

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)  
INFRASTRUCTURE STATE REVOLVING FUND PROGRAM (ISRF)**

**STAFF REPORT**

**EXECUTIVE SUMMARY**

<b>Applicant:</b> City of Porterville	<b>Amount Requested:</b>	\$1,500,000
<b>Name of Project:</b> Rocky Hill Reservoir Project (Project)	<b>Requested Financing Term:</b>	30 years
<b>Project Location:</b> The Project is located north of Putnam Avenue and east of Hillcrest Street in the City of Porterville.	<b>Interest Rate:</b>	3.31%
	<b>Tier:</b>	Tier 1
<b>Project Description:</b> The Project consists of the construction of a 550,000 gallon storage reservoir and pipeline, valves, and related appurtenances, security fencing, an access road, and the installation of an electronic operating system, booster pump, and landscaping.		
<b>Use of Financing Proceeds:</b> Proceeds will be used for construction and contingency, design/engineering, construction management and the I-Bank fee.		
<b>Source of Repayment:</b> Subordinate Lien on Net System Fund Revenues	<b>Form of Financing Agreement:</b> Installment Sale Agreement	
<b>Scoring Criteria:</b>	<b>Applicant Score</b>	
Project Impact	30	
Community Economic Need	41	
Land Use/Environmental Protection/Housing Element	20	
Leverage	3	
Readiness	<u>0</u>	
<b>TOTAL</b>	<b>94</b>	
<b>I-Bank Staff:</b> John Bacigalupi	<b>Date of Staff Report:</b> January 19, 2010	
<b>Date of I-Bank Board Meeting:</b> January 26, 2010	<b>Resolution Number:</b> 10-02	
<b>Staff Recommendation:</b> Staff recommends approval of Resolution No. 10-02 authorizing financing to the City of Porterville for the Rocky Hill Reservoir Project, subject to conditions contained herein.		

## PROJECT DESCRIPTION

The City of Porterville (City) requests ISRF Program financing for the Rocky Hill Reservoir Project (Project). The Project consists of the construction of a 550,000 gallon storage reservoir, pipeline, valves, and related appurtenances, security fencing, an access road, and the installation of an electronic operating system, booster pump, and landscaping. Project construction will begin in July 2010 and is expected to be completed by May 2011.

The Project was originally a component of the Eastside Water Improvement Projects (Eastside Projects) ISRF Program application submitted by the City in 2007, but was removed from the Eastside Projects since the timing of design and construction for the Project was not anticipated to meet applicable ISRF Program timing requirements. ISRF Program financing for the Eastside Projects (without the Project) was approved for ISRF Program financing by the I-Bank Board (Board) on April 1, 2009, in the amount of \$6,757,500 (see Exhibit 1--Staff Report for Approved Eastside Water Improvement Projects ISRF Program Loan (Eastside Projects Staff Report)). See the Eastside Projects Staff Report for Project location identified as Project 2 on the map.

Since Board approval of the Eastside Projects, the City was able to complete Project design and is ready to proceed with construction. The City now plans to bid and construct the Project simultaneously with the Martin Hill Three Million Gallon Reservoir and Pipeline, a component of the Eastside Projects, to save on construction and construction management costs.

As indicated in the Eastside Projects Staff Report, the City completed a Water System Master Plan in 2001 that identified water system supply and distribution deficiencies to meet water supply and distribution requirements through the year 2015 and proposed a variety of capital improvements to cure the deficiencies. The Eastside Projects and the Project were identified as necessary water system improvements in the Water System Master Plan (see the second paragraph in the Project Description section of the Eastside Projects staff report for an explanation of the City's water system needs).

The Project will support existing and new development within the eastern portion of the City. The City's existing water supply is located in its western portion. With development of the City's east side, there will be a need to transport water to this area. The Eastside Projects began to address this need, transporting water from the City's West and Central Water Pressure Zones through a system of pipelines, reservoirs and booster pumps. The Project further addresses this need by increasing storage capabilities. Additionally, by supporting more compact development within the City, the Project will help conserve open space and prime farmland.

As indicated in the Eastside Projects Staff Report, the City adopted its 2030 General Plan in 2008 (General Plan) that includes an Economic Development Element consistent with the City's Economic Development Strategy. The General Plan anticipates the planned infill development of a significant amount of City land for uses that will provide jobs for both existing and future residents in areas designated

"Professional Office" and "Industrial Park". The City reports that the Eastside Projects and the Project are necessary to provide water capacity to support the planned land uses and employment growth as identified in the General Plan.

**PROJECT SOURCES AND USES**

The Project will be financed with ISRF Program funds and City funds as follows:

Project Uses	Project Sources		
	I-Bank	City	Total
Land		\$ 195,000	\$ 195,000
Construction and Contingency	\$ 1,133,934		\$ 1,133,934
Design/Engineering/Construction Management	\$ 353,316		\$ 353,316
I-Bank Fee	\$ 12,750		\$ 12,750
<b>Total</b>	<b>\$ 1,500,000</b>	<b>\$ 195,000</b>	<b>\$ 1,695,000</b>

Source: City

The City purchased the 1.9 acre reservoir site for \$195,000 in 2007 and has provided the grant deed and purchase resolution number 99-2007 to document its equity contribution to the Project.

The City does not expect to request reimbursement from the proposed financing to pay City staff.

**ELIGIBILITY CRITERIA**

The City and the Project meet all of the statutory and supplemental threshold eligibility criteria.

**GENERAL CITY INFORMATION**

Please see the Eastside Projects Staff Report (Exhibit 1) for general City information.

**CREDIT ANALYSIS**

**System Characteristics**

Please see the Eastside Projects Staff Report (Exhibit 1) for a description of the water system (System) characteristics.

**System Capital Plan.** The City submitted its Water System Master Plan dated February 2001 (Master Plan) with the Eastside Projects Financing Application. The Master Plan described all of the improvements planned by the City to ensure adequate water supply for the community through 2015. The Master Plan included \$20,283,000 for water system expansion improvements from 2000 through 2015, including the Project.

Staff also reviewed the Capital Improvement Strategies schedule included as part of the fiscal year 2009-2010 adopted Annual Budget. The Capital Improvement Strategies schedule identifies \$8,664,000 for water system expansion and upgrades to the existing System between 2009 and 2012 to serve the needs of the growing City population. Included within these improvements is the Project, though at the time of adoption no source of funding had been designated for it. However on November 17, 2009, the City Council approved applying for ISRF Program financing for the Project.

Based upon a review of these documents, the timing of System expansions and upgrades to meet increased demand and for replacement of aging System components appears to be orderly. Staff finds the City's System capital planning practices to be reasonable from both scheduling and fiscal perspectives.

**Water Reliability.** In addition to groundwater tapped through a series of City owned and operated wells, the City has advised that it owns water rights to purchase surface water from six local irrigation/water districts and that it has never exercised all of its purchasing capacity.

The City submitted a water study, "Groundwater Conditions Within The City of Porterville Urban Area Boundary" (Water Study) dated October 2009 that indicates groundwater is recharged through several means, including: Tule River flows; channel (slough) losses, deep percolation from irrigation; City recharge of water from the Tule River (which includes purchases surface water); percolation from the City's sewer and other municipal entity effluent ponds; and canal and ditch seepage. The Water Study identified an average annual overdraft within the urban developed area of about 1,200 acre feet per year, and that sustainable groundwater pumpage will be based upon adequate groundwater recharge from surface water. The Water Study advises that about 6,000 to 8,000 acre-feed of surface water should be used or recharged by the City in order to obtain a water balance for full development of lands within the proposed urban development boundary. Given that the City has unexercised rights to purchase surface water, there appears to be sufficient water to meet the City's continuing water needs as its urban areas are developed.

### **Security and Source of Financing Repayment**

The City proposes to pledge a subordinate lien on net water fund (Water Fund) revenues for repayment of the proposed financing, resulting in a lien on the revenues subordinate to the pledge and lien for the outstanding 2002 Water System Refunding Project Certificates of Participation and on parity with the pledge and lien for the outstanding 2009 CIEDB Installment Sale Agreement 08-092. All System revenues are deposited into the Water Fund. The Water Fund is composed of two subfunds, the Water Operating Fund and the Water Replacement Fund. The two subfunds have been established to account for System-related activities and are combined for reporting purposes in the City's audit. The Water Operating Fund was established to account for the activities associated with the City's water pumping and distribution system with water sales as the principal source of revenues. The Water Replacement Fund is used to account for water acreage fees and the use of those resources.

