

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

STAFF REPORT

EXECUTIVE SUMMARY

Applicant: Phelan Piñon Hills Community Services District	Amount Requested:	\$7,500,000
Name of Project: Water Resources Acquisition Project (Project)	Requested Financing Term:	30 years
Project Location: 17900 Sheep Creek Road, Adelanto, CA 92301. Georges Field: APN 0457-112-01, & Home Field: APN 0457-102-05 & 0457-102-06 & Dairy: APN 0457-161-10.	Interest Rate:	2.29% ¹
	Tier:	Tier 1
Project Description: Acquire approximately 466 acres of land and appurtenances, six existing water wells and related water rights.		
Use of Financing Proceeds: Proceeds will be used to acquire 157 acres of land (Georges Field APN 0457-112-01), one well and the water rights.		
Source of Repayment: Parity Lien on the Water System Net Revenues	Form of Financing Agreement: Installment Sale Agreement	
Scoring Criteria: Project Impact Community Economic Need Land Use/Environmental Protection/Housing Element Leverage Readiness TOTAL	Applicant Score 30 8 30 12 <u>10</u> 90	
I-Bank Staff: Karl Whittington, Steve Grebner, Tad Thomas, Jamie Fuentes	Date of Staff Report: November 7, 2012	
Date of I-Bank Board Meeting: November 13, 2012	Resolution Number: 12-10	
Staff recommends approval of Resolution No. 12-10 authorizing financing to the Phelan Piñon Hills Community Services District for the Water Resources Acquisition Project, subject to conditions contained herein.		

¹ Rate as of November 1, 2012

PROJECT DESCRIPTION

The Phelan Piñon Hills Community Services District (District) requests ISRF Program financing for a portion of the Water Resources Acquisition Project (Project) located on the Oeste aquifer (Oeste Aquifer) within the unincorporated community of Adelanto in San Bernardino County (see Exhibit 1—Project Maps). The Project consists of the acquisition of approximately 466 acres of land and appurtenances, six water wells and the costs of water rights. The portion of the Project to be financed by the I-Bank consists of the acquisition of approximately 157 acres of land, one water well and 1,561 acre feet per year (AFY) of water rights to the Oeste Aquifer. Included in the Project is approximately 309 acres of land estimated to be valued at approximately \$3,030,981, currently being used as a dairy that will be donated to the District by the owner. The District entered into a Purchase and Sale and Donation Agreement (Purchase Agreement) dated October 26, 2012, with one landowner to acquire the Project. Upon completing the acquisition of the Project, the District will have immediate access to water production rights without making any additional improvements to District's existing water system.

The District obtains all of its water supply from groundwater in the Oeste and Alto aquifer sub-areas located in the Mojave River Basin (Mojave Basin), and from its Well #14 located in the Antelope Valley Basin. The Mojave Basin was in overdraft and the subject of a court adjudication in 1995. The ensuing judgment established a Mojave Basin incremental overdraft ramp-down plan, reducing groundwater draws over a period of time. The District's application indicates that Well #14 will be included in the upcoming Antelope Valley Basin adjudication, and that it expects that the Antelope Valley Basin adjudication will likely require the District to cease production from Well #14.

Since the District currently uses more water than allowed under the Mojave Basin ramp-down plan, the District purchases water from other aquifer purveyors or the State Water Project. The District has determined that the Project will not only provide a secure source of water for existing customers, but will allow access to additional water supply that will offset the Mojave Basin ramp-down requirements and the anticipated loss of production from Well #14. The additional water rights will enable the District to expand its variable water free production allowance (FPA) drawn from the District's existing wells from 1,416 AFY to 3,751 AFY (prior to the ramp-down requirements).

According to the District, the Project will reduce the amount of costly purchased water and will save the District \$16 million over the next 30 years, resulting in fewer future rate increases for its water customers. The District's application also indicates that the Project is necessary to allow for planned commercial and residential development. According to the Phelan/Piñon Hills Community Plan dated April 2007, over the next 18 years the District's customer base is projected to grow from a population of 20,873 to 30,434, primarily residential development.

Additionally, the District anticipates growth in its commercial/industrial customer base along the District's service boundaries on the border of San Bernardino and Los Angeles Counties. Both counties are involved in a joint project called the E220 High Desert Corridor Project (Corridor), a 62 mile new freeway project being developed by Caltrans and Metrolink connecting Antelope Valley with Victor Valley. The Corridor will link the Antelope Valley Freeway and Interstate 15 ending at State Highway 18 in Apple Valley (see Exhibit 2—E220 High Desert Corridor Map). Currently, the Corridor is in the planning stage, with the draft environmental impact statement/report (DEIS/R) anticipated to be released in late 2013, followed by the final

environmental impact statement/environmental impact report in late 2014, and construction of the freeway projected to be completed by 2020.

The High Desert Bradco Report stated that a 2007 study by Economic and Planning Systems, Inc. looked at the potential development of master planned commercial/industrial property adjacent to the Corridor and estimates the Corridor will create 42,000 sustainable long-term jobs, with about 28,000 of the jobs in the logistics industry, and the balance of the jobs in retail, entertainment, professional services and housing all to be developed over several years after construction completion. The Project is physically adjacent to the Corridor and the District will provide water service to a portion of the commercial/industrial properties to be developed as a result of the Corridor.

Lastly, related to jobs, the District's application indicates that it is considering constructing solar improvements and a park on a portion of the donated Project land, and that the improvements will not only create construction jobs, but also add to permanent jobs and improve the quality of life within the District.

The District reports that failure to secure financing for the Project would mean the District will be faced with water shortages and ultimately have to purchase costly water to meet demand, and that the lack of water supply will result in higher water rates for the existing customers, and possible construction and development moratoriums, job losses in the District service area and elsewhere. Additionally, this outcome could have potential adverse consequences for an area that already has high unemployment rates (Phelan and Piñon Hills communities currently have 2011 unemployment rates at 11.7% and 20.5%, respectively).

PROJECT SOURCES AND USES

The Project funding is as follows:

PROJECT SOURCES AND USES				
Uses	Sources			
	I-Bank	District	Private Donation	Total
Water Rights, Land and Wells	\$7,500,000	\$3,250,000	\$3,030,981	\$13,780,981
CEQA ⁽¹⁾ , Title and Escrow Fees		\$75,000		\$75,000
I-Bank Origination Fee		\$63,750		\$63,750
Total	\$7,500,000	\$3,388,750	\$3,030,981	\$13,919,731

Source: Financing Application
⁽¹⁾CEQA is the California Environmental Quality Act report.

