

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

STAFF REPORT

EXECUTIVE SUMMARY

Applicant: City of San Bernardino Municipal Water Department (SBMWD)	Amount Requested:	\$10,000,000
Name of Project: Ogden 12 MG Reservoir Project (Project)	Requested Financing Term:	20 years
Project Location: The Project will be located on Ogden Street between Nolan Street and Cajon Boulevard in Muscoy, an unincorporated area of San Bernardino County (County) within SBMWD's service area.	Interest Rate:	2.61% ¹
	Tier:	Tier 1
Project Description: The Project consists of the design, engineering, and construction of a new 12 million gallon (MG) circular, pre-stressed concrete reservoir including but not limited to site-work, piping, connections to existing piping, access road, perimeter fence, control systems, security systems, and landscaping.		
Use of Financing Proceeds: Proceeds will be used for construction, construction contingency, and the I-Bank fee.		
Source of Repayment: Senior Lien on Net Water System Revenues	Form of Financing Agreement: Installment Sale Agreement	
Scoring Criteria:	Applicant Score	
Project Impact	30	
Community Economic Need	41	
Land Use/Environmental Protection/Housing Element	25	
Leverage	3	
Readiness	<u>0</u>	
TOTAL	99	
I-Bank Staff: Tad Thomas	Date of Staff Report: October 18, 2011	
Date of I-Bank Board Meeting: October 25, 2011	Resolution Number: 11-25	
Staff Recommendation: Staff recommends approval of Resolution No. 11-25 authorizing financing to the City of San Bernardino Municipal Water Department for the Ogden 12 MG Reservoir Project, subject to conditions contained herein.		

¹ Rate as of October 3, 2011

PROJECT DESCRIPTION

SBMWD requests ISRF Program financing to construct the Ogden 12 MG Reservoir Project (Project). The Project consists of a 12 million gallon (MG) circular, pre-stressed concrete reservoir to be located on the south side of Ogden Street between Nolan Street and Cajon Boulevard in Muscoy, within an unincorporated area of the County of San Bernardino (County), within SBMWD's service area (Exhibit 1).

The land for the Project was acquired and paid for with proceeds from the 1991 Certificates of Participation (COPs) which have subsequently been repaid. The Project will be located adjacent to the existing Ogden pump station. The Project consists of the following elements:

- Design, engineering, inspections and project management expenses,
- Construction and contingency,
- Required connections and piping,
- Level transducer and access hatches,
- Environmental documentation,
- Excavation and site work (includes access roads and finished grade),
- Landscaping, security fence and security systems.

The reservoir will be between 270 and 300 feet in diameter with a side water depth of approximately 24 feet and a capacity of 12 MG. The reservoir will be partially buried using excess excavated materials to build up the area surrounding the reservoir to partially screen it from public view. An access road, perimeter fence, and control and security systems will be installed.

The Project is part of the storage/transmission chain that transfers and distributes groundwater to and throughout higher elevation water service areas and will address a water storage deficiency in the lower pressure zone. The Project is needed for proper operation of the adjacent Ogden pumping station. The Project will also provide a secondary source of water to the Verdernont area which is specifically prone to wildfires, but has only a single source of water supply. SBMWD states that a loss of Verdernont's current water supply will result in a serious threat to public health and safety.

SBMWD is mandated to provide a safe, reliable, and cost effective source of domestic water to existing and future residents. SBMWD's early water improvement plan entitled *Water System Reliability Schedule of Improvements (WSRSI)*, revised August 1999, identified five phases of construction to address the following System inadequacies to meet the mandate:

- 1) Eliminate current water transmission main deficiencies.
- 2) Provide cost-effective sources of water supply that can be maintained through future periods of drought to eliminate dependence upon expensive, at times unavailable, California state water project water.

- 3) Provide backup water transmission, storage and booster capacity to increase SBMWD's water system's overall reliability.
- 4) Enable SBMWD to produce additional groundwater to transfer and distribute throughout higher elevation water service areas.
- 5) Allow construction in phases that will, as each phase is completed, provide a measurable level of improved and/or enhanced ability to provide water service.

The WSRSI states that potential negative impacts to fire protection, water service, energy consumption, and land use and planning would result without the improvements.

The WSRSI was updated with the *2007 Water Facilities Master Plan (2007 Plan)*. The 2007 Plan evaluated the adequacy of the existing System to meet current and projected water demand including SBMWD's ability to deliver adequate fire flows for residential, commercial, and industrial areas. The 2007 Plan states that the Verdemonst area will include 49 acres for industrial use, 15 acres for public use, and approximately 866 acres for residential use. The Project is designed to address a projected increase in demand of 250% over demand described in the 2007 Plan.

SBMWD requested and received CIEDB funding for two previous projects: (1) Phases I and II of the WSRSI, and (2) Verdemonst Area Infrastructure Project, Phase I. The Project is included as one of the remaining phases of the WSRSI.

PROJECT SOURCES AND USES

Project funding is as follows:

PROJECT SOURCES and USES			
Uses	Sources		
	I-Bank	SBMWD	Total
Construction & Contingency	\$9,915,000	\$485,000	\$10,400,000
Architectural/Engineering/Design/Permits/ Environmental/Construction Management		\$479,900	\$479,900
Contingency for Construction Management/ Engineering/Architectural/Design		\$39,000	\$39,000
I-Bank Origination Fee	\$85,000		\$85,000
Total	\$10,000,000	\$1,003,900	\$11,003,900

In its Resolution 789 adopted September 20, 2011, SBMWD committed funds to the Project in an amount not to exceed \$1,003,900.

ELIGIBILITY CRITERIA

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

GENERAL INFORMATION

SBMWD serves 90% of the City of San Bernardino (City) and a portion of the unincorporated County. The City is situated in the desert valley approximately 60 miles

east of Los Angeles at the foot of Cajon Pass in the San Bernardino Mountains. The cities of Highland on the northeast, Devore on the northwest, Redlands to east, Loma Linda and Colton to the south, and Rialto to the west, all much smaller municipalities, border the City.