Staff reviewed the City's Comprehensive Annual Financial Reports (CAFR) for the fiscal years ended (FYE) June 30, 2006, 2007 and 2008. The CAFR for FYE June 30, 2009 is not yet available. Staff also reviewed the City's adopted Annual Budgets for the FYEs ending June 30, 2009 and 2010. The CAFRs for all available years present fairly, in all material respects, the financial position of the City, and show that the results of its operations and the cash flows are in conformity with generally accepted accounting principles.

**Comparative Balance Sheet Analysis**

Please see the Eastside Projects Staff Report (Exhibit 1) for the Comparative Balance Sheet Analysis.

**Aging of Accounts Receivable.** The City provided an updated Water Fund accounts receivable aging dated as of December 31, 2009. Staff reviewed the aging and found it reflects approximately \$70,000 in past due accounts, with over 62% of that 30 days past due. The City adequately manages the collection of its Water Fund receivables from ratepayers.

**Comparative Revenues and Expenses Analysis.** Please see the Eastside Projects Staff Report (Exhibit 1) for the Comparative Revenues and Expenses Analysis.

**Budget Analysis.** A review of the adopted Annual Budgets for the FYEs June 30, 2009 and 2010 reflects that the City budgets in a consistent manner for revenues and expenses. The revenues appear in line with historical audited information. Budgeted expenses, if realized, will produce similar results as historical revenues.

**Cash Flow and Debt Service Analysis**

The City's current and proposed outstanding Water Fund obligations are as follows:

OBLIGATIONS						
Original Issue	Dated	Series	Final Maturity	Maximum Annual Debt Service	Outstanding Debt as of 6/31/09	Lien Priority
Installment Sale Agreement	2002	Installment Sale Agreement (2002 ISA)	2018	\$ 690,500	\$5,065,000	Senior
Installment Sale Agreement	2009	Installment Sale Agreement (2009 ISA)	2038	\$415,702	\$6,757,500	Subordinate to 2002 ISA
<b>Proposed I-Bank<sup>[1]</sup></b>	<b>2010</b>	<b>Installment Sale Agreement</b>	<b>2039</b>	<b>\$ 86,278</b>	<b>N/A</b>	<b>Subordinate to 2002 ISA; On parity with 2009 ISA</b>
<b>Total</b>				<b>\$ 1,192,480</b>	<b>\$11,822,500</b>	

<sup>[1]</sup> Proposed loan was amortized @3.50% for 30 years and rounded.

Please see the Eastside Projects Staff Report (Exhibit 1) for a description of the 2002 ISA.

On April 1, 2009, the I-Bank Board approved an ISRF Program loan in the amount of \$6,757,500 pursuant to an Installment Sale Agreement dated July 1, 2009, by and between the I-Bank and the City (2009 ISA). The 2009 ISA is secured by a pledge of and lien on net System revenues subordinate to the 2002 ISA.

The City reports that there have been no events of default on either the 2002 ISA or 2009 ISA and the City is in compliance with all terms of the 2009 ISA. The 2009 ISA allows the City to issue additional parity debt secured by net System revenues subject to the following conditions: (1) that there be no event of default on any existing debt secured by net System revenues and compliance with all other terms of the 2009 ISA and (2) 1.10 times MADS on all parity debt (including the proposed debt) on net System revenues. No future senior debt is allowed. The 2009 ISA contains no limitations at to the issuance of future subordinate debt.

The City proposes, and the I-Bank staff agrees, that the proposed financing should be on parity with the 2009 ISA (more fully discussed below).

Historical Water Fund cash flow and debt service analysis, presented without connection fees, for the proposed financing is as follows:

<b>Cash Flow and Debt Service Coverage</b>			
<b>Cash Flow</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>
Operating Income (Loss)	\$ 807,195	\$ 677,410	\$ 919,041
Less Connection Fees	\$ (36,644)	\$ (11,525)	\$ (38,705)
Add Investment Earnings	\$ 194,834	\$ 344,236	\$ 271,565
Add Depreciation	\$ 777,083	\$ 765,509	\$ 760,811
<b>Cash Available For Debt Service</b>	<b>\$ 1,742,468</b>	<b>\$ 1,775,630</b>	<b>\$ 1,912,712</b>
<b>Debt Service Coverage Calculation</b>			
2002 ISA MADS	\$ 687,398	\$ 687,398	\$ 687,398
<b>Senior Debt Service Coverage Ratio</b>	<b>2.53</b>	<b>2.58</b>	<b>2.78</b>
2009 I-Bank ISA MADS [1]	\$ 415,702	\$ 415,702	\$ 415,702
<i>Proposed I-Bank Loan MADS [2]</i>	<i>\$ 86,278</i>	<i>\$ 86,278</i>	<i>\$ 86,278</i>
<b>Total Payments</b>	<b>\$ 1,189,377</b>	<b>\$ 1,189,377</b>	<b>\$ 1,189,377</b>
<b>Total Debt Service Coverage Ratio</b>	<b>1.47</b>	<b>1.49</b>	<b>1.61</b>

Source: CAFR & I-Bank

[1] MADS means Maximum Annual Debt Service. [2] Assumes a \$1,500,000 loan at 3.50% for 30 years.

Historical net Water Fund cash flow over the last three fiscal years reflects sufficient coverage to service the proposed ISRF Program financing and existing debt, and exceeds the ISRF Program Criteria of 1.10 times MADS on net System revenues for enterprise fund secured debt. Based on historical coverage ratios without connection fee revenue in excess of ISRF Criteria, a discussion of historical coverage ratios with connection fees is not required.

As indicated in the Eastside Projects Staff Report (Exhibit 1), given the historical fiscal strength of the Water Fund and that there is not an otherwise credit need to require a debt service reserve fund for this financing as stipulated in the 2002 ISA parity debt provision, staff is recommending the the proposed ISRF Program financing be subordinate to the 2002 ISA, to not allow any future Water Fund obligations senior to

the ISRF Program loan, and for the proposed financing to be on parity with the 2009 ISA. The 2002 ISA allows for the issuance of subordinate debt when net Revenues are at least 1.00 times MADS. The 2009 ISA allows for the issuance of future parity debt when the net System revenues are at least 1.10 times MADS.

**Compliance with I-Bank Underwriting Criteria**

Analysis finds that the proposed financing complies with the I-Bank underwriting criteria as follows:

- I-Bank financing is proposed to be a subordinate lien on net System revenues as outlined above. Historical cash flow exceeds the minimum coverage ratio of 1.10 times MADS without connection fees.
- The top ten ratepayers do not exceed 50% of the System’s annual revenues (see Exhibit 1).
- System Revenues derived from any single ratepayer do not exceed 15% of system revenues (see Exhibit 1).
- The City has the power to establish and enact rates and charges without the approval of any other governing body.

**LITIGATION, MANAGEMENT AND ENVIRONMENTAL**

**Litigation**

Please see the Eastside Projects Staff Report (Exhibit 1) for information on Litigation.

**Project Management Ability**

Please see the Eastside Projects Staff Report (Exhibit 1) for information on Project Management Ability.

**California Environmental Quality Act**

The CEQA process for the Project was completed as a component of the Eastside Projects. A Mitigated Negative Declaration for the Eastside Projects was approved by the Porterville City Council on June 7, 2005. A subsequent Notice of Determination to advise of the approval of the Mitigated Negative Declaration was recorded with the Tulare County Recorder on July 27, 2005.