The District submitted a copy of Resolution 2012-15, adopted on August 29, 2012, committing an amount not to exceed \$4,000,000 to the Project.

According to the Purchase Agreement, the District will acquire 157 acres of land for \$943,000 and 2,335 AFY of water rights for \$9,807,000. The land and water rights were separately appraised by Paul T. Jacobs, LLB, PCA (Appraiser) on October 9, 2012, and September 30, 2012. The 157 acres of land being purchased was valued at \$1,540,000 (\$9,809 per acre), which is \$597,000 in excess of the purchase price. The water rights were valued at \$9,573,500 (\$4,100 per acre foot), or \$233,500 below the purchase price. The value of the donated land

was not part of the appraisal. The aggregate appraised value exceeds the purchase price by \$363,500 (\$11,113,500 - \$10,750,000).

While the District did not submit documentation of the value of the donated land, staff conservatively estimates the value of the donated land at \$3,030,981 based on the appraised value of the purchased land (\$9,809 X 309 acres). Since the donated land is currently being used as a dairy and contains buildings, appurtenances and other improvements, its value is likely more than the per acre appraised land value for the land being purchased by the District.

A Phase I Environmental Site Assessment Report (Report) was conducted during the period of July 13, 2012 to August 8, 2012. The Report did not identify any environmental issues or concerns.

ELIGIBILITY CRITERIA

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

GENERAL DISTRICT INFORMATION

The Local Agency Formation Commission of San Bernardino County (LAFCO) approved the creation of the District on February 5, 2008, to consolidate three existing special districts, San Bernardino County Community Service Area (CSA), Zone 70-L a water service purveyor in Phelan and Piñon Hills, San Bernardino County CSA Zone 9, a parks and street lighting services provider in Phelan, and San Bernardino County CSA 56-F1, a park services provider in Piñon Hills. The current primary activity of the District is the provision of water service to nearly 20,873 residents through approximately 6,700 connections.

The District encompasses approximately 128 square miles of unincorporated San Bernardino County, located in the high desert area (High Desert Area), between Palmdale and Victorville and includes the two unincorporated communities of Phelan and Piñon Hills. The District lies north and south of Highway 138 and west of Interstate 15 and El Cajon Pass. The western boundary is the San Bernardino/Los Angeles County line and the Eastern boundary is Coughlin Road and Baldy Mesa Road. The High Desert Area also runs north from the Los Angeles National Forest to just north of Highway 18. The High Desert Area is known as the Mojave Desert Air Basin, classified as a dry-hot desert climate, with portions classified as dry-very hot desert, with annual rainfall of 5 to 6 inches.

The District is governed by a five member Board of Directors elected by the voters within the District boundaries. Each seat is a four-year term. Election takes place every two years (odd years) as part of the San Bernardino County-wide election process. Three seats are on the ballot one election year and the other two seats are on the ballot the next election year. The District's chief executive is the General Manager.

The District serves as area that is rural and mostly residential. The unincorporated communities of Phelan and Piñon Hills have 2011 unemployment rates at 11.7% and 20.5%, respectively, as compared to the State's 2011 unemployment rate of 11.7%.

CREDIT ANALYSIS

System Characteristics

System Description. The District owns, operates and maintains a water system (System) that consists of 11.5 million gallon of water storage capacity, 11 ground water wells (1000-ft depth) that contain chlorination equipment, 353 miles of water line infrastructure and 6,750 meters. The System is divided into 16 pressure zones and contains 35 storage reservoirs, and 24 booster pump stations. The District has three emergency interties, one each with the City of Victorville, Sheep Creek Mutual Water Company, and the San Bernardino County CSA 70J (also an ISRF Program borrower). These interties are typically only used to allow sharing of supplies during short term emergencies or during planned shutdowns of a primary source.

Water Capacity and Supply Reliability. The District currently obtains all of its raw water supply from groundwater in the Mojave Basin and the Antelope Valley Basin. The District is allocated 1,771 AFY of water production from the Mojave Basin (although some of this production has been reduced by court order as described below). Additionally, the District currently pumps 1,061 AFY from the Antelope Valley Basin (this source is likely to cease due to the adjudication in that area). As of the 2010-2011 fiscal year, the District's total water supply sold to customers was 2,896 AFY, of which 418 AFY were purchased from other Mojave Basin water rights holders.

The Mojave Basin extends approximately 3,600 square miles and is divided into five hydrologic subareas or aquifers: Alto, Baja, Centro, Este and Oeste. The District lies within the Alto (which provides 1% of water production) and Oeste (which provides 99% of System water supply) aquifer sub-areas. Groundwater is recharged into the Mojave Basin by filtration mainly from the Mojave River that is cyclically replenished from rainfall in the San Bernardino mountains.

Due to the rapid growth within the Mojave Basin, increased water withdrawals and lower groundwater levels, the Mojave Basin was the subject of a court adjudication in 1995. The court determined the Mojave Basin was in overdraft and through its watermaster allocated certain FPA to holders of basin water rights, and created an overdraft ramp-down plan (Ramp Down) to protect the Mojave Basin. The Ramp Down provides that water rights holders are to reduce their FPA by 20% percent per year through 2012, increasing thereafter by another 20% reduction. If a water rights holder takes more than its allotted FPA in any year, it is required to purchase replacement water equal to the amount in excess of the FPA from other purveyors or the State Water Project (SWP). Prior to the Ramp Down, the District was allocated 1,416 AFY from the Mojave Basin. The Ramp-Down now is at 80% of the District's FPA, or a maximum of 1,133 AFY, and will be further lowered to 60% or 850 AFY in 2013.

Additionally, the District's Well # 14 (Well 14), located outside of San Bernardino County in Los Angeles County and outside of the Mojave Basin, currently provides approximately 1,062 AFY to the District. The District's application indicates that the Well #14 will be included in the upcoming Antelope Valley Basin adjudication, and that it is expected that the Antelope Valley Basin adjudication will likely require the District to cease production from Well #14.