The City was incorporated as a charter city in 1854. The oldest and largest city in the County, it operates under a strong mayor-council form of government, with an elected mayor and seven members of the City council elected by voters in their respective wards. Additionally, the City is the seat of San Bernardino County, the largest county in the nation.

The City is a transportation hub having an intermodal yard serving the Burlington Northern Santa Fe Railroad from which goods are moved by truck and rail to warehouse and distribution centers, where they are repackaged for hauling throughout the nation. All major freight lines have terminals in the area and provide daily service to all transcontinental points. The freight industry is one of the leading generators of new jobs in the City and the region. Additionally, Ontario International Airport, about 20 miles away, provides passenger and cargo services. Water resources add to the economic strength of the City in that the City has rights to California State Water Project water and sits on an underground aquifer the size of Lake Shasta. This resource advantage helps sustain the City's economic and population growth. The City is also strategically positioned to benefit over the next decade from an outward migration from Southern California's coastal counties as the employment, housing, retail trade and commercial activity pushes inland due to higher cost in the coastal areas.

SBMWD, a component unit of the City, was formed in 1905 under the City's charter. SBMWD operates two enterprises: a water utility system (System) and a sewer treatment utility system. The water utility is governed by a five-member Board of Water Commissioners (BOWC), appointed by the Mayor and subject to confirmation by the City council. Commissioners serve staggered six-year terms. The BOWC is empowered to (a) establish and collect water rates; (b) employ and compensate from the water fund employee services necessary for operations; (c) incur indebtedness or liability not exceeding in any year the income and revenue subject to debt limitations; and (d) to make rules and regulations governing the conduct of the BOWC and its members.

CREDIT ANALYSIS

System Characteristics

System Description: The System consists of 57 wells (Wells) located in SBMWD's 45-square mile water service area and delivers water to more than 42,000 service connections through 551 miles of water mains. The Wells generate 87.5 million gallons of water per day (MGD). The System also includes 11.2 MG of covered water storage, 149.5 MGD of boosting capacity, and 56 MGD of treatment facilities to remove volatile organic components from the drinking water. Annual consumption growth is expected to increase by 1.5% per year through fiscal year 2014.

Elevations of the service area from the valley floor rise from approximately 1,000 feet above sea level at the southern boundary, to an elevation in excess of 2,100 feet above sea level at its northern-most boundary. Fifty percent of the System's assets were placed into service in the 1950s. The age of System components ranges from new to 100+ years. The age of transmission within the original footprint of the City is 100+ years.

SBMWD sells water to other water agencies of approximately 7,391 acre feet (AF) per year, and anticipates this will diminish over time to approximately 629 AF. 2009 sales to other water agencies were as follow: Valley District, 6,179 AF; Loma Linda, 1,159 AF; and Baseline Gardens Mutual Water Company, 53 AF. SBMWD has water exchange and transfer agreements with several of the surrounding agencies on an as-needed basis. Exchanges occur when SBMWD pumps water to another agency and in turn receives water back from the agency at a future time and specified ratio to account for pumping and delivery costs. The exchanges are on an as-needed basis and only occur when adequate supplies are available.

System Capital Improvements: The Project was identified in SBMWD's *1981 Water System Master Plan*, in SBMWD's *1990 Water System Master Plan Update*, and again in the August 1999 WSRSI (together, Plans) discussed earlier in this report. SBMWD again updated its Plans with its *2007 Water Facilities Master Plan (2007 Plan)*. The Project is reflected as priority 2 in the 2007 Plan.

The *Operating and Capital Improvement Budget (CIP Budget)* for Fiscal Year 2011-2013 identifies the Project and reflects that SBMWD allocated \$200,000 in fiscal year 2011-2012 and \$8,800,000 in fiscal year 2012-13 for the Project. On September 13, 2011, SBMWD amended its CIP Budget to increase the amount available in the CIP Budget by \$2,003,900 in fiscal year 2011-12 to provide a total of \$11,003,900 for the Project.

Water Supply, Capacity, and Reliability: SBMWD obtains 100 percent of its water from ground water wells in the Bunker Hill Groundwater Basin (Basin). The Basin contains 5.0 million AF of water of which 1.5 million AF of water is extractable. Based on a land use study included in the 2007 Plan, ultimate water demand is 79,169 AF for total System build out. A more recent assessment in SBMWD's *2010 Regional Urban Water Management Plan* disclosed that 67,190 AF per year will be sufficient once a 20% reduction in water use is achieved through conservation measures, estimated to be by 2020. The Basin is replenished naturally by annual precipitation.

SBMWD also operates a superfund clean-up project (Superfund Project) that provides additional water supplies upon treatment. The Superfund Project is located in the Newmark and Muscoy plumes (Plumes) in the lower elevation zones. The Plumes are contaminated with Tetrachloroethylene (PCE) and Trichloroethylene (TCE). Treatment is centrally located at two major granular active carbon plants at 19th Street and Waterman facilities. All supply from the contaminated area is treated to non-detectable levels and distributed throughout varying elevation zones.

The number and type of System users by category over the last five years are as follows:

NUMBER OF USERS					
	06/07	07/08	08/09	09/10	10/11
Residential	37,822	37,755	37,150	37,260	37,452
Commercial	3,847	3,954	4,003	3,985	3,902
Agriculture	1,572	1,755	1,820	1,818	1,825
TOTAL	43,241	43,464	42,973	43,063	43,179

Source: SBMWD

The above table reflects that the number of users has been relatively stable with no growth.

