Pipeline Replacement Project**

Replaces 2,100 feet of 6-inch cast iron main pipe with a new 6-inch DIP along Ventura and Washington Streets in Half Moon Bay. Includes replacement of 30 plastic service connections with copper connections. This component will reduce the risk of water loss and property damage associated with leaks and breaks in the existing cast iron mains and plastic laterals.

3. **El Granada Tank #3 - Rehabilitation and Reconstruction Project**

Rehabilitates a 250,000 gallon storage tank that serves the highest elevation of El Granada. This component is necessary to prevent a premature failure of critical District infrastructure.

4. **Denniston Treated Water Booster Station/Bridgeport Drive Transmission Pipeline**

Constructs a new 1,500 gallon per minute booster pump station and installs 3,300 feet of 12-inch DIP along Bridgeport Drive and Coral Reef Avenue. This component will increase yield from the District's local water sources by increasing transmission capacity between Denniston Water Treatment Plant and the District's distribution system. Increasing yield from local sources will also reduce the amount of water purchased from the San Francisco Public Utilities Commission (SFPUC).

Project Benefits

The District expects the Project to increase water quality and system capacity; to improve reliability of the District's water storage and distribution systems, while reducing the District's reliance on water from the SFPUC; and to significantly reduce water loss from the system.

Public Benefits

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

GENERAL DISTRICT INFORMATION

The District was formed in 1947 under the California County Water District Act of 1913. The office and service area is located in the City of Half Moon Bay (City), a coastal community in the County of San Mateo (County). The District is administered by a General Manager and a Board of Directors comprised of five elected members. The service area encompasses approximately 14 square miles that include the City and several unincorporated communities such as El Granada, Miramar, and Princeton-by-the-Sea, all located within the County (Exhibit 1). The District serves a population of approximately 20,000 people by providing clean, reliable water to residential,

commercial, and floriculture customers. The three largest industries in the District are floriculture, tourism, and commercial fishing; all dependent on a reliable water supply.

SYSTEM DESCRIPTION

System Infrastructure

The District's water system (System) consists of 52 miles of water mains, 100 miles of transmission and distribution pipelines, two water treatment plants, five pump stations, and 11 storage tanks over a network of seven pressure zones.

The District has a rolling ten-year Capital Improvement Plan (CIP) through which it recommends upgrades to all elements of the System. It also has a Financing Plan that is updated each year that is used to project the rate increases and debt issuance needed to finance the CIP projects. This allows the District to implement the required rates and charges to finance any required debt service and to fund system operations. The District estimates it still needs \$34.2 million in System improvements that will take until fiscal year (FY) 2025 to complete.

Water Supply & Reliability

The District receives water from two sources: the SFPUC and local sources. The District has purchased water from SFPUC since 1994, and currently purchases 80% of its water at wholesale under terms of a 2009 Water Supply Agreement (WSA) and Water Supply Contract (WSC). The WSA and WSC both expire in 2034, but an option exists to provide an extension for up to 10 years. The District is currently entitled to purchase a maximum of 800 million gallons per year (MGY), except in drought years when mandatory reductions may be required. Over the past five years, the District has purchased water on an as needed basis that ranged between 603 to 704 MGY. To date, the SFPUC has not exercised any reductions on its wholesale customers. However, beginning June 1, 2015, the State Water Resources Control Board (SWRCB) mandated an 8% reduction in water usage from 2013 levels for the District. The District was already voluntarily exceeding the mandate, and adopted a comprehensive water restriction ordinance on June 15, 2015, that applies to both residential and non-residential users.

SFPUC sources water from Pilarcitos Lake and Upper Crystal Springs Reservoir. Local runoff from the surrounding watershed supplies both of the reservoirs. Upper Crystal Springs Reservoir also imports water from the Hetch Hetchy Reservoir in the Sierra mountains.

