

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)

STAFF REPORT

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

Applicant: Pico Water District (District)		ISRF Project Type: Water Treatment and Distribution	
Financing Amount: \$5,250,001	Financing Term: 30 years	Interest Rate⁽¹⁾: 3.84%	
Source of Repayment: Water Enterprise Fund (Fund)		Fund Rating/Date: N/A	
Security: The ISRF Program financing will be secured by and payable from a senior lien on the District's net system revenues (Net Revenues) including any income howsoever derived.			
Project Name: Pico Water District Infrastructure Replacement Project (Project)		Project Location: Various locations within the District's boundaries	
Project Description / Sources and Uses of Proceeds: The Project consists of the replacement of approximately 31,480 linear feet of four-inch pipe with a new eight-inch pipe, installation of five new fire hydrants, and replacement of eight valves.			
Use of Financing Proceeds: The ISRF Program financing will fund Construction and Construction Contingency, and associated soft costs including but not limited to Design, Engineering, Permits, and Environmental Reports. IBank's loan origination fee will be paid by the District upon execution of the agreement.			
Project Uses		Project Sources	
		I-Bank	Pico Water District
			Total
Construction & Contingency		\$3,634,615	\$3,634,615
Engineering, Permits & Environmental		\$1,615,386	\$1,615,386
IBank's Origination Fee			\$52,500
	Total	\$5,250,001	\$5,302,501

⁽¹⁾ As of September 14, 2015

Credit Considerations:

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

CASH FLOW					
For Fiscal Year Ending (FYE) December 31	2010	2011	2012	2013	2014
Operating Income (Loss)	\$173,090	\$69,584	\$10,503	\$116,098	\$7,949
Depreciation and Amortization	495,337	504,968	524,633	524,752	486,519
Net Non-operating Revenues (Expenses)	36,881	21,707	32,150	23,925	26,410
<i>Cash Available for Debt Service</i>	359,128	457,091	567,286	664,775	504,980
Debt Service Calculation					
Proposed CIEDB⁽¹⁾	311,283	311,283	311,283	311,283	311,283
Total Obligations MADS	\$311,283	\$311,283	\$311,283	\$311,283	\$311,283
Debt Service Coverage Ratio	1.15	1.47	1.82	2.14	1.62

⁽¹⁾ Calculated as \$5,250,001 and at the 3.84% for 30 years.

Analysis of historical cash flow over the last five years demonstrates the Water Enterprise Fund (Fund) has the capacity to service the proposed IBank financing (Financing) in all five years with a debt service coverage ratio (DSCR) of 1.15 or greater.

On November 12, 2014, the District adopted a multi-year rate increase. The first increase, which was effective December 14, 2014, included a five percent (5%) increase based on volume, and an additional monthly fee of \$6.50 charged to each existing connection; these rate changes are not reflected in the above table. Two additional five percent (5%) rate increases based on volume will become effective December 14, 2017, and December 14, 2018.

Support for Staff Recommendations:

1. Cash flow analysis demonstrates the District's ability to service the proposed ISRF Program financing.
2. District has successfully increased rates to maintain its debt service ability.
3. The estimated useful life of the Project is 50 years, which exceeds the term of the Financing.

Extraordinary Covenants:

1. Compliance of changes to District's rate structure with the requirements of Proposition 218 (Prop 218), the statutes implementing it, and any case law interpreting it. Further, District to notify IBank immediately upon the filing of any legal challenge to its rates or charges.

IBank Staff:

Tom Dear

Date of Staff Report:

February 8, 2016

Date of IBank Board Meeting:

February 23, 2016

Resolution Number:

16-02

Staff Recommendation:

Staff recommends approval of Resolution No. 16-02 authorizing ISRF Program financing to Pico Water District for the Pico Water District Infrastructure Replacement Project.

PROJECT DESCRIPTION

The Pico Water District (District) requests ISRF Program financing in the amount of \$5,250,001 to fund the Pico Water District Infrastructure Replacement Project (Project). The Project consists of the replacement of approximately 31,480 linear feet of four-inch pipe with a new eight-inch pipe, installation of five new fire hydrants, and replacement of eight valves.

In December 2008, the District completed its Water System 2008 Master Plan (MP). Based upon various findings of water pressure inadequacies the MP recommends replacing existing four-inch pipe with eight-inch or 12-inch pipes and replacing existing fire hydrants to connect to the new larger pipes.