## SCORING CRITERIA FOR PRIORITIZING PROJECTS

<i>POINT CATEGORY</i>	<i>ANALYSIS</i>	<i>MAX PTS</i>	<i>PTS</i>
<b>Project Impact</b>			
<b>Job Creation/Retention</b>	As indicated in the Eastside Projects Staff Report (Exhibit 1), the City's economy is a mixture of agri-business, light industry, and commercial enterprises. The Eastside Projects and the Project are likely to encourage growth in each of these areas, particularly light industry and commercial. The City did not provide written confirmation or a feasibility study documenting job creation for either the Eastside Projects or the Project; therefore no points were awarded for the Job Creation/Retention category.	<b>30</b>	<b>0</b>
<b>Economic Base Employers</b>	Not applicable.	<b>10</b>	<b>0</b>
<b>Community Employment Development Plan</b>	Not applicable.	<b>10</b>	<b>0</b>
<b>Quality of Life/Community Amenities</b>	<p>The Project is a necessary and vital System capital improvement component that will ensure a reliable and cost effective water supply storage that can be maintained through future periods of drought.</p> <p>The Project also supports continued growth in the area by providing reliable water supply storage to serve consumers. In the event of a power outage, the only available water supply is the water stored in the storage tanks that can flow by gravity to pressurize the System.</p> <p>The Project will also be located adjacent to and support the operation of a new 1,200 student high school constructed by the Lindsay Unified High School District, replacing a 450 student high school that had become too small to serve the educational needs of the growing community.</p> <p>The General Plan land diagram also provides sites for additional schools and higher education campuses. The Public Utility Element to the General Plan (which includes water supply projects such as the Project) ensures that the underlying infrastructure necessary for new development is available in a timely manner to contribute to the City's quality of life improvements.</p>	<b>30</b>	<b>30</b>
<b>Community Economic Need</b>			
<b>Unemployment Rate</b>	The City's 2008 unemployment rate was 9.9%, which was 137.5% of the State's unemployment rate of 7.2%.	<b>20</b>	<b>10</b>
<b>Median Family Income</b>	The City's median family income according to the 2000 Census was \$35,136, 66.3% of the State's median family income of \$53,035.	<b>15</b>	<b>11</b>
<b>Change in Labor Force Employment</b>	The City's 2008 change in labor force rate is -6.90%, less than the State's change in labor force employment of 1.74%.	<b>10</b>	<b>10</b>

<b>Poverty Rate</b>	The City's poverty rate according to the 2000 Census is 25.7%, which was 181.0% of the State's poverty rate of 14.2%.	<b>10</b>	<b>10</b>
<b>Land Use, Environmental Protection and Approved Housing Element</b>			
<b>Land Use</b>	The Project meets the second Land Use priority since it develops vacant and under-utilized land within an existing urban area.	<b>20</b>	<b>15</b>
<b>Environmental Protection</b>	The Master Plan indicated that the City's water supply production is completely dependent on its wells. The Master Plan indicates that the Project, along with the storage components of the Eastside Projects will provide adequate amounts of storage capacity to meet required supply capacity during emergency conditions to provide 50 percent of the maximum day demand. Therefore, the Project will provide adequate fire flow which is protective of both the developed and natural environments.	<b>10</b>	<b>5</b>
<b>Housing Element</b>	While the City received Housing Element points with the approval of the Eastside Projects on April 1, 2009, the City's Housing Element is now out of compliance according to HCD's Housing Element Compliance Report dated December 21, 2009.	<b>10</b>	<b>0</b>
<b>Leverage</b>			
<b>Leverage</b>	The City has purchased the land on which the project will be constructed for \$195,000. Dividing this amount by the \$1,500,000 in I-Bank financing results in a leverage ratio of .13:1.	<b>15</b>	<b>3</b>
<b>Readiness</b>			
<b>Readiness</b>	Construction is projected to start in July 2010, more than 3 months after I-Bank Board approval of the Project.	<b>10</b>	<b>0</b>
<b>TOTAL</b>		<b>200</b>	<b>94</b>

## STAFF RECOMMENDATIONS

Staff recommends approval of Resolution No. 10-02 authorizing financing to the City of Porterville for the Project as follows:

1. **Borrower:** The City of Porterville.
2. **Project:** Rocky Hill Reservoir Project.
3. **Amount of Financing:** Not to exceed \$1,500,000.
4. **Maturity:** Not to exceed 30 years.
5. **Funding Availability:** I-Bank's financing commitment is subject to the availability of funds from either, or a combination of, proceeds of a revenue bond or I-Bank equity funds. The Borrower shall execute the I-Bank financing agreement within 210 days of I-Bank Board Approval date, or the commitment of funds may be cancelled by the I-Bank.
6. **Repayment/Security:** Subordinate lien to the 2002 Installment Sale Agreement and parity lien to the 2009 Installment Sale Agreement on the Water System net revenues.
7. **Interest Rate:** 67% of Thompson's Municipal Market Data Index for an "A" rated tax-exempt security with a weighted average life similar to the I-Bank financing based on the rates on January 4, 2010.
8. **Fees:** Financing origination fee of 0.85% of the I-Bank financing and an annual fee of 0.30% of the outstanding principal balance.
9. **Type of Financing Agreement:** Installment Sale Agreement.
10. **Financing Agreement Covenants:** The Installment Sale Agreement shall include, among other things, the following covenants:
  - a. Rates and charges shall be maintained sufficient to ensure 1.10 times aggregate annual debt service ratio for senior and subordinate parity obligations.
  - b. Water System net revenues may not be pledged on a senior basis. Water System net revenues may be pledged on a subordinate parity basis for future financing if net revenues (adjusted for rate increases and system expansion) will provide an aggregate future debt service coverage of 1.10 times maximum annual debt service on all parity debt, inclusive of the proposed financing.
  - c. Borrower shall be authorized to prepay all or a portion of the outstanding principal balance according to the following: 102% of the outstanding principal balance if the prepayment date is on or after ten years, but less than eleven years, from the effective date of the Agreement, or 100% of the outstanding principal amount of the I-Bank bonds to which the Borrower's loan is pledged to repay and scheduled to be called for redemption as a result of the prepayment plus accrued interest on the bonds to be redeemed as of the date scheduled for redemption (Redemption Amount), whichever is greater; 101% of the outstanding principal balance if the prepayment date is on or after eleven years, but less than twelve years, from the effective date of the Agreement or the Redemption Amount, whichever is greater; or without premium if the prepayment date is twelve years or more from the effective date of the Agreement or the Redemption Amount, whichever is greater. The Borrower may on any date provide for a legal defeasance of the principal amount outstanding and any additional payment then due.
  - d. An agreement to indemnify I-Bank and its directors, officers and employees from any liability arising from the Installment Sale Agreement or from construction or operation of the Project.
11. **Conditions Precedent to Agreement Execution:**
  - a. Adopted Borrower resolution authorizing the execution and delivery of the Installment Sale Agreement and approving certain other matters in connection therewith.
  - b. Receipt of an opinion of legal counsel to the Borrower that the Borrower has the legal authority to enter into the Installment Sale Agreement, that there is no litigation currently pending or

threatened that would in any way affect pledged revenues, that the Installment Sales Agreement is a legal, binding and enforceable agreement of the Borrower, and that the Borrower is not in default of any agreement or obligation secured by the revenues of the water system.

c. Executed Tax Certificate.

**12. Conditions Precedent to Initial Disbursement:** The following are some of the conditions, which will be required precedent to the initial disbursement of I-Bank funds:

a. Execution of an Installment Sale Agreement consistent with the terms contained herein.

**13. Conditions Precedent to Construction Disbursement for each Project Phase.**

a. Certificate of the Borrower, the Borrower's legal counsel or other individual acceptable to the I-Bank that the Borrower:

i. Has obtained any and all lands, rights-of-ways, lot line adjustments, easements, and orders of possession, which are required for construction.

ii. All required construction permits have been obtained.

b. For each construction contract:

i. A written statement by the Borrower, the Borrower's legal counsel or other individual acceptable to the I-Bank that:

1. All construction contracts necessary for the construction of the Project have been awarded pursuant to applicable competitive bidding requirements and the Borrower's procedures normally required for similar construction projects.

2. Project costs for the applicable Project component are consistent with the Sources and Uses listed in this staff report.

3. Appropriate builder's risk insurance has been obtained and the policy names the Borrower as additional insured and loss payee, and contractor has acquired and shall be required to maintain liability insurance and name the Borrower as an additional insured, and contractor shall be required to obtain performance and payment bond provisions and name the Borrower as additional payee.

4. All construction contracts require: payment of prevailing wage rates and compliance with Chapter 1 (commencing with Section 1720) of Part 7 of Division 2 of the California Labor Code.

5. All construction contracts require payment of workers' compensation insurance.

6. All construction contracts include applicable nondiscrimination provisions.

ii. Submittal of a copy of the complete construction contract.

iii. Submittal of a copy of the builder's risk insurance policy, and a copy of the contractor's payment and performance bonds.