Local sources include the Pilarcitos infiltration wells and the Denniston Project near Half Moon Bay Airport. The District owns and operates the Pilarcitos Well Field, located in Pilarcitos Creek Canyon. Operation of this well field is limited to November 1 through March 31 of each year by a State-issued water rights license. The license limits the maximum pumping rate to 673 gallons per minute with an annual production to 117 million gallons. Since the production from the wells is dependent upon infiltration from Pilarcitos Creek, the yield is extremely low during drought years. The District anticipates a normal year's supply from the Pilarcitos Wells of approximately 48 to 50 MGY according to the District's 2010 Urban Water Management Plan (2010 UWMP).

The Denniston Project supplies surface water from Denniston Creek and groundwater from the Denniston wells. The District diverts water from Denniston Creek under a water rights permit issued by the SWRCB. Based on the 2010 UWMP, the District anticipates a normal year's supply from Denniston surface water and groundwater to be 200 MGY and 40 MGY, respectively.

The District's 2010 UWMP shows that the District has a sufficient supply to meet the District's projected water demand through fiscal year 2035. The District is finalizing its 2015 Urban Water Management Plan and anticipates demand will be significantly lower than in the 2010 Plan due to continuing conservation measures and low growth. With decreased demand, the District expects the Project will increase its ability to use local water sources and decrease its reliance on water purchased from the SFPUC. This will provide cost savings to the District and lessen the impact of future SFPUC rate increases.

The following table displays that the Number of Users By Category has grown 2.69% over the five years ending June 30, 2015, with less than one percent variance each year. Furthermore, the table reflects a high proportion of residential users, which is consistent with the residential nature of the District while providing strong diversity in the user base.

NUMBER OF USERS BY CATEGORY					
For Fiscal Year Ending June 30,	2011	2012	2013	2014	2015
Residential	5,752	5,764	5,788	5,803	5,824
Commercial	1,339	1,360	1,382	1,416	1,457
Other	35	35	36	36	37
Total	7,126	7,159	7,206	7,255	7,318
% change		0.5%	0.7%	0.7%	0.9%

Source: Financing Application

The following table displays Current System Usage and Revenue as of June 30, 2015. Residential customers represent 58% of Annual Usage and 59% of the Annual Revenues, consistent with the number of users reflected above.

CURRENT SYSTEM USAGE & REVENUE				
	Annual Usage (CCF)⁽¹⁾	% Annual Usage	Gross Annual Revenue	% Gross Annual Revenue
Residential	354.3	58%	\$4,874,340	59%
Commercial	191.9	31%	\$2,642,061	32%
Other	64.0	10%	\$803,271	10%
Total	610.2	100%	\$8,319,672	100%

Source: Financing Application

⁽¹⁾ Hundred cubic feet

The table below displays the Historical Rate Increases adopted over the past five years, and reflects the District Board's ability to increase rates to meet its operational and capital improvement needs. The District Board sets rates on an annual basis and has adopted rate increases every year since 2001. The most recent increase of 24% was effective July 1, 2015, and was required due to a combination of a 30% increase in SFPUC's wholesale water rates, a decrease in water sales due to customers responding to the drought, an increase in operating expenses due to new drought management expenses, and increased costs of the District's capital improvements.

The most recent rate increase included a realignment of tiers based upon an updated cost of service analysis that identified increased management services required for higher water users that lack conservation measures. The cost of service analysis was performed by HF&H Consultants, LLC, as part of the Water Rate Structure Report. The District believes that its rate and charges, including the increases adopted pursuant to the Water Rate Structure Report, comply with the requirements of Prop 218, including those of statutes implementing it and cases interpreting it.

The District has complied with the Proposition 218 notification requirements and has acknowledged letters of protest received from rate payers regarding the latest adopted rate increase. The District Board approved the latest rate increase by a unanimous vote.