Through the Project, the District will meet required pressure and volume flow for fire suppression standards. The District has prioritized the pipe replacement component based on the need as follows:

- Priority I--service areas where the existing fire flow is less than 500 gallons per minute (GPM);
- Priority II--services areas where existing fire flow is less than 1,000 GPM;
- Priority III--seven commercial and high density areas where existing fire flow is less than 3,000 GPM;
- Priority IV--18 separate service areas with existing fire flow of 1,500 GPM (will only be addressed if there are still funds remaining after finishing the first three Priorities.).

The pipe replacement component includes installation of five new fire hydrants and replacement of eight valves.

Project Benefits

The Project will afford several benefits to the District:

- Improved safety of the District residents and businesses due to:
 - Increased fire flow protection with larger pipes
 - Increased fire protection with more fire hydrants
- Increased system capacity and improved volume flow and reliability through the:
 - Enhanced water distribution system with larger diameter pipes
 - Reduction in the number of pipeline breaks because larger diameter pipes are less resistant than smaller diameter pipes to the water flowing through
 - Enhanced flexibility with the additional valves. For example, if the District needs to repair a main or interrupt water flow for any reason, having more valves enables the District to shut off water to fewer users, reducing the overall disruption to service.
- Decreased pumping cost due to larger pipes create less friction of water against pipe therefore it takes less energy to move the water the same distance.

Public Benefits

The District anticipates 25 temporary jobs to be created during the construction period.

GENERAL DISTRICT INFORMATION

The District is located in the City of Pico Rivera (City), in the County of Los Angeles (County). Formed in 1926 by the consolidation of five small water systems, the District is a County Water District.

The District encompasses 1,462 relatively flat acres (2.29 square miles) within the City. The portion of the City not served by the District receives water from the City. The District provides water to 5,385 residential, commercial, industrial, and governmental users. The District meters its water.

The District is governed by a five-member Board of Directors elected by registered voters who reside within the District's service area. Board elections are held every two years. Each Director serves a four year term; terms are staggered to ensure continuity. The Board of Directors establishes District policy and rates. The Board makes decisions based on the District's Mission Statement, goals, and operational needs. The Board's policies are administered and implemented by a General Manager who is hired by the Board.

SYSTEM DESCRIPTION

System Infrastructure

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

The Project represents a \$5,250,001 investment in the District's planned \$24,000,000 of upgrades and system improvements that are identified in the District's MP. Additional improvements cited in the MP include, but are not limited to, rehabilitating the existing water-well pumps, increasing to size of the existing reservoir to hold an additional 750,000 gallons, replacing the remaining water mains with larger mains, and expanding the water recycling program.

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

Water Supply, Quality, and Storage

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

District's Allowed Pumping Allocation (APA)). Each Central Basin Member is allowed to pump 20% over its APA as long as the over-extraction is made up the following year.

The table below, Historical District Water Supply (Acre Feet) Per Year, reflects the amount of water pumped from each well and demonstrates that the District has not exceeded its APA in the last seven years. The District has, however, sold excess water to other CB Members.

HISTORICAL DISTRICT WATER SUPPLY (ACRE FEET) PER YEAR								
Source	2009	2010	2011	2012	2013	2014	2015	Average
Well No. 2 ⁽¹⁾	365	228	103	26	17	25	1	109.3
Well No. 4a	486	817	615	655	421	927	334	608.0
Well No. 5a	146	550	619	707	833	659	453	566.6
Well No. 7	184	0	0	0	0	0	0	26.4
Well No. 8	541	234	818	786	863	813	587	663.2
Well No. 10	1,827	1,472	1,044	1,044	1,113	877	1,615	1,284.4
Total	3,549	3,300	3,199	3,218	3,248	3,301	2,989	3,257.9
% of Legal Draw	97.9%	91.1%	88.3%	88.8%	89.6%	91.1%	82.5%	89.9%

Source: Pico Water District

(1) Well No. 2 was retired in 2015

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

In compliance with the Governor's Executive Order B-29-15 for mandatory water restrictions, dated April 1, 2015, District users have successfully reduced water consumption to 82.5% of the District's APA. This reduction was accomplished by expanding water recycling efforts by hooking up five large water irrigation users (see table below) to the nearby Central Basin Municipal Water District (CBMWD). CBMWB operates a large regional recycled water system and delivers approximately 5,000 acre-feet of recycled water annually to over 300 industrial, commercial, and landscape connections. CBMWD's use of recycled water augments the groundwater and imported water supplies of the Southeast County. The following table illustrates the reduction achieved by the five customers within the District using recycled water.