Without production from Well #14, the Project will increase the District's FPA from the Mojave Basin to 3,751. With the Ramp Down at 60% starting in 2013, the District's FPA will be 2,251 AFY. This amount will be insufficient to meet current demand, and the District will need to continue the purchase of water and/or obtain additional water rights.

System Capital Improvements. The District's 2010 Water Facilities Master Plan (WFMP) contains a 10-year Capital Improvement Program (CIP) for the District. The WFMP estimated 2020 water demand based upon a 1.5% population growth rate per year 2010. This population growth was determined based on District's staff's recommendation, and validated using Southern California Association of Government's population projection.

The CIP is divided into three phases, which correspond to three planning phases. Phase 1 includes capital projects proposed to correct deficiencies in the System. Phase 2 includes projects that would need to be completed before the year 2020 to ensure reliable and efficient water delivery while accommodating a growth in population within the District's service area by that date. Phase 3 includes projects the District should complete before the population within the District has reached its maximum planned capacity in 2030.

Phase 1

- Proposed storage improvement consisting of:
 - A 1.3 million gallon (MG) reservoir in Zone 04E
 - A 1.2 MG reservoir in Zone 05W
- Proposed Pumping and Pressure Reducing Improvements consisting of:
 - Two 350 gallon per minute (gpm) capacity pumps to replace pumps A and B at Booster Station 3C
 - A new booster pump should be added to the existing Booster Station 5C.

Phase 2

- Proposed storage improvements consisting of:
 - A 1.7 MG reservoir next to the existing Booster Station 3C
 - A 0.6 MG reservoir next to the existing Booster Station 6A
 - A 0.3 MG reservoir next to the existing 7B1 reservoir.
- Proposed Pumping and Pressure Reducing Improvements consisting of:
 - Replacement of pumps at Booster Stations 1C and 2C with larger pumps in conjunction with construction of additional well.
 - Construction of 1000 gpm well (Well 15).

Phase 3 improvements should be completed on an as needed basis as warranted by growth.

The WFMP estimates total Phase I projects at \$4.4 million, Phase 2 at \$2.8 million and Phase 3 at \$75 million. The District plans to finance the CIP on a pay-as-you-go basis. The District currently has in excess of \$9 million in cash, and is contributing approximately \$4 million to the Project.

The number and type of System users over the last four years is as follows:

NUMBER OF USERS BY CATEGORY				
	2009	2010	2011	2012
Residential	6,698	6,708	6,709	6,712
Commercial	50	50	50	50
Industrial	0	0	0	0
Other	2	2	2	2
Total	6,750	6,760	6,761	6,764
% change		0.1%	0.0%	0.0%

Source: Financing Application

The table reflects that the number of System users has remained constant over the past four years. According to the WFMP, the District growth is projected to be 1.5 percent per year to 2020. The System has experienced very minimal growth in recent years due to the general state of the economy that have affected the region resulting in high number of housing foreclosures. Pending the completion of the Corridor the District anticipates growth in the commercial sector.

CURRENT SYSTEM USAGE & REVENUE				
	Annual Usage (HCF)⁽¹⁾	% Annual Usage	Gross Annual Revenue	% Gross Annual Revenue
Residential	1,040,355	91.33%	\$3,355,009.62	95.55%
Commercial	96,512	8.47%	\$155,026.76	4.42%
Industrial	2,310	0.20%	\$1,046.57	0.03%
Total	1,139,177	100.00%	3,511,082.95	100.00%

Source: Financing Application

(1) Hundred cubic feet

Residential users dominate at nearly 91.33% of System usage and 95.55% of System gross annual revenues. There have been no changes or increases in the System's average monthly user charge of \$41.76 per residential unit for the past five fiscal years, since July 1, 2007. The District Board of Directors (District Board) elected to forgo a rate study in prior years due to the fact that the District was newly formed (separated from the County of San Bernardino in March 2008). The District Board wanted to assess what the true operation costs were, especially in light of the significant System capital improvements and other asset acquisitions that were made during the District's first two years of operation.

The District Board recently directed staff to prepare requests for proposals (RFP) for a water rate and fee study. To date, the study is about 50% complete and is expected to be complete January-February 2013, with any District adopted rate changes expected to be effective March 2013.

The table below compares the current average monthly System user charge per residential unit compared to nearby systems as of 6/30/2012.

CURRENT AVERAGE MONTHLY SYSTEM USER CHARGE COMPARED TO NEARBY SYSTEMS		
System Name	Location	Average Monthly Residential Rate
CSA 70J	Oak Hills	\$54.88
City of Adelanto	City of Adelanto	\$54.96
Apple Valley Rancho	Apple Valley	\$66.02
Golden State Water	Wrightwood	\$64.88
District	Phelan-Piñon Hills CDPs*	\$41.76

Source: Financing Application
*CDP means Census Designated Place

The table above shows that the District's average monthly rate of \$41.76 is lower than the comparable rates in the four nearby jurisdictions shown above.

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

TOP 10 SYSTEM USERS as of: 6/30/2012				
	User	% System Use	% System Revenues	(Residential/ Commercial/ Industrial/Other)
1	Snowline JUSD	5.3704	3.452	Commercial/Institutional
2	Sayuri Hamari	0.1908	0.1246	Residential
3	Hui Ok Lee	0.1494	0.0984	Residential
4	Henry S and Seung J Shinn	0.1450	0.0968	Residential
5	Terry and Cherie Conan	0.1446	0.0955	Residential
6	John R and Martha Brown	0.1364	0.0903	Residential
7	Ji Youn Lee	0.1330	0.0882	Residential
8	Cindy Poore	0.1295	0.0860	Residential
9	Ronda Fowlie	0.1283	0.0853	Residential
10	Ki Jin Choi	0.1267	0.0842	Residential
	Total	6.65	4.30	

Source: Financing Application

The top ten largest System users are composed of one commercial/institutional user, and nine residential users. The top ten System users represent 6.65% of total System use and generate 4.30% of total System revenues. Overall, these top ten users make up only a small portion of the System use and revenues, which 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

The District proposes to pledge its net system revenues of its Water Enterprise Fund (Water Fund) on parity with an existing ISRF Program loan (CIEDB 02-033).