HISTORICAL RATE INCREASES		
Date Adopted	Date Effective	Percent Increase
6/28/2011	7/1/2011	12%
6/12/2012	7/1/2012	12%
6/11/2013	7/1/2013	7%
6/24/2014	7/1/2014	9%
6/30/2015	7/1/2015	24%

Source: Financing Application

The following table displays the Historical and Current Average Monthly User Charge as a Percent of Median Household Income (MHI) for all residential units. The year-over-year percent change since FY 2012 shows rates correspond to historical rate increases adopted over the five year period. The table demonstrates that the percent of MHI is well below the 1.5% affordability threshold established by the California Department of Public Health.

HISTORICAL AND CURRENT AVERAGE MONTHLY USER CHARGE As a PERCENT of MEDIAN HOUSEHOLD INCOME					
For Fiscal Year Ending June 30,	2012	2013	2014	2015	2016
Residential	46.50	52.07	55.69	60.71	77.75
% change		12.0%	7.0%	9.0%	28.1%
% to MHI	0.7%	0.7%	0.7%	0.8%	1.0%

Source: Financing Application & the 2012 & 2013 American Community Survey (1-year estimates)

The following table displays the Projected Average Monthly User Charge per residential unit in FYs 2017 through 2020. The projections are based on the FY 2015 Financing Plan, which assumes the current drought subsidies and water sales return to FY 2013 levels in FY 2018, and 1% growth in water sales thereafter. The District projects increasing rates in each of the fiscal years presented.

PROJECTED AVERAGE MONTHLY USER CHARGE				
For Fiscal Year Ending June 30,	2017	2018	2019	2020
Residential	83.19	86.52	89.98	93.58
% change	7.0%	4.0%	4.0%	4.0%

Source: Financing Application

The following table compares the District's Current Average Monthly System User Charge Compared To Nearby Systems as of January 1, 2014. The table indicates that prior to the recent rate increase, the District rate was 3.6% above the average monthly user charge for all nearby systems listed. In contrast, the highest rates, charged by the City of Burlingame, are 30% higher than the District.

CURRENT AVERAGE MONTHLY SYSTEM USER CHARGE COMPARED TO NEARBY SYSTEMS		
System Name	Location	Average Monthly Residential Rate
City of Burlingame	Burlingame	\$76.82
CCWD	Half Moon Bay	\$59.15
Mid-Peninsula	Belmont	\$57.39
North Coast County Water District	Pacifica	\$34.97

Source: Financing Application

The following table displays the Top 10 System Users and reflects that the District 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				
	User	% System Use	% System Revenues	Customer Class
1	Skylawn Memorial Garden	7.4%	6.5%	Commercial (irrigation)
2	Bay City Flowers	5.6%	5.0%	Agriculture (floriculture)
3	Rocket Farms, Inc.	3.5%	3.2%	Agriculture (floriculture)
4	Marriott (Ritz Carlton)	2.6%	2.5%	Commercial (hotel)
5	Midpen Property Management Corp.	2.5%	2.5%	Commercial (multi-family)
6	Ocean Colony Partners	2.3%	2.1%	Commercial (irrigation)
7	Canada Cove	2.0%	2.1%	Commercial (multi-family)
8	Cabrillo Unified School District	1.8%	1.8%	Schools
9	San Mateo County Harbor District	1.0%	1.7%	Marine
10	Mid-Peninsula Hermanas	0.7%	0.4%	Commercial (hotel)
	Total	29.4%	27.8%	

Source: Financing Application

CREDIT ANALYSIS

Source of Financing and Security

The District proposes pledging the Net Revenues of its Water Enterprise Fund (Fund) as security and for repayment of the proposed ISRF Program financing. Such pledge would be subordinate to an existing lien by the 2006B California Statewide Communities Development Authority (CSCDA) Water Revenue Bonds, and on parity with the existing 2011 IBank Enterprise Fund Installment Sale Agreement (2011 IBank Financing).