**14. Conditions Precedent to Final Disbursement:** The following are some of the conditions precedent to final disbursement of I-Bank funds:

a. Recorded Notice of Completion or other evidence of completion for each Project component.

b. Lien waivers for the Project, or passage of the applicable statutory time periods for filing mechanics and other similar liens.

c. Certification that the Project has been completed in accordance with the approved plans and specifications, and that the completed Project is consistent with the definition of Project in this staff report and is acceptable to the Borrower.

d. Certification that the Borrower has obtained all licenses and permits (including operating permits), and approvals from any governmental agency or authority having jurisdiction over the Borrower in connection with the Project.

**15. Financial and Other Reporting Requirements:**

a. Annual Borrower audited financial statements, due to the I-Bank within 210 days of fiscal year end.

b. Other information as the I-Bank may request from time to time.

**EXHIBIT 1****Staff Report for Approved Eastside Water Improvement Projects ISRF Program Loan****CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)  
INFRASTRUCTURE STATE REVOLVING FUND PROGRAM (ISRF)****STAFF REPORT****EXECUTIVE SUMMARY**

<b>Applicant:</b> City of Porterville	<b>Amount Requested:</b>	\$6,757,500
<b>Name of Project:</b> Eastside Water Improvement Projects	<b>Requested Financing Term:</b>	30 years
<b>Project Location:</b> The Project is located at various sites in the City of Porterville.	<b>Interest Rate:</b>	3.84% <sup>1</sup>
	<b>Tier:</b>	Tier 1
<b>Project Description:</b> The Project consists of the construction and installation of pipelines, booster pumps, a storage reservoir and well pump equipment and accessories.		
<b>Use of Financing Proceeds:</b> Proceeds will be used for construction, contingency, construction management, inspection, environmental, design work, consultant fees and the I-Bank origination fee.		
<b>Source of Repayment:</b> Subordinate Lien on the Water System Net Revenues.	<b>Form of Financing Agreement:</b> Installment Sale Agreement	
<b>Scoring Criteria:</b>	<b>Applicant Score</b>	
Project Impact	40	
Community Economic Need	31	
Land Use/Environmental Protection/Housing Element	40	
Leverage	0	
Readiness	0	
<b>TOTAL</b>	<b>111</b>	
<b>I-Bank Staff:</b> Carlos Nakata	<b>Date of Staff Report:</b> March 19, 2009	
<b>Date of I-Bank Board Meeting:</b> April 1, 2009	<b>Resolution Number:</b> 09-13	
<b>Staff Recommendation:</b> Staff recommends approval of Resolution No. 09-13 authorizing financing to the City of Porterville for the Eastside Water Improvement Projects, subject to conditions contained therein.		

<sup>1</sup> Rate as of March 2, 2009

## PROJECT DESCRIPTION

The City of Porterville (City) requests ISRF Program financing for the Eastside Water Improvement Projects (Project) (Exhibit 1—Projection Locations) as identified in the City's Water System Master Plan dated February 2001 (Plan) that evaluated the water system (System) and recommended necessary System improvements to meet water supply and distribution requirements through the year 2015. The Project consists of construction and installation of a storage reservoir, two booster pumps, pipelines, and water well pumping equipment and accessories.

The Plan recommends that water production from wells meets maximum daily demand plus an additional 3,000 gallons per minute (gpm) for standby purposes. According to the Plan, the maximum daily demand to serve a current population of approximately 51,000 is 19,750 gpm and the maximum daily demand including standby is 22,750 gpm. The City's current water well production is approximately 15,049 gpm and the daily output is approximately 21,671 million gallons per day (gpd). The additional water and storage capacity will help correct the water deficiency the System currently faces.

The Project consists of the following five components:

**Martin Hill 3 MG Reservoir & Pipeline.** This component consists of the construction and installation of a three million gallon reservoir to serve the easterly section of the City and the airport industrial area. This component includes the construction/installation of a booster pump on Worth Avenue and approximately 6,600 linear feet of 16-inch and 12-inch pipelines. All the elements of this component, except for the booster pump station, will be constructed/installed on City-owned property. The booster pump station will be constructed on a permanent easement of approximately 1600 square foot site recently acquired by the City.

**Well No. 31.** This component consists of the installation of pumping equipment and motors, above and below ground piping, electrical control systems, telemetry system and related appurtenances for Well No. 31. Well No. 31 is located at 293 S. Mathew Street (south of the Mathew Street Trunk line component, see below), on City-owned property. Well No. 31 is expected to produce approximately 1,500 gpm.

**Morton Avenue Water Trunk Line.** This component consists of the construction and installation of a 12 inch water trunk line along Morton Avenue from Westwood Street to Newcomb Street. The trunk line will transport water from the higher West Pressure Zone, where the City's best water wells are predominately located, to the Central Pressure Zone.

**Mathew Street Water Trunk Line.** This component consists of the construction and installation of a 12 inch water trunk line along Mathew Street from Olive Avenue to Morton Avenue. The trunk line will also transport water from the West Pressure Zone to the Central Pressure Zone.

**Veterans Park Booster Pump.** This component consists of construction of a booster pump station (Station) and includes a series of pumps, above and below ground piping, electrical control systems, site grading, fencing, lighting and other appurtenant items. The Station will be located on the east side of Newcomb Street, north of Morton Avenue in the West Pressure Zone on City-owned property. The Morton Avenue Trunk Line and Mathew Street Trunk Line will provide the conduit necessary to transport water from existing wells and Well No. 31 within the West Pressure Zone to the new Veterans Park Booster Pump Station and pump it, at approximately 1,000 gpm (with capacity for expansion), to the Central Pressure Zone.

The Project will develop the infrastructure needed to support existing and new development within the City and in the low-lying elevation of the foothills. Additionally, it will help conserve native areas and prime farmland, resulting in more compact development, an ongoing goal in the conservation of agricultural land. The Project will encourage growth in the City's economy, which is a mixture of agri-business, light industry and commercial enterprises.

The City of Porterville adopted its 2030 General Plan (General Plan) in 2008. The General Plan provides a significant amount of land planned for uses that provide jobs. Areas designated "Professional Office" and "Industrial Park" will accommodate uses that provide employment opportunities for existing and future residents consistent with the Economic Development Strategy described in the Economic Development Element.

As identified in the General Plan, employment projections prepared by Tulare County Association of Governments anticipate the addition of about 12,250 jobs in the City between 2005 and 2030. These projections do not account for the City's economic development programs. The increase would be concentrated in the retail, office, and service sectors, which together would account for about two-thirds of the new jobs. Some of these economic sectors, notably, retail trade, services, and government, are likely to grow in response to the needs of growing population. Others, such as industry and agriculture, respond to market demands of a broader geographic area.

The Project, as identified in both the City's General Plan and the City's 2001 Water Master Plan, is necessary to provide water capacity to spur future growth. Furthermore, in 2008 the City received a Planning Grant from the U.S. Department of Commerce Economic Development Administration to identify market opportunities that might be captured by a Porterville-based business incubator. The study identified two industry clusters as "best fit" industries for Porterville. These clusters were Niche Food Processing and Renewable Energy and Related Industries. Both of these clusters require large areas of land and adequate infrastructure. The Project will provide the water capacity needed to meet these industries' needs.

## PROJECT SOURCES AND USES

The Project will be financed with ISRF Program funds and City funds as follows:

Project Uses	Project Sources		
	I-Bank	City	Total
Land and Easement Acquisition		\$ 22,156	\$ 22,156
Construction and Contingency	\$ 6,085,061		\$ 6,085,061
Inspection/Design/Environmental/Consultant Fees/Construction Management	\$ 615,000		\$ 615,000
Origination Fee	\$ 57,439		\$ 57,439
<b>Total</b>	<b>\$ 6,757,500</b>	<b>\$ 22,156</b>	<b>\$ 6,779,656</b>

Source: The City

The City has secured the land and easement for the Project and will utilize its own staff to perform some Project work. The City estimates all components of the Project will be completed no later than September 2010.

## ELIGIBILITY CRITERIA

The City and the Project meet all of the statutory and supplemental threshold eligibility criteria.