RECYCLED WATER CUSTOMERS PER CALENDAR YEAR							
Customer	Start Date	Total Usage CCF					
		2011	2012	2013	2014	2015	Average
Los Angeles County Library	4/15/2014	0	0	0	1,295	1,715	3,010
City of Pico Rivera - Smith Park	4/15/2014	0	0	0	17,158	13,689	30,847
City of Pico Rivera - Street Medium	10/14/2011	239	419	354	118	209	1,339
City of Pico Rivera - Street Medium	10/14/2011	493	463	526	488	828	2,798
City of Pico Rivera - Street Medium	10/14/2011	1,133	1,877	1,553	584	715	5,862
Total		3,876	4,771	4,446	21,657	19,171	43,856

Source: Pico Water District

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

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

Source: Financing Application

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

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

Source: Financing Application

The following table displays the Historical Rate Increases adopted over the past five years, and reflects the Board’s ability to increase rates to meet its operational and capital improvement needs. The Board reviews rates on an annual basis and has adopted rate increases four out of the last five years. The most recent increase was a 5% increase for usage plus a \$6.50 monthly flat charge, regardless of service type, effective December 14, 2014. The last four rate increases were carefully planned to begin the process of raising revenue to fund needed repairs and to construct capital improvements under the MP.

HISTORICAL RATE INCREASES OVER THE PAST FIVE YEARS		
Date Adopted	Date Effective	Percent Increase
February 7, 2010	4/1/2010	5.5%
February 16, 2011	4/1/2011	5.0%
February 16, 2011	1/1/2012	5.0%
November 12, 2014	12/14/2014	5% Plus \$6.50 Mo

Source: Financing Application Addendum

The following table displays the Historical and Current Average Monthly User Charge per Residential Unit and the year-over-year percent increase of the charge since fiscal year (FY) 2011. The table also reflects each year’s charge as a percent of the county’s Median Household Income (MHI) for residential units as of fiscal year 2014. The table demonstrates the percentages

paid by ratepayers are all well below the 2.0% of the Median Household Income (MHI) affordability threshold established by the California Department of Public Health.

HISTORICAL AND CURRENT AVERAGE MONTHLY USER CHARGE PER RESIDENTIAL UNIT					
For Fiscal Year Ending (FYE) June 30,	2011	2012	2013	2014	2015
Residential	\$59.13	\$62.08	\$63.95	\$65.22	\$66.79
% change		4.99%	3.01%	1.99%	2.41%
% to MHI (20143 at \$61,489)	1.15%	1.21%	1.25%	1.27%	1.30%

Source: Financing Application

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

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

Source: Financing Application

The following table compares the District's Current Average Monthly System User Charge to Nearby Systems as of August 31, 2015. The table indicates the District's rate is significantly less than neighboring rates and is 58.8% of the average of the other four comparable water systems. In contrast, the highest rate is charged by the City Pico Riviera, the water system that serves the balance of the District's home city.

CURRENT AVERAGE MONTHLY SYSTEM USER CHARGE COMPARED TO NEARBY SYSTEMS			
System Name	Location	Distance in Miles	Average Monthly Residential Rate ⁽¹⁾
Pico Water District			\$65.40
The City of Downey	Downey	13.0	\$88.22
The City of Paramount	Paramount	27.3	\$96.05
The City of Lakewood	Lakewood	33.7	\$122.00
City of Pico Riveria	Pico Riveria	0.0	\$138.74
Average Rate			\$111.25

(1) as of August 31, 2015

Source: Financing Application

The following table displays the Top 10 System Users, each User's Percent of System Use and Percent of System Revenue and reflects that the highest System User uses 5.1% of total water distributed by the System. The table further shows that the District is in compliance with IBank's underwriting requirements that revenues derived from the top ten ratepayers does not exceed

50% of total system revenue and that no single ratepayer is generating greater than 15% of annual system revenues.

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

Source: Financing Application Addendum

CREDIT ANALYSIS

Source of Financing and Security

The District proposes to pledge Net Revenues of its Water Enterprise Fund (Fund) as security and the source of repayment of the proposed ISRF Program financing.