Comparative Statement of Net Position Analysis

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

COMPARATIVE STATEMENT OF NET POSITION										
For Fiscal Year Ending June 30,	2010		2011		2012		2013		2014	
Source:	BFS	% ⁽¹⁾	BFS	% ⁽¹⁾	BFS	% ⁽¹⁾	BFS	% ⁽¹⁾	BFS	% ⁽¹⁾
Current Assets										
Cash and Investments	\$3,518,440	8.0%	\$2,384,660	5.4%	\$1,746,694	3.7%	\$2,110,403	4.2%	\$2,100,310	4.2%
Restricted Cash and Investments	878,331	2.0%	703,613	1.6%	565,694	1.2%	606,363	1.2%	609,427	1.2%
Accounts Receivables										
Customer Water	484,225	1.1%	678,381	1.5%	701,026	1.5%	853,716	1.7%	829,902	1.6%
Taxes	20,799	0.0%	15,219	0.0%	17,164	0.0%	13,325	0.0%	14,389	0.0%
Interest	3,669	0.0%	1,789	0.0%	5,172	0.0%	14,636	0.0%	13,063	0.0%
Prepaid Expenses	16,325	0.0%	16,730	0.0%	18,426	0.0%	17,142	0.0%	20,544	0.0%
Materials and supplies inventory	135,754	0.3%	147,140	0.3%	188,550	0.4%	188,000	0.4%	188,000	0.4%
Unamortized bond issuance costs	227,424	0.5%	211,022	0.5%	194,641	0.4%	178,261	0.4%	161,879	0.3%
Total Current Assets	\$5,284,967	11.9%	\$4,158,554	9.4%	3,437,367	7.4%	3,981,846	7.9%	3,937,514	7.7%
Non Current Assets										
Capital Assets:										
Construction in Process	\$4,754,994	10.7%	\$4,537,452	10.3%	\$7,586,019	16.2%	\$4,195,583	8.3%	\$5,339,190	10.5%
Utility Plant	54,444,734	123.0%	57,130,112	129.4%	58,846,603	126.0%	66,696,319	132.4%	67,427,654	132.5%
Less: accumulated depreciation	(20,237,945)	-45.7%	(21,673,132)	-49.1%	(23,152,386)	-49.6%	(24,484,723)	-48.6%	(25,816,975)	-50.7%
Total Noncurrent Assets	38,961,783	88.1%	39,994,432	90.6%	43,280,236	92.6%	46,407,179	92.1%	46,949,869	92.3%
Total Assets	\$44,246,750	100%	\$44,152,986	100%	46,717,603	100%	50,389,025	100%	50,887,383	100%
Current Liabilities										
Accounts Payable and accrued liabilities	\$237,983	0.5%	\$335,516	0.8%	910,405	1.9%	380,560	0.8%	431,685	0.8%
Accrued Payroll	57,221	0.1%	83,409	0.2%	112,240	0.2%	92,202	0.2%	124,412	0.2%
Customer Deposits	43,937	0.1%	73,013	0.2%	59,346	0.1%	48,909	0.1%	42,949	0.1%
Due to Crystal Springs District	87,556	0.2%	87,907	0.2%	87,965	0.2%	87,965	0.2%		0.0%
Interest payable									139,470	0.3%
Due within one year							613,261	1.2%	362,978	0.7%
Total Current Liabilities	\$426,697	1.0%	\$579,845	1.3%	\$1,169,956	2.5%	\$1,222,897	2.4%	\$1,101,494	2.2%
Non Current Liabilities										
Due within one year	\$402,752	0.9%	\$417,752	0.9%	422,248	0.9%		0.0%		0.0%
Due after one year	\$7,305,544	16.5%	\$6,887,792	15.6%	9,186,594	19.7%	12,451,364	24.7%	12,092,882	23.8%
Net OPEB obligation	\$54,261	0.1%	\$104,925	0.2%	157,412	0.3%	295,623	0.6%	456,029	0.9%
Accrued vacation and sick leave	\$72,814	0.2%	\$77,614	0.2%	86,381	0.2%	87,244	0.2%	88,324	0.2%
Total Non Current Liabilities	\$7,835,372	17.7%	\$7,488,083	17.0%	\$9,852,635	21.1%	\$12,834,231	25.5%	\$12,637,235	24.8%
Total Liabilities	\$8,262,069	18.7%	\$8,067,928	18.3%	\$11,022,591	23.6%	\$14,057,128	27.9%	\$13,738,729	27.0%
Net Position										
Invested in Capital Assets, Net of Related Debt	\$31,880,324	72.1%	\$32,207,607	72.9%	\$33,671,394	72.1%	\$32,207,607	63.9%	\$34,494,009	67.8%
Restricted for Crystal Springs Project	251,571	0.6%	373,447	0.8%	373,447	0.8%	373,447	0.7%	373,447	0.7%
Restricted for capital improvements	2,078,928	4.7%	1,135,209	2.6%	1,135,209	2.4%	1,135,209	2.3%		0.0%
Unrestricted	1,773,859	4.0%	2,368,795	5.4%	514,962	1.1%	2,615,634	5.2%	2,281,198	4.5%
Total Net Position	35,984,682	81.3%	36,085,058	81.7%	35,695,012	76.4%	36,331,897	72.1%	37,148,654	73.0%
Total Liabilities and Net Position	\$44,246,751	100%	\$44,152,986	100%	\$46,717,603	100%	\$50,389,025	100%	\$50,887,383	100%
Total Liabilities to Total Assets	19%		18%		24%		28%		27%	
Total Fund Balance/Total Liabilities	436%		447%		324%		258%		270%	