## GENERAL CITY INFORMATION

### **Description of the City and County**

The City is located in the southwesterly sector of Tulare County. Tulare County (County) is located in the central section of the San Joaquin Valley, near the geographic center of the State. The County covers an area of 4,879 square miles, includes eight incorporated cities with a growing population of 386,000 people and is home to the world's largest agricultural exposition, World Ag Expo. The geographic region is diverse and agriculturally rich. The extensively cultivated and very fertile valley floor in the Western half of the County has allowed the County to become the second-leading producer of agricultural commodities in the United States. In addition to substantial packing and shipping operations, light and medium manufacturing plants are increasing in number. The eastern half of the County is comprised primarily of public lands within the Sequoia National Park, part of Inyo National Forest, and the Mineral King, Golden Trout and Domelands Wilderness areas.

The City is approximately 168 miles north of Los Angeles and about 258 miles south of San Francisco, near the point of convergence of the San Joaquin Valley and the foothills of the Sierra-Nevada mountain range. It covers approximately 15 square miles.

Incorporated in 1902, the City has operated under a charter since 1926. The City operates under a Council-Manager type of government with five City Council members, including the mayor, elected to four-year terms. The Mayor presides over council meetings and the council appoints the City Manager who manages the day-to-day

operations of the City. The City provides full services, including water, sewer, fire and police protection, housing and community services, and parks and recreational services.

The City's economy is a mixture of agri-business, light industry and commercial enterprises. Local factories produce electronics, business forms, sportswear, carpet yarn, machine products, and aircraft parts and lumber. The main employers are:

Rank	Employer	Number of Employees	Percentage of total City employment
1	Porterville State Development Center	1,824	8.90%
2	Porterville Public School	1,154	5.63%
3	Walt-Mart Distribution center	955	4.66%
4	Sierra View District Hospital	932	4.55%
5	Eagle Mountain Casino	565	2.76%
6	City of Porterville	471	2.30%
7	Foster Farms	395	1.93%
8	Porterville College	377	1.84%
9	Burton School District	364	1.78%
10	Walt-Mart Retail Stores	334	1.63%
<b>Total</b>		<b>7,371</b>	<b>35.95%</b>
<b>City Labor Force</b>		<b>20,500</b>	
<b>Unemployment Rate</b>		<b>8.50%</b>	

Source: The City

## CREDIT ANALYSIS

### System Characteristics

The City's source of domestic water supply is primarily from an underground basin fed by Western Sierra Nevada runoff. The System has 31 active wells and one standby well, nine inactive wells due to elevated nitrate or Perchloroethylene levels, 13 onsite chlorine generation units and 30 chlorination stations, and 210 miles of pipeline. The System's first well was drilled in 1934. The System also has two 3-million gallon storage tanks and two 300-thousand gallon storage tanks. Groundwater is pumped directly into the System or transferred to storage facilities based on demand.

The System serves the residents and businesses within the City of Porterville, with no interconnections to any other water system.

Current System users are categorized as follows:

NUMBER OF USERS					
	02/03	03/04	04/05	05/06	06/07
<b>Residential</b>	11,989	11,989	12,707	12,894	13,094
<b>Commercial/Industrial</b>	1,038	1,038	1,090	1,122	1,167
<b>Other</b>	149	149	156	158	153
<b>TOTAL</b>	<b>13,176</b>	<b>13,176</b>	<b>13,953</b>	<b>14,174</b>	<b>14,414</b>

Source: The City

Current System usage and water revenues are as follows:

CURRENT SYSTEM USAGE AND REVENUE				
	Annual Usage	% of Usage	Annual Gross Revenue	% of Total Revenue
<b>Residential</b>	3,592,846	73.46	\$ 3,365,452	76.41
<b>Commercial/Industrial</b>	1,096,886	22.42	\$ 879,607	19.97
<b>Other</b>	201,418	4.12	\$ 159,512	3.62
<b>TOTAL</b>	<b>4,891,150</b>	<b>100.00%</b>	<b>\$ 4,404,571</b>	<b>100.00%</b>

Source: The City

Usage is primarily residential.

The table below compares the City's current average monthly System user charge per residential unit with comparable nearby systems.

RATE COMPARISON		
System Name	Location	Average Monthly Residential Charge
City of Fresno	Fresno	\$13.35
City of Tulare	Tulare	\$15.72
California Water Services	Visalia	\$16.48
City of Hanford	Hanford	\$16.80
<b>City of Porterville</b>	<b>Porterville</b>	<b>\$22.03</b>

Source: The City

The City's monthly average residential charge is the highest among nearby systems, exceeding the second highest (City of Hanford) monthly average charge by \$5.23. According to the City, the average usage in Hanford is slightly lower contributing in part to the apparent difference per average monthly residential charge. Additionally, the rate structure in each city is different. The City's fixed meter charge is \$5 per month and charge per unit of usage is \$0.72, while Hanford's fixed meter charge is \$6.14 and charge per unit of usage is \$0.69. According to the City, water rates have remained unchanged since the mid 90's and have not been a point of contention for the residents.

The chart below shows the top ten current System users, the largest user and revenue producer is Foster Farms, 0.30%, followed by Granite Hills High School and the City of Porterville Golf Course. The top ten users together represent 1.02% of the total System users and generate an equal percentage of System revenues.

<b>TOP TEN RATEPAYERS</b>		
<b>User</b>	<b>% of System Use</b>	<b>% of System Revenues</b>
1. Foster Farms	0.30	0.30
2. Granite Hills High School	0.12	0.12
3. City of Porterville Golf Course	0.11	0.11
4. Monache High School	0.10	0.10
5. Golden Hills Mobile Home Park	0.08	0.08
6. Burton School District	0.07	0.07
7. Porterville High School	0.07	0.07
8. Sequoia Jr. High School	0.06	0.06
9. City of Porterville Zalud Park	0.06	0.06
10. Porterville College	0.05	0.05
<b>TOTAL</b>	<b>1.02</b>	<b>1.02</b>

Source: The City

### **Security and Source of Financing Repayment**

The City proposes to pledge System net revenues for repayment of the proposed financing resulting in a lien on the revenues subordinate to the pledge and lien for the outstanding 2002 Water System Refunding Project Certificates of Participation.

All System revenues are deposited into the Water Operating Fund (Water Fund). The Water Fund is composed of two funds, the Water Operating Fund and the Water Replacement Fund. The two funds have been established to account for System-related activities and are combined for reporting purposes. The Water Operating Fund was established to account for the activities associated with the City's water pumping and distribution system with water sales as the principal source of revenues. The Water Replacement Fund is used to account for water acreage fees and the use of those resources.

Staff reviewed the City's Comprehensive Annual Financial Reports (CAFR) for the fiscal years ended (FYE) June 30, 2006, 2007 and 2008. Staff also reviewed the City's adopted Annual Budget for fiscal year 2008-09. 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.

### **Comparative Balance Sheet Analysis**

The comparative balance sheet analysis for the Water Fund for the last three fiscal years is as follows:

<b>Comparative Statement of Net Assets</b>			
<b>For Fiscal Year Ended June 30:</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	\$ 81,790	\$ 54,659	\$ 127,901
Investments	\$ 6,210,564	\$ 4,899,696	\$ 3,179,553
Receivables - utility (net of allowance for uncollectibles)	\$ 1,033,969	\$ 1,018,040	\$ 1,295,605
Accounts Receivables- Misc (net)	\$ -	\$ 16,164	\$ 11,554
Temporary restricted, Cash with fiscal Agent	\$ 21,518	\$ 486	\$ 20,976
<b>Total Current Assets</b>	<b>\$ 7,347,841</b>	<b>\$ 5,989,045</b>	<b>\$ 4,635,589</b>
<b>Noncurrent Assets</b>			
Advances Receivable	\$ 215,268	\$ 215,268	\$ 215,268
Land	\$ 122,320	\$ 122,320	\$ 318,092
Construction in Progress	\$ 1,927,391	\$ 3,230,933	\$ 2,255,022
Distribution and Collection Systems	\$ 25,210,110	\$ 26,785,603	\$ 30,157,564
Building and Equipment	\$ 1,337,809	\$ 1,468,520	\$ 1,587,153
Less Accumulated Depreciation	\$ (10,757,774)	\$ (11,523,282)	\$ (12,284,094)
Restricted Assets, Cash with Fiscal Agent	\$ 723,800	\$ 723,764	\$ 702,820
Costs of issuance of COPs	\$ 340,707	\$ -	\$ -
<b>Total Noncurrent Assets</b>	<b>\$ 19,119,631</b>	<b>\$ 21,023,126</b>	<b>\$ 22,951,825</b>
<b>Total Assets</b>	<b>\$ 26,467,472</b>	<b>\$ 27,012,171</b>	<b>\$ 27,587,414</b>
<b>Liabilities and Fund Balances</b>			
<b>Current Liabilities</b>			
Accounts and Other Payables	\$ 183,908	\$ 377,668	\$ 289,934
Payroll Payable	\$ -	\$ 35,215	\$ 40,566
Compensated Absences Payable	\$ 29,849	\$ 29,177	\$ 38,562
Accrued Claims	\$ -	\$ 18,558	\$ -
Accrued Interest Payable	\$ 95,681	\$ 90,720	\$ 85,444
Loans, Bonds, Leases and Certificates of Participation Payable	\$ 315,000	\$ 335,000	\$ 360,000
<b>Total Current Liabilities</b>	<b>\$ 624,438</b>	<b>\$ 886,338</b>	<b>\$ 814,506</b>
<b>Noncurrent Liabilities</b>			
Loans, Bonds, Leases and Certificates of Participation Payable	\$ 5,760,000	\$ 5,425,000	\$ 5,065,000
Unamortized Premium on Bonds	\$ -	\$ 97,330	\$ 88,680
Deferred Charge on Refunding	\$ -	\$ (415,573)	\$ (378,640)
<b>Total Noncurrent Liabilities</b>	<b>\$ 5,760,000</b>	<b>\$ 5,106,757</b>	<b>\$ 4,775,040</b>
<b>Total Liabilities</b>	<b>\$ 6,384,438</b>	<b>\$ 5,993,095</b>	<b>\$ 5,589,546</b>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	\$ 11,764,856	\$ 14,642,337	\$ 16,898,697
Retricted for Debt Service	\$ 723,780	\$ 723,764	\$ 702,820
Unrestricted	\$ 7,594,398	\$ 5,652,975	\$ 4,396,351
<b>Total Net Assets</b>	<b>\$ 20,083,034</b>	<b>\$ 21,019,076</b>	<b>\$ 21,997,868</b>

Source: CAFR

Total Assets increased approximately 2.1%, or \$575,243, in FYE 2008 over the prior fiscal year. A significant increase in Non Current Assets, centered in the Construction in Progress account, was somewhat offset by decreases in Current Assets. The increase in Non Current Assets reflects the continued expansion and rehabilitation of the System. Total Liabilities continue to improve as expansion is being financed primarily with the growth in Total Net Assets. Total Net Assets increased approximately 4.7%, or

\$978,792, in FYE 2008, attributed to the contribution of the Change in Net Assets (see Comparative Revenues and Expenses Analysis below). Unrestricted Net Assets decreased by \$1,256,624 to \$4,396,351. Unrestricted Net Assets represents 20% of the Total Net Assets. For FYE 2007 and 2008, an asset account, Cost of Issuance of COP's, was recategorized as a liability account, Unamortized Premium on Bonds and Deferred Charges on Refunding, without adverse effect.

### Comparative Revenues and Expenses Analysis

The Revenues and Expenses for the Water Fund for the last three fiscal years are summarized below:

Comparative Statement of Revenues, Expenses and Changes in Fund Balance						
For Fiscal Year Ended June 30:	2006		2007		2008	
<b>Operating Revenues</b>						
Charges for Services	\$ 4,609,617	98%	\$ 4,857,288	100%	\$ 5,130,027	99%
Water Revenues Pledged as Security for Revenue Bonds	\$ 70,688	1%	\$ -	0%	\$ -	0%
Connection Fees	\$ 36,644	1%	\$ 11,525	0%	\$ 38,705	1%
<b>Total Operating Revenues</b>	<b>\$ 4,716,949</b>	<b>100%</b>	<b>\$ 4,868,813</b>	<b>100%</b>	<b>\$ 5,168,732</b>	<b>100%</b>
<b>Operating Expenses</b>						
Cost of Sales and Services	\$ 1,678,229	35.6%	\$ 1,822,848	37.4%	\$ 1,791,327	34.7%
General and Administrative	\$ 1,454,442	30.8%	\$ 1,603,046	32.9%	\$ 1,697,553	32.8%
Depreciation/Amortization	\$ 777,083	16.5%	\$ 765,509	15.7%	\$ 760,811	14.7%
<b>Total Operating Expenses</b>	<b>\$ 3,909,754</b>	<b>82.9%</b>	<b>\$ 4,191,403</b>	<b>86.1%</b>	<b>\$ 4,249,691</b>	<b>82.2%</b>
<b>Operating Income (Loss)</b>	<b>\$ 807,195</b>	<b>17.1%</b>	<b>\$ 677,410</b>	<b>13.9%</b>	<b>\$ 919,041</b>	<b>17.8%</b>
<b>Nonoperating Revenues (Expenses)</b>						
Investment Earnings	\$ 194,834	4.1%	\$ 344,236	7.1%	\$ 271,565	5.3%
Interest Expense	\$ (389,266)	-8.3%	\$ (390,306)	-8.0%	\$ (375,334)	-7.3%
<b>Total Nonoperating Revenue (Expenses)</b>	<b>\$ (194,432)</b>	<b>-4.1%</b>	<b>\$ (46,070)</b>	<b>-0.9%</b>	<b>\$ (103,769)</b>	<b>-2.0%</b>
<b>Income Before Contributions and Transfers</b>	<b>\$ 612,763</b>	<b>13.0%</b>	<b>\$ 631,340</b>	<b>13.0%</b>	<b>\$ 815,272</b>	<b>15.8%</b>
Capital Contributions, Developer Fees	\$ 183,706		\$ 404,702		\$ 91,631	
Transfers In	\$ -		\$ -		\$ 73,889	
Transfers Out	\$ (9,500)		\$ (100,000)		\$ (2,000)	
<b>Change In Net Assets</b>	<b>\$ 786,969</b>		<b>\$ 936,042</b>		<b>\$ 978,792</b>	
Total Net Assets - Beginning	\$ 19,296,065		\$ 20,083,034		\$ 21,019,076	
<b>Total Net Assets - Ending</b>	<b>\$ 20,083,034</b>		<b>\$ 21,019,076</b>		<b>\$ 21,997,868</b>	

Source: CAFR

Operating Revenues increased \$299,919 in FYE 2008 over the prior fiscal year, as the number of System users continued to increase. Operating Expenses as a percentage of Operating Revenues improved resulting in annual increase in Operating Income. Operating Income increased by \$241,631 to \$919,041. A deficit of \$103,769 in the Nonoperating Revenues (Expense) results in Income Before Contribution and Transfer to \$815,272. Developers Fees and Transfer In net of Transfer Out contributed to the increase in Change In Net Assets of \$978,792. The \$100,000 Transfer Out to the General Fund for FYE 2007 was to fund a portion of the General Plan Update.

A review of the 2008-09 adopted budget-to-actual data indicates that the City conservatively budgets revenues to meet expenses.

## Cash Flow and Debt Service Analysis

The City's current and proposed outstanding Water Fund obligations are as follows:

<b>OBLIGATIONS</b>						
<b>Original Issue</b>	<b>Dated</b>	<b>Series</b>	<b>Final Maturity</b>	<b>Maximum Annual Debt Service (MADS)</b>	<b>Outstanding as of 6/31/08</b>	<b>Lien Priority</b>
Installment Sales Agreement	2002	Installment Sales Agreement dated 9-1-2002	2018	\$ 690,500	\$5,425,000 (As per 2002 ISA)	Senior
<b>Proposed I-Bank<sup>(1)</sup></b>	<b>2009</b>	<b>Installment Sales Agreement</b>	<b>2039</b>	<b>\$ 424,000</b>	<b>\$0</b>	<b>Subordinate</b>
<b>Total</b>				<b>\$ 1,114,000</b>	<b>\$5,425,000</b>	

<sup>(1)</sup> Proposed loan was amortized @4.00% for 30 years and rounded.

