

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)

STAFF REPORT

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

Applicant: City of Santa Cruz (City)		ISRF Project Type: Infrastructure Project	ISRF Project Category: Water Treatment and Distribution
Financing Amount: \$25,000,000	Financing Term: 30 years	Interest Rate⁽¹⁾: 3.24%	
Source of Repayment: Water Enterprise Fund (Fund)		Fund Rating/Date: City Of Santa Cruz 2014 Water Revenue Refunding Bonds: Standard & Poor's: "AA-" Fitch Ratings: "A+" / July 8, 2014	
Security: The ISRF Program financing will be payable from, and secured by a lien on, the net revenues (Net Revenues) of the City's Water Enterprise Fund. The IBank's lien will be on parity with an existing lien on such Net Revenues for the City of Santa Cruz 2014 Water Revenue Refunding Bonds (2014 Bonds)			
Project Name: A Portion of the Santa Cruz Safe and Reliable Drinking Water Project (Project)		Project Location: Various locations within the boundaries of the City's Water System	
Project Description / Sources and Uses of Proceeds: The Project will include the replacement, rehabilitation and/or upgrade of the following water system (System) infrastructure at various sites within the City: (1) water pipelines, (2) wells, (3) a water treatment plant, (4) a treated water storage reservoir, and (5) gravity trunk main valves. Use of Financing Proceeds: ISRF Program financing will fund or reimburse certain costs already incurred for a Portion of the Santa Cruz Safe and Reliable Drinking Water Project. The Project includes the costs for Land, Building, Construction, Renovation and Contingency Fees; Machinery and Equipment; and related soft costs, including but not limited to Engineering, Architect, Design, and Environmental Review. The IBank Origination Fee will be paid by the City upon execution of the financing agreement.			
Project Uses		Project Sources	
		I-Bank	Applicant
		Total	
Land	\$97,350	\$959,307	\$1,056,657
Building, Construction, Renovation and Contingency Fees	\$21,328,727	\$5,630,472	\$26,959,199
Machinery and Equipment	\$447,739	\$23,077	\$470,816
Engineering, Architectural, Design, and Environmental	\$3,126,184	\$123,962	\$3,250,146
IBank Origination Fee		\$250,000	\$250,000
Total	\$25,000,000	\$6,986,818	\$31,986,818

Source: Application

(1) As of December 10, 2015

Credit Considerations:

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

CASH FLOW					
For Fiscal Year Ending (FYE) June 30	2011	2012	2013	2014	2015
Operating Income (Loss)	\$3,678,328	\$2,507,390	\$2,889,213	(\$1,208,859)	(\$228,032)
ADJUSTMENTS					
+ Depreciation and Amortization	2,021,236	2,152,584	2,336,835	2,553,112	3,009,314
+ Investment Earnings	323,409	428,090	80,549	186,680	99,883
+ Extraordinary Maintenance				3,878,587	425,362
Cash Available for Debt Service	6,022,973	5,088,064	5,306,597	5,409,520	3,306,527
Total Existing Debt Service MADS ⁽¹⁾	705,238	705,238	705,238	705,238	705,238
Proposed CIEDB ⁽²⁾	1,353,940	1,353,940	1,353,940	1,353,940	1,353,940
Total Obligations (MADS)	\$2,059,178	\$2,059,178	\$2,059,178	\$2,059,178	\$2,059,178
Debt Service Coverage Ratio	2.92	2.47	2.58	2.63	1.61

⁽¹⁾ Maximum Annual Debt Service

⁽²⁾ Calculated as \$25,000,000 and at the 3.24% for 30 years.

The table above demonstrates the Fund’s ability to service the proposed transaction in all five years with a 1.61 debt service coverage ratio (DSCR) or above. Additional discussion is found in the Credit Analysis section of this report.

Support for Staff Recommendations:

1. Cash flow analysis demonstrates the Fund’s ability to service existing debt and the proposed ISRF Program financing.
2. The City has successfully increased rates to maintain its ability to pay operational costs and service its debt.
3. The estimated useful life of the Project components are at least 30 years, which equals or exceeds the term of the Financing.

Special Terms and Conditions

1. Condition precedent to initial disbursement of funds that City successfully complete its current plans to adopt a new water rate structure that fully complies with Prop 218.
2. In implementing future rates and charges, the City to covenant to ensure that its rate structure conforms to the requirements of Proposition 218 (Prop 218) and 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.
3. Condition precedent to entry into financing agreement that the City successfully complete a passive validation action with respect to its authority to incur an obligation for the proposed financing under its authority under state law.