Source of Revenue to Repay	
Proposed ISRF Program Financing:	Water Fund
	<input type="checkbox"/> Senior <input checked="" type="checkbox"/> Senior Parity <input type="checkbox"/> Subordinate <input type="checkbox"/> Subordinate Parity <input type="checkbox"/> Other:
Applicant Proposed Lien Position:	
List Debt that is Senior to Proposed ISRF Program Financing:	None
List Debt On Parity with Proposed ISRF Program Financing:	I-Bank Enterprise Fund Installment Sale Agreement, CIEDB 02-033
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"/> Audited Financial Statements
Audit Years Reviewed:	2008-2009; 2009-2010; 2010-2011
The auditor's reports for all years indicate that the financial statements present fairly, in all material respects, the financial position of the Phelan Piñon Hills Community Services District, and that the results of its operations and the cash flows are in conformity with generally accepted accounting principles.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Adopted Budget(s) Reviewed:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Budget Years Reviewed:	2011-2012 and 2012-2013
Rate Study Reviewed:	<input checked="" type="checkbox"/> No. <input type="checkbox"/> Yes:
Applicant's Fiscal Year:	July 1 through June 30

Comparative Statement of Net Assets Analysis

The comparative historical net assets analysis for the Water Fund for the last three fiscal years is as follows:

COMPARATIVE STATEMENT of NET ASSETS						
For Fiscal Year Ending (FYE) June 30,	2009		2010		2011	
Source:	FS	%	FS	%	FS	%
Assets						
Current assets:						
Cash and cash equivalents	\$13,938,962	41.0%	\$10,606,081	31.5%	\$9,244,514	28.1%
Accrued interest receivable	\$40,757	0.1%	\$430	0.0%	\$332	0.0%
Accounts receivable - utilities, net	\$729,913	2.1%	\$628,378	1.9%	\$807,840	2.5%
Accounts receivable - other	\$2,800	0.0%	\$21,889	0.1%	\$9,548	0.0%
Property taxes and assessments receivable			\$144,027	0.4%	\$60,042	0.2%
Materials and supplies inventory	\$72,432	0.2%	\$118,131	0.4%	\$95,006	0.3%
Prepaid expenses and other assets	\$27,348	0.1%	\$164,662	0.5%	\$143,236	0.4%
Due from other funds			\$108,933	0.3%		
Total current assets	\$14,812,212	43.5%	\$11,792,531	35.0%	\$10,360,518	31%
Non Current Assets						
Capital assets - not being depreciated	\$869,252	2.6%	\$1,625,829	4.8%	\$2,972,869	9.0%
Capital assets - being depreciated, net	\$18,339,586	53.9%	\$20,259,401	60.2%	\$19,600,125	59.5%
Total non-current assets	\$19,208,838	56.5%	\$21,885,230	65.0%	\$22,572,994	68.5%
Total assets	\$34,021,050	100%	\$33,677,761	100%	\$32,933,512	100%
Liabilities and Net Assets						
Current liabilities						
Accounts payable and accrued expenses	\$644,747	1.9%	\$541,495	1.6%	\$267,887	0.8%
Accrued salaries and related payables	\$171,507	0.5%	\$191,474	0.6%	\$195,815	0.6%
Customer deposits and deferred revenue	\$72,382	0.2%	\$7,384	0.0%	\$53,169	0.2%
Accrued interest on long-term debt	\$52,023	0.2%	\$58,574	0.2%	\$47,302	0.1%
Long-term liabilities - due within one year:						
Compensated absences	\$11,309	0.0%	\$15,661	0.0%	\$55,748	0.2%
Long-term debt	\$100,040	0.3%	\$103,532	0.3%	\$107,156	0.3%
Total current liabilities	\$1,052,008	3.1%	\$918,120	2.7%	\$727,077	2.2%
Non-current liabilities:						
Long-term liabilities - due in more than one year:						
Compensated absences	\$33,928	0.1%	\$23,491	0.1%	\$55,748	0.2%
Long-term debt	\$2,913,976	8.6%	\$2,810,444	8.3%	\$2,703,288	8.2%
Total non-current liabilities	\$2,947,904	8.7%	\$2,833,935	8.4%	\$2,759,036	8.4%
Total liabilities	\$3,999,912	11.8%	\$3,752,055	11.1%	\$3,486,113	10.6%
Net assets:						
Net investment in capital assets	\$16,194,822	47.6%	\$18,971,254	56.3%	\$19,762,550	60.0%
Unrestricted	\$13,826,316	40.6%	\$10,954,452	32.5%	\$9,684,849	29.4%
Total Net Assets	\$30,021,138	88.2%	\$29,925,706	88.9%	\$29,447,399	89.4%
Total Liabilities to Total Assets	0.12		0.11		0.11	
Total Fund Balance/Total Liabilities	7.51		7.98		8.45	
Current Ratio	14.08		12.84		14.25	

The District has experienced a slight reduction in Total Assets, Total Liabilities, and Total Net Assets over the past three years. Total Assets decreased by \$1,087,538 (3.20%) during the three year period reviewed. Changes were concentrated in a decrease of \$4,694,448 in Cash and Equivalents, used to finance \$3,364,156 in Capital Assets and pay down \$513,799 (11.85%) in Total Liabilities over the three year period (see Comparative Revenues and Expenses Analysis).

The decrease in Total Liabilities was largely due to the decrease in Accounts Payable and Accrued Expenses by \$376,860 and a \$210,688 reduction in Long-Term Debt over the three-year period.

The Current Ratio in 2009 was 14.07 at FYE 2009, slightly increasing to 14.25 at FYE 2011, indicating a healthy and stable working capital position. Total Liabilities to Total Assets ratio is a healthy .11 as of FYE 2011.

Not included above in the comparative Statement of Net Assets, the District established and funded a rate stabilization fund in the amount of \$200,000 pursuant to Resolution 2012-15 adopted on August 29, 2012, and funds in this account are included in the cash flow analysis that follows.

ACCOUNTS RECEIVABLE AGING						
as of: September 30, 2012						
	Current	Over 30	Over 60	Over 90	Over 120	Total
	\$184,269	\$14,238	\$6,316	\$2,378	\$5,714	\$212,915
Percent	86.5%	6.7%	3.0%	1.1%	2.7%	100.0%

Source: Financing Application Month End Aging Report

The above table reflects that District collects 93.2% of its receivables within 60 days.