Comparative Statement of Net Position

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

PICO WATER DISTRICT WATER ENTERPRISE FUND STATEMENT OF NET POSITION										
For Fiscal Year Ending (FYE) December 31	2010		2011		2012		2013		2014	
Source:	CAFR	% ⁽¹⁾								
Assets										
Cash and Investments	\$3,651,072	31.1%	\$3,755,559	31.5%	\$4,135,920	33.9%	\$3,943,305	31.3%	\$3,490,954	27.0%
Receivables										
Customer Net	218,588	1.9%	278,206	2.3%	266,340	2.2%	270,377	2.1%	259,982	2.0%
Unbilled	151,846	1.3%	172,924	1.4%	161,817	1.3%	182,897	1.5%	198,827	1.5%
Accrued Interest Receivables	4,006	0.0%	2,784	0.0%	2,552	0.0%	2,194	0.0%	1,985	0.0%
Other Receivables	23,306	0.2%	4,924	0.0%	25,352	0.2%	61,575	0.5%	26,071	0.2%
Inventory of Material Supplies	72,453	0.6%	83,046	0.7%	87,383	0.7%	194,153	1.5%	216,562	1.7%
Prepaid Expenses	54,021	0.5%	64,957	0.5%	64,988	0.5%	49,125	0.4%	47,678	0.4%
Total Current Assets	4,175,292	35.6%	4,362,400	36.5%	4,744,352	38.9%	4,703,626	37.4%	4,242,059	32.8%
Capital Assets Not Being Depreciated										
Land	21,578	0.2%	21,578	0.2%	21,578	0.2%	21,578	0.2%	21,578	0.2%
Water Rights	216,000	1.8%	216,000	1.8%	216,000	1.8%	216,000	1.7%	216,000	1.7%
Construction Progress	207,121	1.8%	287,496	2.4%	255,834	2.1%	294,640	2.3%	692,042	5.4%
Capital Assets Being Depreciated										
Wells and Reservoirs	2,633,676	22.5%	2,660,382	22.3%	2,660,382	21.8%	2,777,028	22.1%	2,877,645	22.3%
Pumps and Tanks	534,365	4.6%	539,297	4.5%	547,182	4.5%	658,155	5.2%	713,315	5.5%
Water Treatment and Equipment	47,661	0.4%	47,661	0.4%	41,738	0.3%	45,698	0.4%	47,678	0.4%
Transmission and Distribution	9,278,873	79.1%	9,512,069	79.7%	9,873,309	80.9%	10,513,567	83.5%	11,182,717	86.5%
General Plant	1,472,528	12.6%	1,639,531	13.7%	1,693,395	13.9%	1,739,265	13.8%	1,800,987	13.9%
Rental House	35,888	0.3%	35,888	0.3%	35,888	0.3%	35,888	0.3%	35,888	0.3%
Less Accumulated Depreciation	(6,898,285)	-58.8%	(7,383,730)	-61.8%	(7,890,420)	-64.7%	(8,414,192)	-66.8%	(8,900,711)	-68.8%
Total Other Non Current Assets	7,549,405	64.4%	7,576,172	63.5%	7,454,886	61.1%	7,887,627	62.6%	8,687,139	67.2%
Total Assets	11,724,697	100.0%	11,938,572	100.0%	12,199,238	100.0%	12,591,253	100.0%	12,929,198	100.0%
Current Liabilities										
Accounts Payable	174,357	1.5%	252,689	2.1%	244,636	2.0%	282,203	2.2%	373,965	2.9%
Retention Payable	12,332	0.1%	23,018	0.2%	5,841	0.0%	5,841	0.0%	30,701	0.2%
Accrued Expenses	35,285	0.3%	34,129	0.3%	14,375	0.1%	18,579	0.1%	20,742	0.2%
Compensated Absences Payable	9,988	0.1%	7,158	0.1%	10,024	0.1%	12,868	0.1%	8,777	0.1%
Refundable Deposits	317,078	2.7%	325,898	2.7%	336,456	2.8%	349,691	2.8%	395,004	3.1%
Total Current Liabilities	549,040	4.7%	642,892	5.4%	611,332	5.0%	669,182	5.3%	829,189	6.4%
Long Term Liabilities										
Compensated Absences Payable	86,950	0.7%	89,656	0.8%	92,762	0.8%	98,262	0.8%	102,283	0.8%
OPEB Liability			443,089	3.7%	613,759	5.0%	612,463	4.9%	634,580	4.9%
Total Long Term Liabilities	86,950	0.7%	532,745	4.5%	706,521	5.8%	710,725	5.6%	736,863	5.7%
Total Liabilities	635,990	5.4%	1,175,637	9.8%	1,317,853	10.8%	1,379,907	11.0%	1,566,052	12.1%
Fund Balance										
Net Investments in Capital Assets	7,549,405	64.4%	7,576,172	63.5%	7,454,886	61.1%	7,887,627	62.6%	8,687,139	67.2%
Unrestricted or Unassigned	3,539,302	30.2%	3,186,763	26.7%	3,426,499	28.1%	3,323,719	26.4%	2,676,007	20.7%
Total Fund Balances	11,088,707	94.6%	10,762,935	90.2%	10,881,385	89.2%	11,211,346	89.0%	11,363,146	87.9%
Total Liabilities and Fund Balance	11,724,697	100.0%	11,938,572	100.0%	12,199,238	100.0%	12,591,253	100.0%	12,929,198	100.0%