(1) Calculated as a percent of Total Assets.

Review of the Comparative Statement of Net Position for the five years analyzed found growth in the Fund's Total Assets, 15%; Total Liabilities, 66%; and Total Net Position, 3.2%. Accounts Receivable (Customer Water) grew 71.4% over the five years reviewed, but remained less than 2.0% of Total Assets. Growth in Accounts Receivable (Customer Water) at approximately 9-11% of Water Sales is consistent with growth in Water Sales and remains relatively consistent. Total Current Assets declined 25.5% to 7.7% of Total Assets in FY 2014 while Total Noncurrent Assets increased 20.5% to 92.3% of Total Assets in FY 2014 primarily due to the use of Cash and Investments for construction of the Nunes Water Treatment Plant and modifications to the Denniston Creek Water Treatment Plant (DCWTP).

Total Current Liabilities and Total Non Current Liabilities increased 158% and 61%, respectively, over the five years reviewed. The largest increase in Current Liabilities was in Accounts Payable and Accrued Liabilities in FY 2012 resulting from an accrual for the DCWTP Improvements Project. Total Current Liabilities were 2.2% of Total Assets in FY 2014.

Total Non Current Liabilities increased 7.1% to 24.8% in FY 2014 primarily as a result of IBank's 2011 financing for the DCWTP Improvements Project. Net OPEB Obligation increased from 0.6% to 0.9% in FY 2014 as a result of the District amortizing and recording a \$2.6 million liability over 25 years as required under GASB 45. Total Liabilities were 27.0% of Total Assets in FY 2014.

Review of the Fund's Net Position found 67.8% Invested in Capital Assets, Net of Related Debt, consistent with the District's capital improvements; 0.7% is Restricted for Crystal Springs Project, with a remaining balance for the Crystal Springs Assessment District of \$373,447 as reported FY 2014; Restricted for Capital Improvements with no balance was fully used; and a \$2.2 million remaining balance in Unrestricted. Overall, Total Net Position increased 3.2% primarily due to construction of capital assets as discussed above and positive changes in Net Income in the last two fiscal years.

The following table displays Accounts Receivable Aging as of August 25, 2015, reflecting the District collects over 99% of receivables within 30 days of billing, suggesting strong cash control.