On September 1, 2002, the City, through the Porterville Public Finance Authority (Authority), issued the 2002 Water System Refunding Project Certificates of Participation (2002 COP) pursuant to an Installment Sales Agreement dated September 1, 2002 (2002 ISA), by and between the Authority and the City. The 2002 ISA is secured by a pledge of and lien on the System's Net Revenues.

The 2002 ISA allows the City to issue additional debt secured by the System's Revenues under certain conditions. The issuance of parity debt requires 1.25 times coverage on all senior and parity debt (including new parity debt) and requires establishment of a reserve fund in the amount equal to maximum annual debt service (MADS). The condition for the issuance of subordinate debt, as recommended for the proposed ISRF financing, requires at least 1.00 times MADS for all payments, but does not require establishment of a reserve fund. According to the City, the City has performed as agreed under the 2002 ISA.

Historical Water Fund cash flow and debt service analysis (conservatively without connection fees) for the proposed financing is presented below:

<b>Cash Flow and Debt Service Coverage</b>			
<b>Cash Flow</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Operating Income (Loss)	\$ 807,195	\$ 677,410	\$ 919,041
Less Connection Fees	\$ (36,644)	\$ (11,525)	\$ (38,705)
Add Investment Earnings	\$ 194,834	\$ 344,236	\$ 271,565
Add Depreciation	\$ 777,083	\$ 765,509	\$ 760,811
<b>Cash Available For Debt Service</b>	<b>\$ 1,742,468</b>	<b>\$ 1,775,630</b>	<b>\$ 1,912,712</b>
<b>Debt Service Coverage Calculation</b>			
2002 Bonds MADS	\$ 690,500	\$ 690,500	\$ 690,500
<b>Senior Debt Service Coverage Ratio</b>	<b>2.52</b>	<b>2.57</b>	<b>2.77</b>
I-Bank Loan-\$6,455,000/4.00%/30 yrs & Rounded-MADS	\$ 405,000	\$ 405,000	\$ 405,000
<b>Total Payments</b>	<b>\$ 1,095,503</b>	<b>\$ 1,095,503</b>	<b>\$ 1,095,503</b>
<b>Total Debt Service Coverage Ratio</b>	<b>1.59</b>	<b>1.62</b>	<b>1.75</b>

Source: CAFR & I-Bank

The City made the last payment on the Water Refunding Revenue Bond Series 1994 (1994 Bond) on January 1, 2006; therefore, staff excluded the 1994 Bond payment from this analysis.

The City shows historical repayment ability over the last three years to service the proposed ISRF Program financing and existing debt. Historical coverage ratios both with and without Connections Fees are markedly above the minimum credit criteria of 1.10 times coverage. Given the historical fiscal strength of the Water Fund and that there is not an otherwise credit need to require a debt service reserve fund for this financing, staff is recommending that the proposed ISRF Program financing be subordinate to the 2002 ISA, and to not allow any future System obligations senior to the ISRF Program loan. The City has agreed to this modified financial structure.

Staff recommends that the proposed financing be subordinate to the 2002 ISA.

#### **Compliance with I-Bank Underwriting Criteria**

- I-Bank financing is proposed to be a subordinate lien on System net revenues. Historical cash flow exceeds the minimum 1.10 times debt coverage ratio without connection fees.
- The top ten ratepayers do not exceed 50% of the System's annual revenues.
- System Revenues derived from any single ratepayer do not exceed 15% of system revenues.
- The City has the power to establish and enact rates and charges without the approval of any other governing body.

## **LITIGATION, MANAGEMENT AND ENVIRONMENTAL**

### **Litigation**

The City's application indicates that there is no current or anticipated litigation or material controversy that would materially affect its ability to construct the Project or repay the proposed ISRF Program financing.

### **Project Management Ability**

The City has an experienced team, including the City's Public Works Director, City Engineer, Fields Services Manager, and Water Utility Superintendent, to oversee the design and construction of the Project. Additionally, the City has field staff, inspectors, pipe layers and designers, each with many years of design and construction experience. The City expects to construct the Project in three construction components, and enter into three construction contracts.

The City is an existing borrower of the ISRF Program. In March of 2004, the City borrowed \$5,356,000 to construct the Wastewater Treatment Facility Upgrade and Sludge Disposal Project (Wastewater Project). The Wastewater Project was recently completed, and the City submitted the last disbursement request for \$641,597 on December 16, 2008 under agreement No. CIEDB-B04-053 (2004 Agreement).

The 2004 Agreement was amended three times to extend the disbursement period and amend the Wastewater Project Sources and Uses, delaying completion by 22 months. The delays were caused by the difficulty in securing engineering and construction firms, tardy equipment delivery and to overall staffing shortages. The City has assured the I-Bank that the proposed Project will be completed within the prescribed 36 months based on the City's Public Works staff's ability to manage and complete the proposed Project as well as availability of contractors.

The City has paid as agreed under the 2004 Agreement and is in compliance with all Agreement covenants.

### **California Environmental Quality Act**

The CEQA process has been completed for the Project. The City submitted a copy of two Notices of Determination. A Notice of Determination for the Martin Hill Storage Reservoir component was recorded with the Tulare County Recorder on July 27, 2005. A Notice of Determination that included the Well No. 31 Pumping Facility Project component was recorded with the Tulare County Recorder on February 4, 2005.

The City also submitted copies of three Notices of Exemption filed with the Tulare County Recorder on September 2, 2008, for the Morton Avenue Water Trunk Line, Mathew Street Water Trunk Line, and the Veterans Park Booster Pump Project components.

## SCORING CRITERIA FOR PRIORITIZING PROJECTS

<i>POINT CATEGORY</i>	<i>ANALYSIS</i>	<i>MAX PTS</i>	<i>PTS</i>
<b>Project Impact</b>			
<b>Job Creation/Retention</b>	The City states its economy is a mixture of agri-business, light industry, and commercial enterprises. The Project is likely to encourage growth in each of these areas, with an emphasis on agri-business and light industry. The types of industries targeted include machine works, aircraft manufacturing and maintenance, manufacturing, cabinetry, service based industry, food processing, distribution, and service center that are estimated to create 215 new jobs. However, the City did not provide written confirmation or feasibility study; therefore no points were awarded for the Job Creation category.	<b>30</b>	<b>0</b>
<b>Economic Base Employers</b>	Not applicable.	<b>10</b>	<b>0</b>
<b>Community Employment Development Plan</b>	<p>The City formed the Porterville Partners Network (Partners) by bringing together economic development and workforce preparation professionals. The Partners include representatives of the City Economic Development, Downtown Porterville Association, Chamber of Commerce, Porterville College, State of California Employment Development, Small Business Development Center, Tulare County (County) Certified Development Corporation, Tulare County Business Incentive Zone and other County, City and private organization.</p> <p>The Partners meet bimonthly to discuss job openings, training programs, workshops, etc. Workforce professional have a network of resources that allow them to provide the most effective training and job service for the population that they serve.</p>	<b>10</b>	<b>10</b>
<b>Quality of Life/Community Amenities</b>	<p>The Project is a necessary and vital capital improvement that will provide a reliable and cost effective source of water supply that can be maintained through future periods of drought.</p> <p>The Project will also support continued growth in the area by providing reliable water service at adequate pressure to serve consumers and provide adequate and reliable fire protection in the elevated existing and proposed pressure zones. The City's water production is completely dependent on its wells. In the event of a power outage, the only available water supply is the water stored in the storage tanks that can flow by gravity to pressurize the System.</p> <p>The Project will develop the necessary water system infrastructure to allow delivery, storage of water and provide rapid fire response.</p> <p>The General Plan land diagram allows for new</p>	<b>30</b>	<b>30</b>