The current System usage and revenues as of June 30, 2010 are as follows:

CURRENT SYSTEM USAGE AND REVENUE				
	Annual Usage	% of Usage	Annual Gross Revenue	% of Total Revenue
Residential	37,452	86.74%	\$17,356,728	71.02%
Commercial/Industrial	3,902	9.04%	\$5,864,254	24.00%
Other	1,825	4.22%	\$1,215,855	4.98%
TOTAL	43,179	100.00%	\$24,436,837	100.00%

Source: SBMWD

The above table reveals that System usage is primarily residential at 86.74% of total usage and residential use provides over 71% of total System revenue.

Historical and current average monthly user charge of the System per residential unit is as follows:

HISTORICAL AND CURRENT AVERAGE MONTHLY USER CHARGE PER RESIDENTIAL UNIT					
For Fiscal Year Ending (FYE) June 30,	2005-6	2006-7	2007-8	2008-9	2009-10
Residential	\$31.40	\$35.20	\$36.31	\$37.44	\$44.99
% change		12.10%	3.15%	3.11%	20.17%

Source: SBMWD

The table above reflects that the average monthly user charge per residential unit has increased annually between fiscal years 2005-6 and 2009-10.

Rates are composed of the following components: a meter charge which vary by meter size, a commodity charge that recovers water production and treatment costs per volume used, a replenishment charge which recovers the cost of water purchased to replenish the groundwater basin, and an elevation charge to recover electrical costs to transport water through the system. The following table illustrates the rate increase history for all users.

HISTORICAL RATE INCREASES		
Date Adopted	Date Effective	Percent Increase
2/20/2007	7/1/2007	3.22%
2/20/2007	7/1/2008	5.20%
1/5/2010	2/1/2010	16.52%
1/5/2010	1/1/2011	14.52%
1/5/2010	1/1/2012	5.63%

Source: SBMWD

SBMWD demonstrates a pattern of rate increases permitting SBMWD to keep pace with the cost of operations and system improvements. SBMWD complies with the Proposition 218-required voter approval process.

The following table illustrates the projected average monthly user charge per residential unit for fiscal years (FYs) 2011 through FY 2014.

PROJECTED AVERAGE MONTHLY USER CHARGE PER RESIDENTIAL UNIT				
Source:	Application	Application	Application	Application
For Fiscal Year Ending (FYE) June 30,	2011	2012	2013	2014
Residential	\$48.32	\$50.70	\$52.73	\$54.84
% change		4.93%	4.00%	4.00%

Source: SBMWD

Rate increases effective for calendar years 2011 and 2012 were approved in January 2010 (see previous table). The table above reflects that SBMWD intends to continue to increase rates.

The table below compares SBMWD's current average monthly residential user charge with nearby systems. The information is based on SBMWD's survey conducted July 1, 2011.

RATE COMPARISON		
System Name	Location	Average Monthly Residential Charge
SBMWD	San Bernardino	\$44.99
City of Riverside Public Utilities Department	Riverside	\$53.35
East Valley Water District	Highland	\$53.26
City of Redlands	Redlands	\$56.45
City of Colton	Colton	\$56.34

Source: SBMWD

The table above shows that SBMWD's rates are lower than nearby communities.

The top ten current System users are identified in the table below:

TOP TEN RATEPAYERS		
User	% of System Use	% of System Revenues
1. City of San Bernardino	4.9%	0.7%
2. SBCUSD⁽¹⁾	2.5%	2.8%
3. Loma Linda Inter-tie	1.6%	1.5%
4. City of San Bernardino EDA (Inter-tie)	1.2%	0.6%
5. County of San Bernardino	1.1%	1.1%
6. Cal State University	0.8%	0.8%
7. Housing Authority	0.8%	0.9%
8. Cott Beverages	0.7%	0.7%
9. Rialto School District	0.4%	0.4%
10. CalTrans	0.4%	0.4%
TOTAL	14.4%	9.9%

Source: SBMWD

⁽¹⁾ San Bernardino City Unified School District

The top ten users represent 14.4% of total System users and generate 9.9% of System revenues. This complies with the I-Bank underwriting requirements that the top ten ratepayers not exceed 50% and that no single ratepayer exceed 15% of System revenues.

Security and Source of Financing Repayment

SBMWD has proposed a net revenue pledge of its water fund (Fund) as the source of repayment for the ISRF Program loan. Staff reviewed SBMWD's basic financial statements (BFS) for fiscal years ending June 30, 2008, 2009 and 2010. Staff also reviewed SBMWD's adopted fiscal year 2011-13 (two year) operating budget. The BFS were audited and the auditor's report indicates, for all years, the financial statements present fairly, in all material respects, the financial position of SBMWD, and that the results of its operations and the cash flows are in conformity with generally accepted accounting principles.

Source of Revenue to Repay Proposed ISRF Program Financing:	City of San Bernardino Municipal Water Department Water Fund Net Revenues
Applicant Proposed Lien Position:	<input type="checkbox"/> Senior <input checked="" type="checkbox"/> Senior Parity <input type="checkbox"/> Subordinate <input type="checkbox"/> Subordinate Parity <input type="checkbox"/> Other: _____
List Debt that is Senior to Proposed ISRF Program Financing:	None
List Debt On Parity with Proposed ISRF Program Financing:	ISRF loans CIEDB-BC05-076 and CIEDB-02-027
List Debt Subordinate to Proposed ISRF Program Financing:	None
Type of Audited Financial Documents Reviewed:	<input type="checkbox"/> Comprehensive Annual Financial Reports (CAFR) <input checked="" type="checkbox"/> Basic Financial Statements (BFS) <input type="checkbox"/> Other: _____
Audit Years Reviewed:	FY 2007/2008; 2008/2009; 2009/2010
The auditor's reports for all years indicate that the financial statements present fairly, in all material respects, the financial position of SBMWD, and that the results of its operations and the cash flows are in conformity with generally accepted accounting principles.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Adopted Budget(s) Reviewed:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Budget Years Reviewed:	2011/2013
Rate Study Reviewed:	<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes
Applicant's Fiscal Year:	July 1 through June 30