ACCOUNTS RECEIVABLE AGING						
	Current	Over 30	Over 60	Over 90	Over 120	Total
	\$461,359	\$479	\$442	\$69	\$3,047	\$465,396
Percent	99.1%	0.1%	0.1%	0.0%	0.7%	100.0%

Source: Financing Application

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 five years is as follows:

COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION										
For Fiscal Year Ending June 30,	2010		2011		2012		2013		2014	
Source:	BFS	%	BFS	%	BFS	%	BFS	%	BFS	%
Operating Revenues										
Water Sales	\$5,459,958	100.0%	\$6,019,304	100.0%	\$6,403,349	100%	\$7,701,459	100%	\$8,375,436	100%
Total Operating Revenues	\$5,459,958	100.0%	\$6,019,304	100.0%	\$6,403,349	100%	\$7,701,459	100%	\$8,375,436	100%
Operating Expenses										
Source of Supply	1,684,907	30.9%	2,038,203	33.9%	2,320,359	36.2%	2,456,095	32%	2,756,043	33%
Pumping	325,118	6.0%	194,991	3.2%	182,808	2.9%	401,894	5%	447,585	5%
Transmission and Distribution	1,211,885	22.2%	1,252,844	20.8%	1,246,726	19.5%	1,231,613	16%	1,227,772	15%
Administrative and General	2,197,505	40.2%	2,202,223	36.6%	2,150,496	33.6%	2,157,074	28%	2,295,750	27%
Depreciation and Amortization	1,438,055	26.3%	1,468,486	24.4%	1,497,883	23.4%	1,366,240	18%	1,350,881	16%
Total Operating Expenses	\$6,857,470	125.6%	\$7,156,747	118.9%	\$7,398,272	115.5%	\$7,612,916	99%	\$8,078,031	96%
Operating Income (Loss)	(\$1,397,512)	-25.6%	(\$1,137,443)	-18.9%	(\$994,923)	-15.5%	\$88,543	1%	\$297,405	4%
Non-operating Revenues (Expenses)										
Property Taxes	967,140		913,518		920,053		988,429		1,043,476	
Investment Earnings	17,269		11,323		6,778		25,610		8,055	
Transmission and Storage Fees	121,453		468,924				38,033		1,158	
Connection Fees	4,988		7,427		12,113		16,089		11,220	
Miscellaneous Income	192,573		184,692		186,180		156,603		263,836	
Collection Fees	(7,531)		(10,805)		(13,447)		(14,099)		(10,343)	
Net OPEB Expense	(54,261)		(50,664)		(52,487)		(138,211)		(160,406)	
Interest Expense	(367,246)		(357,609)		(454,313)		(524,112)		(637,644)	
Net Non-operating Revenues (Expenses)	\$874,385		\$1,166,806		\$604,877		\$548,342		\$519,352	
Income (Loss Before Operating Transfers)	(\$523,127)		\$29,363		(\$390,046)		\$636,885		\$816,757	
Capital Contributions and Transfers										
Capital Contributions	327,283		71,013							
Net Income(Loss)	(\$195,844)		\$100,376		(\$390,046)		\$636,885		\$816,757	
Beginning Net Position	36,180,526		35,984,682		36,085,058		35,695,012		36,331,897	
Prior Period Adjustment (=/-)										
Ending Net Position	\$35,984,682		\$36,085,058		\$35,695,012		\$36,331,897		\$37,148,654	

Review of the Fund's Comparative Statement of Revenues, Expenses, and Changes in Net Position found that Total Operating Revenues grew 56.8% from FY 2010 through FY 2014 due to annual rate increases, while Total Operating Expenses grew by only 17.8% over the same period. Total Operating Expenses grew primarily due to a 38.9% increase in the cost of water. The Total Operating Expenses as a percentage of Total Operating Revenues decreased from 125.6% to 96% over the years reviewed.

The only other notable category changes between fiscal years is in Non-operating Revenues (Expenses) that include: an increase in Transmission Storage Fees in FY 2011 attributable to a one-time lottery where 36 water connections were sold; a 68% increase in Miscellaneous Income in FY 2014 due to a one-time \$88,000 accounting entry that removed a "Reassessment Redemption Fund" that was closed many years earlier; and an increase in Net OPEB Expense in FY 2013 due to adoption of GASB 45, whereby the District began to record the Annual Required Contribution.