⁽¹⁾Calculated as a percent of Total Assets.

Review of the Comparative Statement of Net Position for the last five years found the District's overall financial position grew from \$11,724,697 in Fiscal Year (FY) 2010 to \$12,929,198 in FY 2014 or by a total of 10.27%.

As evidenced by the increase seen in capital assets in the above spreadsheet indicates the Total Current Assets remained flat with the District having a 1.6% increase from \$4,175,292 in FY 2010 to a reported \$4,242,059 in FY 2014. Total Current Assets increased slightly in FY 2010, FY 2011, and FY 2012, only to decline in FY 2013 and FY 2014. A similar trend is found in Cash and Investments where the District reported \$4,135,920 in FY 2012, but then declined 4.66% in FY 2013 and 11.47% in FY 2014. The District reports the decline in Total Current Assets and Cash and Investments is due to the District's investments in capital assets.

Within Receivables, the change in Inventory of Material Supplies is most notable. This category increased from \$72,453 to \$216,562, or 199%, as a result of the first phase of the Project. The District began the Project in 2013 through self-funding. A similar trend is found in Construction Progress that mirrors the above mentioned growth given the increase from \$207,121 in FY 2010 to \$692,042 in FY 2014.

Within Capitalized Assets Being Depreciated, the analysis finds Total Other Non Current Assets grew from \$7,549,405 to \$8,687,139, over the five year period reviewed reflecting a 15% increase. The increase is centered in Pumps and Tanks with a 31% increase, Transmission and Distribution showing a 19% increase, and General Plant with a 20% increase. The growth is the result of the installation of backup generators on four pumps in the last two years and reflects the District's focus on rehabilitation and new construction.

Total Current Liabilities grew from \$549,040 to \$829,189, or 51%, primarily due to an increase in Accounts Payable that increased \$199,608, doubling since FY 2010 ending with a high of \$373,965 in FY 2014. The District has no debt to report under Long Term Liabilities and reflects liabilities for only Compensated Absences Payable and OPEB obligations. The OPEB Liability has increased since first reported, but has remained fairly consistent the last three years with a balance of \$634,580 in FY 2014. Total Liabilities have grown from \$635,990 in FY 2010 to \$1,566,052 by FY 2014; but in terms of a percentage of Total Assets, remains less than 13% in all years reviewed.

In summary, the Total Fund Balance remains fairly constant over the past five years between a low of \$10,762,935 (2011) to a high of \$11,363,146 (2014) with slight to moderate growth. The District maintained large Unrestricted (or Unassigned) Fund Balance (between 30% and 46%) of Total Fund Balances during the period reviewed with \$2,676,007 in FY 2014. The District retains a similar Cash and Investment position to all years review; \$3,490,954 that is reported in FY 2014 providing flexibility in handling unexpected expenses.

The following table displays accounts receivable aging as of January 7, 2016, reflecting the District collects over 90% of receivables within 30 days of billing, suggesting a strong collection process.