Comparative Balance Sheet Analysis

The Comparative Statement of Net Assets (Balance Sheet) for the Fund for the last three fiscal years is as follows:

COMPARATIVE STATEMENT of NET ASSETS						
For Fiscal Year Ending (FYE) June 30,	2008		2009	%	2010	%
Source:	BFS		BFS		BFS	
Assets:						
Current Assets						
Cash and Investments	\$10,356,164	4.3%	\$10,988,446	4.6%	\$9,036,275	3.8%
Account Receivable, Net	\$4,531,841	1.9%	\$4,313,408	1.8%	\$7,093,086	2.9%
Due from Other Entities	\$1,621,707	0.7%	\$1,036,286	0.4%	\$2,388,988	1.0%
Interfund Receivable	\$292,786	0.1%	\$197,149	0.1%	\$112,095	0.0%
Related Parties Receivable	\$417,031	0.2%	\$258,780	0.1%	\$182,670	0.1%
Inventory	\$1,474,300	0.6%	\$1,604,597	0.7%	\$1,622,670	0.7%
Prepaid Expenses	\$86,681	0.0%	\$73,201	0.0%	\$191,164	0.1%
Total Current Assets	\$18,780,510	7.8%	\$18,471,867	7.7%	\$20,626,948	8.6%
Non-Current Assets						
Restricted Assets						
Restricted for Debt Service	\$27,971	0.0%	\$32,840	0.0%	\$50,059	0.0%
Restricted for Capital-Related Fees	\$8,406,696	3.5%	\$6,328,449	2.6%	\$1,528,434	0.6%
Restricted for Consumer Deposits	\$2,533,998	1.1%	\$2,592,741	1.1%	\$2,837,190	1.2%
Restricted for Consent Decree	\$2,215,690	0.9%	\$21,059,979	8.8%	\$21,641,702	9.0%
Guaranteed Investment Contract	\$17,545,260	7.3%	\$0	0.0%	\$0	0.0%
Interest Receivable	\$950,624	0.4%	\$149,385	0.1%	\$45,090	0.0%
Prepaid Insurance - Consent Decree	\$41,457,912	17.2%	\$39,414,022	16.4%	\$37,519,398	15.6%
Note Proceeds Held by State	\$5,642,389	2.3%	\$3,506,098	1.5%	\$387,501	0.2%
Total Restricted Assets	\$78,780,540	32.7%	\$73,083,514	30.5%	\$64,009,374	26.6%
Notes Receivable	\$0	0.0%	\$6,295	0.0%	\$3,445	0.0%
Capital Assets						
Land and Easements	\$2,944,972	1.2%	\$2,944,972	1.2%	\$2,944,972	1.2%
Construction in Progress	\$15,444,722	6.4%	\$12,660,529	5.3%	\$21,972,526	9.1%
Water Rights, Wells, and Pumping Plants	\$61,989,083	25.7%	\$69,684,287	29.1%	\$70,712,801	29.4%
Distribution Systems	\$100,339,018	41.7%	\$103,972,604	43.4%	\$105,915,851	44.0%
Building, Plants and Store Yards	\$2,317,596	1.0%	\$2,520,636	1.1%	\$2,642,328	1.1%
Tools and Equipment	\$2,631,120	1.1%	\$3,005,222	1.3%	\$3,041,864	1.3%
Fleet and Rolling Stock	\$3,582,883	1.5%	\$3,537,350	1.5%	\$3,722,257	1.5%
Office Leasehold Improvements	\$2,190,680	0.9%	\$2,190,680	0.9%	\$2,354,557	1.0%
Office, Computer, Engineering Equipment	\$3,271,254	1.4%	\$2,671,657	1.1%	\$2,976,161	1.2%
Radio Communication Equipment	\$283,802	0.1%	\$296,242	0.1%	\$307,499	0.1%
Telemetry Systems and Equipment	\$994,462	0.4%	\$1,036,527	0.4%	\$1,036,527	0.4%
Miscellaneous (Construction in Progress)	\$233,534	0.1%	\$233,534	0.1%	\$233,534	0.1%
Less Accumulated Depreciation and Amortization	(\$52,969,570)	-22.0%	(\$56,627,872)	-23.6%	(\$61,714,971)	-25.6%
Total Capital Assets (Net of Accumulated Depreciation and Amortization)	\$143,253,556	59.5%	\$148,126,368	61.8%	\$156,145,906	64.8%
Total Non-current Assets	\$222,034,096	92.2%	\$221,216,177	92.3%	\$220,158,725	91.4%
Total Assets	\$240,814,606	100.0%	\$239,688,044	100.0%	\$240,785,673	100.0%