The overall growth in Ending Net Position for the five years reviewed reflects the District's ability to effectively implement rate increases to meet demands of its capital improvement program, mitigate the effects of the drought and reduced demand for water, and address increased costs of pumping and wholesale water purchases.

Pension Plan

The District contributes to the California Public Employee's Retirement System (CalPERS); all full-time District employees participate. In FY 2011 the District implemented a Tier II plan that raised the retirement age from 55 to 60, and effective June 14, 2012, increased the share of the pension contribution paid by employees. The District contributed 100% of its annual percentage cost for the last three fiscal years and intends to continue making full contributions going forward. As of June 30, 2013, the funded ratio of the Tier I and Tier II plans was 69.7% and 84.3%, respectively.

Existing Obligations Payable from the Fund

OBLIGATIONS							
Debt Issues	Underlying Rating (at Issuance)	Date Issued	Amount Issued	MADS	Outstanding Balance	Maturity	Lien Position
Series 2006B CSCDA Water Revenue Bonds	NA	2006	\$7,295,000	\$483,918	\$5,830,000	2032	Senior
2011 IBank Financing	NA	2011	6,756,500	336,409	6,303,346	2041	Subordinate
Proposed IBank Financing	NA			318,697	5,628,000	2045	Subordinate
Total:				\$1,139,024	\$17,761,346		

The table above shows the Fund's two outstanding obligations payable from Net Revenues, the outstanding balances of those obligations (as of June 30, 2015), and the proposed ISRF Program financing for the Project. Details of the outstanding obligation covenants are as follows:

1. Series 2006B CSCDA Water Revenue Bonds used to finance and refinance capital improvements.
 - Requires maintenance of at least 1.20 DSCR

- No senior debt allowed
 - Parity debt allowed with certain conditions
 - Reserve fund required for subject debt and parity debt
2. 2011 IBank Financing used to finance DCWTP Improvements Project
- Requires 1.20 DSCR
 - Prohibits future senior debt.
 - Parity debt allowed with certain conditions, including 1.20 MADS, and no event of default

The District is in compliance with IBank's 2011 Installment Sales Agreement covenants.

Fund Cash Flow and Debt Service Analysis

Fund cash flow and debt service analysis for the ISRF Program financing is as follows:

CASH FLOW					
For Fiscal Year Ending June 30	2010	2011	2012	2013	2014
Income (Loss Before Operating Transfers)	(\$523,127)	\$29,363	(\$390,046)	\$636,885	\$816,757
+ Depreciation and Amortization	1,438,055	1,468,486	1,497,883	1,366,240	1,350,881
+ Interest Expense	367,246	357,609	454,313	524,112	637,644
Cash Available for Debt Service	1,282,174	1,855,458	1,562,150	2,527,237	2,805,282
Debt Service Calculation					
Senior Debt Service					
2006B Water Revenue Bonds	481,721	481,721	481,721	481,721	481,721
Total Senior Debt Service	481,721	481,721	481,721	481,721	481,721
Senior Debt Service Coverage Ratio	2.66	3.85	3.24	5.25	5.82
Subordinate Debt Service					
IBank Loan (Existing)	321,523	321,523	321,523	321,523	321,523
IBank Loan (Proposed) ⁽¹⁾	318,697	318,697	318,697	318,697	318,697
Total Debt Service MADS⁽²⁾	\$1,121,941	\$1,121,941	\$1,121,941	\$1,121,941	\$1,121,941
Debt Service Coverage Ratio	1.14	1.65	1.39	2.25	2.50

⁽¹⁾ Estimated as \$5,628,000 at 3.44% for 30 years

⁽²⁾ Maximum Annual Debt Service

Analysis of historical cash flow demonstrates the Fund's ability to service current debt and the proposed ISRF Program financing by greater than 1.20 times MADS in four of the last five years. Although not reflected in the above analysis, the District implemented a 24% water rate increase that was effective July 1, 2015, that will contribute to the District meeting all outstanding obligations.