ACCOUNTS RECEIVABLE AGING AS OF JANUARY 7, 2016						
	Current	Over 30	Over 60	Over 90	Over 120	Total
	\$210,594	\$3,331	\$1,020	\$1,029	\$17,481	\$233,455
Percent	90.2%	1.4%	0.4%	0.4%	7.5%	100.0%

Source: Pico Water District

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

Analysis of the Fund's Comparative Statement of Revenues, Expenses and Changes in Net Position for the last five years is as follows:

PICO WATER DISTRICT										
COMPARATIVE STATEMENT of REVENUES, EXPENSES, and CHANGES IN NET POSITION										
For Fiscal Year Ending (FYE) December 31	2010		2011		2012		2013		2014	
Source:	CAFR	%								
% Change of Sale of Water		10%		6%		3%		0%		N/A
Operating Revenues										
Sale of Water	\$2,739,104	95.9%	\$3,016,676	95.6%	\$3,188,892	96.0%	\$3,298,470	94.9%	\$3,288,618	94.0%
Water Services	\$116,510	4.1%	\$114,686	3.6%	\$118,159	3.6%	\$167,275	4.8%	\$192,239	5.5%
Other Income	\$1,376	0.0%	\$24,806	0.8%	\$14,283	0.4%	\$11,707	0.3%	\$19,309	0.6%
Total Operating Revenues	\$2,856,990	100.0%	\$3,156,168	100.0%	\$3,321,334	100.0%	\$3,477,452	100.0%	\$3,500,166	100.0%
Operating Expenses										
Source of Supply	\$686,227	24.0%	\$784,007	24.8%	\$841,115	25.3%	\$907,726	26.1%	\$935,471	26.7%
Pumping	\$314,133	11.0%	\$329,532	10.4%	\$375,843	11.3%	\$398,841	11.5%	\$467,353	13.4%
Water Treatment	\$70,110	2.5%	\$56,603	1.8%	\$56,701	1.7%	\$50,698	1.5%	\$67,878	1.9%
Transmission and Distribution	\$194,736	6.8%	\$164,542	5.2%	\$215,118	6.5%	\$185,615	5.3%	\$198,842	5.7%
Customer Accounts	\$215,161	7.5%	\$221,244	7.0%	\$160,986	4.8%	\$156,077	4.5%	\$197,894	5.7%
Depreciation and Amortization	\$495,337	17.3%	\$504,968	16.0%	\$524,633	15.8%	\$524,752	15.1%	\$486,519	13.9%
General and Administrative	\$1,054,376	36.9%	\$1,164,856	36.9%	\$1,136,435	34.2%	\$1,137,645	32.7%	\$1,154,158	33.0%
Total Operating Expenses	\$3,030,080	106.1%	\$3,225,752	102.2%	\$3,310,831	99.7%	\$3,361,354	96.7%	\$3,508,115	100.2%
Operating Income (Loss)	(\$173,090)	-6.1%	(\$69,584)	-2.2%	\$10,503	0.3%	\$116,098	3.3%	(\$7,949)	-0.2%
Nonoperating Revenues (Expenses)										
Interest and Investment Revenue	\$19,172		\$14,528		\$13,561		\$10,999		\$9,861	
Rental Income	\$18,225		\$18,150		\$18,075		\$18,225		\$18,525	
Rental House Repairs and Maintenance	(\$516)		(\$12,071)		(\$1,647)		(\$5,299)		(\$1,976)	
Other Non-operating Revenue			\$1,100		\$2,161					
Net Non-operating Revenues (Expenses)	\$36,881		\$21,707		\$32,150		\$23,925		\$26,410	
Income (Loss) Before Operating Transfers	(\$136,209)		(\$47,877)		\$42,653		\$140,023		\$18,461	
Capital Contributions and Transfers										
Capital Contributions	\$32,316		\$10,631		\$74,797		\$189,938		\$133,339	
Change in Net Assets	(\$103,893)		(\$37,246)		\$117,450		\$329,961		\$151,800	
Beginning Net Assets	11,192,600		11,088,707		10,762,938		10,881,385		11,211,346	
Prior Period Adjustment (=/-)			(288,508)							
Ending Net Assets	\$11,088,707		\$10,762,953		\$10,880,388		\$11,211,346		\$11,363,146	
Percentage of Total Operating Expense to Total Operating Revenue	106.1%		102.2%		99.7%		96.7%		100.2%	

Analysis of the Comparative Statement of Revenues, Expenses, and Changes in Net Position show Total Operating Revenues increased 22.5% in the same period, Total Operating Expense also increased by 15.8%. The increase in expenses is tied to the cost of obtaining and pumping the water.

The greatest year-over-year increase in Total Operating Revenues occurred in FY 2011, which saw a 10% increase in Sale of Water due to a rate increase effective April 1, 2011. This rate increase was the first of four increases implemented within the five years reviewed.