Water customers are billed every other month (odd months), for the prior two months of water usage. All accounts are billed a meter charge regardless of consumption or status of account. All account fees and charges are the responsibility of the property owner of record, regardless of tenancy, are due upon receipt of the bill, and delinquent if not paid within 30 days (penalty applied).

Disconnection notices are sent on the 31st day after billing, and service is disconnected if the bill remains unpaid after 45 days. A lien is placed on the property if the bill remains unpaid after 60 days. Property owners are notified of impending transfer of fees and charges to the Property Tax Roll and any unpaid balance as of June 30th is applied to the Tax Roll on August 1st for collection with the annual property tax bills each year.

Comparative Revenues and Expenses Analysis

The comparative historical revenues and expenses for the Water Fund and changes in Water 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 June 30 (FYE)	2009		2010		2011	
Source:	FS	%	FS	%	FS	%
% Change of Sale of Water			-21%		-4%	
Operating revenues:						
Water consumption sales	\$2,816,459	59.5%	\$2,219,450	57.5%	\$2,124,831	54.0%
Monthly meter service charge	\$1,532,468	32.4%	\$1,343,450	34.8%	\$1,411,724	35.9%
Special assessment	\$283,142	6.0%	\$219,623	5.7%	\$324,650	8.3%
Other charges and services	\$100,820	2.1%	\$77,848	2.0%	\$71,009	1.8%
Total operating revenues	\$4,732,889	100.0%	\$3,860,371	100.0%	\$3,932,214	100.0%
Operating expenses:						
Source of supply - water related purchases	\$312,250	6.6%	\$228,683	5.9%	\$147,596	3.8%
Pumping - utilities	\$1,050,477	22.2%	\$778,341	20.2%	\$752,063	19.1%
Transmission and distribution	\$2,441,278	51.6%	\$1,313,040	34.0%	\$408,278	10.4%
General and administrative	\$1,032,711	21.8%	\$1,104,480	28.6%	\$2,087,333	53.1%
Total operating expenses	\$4,836,716	102.2%	\$3,424,544	88.7%	\$3,395,270	86.3%
Operating income/loss before depreciation	(\$103,827)	-2.2%	\$435,827	11.3%	\$536,944	13.7%
Depreciation	(\$886,786)	-18.7%	(\$1,058,281)	-27.4%	(\$1,245,913)	-31.7%
Operating loss	(\$990,613)	-20.9%	(\$622,454)	-16.1%	(\$708,969)	-18.0%
Non-operating revenues (expenses):						
Interest earnings	\$455,757		\$147,916		\$81,866	
Property taxes	\$0		\$14,631		\$0	
Interest expense - long-term debt	(\$130,057)		(\$127,200)		(\$105,876)	
Other non-operating revenue	\$390,367		\$325,470		\$113,131	
Other non-operating expenses	(\$10,631)		(\$10,341)		(\$10,041)	
Total non-operating revenues, net	\$705,436		\$350,476		\$79,080	
Net loss before capital contribution	(\$285,177)		(\$271,978)		(\$629,889)	
Capital contributions:						
Connection fees	\$80,698		\$59,692		\$0	
Capital grants	\$0		\$116,854		\$151,582	
Capital contributions	\$80,698		\$176,546		\$151,582	
Change in net assets	(\$204,479)		(\$95,432)		(\$478,307)	
Net Assets beginning of year	\$30,225,617		\$30,021,138		\$29,925,706	
Net assets, end of year	\$30,021,138		\$29,925,706		\$29,447,399	

The District reports that the high water consumption sales in FYE 2009 were the result of dry weather conditions and increased water usage. The lower Operating Revenues in FYE 2010 resulted from the depressed real estate market resulting in lowered meter sales and due to water conservation programs instituted by the District. Operating Revenues for the FYE 2011 recovered slightly due to the increase in Special Assessment revenues (Standby Fee). Actual Operating Expenses as a percentage of Operating Revenues continued to improve (decrease) during the three-year period resulting in increasing profitability.

The high Transmission and Distribution costs for the FYE's 2009 and 2010, in comparison to FYE 2011, were the result the District outsourcing some of its labor while focusing on increasing the District's staff operations capacity since new staff were hired upon District formation in 2008. As staff became capable of independent System operations and maintenance, the District focused then on planning activities, which resulted in an increase in General and Administrative expenses during FYE 2011. Additionally, the General and Administration expense account along with other some expense accounts were impacted when the District switched to a new accounting software system. Overall efficiencies resulted in positive Operating Incomes Before Depreciation in FYE 2010 and 2011.

Property Tax revenues for FYE 2010 are residual revenues received from the County of San Bernardino (County) when the System was part of the County. Other Non-Operating revenues are payments by the County for equipment owned by System kept by the County in exchange for annual payments, which payments ended during FYE 2011.

Budget

The District establishes and manages an annual operating budget. Revenues are received from bi-monthly water use and connection fees billed to water property owners. Since the FYE 2012 financial statements are not complete at the time of this report, staff reviewed the District's fiscal year (FY) 2011-2012 adopted final budget. The District's FY 2011-2012 adopted budget anticipated \$4,129,976 in total revenues \$3,840,655 in total expense, net of depreciation expense, which is consistent with FYE 2010. The FY 2012-2013 adopted budget anticipates approximately \$4,975,447 in total revenues and approximately \$3,920,951 in total expenses, net of \$1,335,282 in depreciation expense. The increase of revenues appears to be the result of the proposed rate increases that will take effect during the beginning of 2013.

Debt Service Analysis and Cash Flow

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

OBLIGATIONS							
Original Financing Amount	Origination Date	Issuer/ Lender	Int%	Final Maturity	Maximum Annual Debt Service (MADS) ⁽¹⁾	Outstanding 8/1/2012	Lien Priority
\$5,001,000	2002	Installment Sale Agreement	3.50	2/1/2032	\$199,366	\$3,243,545	Senior lien on net System revenues
\$7,500,000	2012	Proposed I-Bank	2.29	8/1/2042	\$368,853	\$7,500,000	Senior lien on net System revenues
Total Aggregate Debt					\$568,219	\$10,743,545	

⁽¹⁾ Proposed MADS calculated as \$7,500,000 @ 2.29%% for 30 years.