COMPARATIVE STATEMENT of NET ASSETS						
For Fiscal Year Ending (FY) June 30,	2008	%	2009	%	2010	%
Source:	BFS		BFS		BFS	
Liabilities						
Current Liabilities						
Accounts Payable	\$4,386,597	1.8%	\$3,617,011	1.5%	\$2,308,330	1.0%
Related Parties Payable	\$681,323	0.3%	\$765,280	0.3%	\$809,614	0.3%
Accrued Expenses	\$1,271	0.0%	\$1,738	0.0%	\$7,225	0.0%
Accrued Compensation	\$788,112	0.3%	\$897,208	0.4%	\$929,640	0.4%
Claims Payable	\$318,074	0.1%	\$323,062	0.1%	\$245,752	0.1%
Consumer Deposits	\$854,969	0.4%	\$312,123	0.1%	\$259,662	0.1%
Deferred Revenue	\$0	0.0%	\$0	0.0%	\$63,188	0.0%
Current Portion of Compensated Absences	\$959,695	0.4%	\$966,929	0.4%	\$943,735	0.4%
Current Portion of Leases Payable	\$76,794	0.0%	\$19,642	0.0%	\$0	0.0%
Current Portion of Notes Payable	\$472,312	0.2%	\$926,464	0.4%	\$954,647	0.4%
Current Portion of Certificates of Participation	\$10,000	0.0%	\$0	0.0%	\$0	0.0%
Current Portion of Bonds Payable	\$301,100	0.1%	\$10,000	0.0%	\$10,000	0.0%
Current Portion of OPEB Obligation	\$227,848	0.1%	\$347,900	0.1%	\$0	0.0%
Accrued Interest Payable	\$0	0.0%	\$221,275	0.1%	\$209,533	0.1%
Total Current Liabilities	\$9,078,095	3.8%	\$8,408,632	3.5%	\$6,741,326	2.8%
Noncurrent Liabilities						
Consumer Deposits	\$2,582,506	1.1%	\$2,579,699	1.1%	\$2,788,733	1.2%
Compensated Absences	\$471,690	0.2%	\$447,308	0.2%	\$374,180	0.2%
Deferred Revenue - Consent Decree	\$62,055,217	25.8%	\$60,473,518	25.2%	\$59,084,337	24.5%
Leases Payable	\$19,642	0.0%	\$0	0.0%	\$0	0.0%
Notes Payable	\$17,786,240	7.4%	\$16,859,776	7.0%	\$15,905,129	6.6%
Bonds Payable	\$45,000	0.0%	\$35,000	0.0%	\$25,000	0.0%
OPEB Obligation	\$711,900	0.3%	\$1,723,100	0.7%	\$3,039,000	1.3%
Total Noncurrent Liabilities	\$83,672,195	34.7%	\$82,118,401	34.3%	\$81,216,379	33.7%
Total Liabilities	\$92,750,290	38.5%	\$90,527,033	37.8%	\$87,957,705	36.5%
Net Assets						
Invested in Capital Assets, Net of Related Debt	\$130,610,364	54.2%	\$133,834,066	55.8%	\$139,688,690	58.0%
Restricted for:						
Capital-Related Fees	\$8,406,696	3.5%	\$6,328,449	2.6%	\$1,528,434	0.6%
Unrestricted	\$9,047,256	3.8%	\$8,998,496	3.8%	\$11,610,844	4.8%
Total Net Assets	\$148,064,316	61.5%	\$149,161,011	62.2%	\$152,827,968	63.5%

Total Current Assets increased 9.83%, or \$1,846,438, between fiscal year 2008 and 2010 primarily due to an increase in Accounts Receivable. Accounts Receivables increased in 2010 as a result of uncollected costs for Operations & Maintenance required to administer a consent decree between the City and the United States of America (Consent Decree), and due to costs incurred to relocate facilities near Interstate 210 and 215 for CalTrans.

The Consent Decree settled a matter between the City of San Bernardino vs. United States of America (March 24, 2005). The claims arise from groundwater contamination allegedly caused by the United States Department of the Army and settled in the Consent Decree provided a \$69 million dollar payment to the City to perform work as outlined in the Consent Decree. The City, through SBMWD, received title to all cleaning facilities constructed in cooperation with the United States Environmental Protection Agency and agreed to operate and maintain a groundwater extraction and treatment system for 50 years. The \$69 million dollar payment consisted of \$59 million for operation and maintenance and \$10 million for construction of the facilities. The settlement created a restricted account that is identified in the Balance Sheet as line items "Restricted for Consent Decree" and "Prepaid Insurance" with an offsetting liability account of "Deferred Revenue".

ACCOUNTS RECEIVABLE AGING					
As of 06/30/2011					
Source: Application Exhibit #17					
Current	30 Days	60 Days	90 Days	120 Days	Total
\$3,833,497	\$1,988,029	\$24,856	\$928,929	\$317,775	\$7,093,086
54.0%	28.0%	0.4%	13.1%	4.5%	100.0%

The above table reflects that SBMWD collects 82% of its receivables within 60 days.

Changes in Total Restricted Assets were primarily offset by changes in Total Capital Assets. Total Assets remained relatively stable over the three years reviewed with only a slight reduction of \$28,933.

Total Liabilities declined primarily as a result of a pay down of Accounts Payable. Overall, Total Net Assets increased 3.2%, \$4.8 million, as a result of the changes discussed above.

Comparative Revenues and Expenses Analysis

The comparative historical revenues and expenses and changes in Fund balance for the last three fiscal years are summarized below:

COMPARATIVE STATEMENT of REVENUES, EXPENSES, and CHANGES IN NET ASSETS						
For Fiscal Year Ending (FYE) June 30,	2008		2009		2010	
Source:	BFS	%	BFS	%	BFS	%
Operating Revenues:						
Charges for Services	\$25,295,534	92.5%	\$25,308,524	92.8%	\$25,613,162	92.5%
Other Operating Revenues	\$2,041,559	7.5%	\$1,950,430	7.2%	\$2,075,532	7.5%
Total Operating Revenues	\$27,337,093	100.0%	\$27,258,954	100.0%	\$27,688,694	100.0%
Operating Expenses:						
Administration and Customer Service	\$7,890,971	28.9%	\$8,275,959	30.4%	\$8,211,826	29.7%
Utility Administration	\$912,657	3.3%	\$736,112	2.7%	\$535,243	1.9%
Plant Operations	\$7,629,602	27.9%	\$7,155,031	26.2%	\$7,443,231	26.9%
Maintenance	\$1,813,310	6.6%	\$1,853,244	6.8%	\$1,577,642	5.7%
Distribution	\$3,621,228	13.2%	\$3,753,301	13.8%	\$3,766,067	13.6%
Engineering and Water Quality Control	\$2,405,221	8.8%	\$3,046,765	11.2%	\$2,204,374	8.0%
General, Administration, and Overhead	\$3,689,648	13.5%	\$2,889,629	10.6%	\$2,804,993	10.1%
Depreciation and Amortization	\$4,490,464	16.4%	\$5,224,933	19.2%	\$5,409,704	19.5%
Total Operating Expenses	\$32,453,101	118.7%	\$32,934,974	120.8%	\$31,953,080	115.4%
Operating Income (Loss)	(\$5,116,008)	-18.7%	(\$5,676,020)	-20.8%	(\$4,264,386)	-15.4%
Non-Operating Revenues (Expenses)						
Investment Income	\$1,613,192	5.9%	\$1,008,607	3.7%	\$578,912	2.1%
Rental Income	\$95,818	0.4%	\$101,130	0.4%	\$98,638	0.4%
Noncapital Grant Funds	\$2,715,957	9.9%	\$2,043,889	7.5%	\$1,894,624	6.8%
Gain (loss) on Asset Disposition	(\$531,528)	-1.9%	\$309,708	1.1%	\$8,988	0.0%
Interest Expense and Fiscal Changes	(\$592,182)	-2.2%	(\$601,795)	-2.2%	(\$655,404)	-2.4%
Other	\$178,348	0.7%	(\$8,021)	0.0%	\$175,782	0.6%
Total Non-Operating Revenues (Expenses)	\$3,479,605	12.7%	\$2,853,518	10.5%	\$2,101,540	7.6%
Net Profit (Loss)	(\$1,636,403)	-6.0%	(\$2,822,502)	-10.3%	(\$2,162,846)	-7.9%
Capital Contributions:						
Acquisition Fees	\$2,895,970		\$1,239,309		\$301,000	
Capacity Fees	\$3,527,254		\$1,202,964		\$3,980,720	
Contributed Capital Assets	\$4,974,723		\$1,476,924		\$732,322	
EPA Grant	\$0		\$0		\$815,761	
Total Capital Contributions	\$11,397,947		\$3,919,197		\$5,829,803	
Net Assets:						
Balance at Beginning of Year	\$138,302,772		\$148,064,316		\$149,161,011	
Balance at End of Year	\$148,064,316		\$149,161,011		\$152,827,968	

Operating Revenues remained fairly consistent over the past three years reflecting a 1.3% increase. Although SBMWD increased rates, conservation measures reduced water consumption resulting in revenues remaining flat. Total Operating Expenses decreased 1.5%, \$500,021, over the three years examined as a result of a hiring freeze and savings achieved by pumping water to higher elevation storage during off-peak hours.

Total Non-operating Revenues include reimbursement from the Consent Decree reported as Noncapital Grant Funds. Total Capital Contributions include Acquisition Fees charged for new service, and Capacity Fees as received from CalTrans in payment for the cost of pipe relocation. CalTrans-related expenses are claimed under Plant Operations and Engineering and Water Quality Control. SBMWD was also awarded an EPA grant (\$815,761) that was used to study the potential development of recycled water.

Budget

Review of SBMWD's CIP Budget indicates a conservative estimate of revenues and expenses and that SBMWD will be implementing rate increases to meet capital and operating expenses in future years. SBMWD has sufficient revenue to cover operating and maintenance expenses, to fund additional debt service, and maintain a healthy level of reserves.

Cash Flow and Debt Service Analysis

The current outstanding and proposed Fund obligations are as follows:

OBLIGATIONS						
Original Issue	Dated	Series	Final Maturity	Maximum Annual Debt Service (MADS)	Outstanding 8/1/2011	Lien Priority
2002 ISA (CIEDB-02-027)	2002	Installment Sale Agreement	2/1/2022	\$768,529	\$6,793,764	Senior lien on net System revenues
2007 ISA (CIEDB-BC05-076)	2007	Installment Sale Agreement	8/1/2026	\$699,380	\$8,218,073	Senior lien on net System revenues
Proposed I-Bank ⁽¹⁾	2011	Installment Sale Agreement	8/1/2031	\$652,000	\$10,000,000	Senior lien on net System revenues
Total Aggregate Debt				\$2,119,909	\$25,011,837	

(1) MADS means maximum annual debt service.

(2) Proposed loan was amortized @3.00% for 20 years and rounded.

Date of Debt:	April 30, 2002
Name of Debt:	Installment Sale Agreement (2002 ISA) (CIEDB-02-027)
Issuer:	California Infrastructure and Economic Development Bank (I-Bank)
Security:	Section 3.01 of the 2002 ISA requires a pledge of Net System Revenues and all amounts in the Enterprise Fund, subordinate to Senior Debt defined as Bay Area Governments Purchase Agreement (ABAG) dated May 1, 1998. The ABAG debt has subsequently been paid off.
Rates and Charges Covenant:	Section 5.06 requires 1.10 MADs.
Allows Senior Debt?	<input type="checkbox"/> Not mentioned <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes See Section 6.01 of the 2002 ISA.
Allows Parity Debt?	<input type="checkbox"/> Not mentioned <input type="checkbox"/> No <input checked="" type="checkbox"/> Yes Section 2.07 of the ISA allows parity debt with no event of default, aggregate MADS are greater than 1.10 coverage.
Allows Subordinate Debt?	<input checked="" type="checkbox"/> Not mentioned <input type="checkbox"/> No <input type="checkbox"/> Yes The CIEDB-02-027 loan agreement does not appear to address subordinate debt.
Reserve Fund(s) and/or Rate Stabilization Fund To Be Maintained? Amount?	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes. Section 5.25 of the CIEDB-02-027 loan requires borrower to maintain reserve policy maintained by Senior Debt Instrument. The senior debt has subsequently been paid off.
Reserve Fund Required for Senior or Parity Debt?	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes
In Compliance With All Terms and Conditions?	SBMWD is paid as agreed and in compliance with all 2002 ISA terms and conditions.