Water usage between FYs 2010 and 2014 was consistent, averaging 89.8% of the District legal draw (high of 91.1% and a low of 88.3%), while water revenues (Sale of Water) increased between FYs 2010-2013 and dropped a slight 0.3% in FY 2014. Water revenues increased as a result of the District increasing rates as displayed in the Historical Rate Increases Over the Past Five Years table earlier in this report. The last increase included a 5% rate increase and a \$6.50 flat monthly charge for each user location.

During the same report period, Total Operating Expenses grew by 15.8% primarily due to a 48.8% increase in Pumping and a 36.32% increase in Source of Supply. The District confirms that Pumping is the cost of electricity and that Edison rates increased within the time reviewed. The District also reports the primary expense for Source of Supply is the cost incurred from the Water Replenishment District (WRD). The WRD manages groundwater for nearly four million residents in 43 cities of southern Los Angeles County. The 420 square mile service area uses about 250,000 acre-feet of groundwater per year, which equates to nearly 40% of the total demand for water. The WRD ensures that a reliable supply of high quality groundwater is available through its clean water projects, water supply programs, and effective management principles. WRD charges the District \$283 for every acre foot of groundwater pumped. The District reports that this cost has gradually increased and by double digits in the last few years.

Net Non-operating Revenues (Expenses) remained consistent averaging between a low of \$21,707 to a high of \$36,881, and contributed to the District's cash flow. The District owns a rental property located on the site of one of the District's water wells. This rental property produces a consistent source of income annually, approximately \$14,000 net revenue, and was included in the revenue and debt service analysis.

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

Pension Plan

The District participates in CalPERS; currently the full portion of employees' obligation, 7%, is paid by the District with no employee contributions. As of January 1, 2013, the District has an unfunded accrued liability in its pension fund of \$1,500,000 based on CalPERS actuary calculation. In addition to pension, the District provides health benefits to qualified retired employees. Currently, the District has eight individuals receiving benefits. The District has allocated \$70,000 annually to reduce the outstanding pension shortfall, based on this payment schedule the District will be brought current in under 30 years.

Existing Obligations Payable from the Fund

The District has no outstanding debt and has not carried any debt in the last five years.

Fund Cash Flow and Debt Service Analysis

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

CASH FLOW					
For Fiscal Year Ending (FYE) December 31	2010	2011	2012	2013	2014
Operating Income (Loss)	\$173,090	\$69,584	\$10,503	\$116,098	\$7,949
Depreciation and Amortization	495,337	504,968	524,633	524,752	486,519
Net Non-operating Revenues (Expenses)	36,881	21,707	32,150	23,925	26,410
<i>Cash Available for Debt Service</i>	359,128	457,091	567,286	664,775	504,980
Debt Service Calculation					
Proposed CIEDB⁽¹⁾	311,283	311,283	311,283	311,283	311,283
Total Obligations MADS	\$311,283	\$311,283	\$311,283	\$311,283	\$311,283
Debt Service Coverage Ratio	1.15	1.47	1.82	2.14	1.62

⁽¹⁾ Calculated as \$5,250,001 and at the 3.84% for 30 years.

The above table demonstrates the Fund's historical ability to service the proposed ISRF Program financing from cash flow at a minimum 1.15 debt service coverage ratio (DSCR) and that DSCR has improved since its low in 2010. Net Non-operating Revenues (Expenses) include a residential rental property the District owns that has recorded positive net revenue for the last five years.

IBank conducted a stress test by reviewing the year-to-date usage and income of the District as of August 31, 2015. Commercial users were found to be charged less than the average residential users for the same amount of water consumed. If the District were required to conform its water rates to the San Juan Capistrano ruling, commercial rates would be increased and residential rates decreased with no adverse effect to total revenues.

RISK FACTORS

1. The State Water Resources Control Board (SWRCB) mandated an 8% conservation reduction in response to Governor Brown's April 1, 2015, Executive Order B-29-15. The mandate, which began June 1, 2015, and goes through February 2016, could negatively impact the District's water revenue.
2. Certain aspects of the District's rate structure are similar to those successfully challenged in a recent California appellate court case as having violated Prop 218 requirements.
3. The District obtains 100% of its water through an adjudicated water basin with an annual limit on the amount of water the District can pump.

MITIGATING FACTORS

1. The District has been voluntarily meeting the mandated 8% water reduction and had been using less than 100% of its APA prior to the directive. Conservation methods have proven to be effective to reduce water consumption.
2. The District has implemented rate increases to maintain revenues at needed levels to be viable and to mitigate the decrease in water demand experienced over the last two years due to conservation efforts.