RISK FACTORS

1. The SWRCB has mandated an 8% conservation reduction in response to Governor Brown's April 1, 2015 Executive Order B-29-15. The reduction implemented June 1, 2015, and goes through February 2016, could negatively impact System revenues.
2. The District is subject to increases in the wholesale water rate charged by SFPUC.

- Certain aspects of the District's rate structure are similar to those successfully challenged in recent California appellate court cases as having violated Prop 218 requirements.

MITIGATING FACTORS

- The District has been voluntarily meeting the mandated 8% water reduction due to its existing conservation efforts.
- The District has implemented rate increases to mitigate decreased demand, to maintain revenues at levels required to cover operating expenses and to meet debt service requirements, and to allow for reserves for capital improvements.
- In implementing rates and charges, District to covenant to ensure that its rate structure conforms to the requirements of Prop 218 and those of the statutes implementing it and the cases interpreting it. Further, District to notify IBank immediately upon the filing of any legal challenge to its rates or charges.

Compliance with IBank Underwriting Criteria

- The financing will be secured by a lien on System Net Revenues, subordinate to the lien of the 2006B CSCDA Water Revenue Bonds, and on parity with the lien of the 2011 IBank Financing.
- 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 District Board has the power to establish and enact rates and charges without the approval of any other governing body.
- The useful life of the Project components exceed the 30 year term financing.

Interest Rate Setting Demographics

The interest rate for the proposed ISRF Program financing was set based upon the following statistics obtained from the 2014 American Community Survey (1-year estimate).

Unemployment Rate	The County of San Mateo's unemployment rate was 4.8%, which is 56.5% of the State's rate of 8.5%.
Median Household Income	The County of San Mateo's median household income was \$101,051, which is 163.2% of the State's median household income of \$61,933.

STAFF RECOMMENDATION

Staff recommends approval of Resolution No.15-20 authorizing ISRF Program financing to Coastside County Water District for the Coastside County Water District System Reliability Improvements Project.

1. **Applicant/Borrower:** Coastside County Water District
2. **Project:** Coastside County Water District System Reliability Improvements
3. **Amount of ISRF Program Financing:** \$5,628,000
4. **Maturity:** Thirty (30) years
5. **Repayment/Security:** Lien on Net Revenues subordinate to the lien of the 2006B CSCDA Water Revenue Bonds, and on parity with the 2011 IBank Financing.
6. **Interest Rate:** 3.44%
7. **Fees:** District to pay an origination fee of 1.00%, \$56,280, upon loan closing, and an annual fee of 0.30% of the outstanding principal balance.
8. **Not an Unconditional Commitment:** The 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 District into a ISRF Program 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 ISRF Program 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:** 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 senior to and on parity with the ISRF Program financing.
 - b. The District will be prohibited from issuing future debt senior to the IBank financing.
 - c. Parity debt will be allowed if Net Revenues amount to at least 1.20 times the MADS taking into consideration the MADS payable in any Fiscal Year on the proposed parity debt.
 - d. Subordinate debt ("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 Net Revenues, including the proposed Subordinate Debt.
 - e. District will covenant against reducing rates below levels used for all debt service payable from Net Revenues, and to take actions to increase rates or fund a rate stabilization fund if the debt service coverage ratios fall below required levels.
 - f. District to comply with the requirements of the Criteria and all applicable laws, regulations, and permitting requirements associated with public works projects.
 - g. District to submit audited financial statements to IBank annually within 240 days of fiscal year end.
 - h. District to submit to IBank annual certifications demonstrating compliance with foregoing covenants and other terms and conditions of the ISRF Program financing agreement with the District's audited financial statements.
 - i. District to submit other information to IBank as may be requested from time to time.
 - j. In 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 notify IBank immediately upon the filing of any legal challenge to its rates or charges.

Exhibit 1

DISTRICT AREA MAP