Date of Debt:	July 1, 2007
Name of Debt:	Installment Sale Agreement (2007 ISA) (CIEDB-BC05-076)
Issuer:	California Infrastructure and Economic Development Bank (I-Bank)
Security:	Section 3.01 requires a pledge of and senior lien on all of the Net System Revenues and all amounts in the Enterprise Fund
Rates and Charges Covenant:	Section 5.06 requires 1.10 Annual Debt Service.
Allows Senior Debt?	<input type="checkbox"/> Not mentioned <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes Section 6.01 of the 2007 ISA does not allow senior debt.
Allows Parity Debt?	<input type="checkbox"/> Not mentioned <input type="checkbox"/> No <input checked="" type="checkbox"/> Yes
Allows Subordinate Debt?	<input type="checkbox"/> Not mentioned <input type="checkbox"/> No <input checked="" type="checkbox"/> Yes Section 6.01 of the 2007 ISA permits subordinate debt.
Reserve Fund(s) and/or Rate Stabilization Fund To Be Maintained? Amount?	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes The 2007 ISA is silent on maintaining reserves.
Reserve Fund Required for Senior or Parity Debt?	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes
In Compliance With All Terms and Conditions?	SBMWD is paid as agreed and in compliance with all 2007 ISA terms and conditions.

Historical Fund cash flow and debt service analysis for the proposed financing is presented below:

CASH FLOW			
For Fiscal Year Ending (FYE) June 30,	2008	2009	2010
Operating Income (Loss)	(\$5,116,008)	(\$5,676,020)	(\$4,264,386)
Depreciation and Amortization	\$4,490,464	\$5,224,933	\$5,409,704
Investment Income	\$1,613,192	\$1,008,607	\$578,912
Rental Income	\$95,818	\$101,130	\$98,638
Noncapital Grant Funds (30yr Consent Decree)	\$2,715,957	\$2,043,889	\$1,894,624
Capacity Fees (CalTrans Reimbursement for Construction)	\$3,527,254	\$1,202,964	\$3,980,720
EPA Grant	\$0	\$0	\$815,761
Acquisition Fees (Connection Fees)	\$2,895,970	\$1,239,309	\$301,000
Cash Available for Debt Service with Connection Fees	\$10,222,647	\$5,144,812	\$8,814,973
Acquisition Fees (Connection Fees)	(\$2,895,970)	(\$1,239,309)	(\$301,000)
Cash Available for Debt Service w/o Connection Fees	\$7,326,677	\$3,905,503	\$8,513,973
Debt Service Calculation			
Senior Debt Service @ MADS⁽¹⁾			
2002 ISA (CIEDB 02-027)	\$768,529	\$768,529	\$768,529
2007 ISA (CIEDB BC05-076)	\$699,390	\$699,390	\$699,390
Proposed CIEDB ⁽²⁾	\$701,041	\$701,041	\$701,041
Total Senior MADS	\$2,168,960	\$2,168,960	\$2,168,960
Senior Debt Service Coverage Ratio w Connection Fees	4.71	2.37	4.06
Senior Debt Service Coverage Ratio w/o Connection Fees	3.38	1.80	3.93
⁽¹⁾ Maximum Annual Debt Service			
⁽²⁾ Calculated as \$10,000,000 @ 3.0% for 20 years			

Historical cash flows over the last three years demonstrate SBMWD's ability to service existing debt and the proposed ISRF Program financing at greater than 1.10 times MADS.

Compliance with I-Bank Underwriting Criteria

- I-Bank financing is proposed to be a senior lien on net system revenues on parity with existing debt. Historical cash flow exceeds the minimum 1.10 times debt coverage ratio with and without connection fees.
- 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 the System revenues.
- The BOWC has the power to establish and enact rates and charges without the approval of any other governing body.

LITIGATION, MANAGEMENT AND ENVIRONMENTAL

Litigation

SBMWD'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 Construction and Management Ability

Project construction will be supervised by SBMWD's engineering staff and also by on-site construction management and inspection consultants. All personnel involved have prior experience on multiple reservoir and plant infrastructure projects similar to the Project. SBMWD anticipates using a single construction contract for the Project.

California Environmental Quality Act (CEQA)

Project Component	Level Of Required Environmental Clearance	Status Of CEQA Compliance	Filed NOD Received ⁽¹⁾
<u>Ogden 12 MG Reservoir</u>	<input type="checkbox"/> Notice of Exemption <input checked="" type="checkbox"/> Negative Declaration <input type="checkbox"/> Mitigated Neg. Dec. <input type="checkbox"/> Environmental Impact Report (EIR)	<input type="checkbox"/> In Progress Expected date: <input checked="" type="checkbox"/> Adopted/Approved	<input checked="" type="checkbox"/> Yes Filed with County Recorder on: 9/16/2011 <input type="checkbox"/> No Required Prior to First Disbursement

(1) NOD means Notice of Determination.

SBMWD filed a Notice of Determination (NOD) for the *Initial Study for City of San Bernardino Municipal Water Department Water System Reliability Schedule of Improvements* in March 2002. SBMWD filed an Addendum to the NOD on September 16, 2011 changing the number and size of Project reservoirs from two 6 MG tanks to one 12 MG tank.