	commercial and industrial development with new multimodal linkages from neighborhoods to commercial and employment centers. The General Plan land diagram also provides sites for schools and campuses for higher education. The Public Utility Element (which includes water supply) ensures that the underlying infrastructure necessary for new development is available in a timely manner to contribute to the City's quality of life improvements.		
<b>Community Economic Need</b>			
<b>Unemployment Rate</b>	The City's 2007 unemployment rate was 8.5%, 144.1% of the State's rate.	<b>20</b>	<b>10</b>
<b>Median Family Income</b>	The City's median family income according to the 2000 Census was \$35,136, 66.3% of the State average.	<b>15</b>	<b>11</b>
<b>Change in Labor Force Employment</b>	The City's 2007 change in labor force rate is 11.54%, 725.8% of the State's rate.	<b>10</b>	<b>0</b>
<b>Poverty Rate</b>	The City's poverty rate is 25.7%, 181.0% of the State's rate.	<b>10</b>	<b>10</b>
<b>Land Use, Environmental Protection and Approved Housing Element</b>			
<b>Land Use</b>	Land use meets the first priority since it renews and maintains existing urban areas.	<b>20</b>	<b>20</b>
<b>Environmental Protection</b>	<p>The City is committed to increasing water conservation through the implementation of Best Management Practices (BMP), also commonly referred to as Demand Management Measures, to be able to provide adequate water supplies to meet growing demands in its service area as per the Water System Master Plan. The Project is consistent with the BMP.</p> <p>According to the General Plan, the City will prepare a Groundwater Management Plan and develop groundwater monitoring programs with federal, state, and local agencies and private sector to improve local groundwater pollution and detection.</p> <p>The City has established a goal of gradually reducing groundwater pumping to match the aquifer safe yield by 2020. The City anticipates purchasing surface water and implementing water conservation programs to meet remaining demand. The City has also established a goal of reducing per capita demand by 10 percent by the year 2030.</p>	<b>10</b>	<b>10</b>
<b>Housing Element</b>	The City has an approved Department of Housing and Community Development General Plan Housing Element.	<b>10</b>	<b>10</b>
<b>Leverage</b>			
<b>Leverage</b>	The I-Bank will contribute 99.7% of the \$6,779,656 Project cost.	<b>15</b>	<b>0</b>
<b>Readiness</b>			
<b>Readiness</b>	Construction is projected to start in July 2009.	<b>10</b>	<b>0</b>
<b>TOTAL</b>		<b>200</b>	<b>111</b>

## STAFF RECOMMENDATIONS

Staff recommends approval of Resolution No. 09-13 authorizing financing to the City of Porterville for the Project as follows:

1. **Borrower:** The City of Porterville.
2. **Project:** Eastside Water Improvement Projects.
3. **Amount of Financing:** Not to exceed \$6,757,500.
4. **Maturity:** Not to exceed 30 years.
5. **Funding Availability:** I-Bank's financing commitment is subject to the availability of funds from either, or a combination of, proceeds of a revenue bond or I-Bank equity funds. The Borrower shall execute the I-Bank financing agreement within 210 days of I-Bank Board Approval date, or the commitment of funds may be cancelled by the I-Bank.
6. **Repayment/Security:** Subordinate lien on the Water System net revenues.
7. **Interest Rate:** 67% of Thompson's Municipal Market Data Index for an "A" rated tax-exempt security with a weighted average life similar to the I-Bank financing based on the rates on March 2, 2009.
8. **Fees:** Financing origination fee of 0.85% of the I-Bank financing and an annual fee of 0.30% of the outstanding principal balance.
9. **Type of Financing Agreement:** Installment Sale Agreement.
10. **Financing Agreement Covenants:** The Installment Sale Agreement shall include, among other things, the following covenants:
  - e. Rates and charges shall be maintained sufficient to ensure 1.10 times aggregate annual debt service ratio for senior and parity obligations.
  - f. Net revenues from Water System may not be pledged on a senior basis. Net revenues of the Water System may be pledged on a parity basis for future financing if net revenues (adjusted for rate increases and system expansion) will provide an aggregate future debt service coverage of 1.10 times maximum annual debt service on all parity debt, inclusive of the proposed financing.
  - g. Borrower shall be authorized to prepay all or a portion of the outstanding principal balance according to the following: 102% of the outstanding principal balance if the prepayment date is on or after ten years, but less than eleven years, from the effective date of the Agreement, or 100% of the outstanding principal amount of the I-Bank bonds to which the Borrower's loan is pledged to repay and scheduled to be called for redemption as a result of the prepayment plus accrued interest on the bonds to be redeemed as of the date scheduled for redemption (Redemption Amount), whichever is greater; 101% of the outstanding principal balance if the prepayment date is on or after eleven years, but less than twelve years, from the effective date of the Agreement or the Redemption Amount, whichever is greater; or without premium if the prepayment date is twelve years or more from the effective date of the Agreement or the Redemption Amount, whichever is greater. The Borrower may on any date provide for a legal defeasance of the principal amount outstanding and any additional payment then due.
  - h. An agreement to indemnify I-Bank and its directors, officers and employees from any liability arising from the Installment Sale Agreement or from construction or operation of the Project.
13. **Conditions Precedent to Agreement Execution:**
  - d. Adopted Borrower resolution authorizing the execution and delivery of the Installment Sale Agreement and approving certain other matters in connection therewith.
  - e. Receipt of an opinion of legal counsel to the Borrower that the Borrower has the legal authority to enter into the Installment Sale Agreement, that there is no litigation currently pending or threatened that would in any way affect pledged revenues, that the Installment Sales Agreement is a legal, binding and enforceable agreement of the Borrower, and that the

Borrower is not in default of any agreement or obligation secured by the revenues of the water system.

f. Executed Tax Certificate.

**13. Conditions Precedent to Initial Disbursement:** The following are some of the conditions, which will be required precedent to the initial disbursement of I-Bank funds:

b. Execution of an Installment Sale Agreement consistent with the terms contained herein.

**14. Conditions Precedent to Construction Disbursement for each Project Phase.**

a. Certificate of the Borrower, the Borrower's legal counsel or other individual acceptable to the I-Bank that the Borrower:

i. Has obtained any and all lands, rights-of-ways, lot line adjustments, easements, and orders of possession, which are required for construction.

ii. All required construction permits have been obtained.

b. Certificate of the Borrower, the Borrower's legal counsel or other individual acceptable to the I-Bank stating that the Borrower for initial disbursement purposes related to the construction of Well No. 31 Pumping Facility Project component that:

i. The Well #31 has been drilled.

ii. All required testing has been completed successfully.

iii. The Well #31 has been determined to be sufficient for the proposed water production purposes.

c. For each construction contract:

i. A written statement by the Borrower, the Borrower's legal counsel or other individual acceptable to the I-Bank that:

1 All construction contracts and subcontracts necessary for the construction of the applicable Project component have been awarded, and were awarded pursuant to competitive bidding and the Borrower's procedures normally required for similar construction projects.

2 Project costs for the applicable Project component are consistent with the Sources and Uses listed in this staff report.

3 Appropriate builder's risk insurance has been obtained and the policy names the Borrower as additional insured and loss payee, and contractor has acquired and shall be required to maintain liability insurance and name the Borrower as an additional insured, and contractor shall be required to obtain performance and payment bond provisions and name the Borrower as additional payee.

4 All construction contracts are left to the lowest responsible bidder at a fixed price subject to increase only for allowable extra work, change orders approved by the Borrower, and damages or delays authorized by the laws of the State.

5 All construction contracts require: payment of prevailing wage rates and compliance with Chapter 1 (commencing with Section 1720) of Part 7 of Division 2 of the California Labor Code.

6 All construction contracts require payment of workers' compensation insurance by contractors and subcontractors.

7 All construction contracts include the nondiscrimination provisions.

8 The Borrower has utilized the contractor pre-qualification forms developed by the Department of Industrial Relations as set forth in AB 574 (972 of the statutes of 1999) codified in Public Contract Code Section 20101 et seq.

ii. Submittal of a copy of the complete construction contract.

iii. Submittal of a copy of the builder's risk insurance policy, and a copy of the contractor's payment and performance bonds.

**15. Conditions Precedent to Final Disbursement:** The following are some of the conditions precedent to final disbursement of I-Bank funds:

e. Recorded Notice of Completion or other evidence of completion for each Project component.

- f. Lien waivers for the Project, or passage of the applicable statutory time periods for filing mechanics and other similar liens.
- g. Certification that the Project has been completed in accordance with the approved plans and specifications, and that the completed Project is consistent with the definition of Project in this staff report and is acceptable to the Borrower.
- h. Certification that the Borrower has obtained all licenses and permits (including operating permits), and approvals from any governmental agency or authority having jurisdiction over the Borrower in connection with the Project.

**16. Financial and Other Reporting Requirements:**

- c. Annual Borrower audited financial statements, due to the I-Bank within 210 days of fiscal year end.
- d. Other information as the I-Bank may request from time to time.