Date of Debt:	December 17, 2002
Name of Debt:	Enterprise Fund Installment Sale Agreement CIEDB 02-033 (2002 Agreement)
Lender:	California Infrastructure and Economic Development Bank.
Security:	Senior lien on Pledged Net System Revenues
Rates and Charges	
Covenant:	110% of Pledged Net System Revenues
Allows Senior Debt?	<input type="checkbox"/> Not mentioned <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes
Allows Parity Debt?	<input type="checkbox"/> Not mentioned <input type="checkbox"/> No <input checked="" type="checkbox"/> Yes Section 2.07 & Section 6.01 of the Agreement, Allows parity debt with no event of default, historical and proposed aggregate MADS are greater than 1.10% coverage.

Allows Subordinate Debt?	<input type="checkbox"/> Not mentioned <input type="checkbox"/> No <input checked="" type="checkbox"/> Yes. The 2002 Agreement does not prohibit subordinate debt.
Reserve Fund	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes
Reserve Fund Required for Senior or Parity Debt?	<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes
In Compliance With All Terms and Conditions?	The District is in compliance with all terms of the 2002 Agreement

The proposed financing will be on parity with the 2002 Agreement identified above. However, parity debt covenants in the 2002 Agreement require the District to submit a report from an Independent Accountant or Independent Consultant documenting that certain debt coverage requirements are met when establishing new parity debt (as would be the case with the proposed financing).

Since the existing financing is an ISRF Program financing, staff had access to the data required to determine that the requirements of the 2002 Agreements were met without the need for a report from an Independent Accountant or Independent Consultant. Staff recommends the Board waive Section 2.07(c) of the 2002 Agreement requiring the District to submit a report from an Independent Accountant or Independent Consultant for this financing request.

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

CASH FLOW			
For Fiscal Year Ending (FYE) June 30,	2009	2010	2011
Operating loss	(\$990,613)	(\$622,454)	(\$708,969)
+ Depreciation	\$886,786	\$1,058,281	\$1,245,913
+ Interest income	\$455,757	\$147,916	\$81,866
+ Rate Stabilization Fund	\$200,000	\$200,000	\$200,000
<i>Cash Available for Debt Service</i>	\$551,930	\$783,743	\$818,810
+ Connection fees	\$80,698	\$59,692	
- # <i>Cash Available for Debt Service with Connection Fees</i>	\$632,628	\$843,435	\$818,810
Debt Service Calculation			
Senior Debt Service @ MADS ⁽¹⁾			
Existing IBank loan	\$199,366	\$199,366	\$199,366
Proposed I-Bank ⁽²⁾	\$368,853	\$368,853	\$368,853
<i>Total Senior MADS</i>	\$568,219	\$568,219	\$568,219
<i>Senior Debt Service Coverage Ratio w/o Connection Fees</i>	0.97	1.38	1.44
<i>Senior Debt Service Coverage Ratio with Connection Fees</i>	1.11	1.48	1.44
⁽¹⁾ Maximum Annual Debt Service.			
⁽²⁾ Calculated as \$7,500,000 @ 2.29% for 30 years.			

Adjustments were made to the cash flow analysis to add back depreciation, interest income, funds in the rate stabilization fund and connection fees. Although property tax revenue could have been included in the cash flow analysis, it was excluded for a conservative analysis of total cash available to pay debt service.

Historical cash flow over the last two years demonstrates the ability to repay the proposed debt service based on adjustments made in the analysis. Debt service coverage calculated using MADS of the proposed ISRF Program financing and current existing debt will meet and exceed the 1.10 times minimum coverage ratio required by the program credit criteria.

Compliance with I-Bank Underwriting Criteria

- I-Bank financing is proposed to be a Senior-Parity lien on System net revenues. Historical cash flow exceeds the minimum 1.10 times debt coverage ratio.
- 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 District has the power to establish and enact rates and charges without the approval of any other governing body.

LITIGATION, MANAGEMENT AND ENVIRONMENTAL

Litigation

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

Project Acquisition and Management Experience

The Project consists of the acquisition of land, six water wells, water rights and related costs as set forth in the Purchase and Sale and Donation Agreement with Joint Escrow Instructions between the District and the seller of the property. The District's management team, including the General Manager, Administrative Services Manager and Engineering Manager have over 55 years of combined experience in successfully managing water districts. This experience includes several bond issues ranging from \$2 million to over \$13 million and multi-million dollar construction projects, real estate transactions and water lease and water transfer negotiations.

Don Bartz, General Manager, joined Phelan Piñon Hills Community Services District in 2008 when the District was formed. Mr. Bartz has more than twenty-two years of progressively responsible experience with water agencies; seventeen of those years in management positions. He has led these agencies through groundwater recharge and supply studies, special districts administration, water quality issues, Mojave Water Agency and Water Master issues, water rights and negotiations, construction management, and water system design.

Among his significant previous positions, Mr. Bartz served as General Manager of Bighorn Desert View Water Agency and Baldy Mesa Water District. He was also Engineering Manager at Baldy Mesa Water District and Drafting Supervisor/System Administrator at International Technology Corporation. . He served as Engineering Technician/CAD Manager at the City of Hesperia Water District and was an Instructor at Victor Valley College teaching Drafting.

Mr. Bartz holds an Associate's Degree in Computer Aided Drafting from National Education Center, AAI Campus, Drafting Division, and continued his education in Business Administration/Finance at Victor Valley Community College.

Lori Lowrance, Administrative Services Manager, joined Phelan Piñon Hills Community Services District in 2008, shortly after formation of the District. Ms. Lowrance has more than thirty-three years of progressively responsible experience in accounting, finance, administration, management, and leadership.

Ms. Lowrance has spent the last twenty-three years serving the public in governmental finance, accounting, administration and management. She has directed the duties of as many as twenty-six employees and has assisted in the growth and development of a water district that served 200 connections when she started and served almost 10,000 connections when the District merged with the City.

Among her significant previous positions, Ms. Lowrance served as Administrative Services Manager of Baldy Mesa Water District and Finance Manager at City of Victorville. She holds an Associate's Degree from Victor Valley Community College and a Bachelor of Science degree from Azusa Pacific University.

Prior I-Bank Experience

The District has paid as agreed under the 2002 Agreement and is in compliance with all agreement covenants.