SCORING CRITERIA FOR PRIORITIZING PROJECTS			
POINT CATEGORY	ANALYSIS	MAX PTS	PTS
Project Impact			
Job Creation/Retention	The Project will facilitate the transfer of water to areas in the Verdemon Heights allowing commercial development in Verdemon Estates, Verdemon Hills and Verdemon Plaza, and the creation of jobs. However, since SBMWD provided no job creation/retention figures for the Project, no points were awarded in this category.	30	0
Economic Base Employers	Not applicable.	10	0
Community Employment Development Plan	Not applicable.	10	0
Quality of Life/Community Amenities	<p>The Project is a necessary and vital capital improvement identified in the WSRSI. The improvements will permit the applicant to meet its mandate to provide safe, reliable and cost effective source of water to existing and future residents. Without the improvements, there are potential negative impacts to fire protection, water service, energy consumption, and future development would be limited (WSRSI pg 16 & 43).</p> <p>The Project is vital to future planned growth in the Verdemon Area as described in the General Plan and fulfills a unique role by its ability to distribute water using a chain of facilities that move water from locations of supply to area's lacking water. SBMWD is limited to certain access points where it can pump water due to the natural configuration of the Basin and limitations posed by two contaminated sites. This Project provides SBMWD the operational flexibility to move water where needed and to work within the confines of the service area.</p>	30	30
Community Economic Need			
<i>Community Economic Need points were awarded based upon the City of San Bernardino since the Project will primarily benefit the City. Data from the American Community Survey (ACS) for 2005-2009, released by the US Census Bureau, was used to calculate points for Median Family Income and Poverty Rate.</i>			
Unemployment Rate	The City's 2010 unemployment rate was 18.9%, which is 152.4% of the State's 12.4% unemployment rate.	20	10
Median Family Income	The City's median family income was \$42,173, which is 61.2% of the State's average of \$68,909.	15	11
Change in Labor Force Employment	The City's 2010 change in labor force employment was -2.41%. All negative changes in labor force employment are awarded 10 points.	10	10
Poverty Rate	The City's poverty rate was 26.1%, which is 197.7% of the State's 13.2% poverty rate.	10	10
Land Use, Environmental Protection and Approved Housing Element			
Land Use	The Project is located in Muscoy, an unincorporated area of the County that is considered rural with existing under-utilized, vacant land. The area is served by existing streets, water, sewer and other public services. These conditions meet second priority for land use.	20	15

Environmental Protection	The Project promotes conservation of natural resources by fully utilizing the Basin, reducing the dependency on alternative sources of surface waters for planned development. Alternative sources include purchasing water from the State Water Project, which carries its own environmental consequences, or to construct other water projects.	10	10
Housing Element	The City does not have an approved Department of Housing and Community Development General Plan Housing Element.	10	0
Leverage			
Leverage	SBMWD is contributing \$1,003,900 (10.0%) towards the construction of the Project and has already purchased and paid for the land for the Project.	15	3
Readiness			
Readiness	Final design is expected to be completed in December 2011. Project construction is scheduled to begin April 2012.	10	0
TOTAL		200	99

STAFF RECOMMENDATIONS

Staff recommends approval of Resolution No. 11-25 authorizing financing to SBMWD for the Project as follows:

1. **Applicant/Borrower:** City of San Bernardino Municipal Water Department.
2. **Project:** Ogden 12 MG Reservoir.
3. **Amount of Financing:** Not to exceed \$10,000,000.
4. **Maturity:** Not to exceed 20 years.
5. **Funding Availability:** ISRF Program 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 ISRF Program 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:** Senior pledge on net system revenues of Water Fund on parity with July 1, 2007 Installment Sale Agreement loan (CIEDB-BC05-076) and April 20, 2002 Installment Sale Agreement loan (CIEDB-02-027).
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 October 3, 2011.
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 all parity obligations.
 - b. Water Fund net revenues may be pledged on a parity basis with the ISRF Program financing for future financing if net revenues (adjusted for rate increases and system expansion) will provide future aggregate 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.

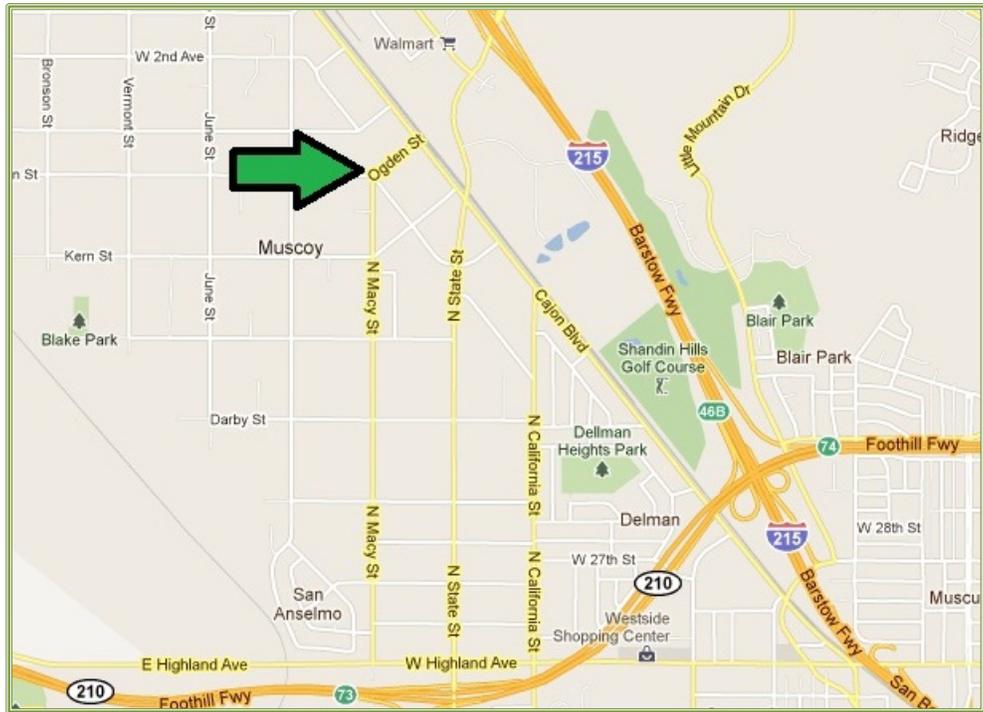
13. Conditions Precedent to Construction Disbursement for each Project Phase.

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

7. The Borrower will utilize the contractor pre-qualification forms developed by the Department of Industrial Relations as set forth in AB 574 (972 of the statues 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.
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 - Maps

Project Location



Service Area