3. In implementing rates and charges, District to covenant to ensure that its rate structure conforms to the requirements of Prop 218 and statutes implementing it or case law interpreting it. Further, District to notify IBank immediately upon the filing of any legal challenge to its rates or charges.
4. Although the District has not used 100% of its annual allotment for the past four years, the District has the ability to purchase additional water lease rights from other water systems with water rights to the CB.
5. Being a member of an adjudicated water basin, any physical solution due to overdraft historically courts have ruled all users of the basin to share equitably in both the water and any necessary reduction.

Compliance with IBank Underwriting Criteria

- Revenues derived from the top ten System ratepayers do not exceed 50% of annual System revenues.
- Revenues derived from any single ratepayer do not exceed 15% of annual System revenues.
- The estimated useful life of the Project is 50 years, which exceeds the term of the Financing.
- The District has the power to establish and enact rates and charges without the approval of any other governing body.

Interest Rate Setting Demographics

The interest rate for the proposed ISRF loan was set based upon the following statistics obtained from the 2011-2013 American Community Survey (3-year estimates) or the ISRF program cost of funds.

Unemployment Rate	The City of Pico Riviera unemployment rate was 7.3%, which is 102.8% of the State’s rate of 7.1%.
Median Household Income	The City of Pico Riviera median household income was \$62,047, which is 91.6% of the State’s median household income of \$67,746.

STAFF RECOMMENDATION

Staff recommends approval of Resolution No. 16-02 authorizing ISRF Program financing for Pico Water District for the Pico Water District Infrastructure Replacement Plan Project as follows:

1. **Applicant/Borrower:** Pico Water District
2. **Project:** Pico Water District Infrastructure Replacement Project
3. **Amount of ISRF Program Financing:** \$5,250,001
4. **Maturity:** Thirty (30) years
5. **Repayment/Security:** The ISRF Program Financing will be secured by and payable from a Senior Lien on the District's Net System Revenues (Net Revenues) including any income howsoever derived.
6. **Interest Rate:** 3.84%
7. **Fees:** District to pay an origination fee of 1.00%, \$52,500, upon loan closing, and an annual fee of 0.30% of the outstanding principal balance.
8. **Not an Unconditional Commitment:** The IBank's resolution shall not be construed as unconditional commitment to finance the Project, but rather IBank's approval pursuant to the Resolution is conditioned upon entry by IBank and the District into an ISRF Program financing agreement, in form and substance satisfactory to IBank.
9. **Limited Time:** The Board's approval expires 180 days from the date of its adoption. Thus, the District and IBank must enter into the ISRF Program financing agreement no later than 180 days from such date. Once the approval has expired, there can be no assurances that IBank will be able to provide the ISRF Program financing to the District or consider extending the approval period.
10. **ISRF Program Financing Agreement Covenants:** The financing agreement shall include, among other things, the following covenants:
 - a. District will be required to maintain rates and charges in an amount sufficient to ensure that Net Revenues produce a minimum 1.20 times aggregate annual debt service ratio for obligations senior to and on parity with the ISRF Program financing.
 - b. The District will be prohibited from issuing future debt senior to the IBank financing.
 - c. Parity debt will be allowed if Net Revenues amount to at least 1.20 times the MADS taking into consideration the MADS payable in any Fiscal Year on the proposed parity debt.
 - d. Subordinate debt will be allowed if Net Revenues are at least 1.00 times the sum of the MADS on all outstanding debt, payable from the Fund, including the proposed Subordinate Debt.
 - e. District will covenant against reducing rates below levels used for all debt service payable from the Fund, and to take actions to increase rates or fund a rate stabilization fund if the debt service coverage ratios fall below required levels.
 - f. District to comply with the requirements of the Criteria and all applicable laws, regulations, and permitting requirements associated with public works projects.
 - g. District to provide to IBank annually within 240 days of the end of each of District's fiscal year a copy of its audited financial statements together with an

annual certificate demonstrating compliance with the foregoing covenants, as well as other information as IBank may request from time to time

- h. In implementing rates and charges, District to covenant to ensure that its rate structure conforms to the requirements of Proposition 218 and those of the statutes implementing it and the cases interpreting it. Further, District to notify IBank immediately upon the filing of any legal challenge to its rates or charges.

DISTRICT AREA MAP



PICO WATER DISTRICT - SERVICE AREA MAP