California Environmental Quality Act (CEQA)

The CEQA process for the Project is as follows:

Project Component	Level Of Required Environmental Clearance	Status Of CEQA Compliance	Filed NOD Received ⁽¹⁾
Project	<input checked="" type="checkbox"/> Notice of Exemption <input 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: October 19, 2012 <input type="checkbox"/> No Required Prior to First Disbursement

(1) Notice of Determination.

SCORING CRITERIA FOR PRIORITIZING PROJECTS			
POINT CATEGORY	ANALYSIS	MAX PTS	PTS
Project Impact			
Job Creation/Retention	The Project will support the planned development for the area as a result of the 62 mile Corridor project. Although the District provided a feasibility study that estimated that construction of the Corridor project will employ 16,000 workers starting in 2016, and will have a significant multiplier effect (estimated at 42,000 sustainable long-term jobs in the future), no points were awarded in this category since the jobs will not be realized within three years of Project completion. Additionally, the District anticipates the potential to construct a solar field and a park on the Project land, and that these projects, if completed, will provide job opportunities. However, these projects are only contemplated at the time of this staff report.	30	0
Economic Base Employers	Not applicable.	10	0
Community Employment Development Plan	Not Applicable.	10	0
Quality of Life/Community Amenities	Project will enable the District to meet current water production needs as well as meet the needs of the economic development planned for the area as a result of the Corridor project that is in progress of being built adjacent to the Project area. According to the Phelan/Piñon Hills Community Plan (Plan) effective April 12, 2007, the rural quality of life is very important to residents, and the plan indicates that the recent and expected significant growth will place pressures on existing infrastructure. Goal PH/CI 4 of the Plan states, "Ensure adequate water sources and associated infrastructure to serve the needs of existing and future water users in the Phelan/Piñon Hills Community Plan area. The Projects fulfills this goal of the Plan.	30	30
Community Economic Need			
<i>The Project benefit area includes Phelan Census Designated Place and Piñon Hills Census Designated Place of San Bernardino County. Staff concluded that community economic needs data from these areas is an appropriate measure of Community Economic Needs categories for the Project. Staff used the economic data for these Census Designated Places to calculate the weighted average points based upon population for the Community Economic Need scoring categories.</i>			
Unemployment Rate	The weighted average of Phelan and Piñon Hills Census Designated Places (CDPs) unemployment rate was 14.1%, which was 120.8% of the State unemployment rate of 11.7%.	20	4
Median Family Income	The weighted average of Phelan and Piñon Hills Census Designated Places (CDPs) median family income was \$61,526, which was 88.8% of the State's median family income of \$69,322.	15	0
Change in Labor Force Employment	The weighted average of Phelan and Piñon Hills Census Designated Places (CDPs) 2010-2011 change in labor force rate was 1.85%, which was 169.8% of the State's change in labor force employment of 1.09%.	10	0

Poverty Rate	The weighted average poverty rate of the two CDPs was 16.72%, which is 122% of the State poverty rate of 13.7%.	10	4
Land Use, Environmental Protection and Approved Housing Element			
Land Use	The Project meets the first priority land use because it renews and maintains an existing rural area presently served by public infrastructure	20	20
Environmental Protection	<p>Per the District's application, the Project will result in improved water quality in the Oeste aquifer by reducing the amount of nitrates percolating into the groundwater basin from the existing dairy that currently occupies the land, identified in a water quality study of the Oeste Aquifer by the USGS dated September 2005</p> <p>Per the District's application:</p> <ul style="list-style-type: none"> • The current owner of the property will perform the clean up of the soil, close the biomass ponds and remove the manure in accordance to the Lahotan State Water Control Board guidelines and inspection. • Methane from the manure will no longer influence the local air, which will help the Mojave Air Quality District to maintain its "no smog" rating. • The District will remove dairy infrastructure and only retain the buildings. The concrete roadways that wind through the dairy will be ground and utilized by the Corridor. Many of the metal structures that will be removed will go to local metal recycling vendors. • The District will retain a large flood control pond that already channels site rain and other water use away from the surrounding community. • The dairy site could provide a regional park and minimize the District's need to seek other undisturbed land for park open space in the local area. 	10	10
Housing Element	The County does not have an approved Department of Housing and Community Development General Plan Housing Element.	10	0
Leverage			
Leverage	The District and the land donor will contribute \$6,429,540 to the Project for a leveraging ratio of other committed funds to ISRF Program funds of 0.86 to 1.0.	15	12
Readiness			
Readiness	The District anticipates escrow for the Project to close by December 31, 2012.	10	10
TOTAL		200	90

STAFF RECOMMENDATIONS

Staff recommends approval of Resolution No. 12-10 authorizing financing to the Phelan Piñon Hills Community Services District for the Project as follows:

1. **Applicant/Borrower:** Phelan Piñon Hills Community Service District (District).
2. **Project:** Water Resources Acquisition Project.
3. **Amount of Financing:** Not to exceed \$7,500,000.
4. **Maturity:** Not to exceed 30 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 water revenues of the Water Enterprise Fund on parity with the Installment Sale Agreement (CIEDB 02-033) between the District and the I-Bank.
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 November 1, 2012.
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. Pledged Water System revenues to, among other things, include assessments for stand-by charges.
 - b. Rates and charges shall be maintained sufficient to ensure 1.10 times aggregate annual debt service ratio for all parity obligations.
 - c. Water System net revenues may not be pledged on a senior basis. Water System net revenues may be pledged on a parity basis with the ISRF Program financing for future financings if net revenues (adjusted for adopted rate increases and system expansion) will provide an aggregate senior and parity future debt service coverage of 1.10 times maximum annual debt service on all outstanding senior and parity debt, inclusive of the proposed financing.
 - d. 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.

- e. 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 Sale 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.
- d. A fully executed copy of the Purchase Agreement in substantially the same form as that which was submitted to the I-Bank Board.
- e. A fully executed Water Rights Transfer document that has been approved by the Mojave Water Agency.
- f. Evidence that the District has funded a water rate stabilization fund in the amount of \$200,000.
- g. A waiver of Section 2.07(c) of the Enterprise Fund Installment Sale Agreement CIEDB 02-033 by the I-Bank Board requiring the District to submit a report from an Independent Accountant or Independent Consultant in connection with obtaining parity debt.

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

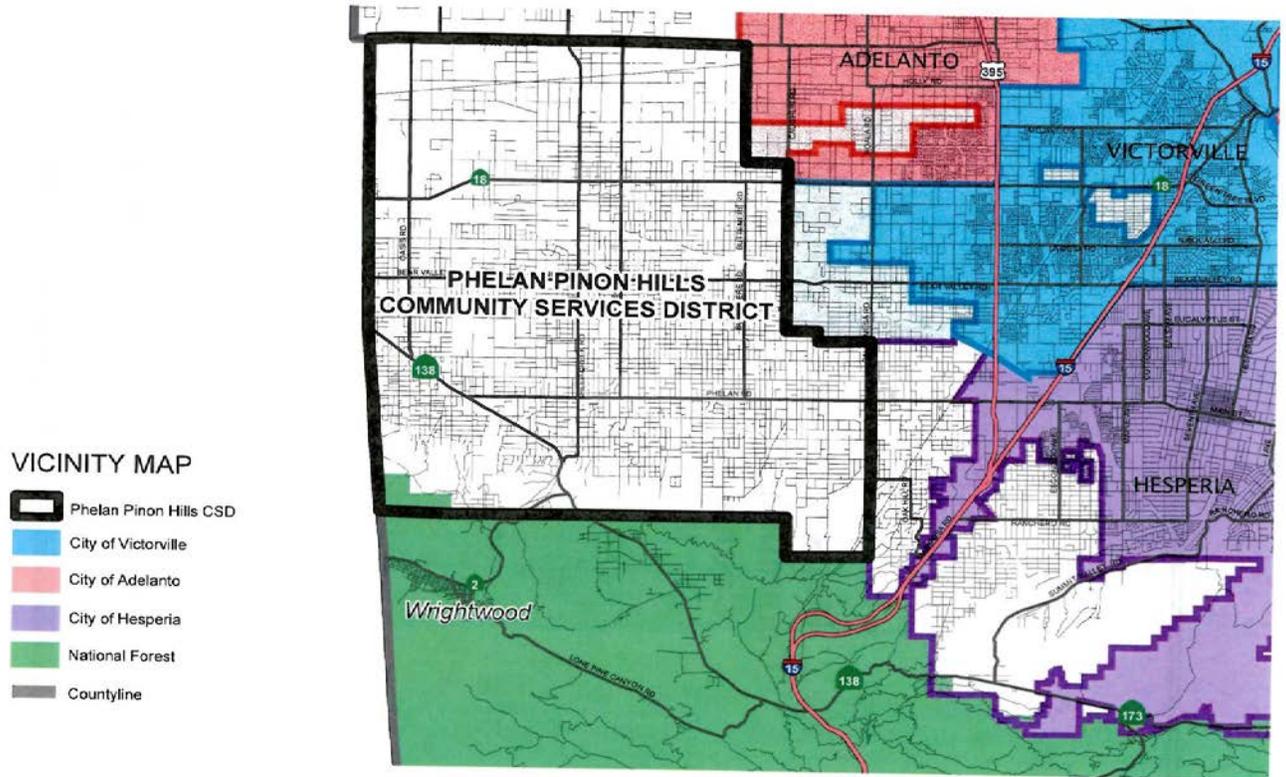
- a. Execution of an Installment Sale Agreement consistent with the terms contained herein.
- b. Evidence satisfactory to the I-Bank of clear title on all the properties being acquired.
- c. Certification that the Borrower has obtained all licenses and permits, and approvals from any governmental agency or authority having jurisdiction over the Borrower in connection with the Project.
- d. Project costs for the portion of the Project being financed with I-Bank funds are consistent with the Sources and Uses listed in this staff report.

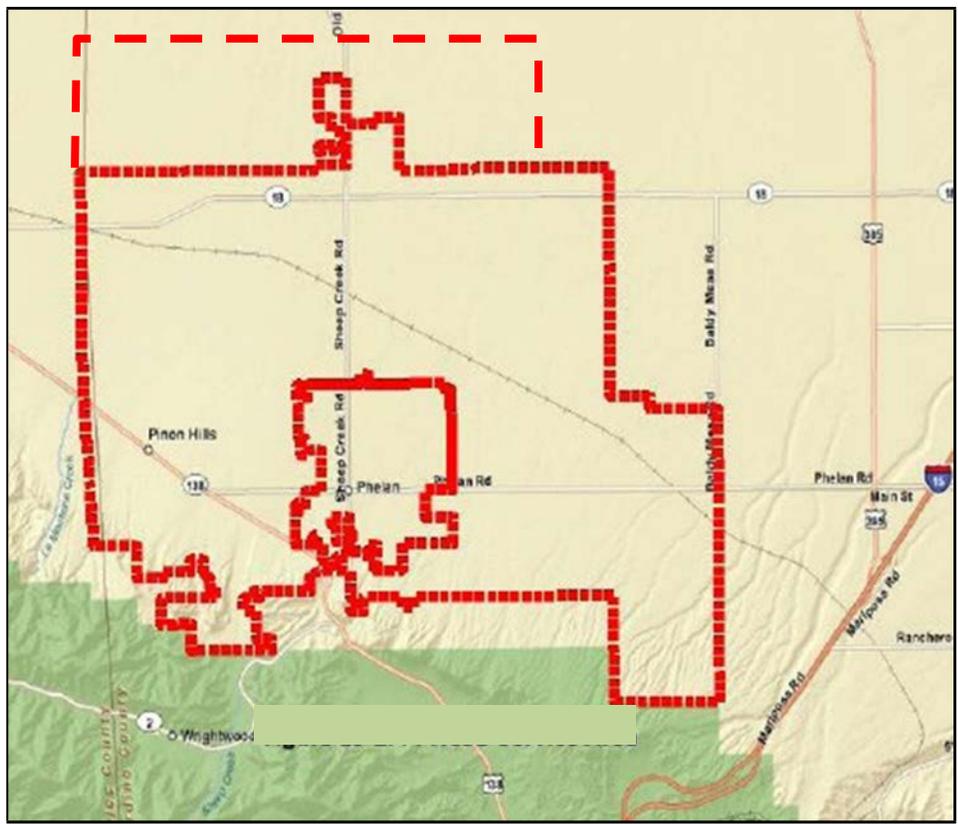
13. Financial and Other Reporting Requirements:

- 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 Project Location Map(s)

Maps of District Service Boundaries





E220 High Desert Corridor Map