IBank Staff: Tom Dear	Date of Staff Report: March 18, 2016
Date of IBank Board Meeting: March 22, 2016	Resolution Number: 16-06

Staff Recommendation:
Staff recommends approval of Resolution No. 16-06 authorizing ISRF Program financing to the City of Santa Cruz for A Portion of the Santa Cruz Safe and Reliable Drinking Water Project.

PROJECT DESCRIPTION

The City of Santa Cruz (City) requests ISRF Program financing in the amount of \$25,000,000 to fund a Portion of the Santa Cruz Safe and Reliable Drinking Water Project (Project). The Project includes the following: (1) water pipelines, (2) wells, (3) water treatment plant, (4) treated water storage reservoir, and (5) gravity trunk main valves replacement.

Project Background and Needs Description

The City commissioned a study in 2009 entitled the City of Santa Cruz Water Supply and Conservation. The study identified several needs to be corrected, including: (1) declining coastal groundwater levels and risk of seawater intrusion, (2) inoperable (stuck open) main valves, (3) diminishing water pressure, (4) improved storage, and (5) declining production of the various groundwater wells. To address these needs, the ISRF Program financing will fund or reimburse the City for the six components described below.

Project Components

North Coast System Rehabilitation (NCSR)

NCSR is needed to improve water flow and replace pipeline that has reached the end of its life expectancy. The City will replace approximately 17,200 linear feet of the pipeline primarily located parallel to Highway 1 between Wilder Ranch headquarters and Scaroni Road. This is the third in a series of phases of the rehabilitation project. The first two phases are complete and not part of this funding request.

Tait Wells Replacement (TWR)

The City has a total of four wells located on Tait Street (AKA Crossing Street) the first three were installed in the 1930s. Well #1 collapsed in 2015; Well #2 developed a sinkhole and was abandoned in 1980; Well #3 is non-operational as of 1996. Well #4, put into service in 1992, is the only operating well and has diminished capacity pumping 50 million gallons per year (MGY) versus the recorded high of 250 MGY. The City will replace wells #1 and #3 with this component. The City completed a test well and found the location to meet the specifications established by the City's water engineers. TWR component will be completed in two stages: the first is well drilling, which includes the design and drilling. The second stage includes design and construction of the civil, mechanical, and electrical systems; site grading; installation of piping; power connection; control and security systems.

Beltz Well Replacement (BWR)

In late November 2013, the City began installing an iron and manganese pressure filter vessel, two 35,000 gallon reclaim tanks, a 450 square foot block house and appurtenant underground storm water drainage to meet the need for additional storage capacity and reduce seawater intrusion by relocating the pump away from coastal areas. Other improvements to the site include water pipeline connection, sewer, electrical and communication utilities, site grading, paving, fencing, landscaping, and security systems.

Graham Hill Water Treatment Plant Filter Rehabilitation and Upgrades (GHTP)

This treatment plant was commissioned in 1960; currently it treats approximately 8 million gallons of water per day (MGD). To continually meet water standards and safety guidelines a complete rehabilitation was approved by the City. Construction began in August 2014 and is

expected to be completed in spring 2016. This work is the rehabilitation and upgrade of six dual media granular filters.

Bay Street Reservoir Reconstruction (BSRR)

This reservoir was constructed in the 1920s as an open-air raw water storage reservoir. Due to the age and capacity of the reservoir, it needs replacing. The City has constructed a new reservoir. BSRR will provide improved storage quality and seismic standards established by the Department of Water Resources.

Main Replacements (MR)

The City replaced two water mains due to deteriorated physical condition and potential for failure. The first water main is located on Soquel Avenue from the San Lorenzo River Bridge to Ocean Street, and the second is located from South Branciforte Avenue to Morrissey Boulevard. MR required an estimated 145 linear feet of 14-inch pipe, 4,245 linear feet of 12-inch pipe, 110 linear feet of 10-inch pipe, 70 linear feet of 8-inch pipe, 405 linear feet of 6-inch pipe, 20 linear feet of 4-inch pipe, nine fire hydrants, seven 4-inch fire service outlets, two 6-inch fire service outlets, and reconnecting 66 existing domestic water services.

Gravity Trunk Main Valves Replacement (GTVR)

The Gravity Trunk Main (GTM), built in the early 1960's, is a 36" diameter pipe running approximately 1.5 miles from the Graham Hill Water Treatment Plant (GHWTP) to the intersection of Ocean and Kennan Streets. The emergency isolation valves on the GTM are inoperable and cannot be closed. GTM feeds branch transmission mains at Crossing Street; Hunolt Street; and Kennan Street towards the West; and Washburn Avenue to the East, and it is the only connection between GHWTP and the vast majority of the distribution system. About 88% of the City's average production flows through this GTM. GTVR will replace two large diameter emergency isolation valves on the GTM that have become inoperable (stuck open). Returning these two valves to service is critical to being prepared for emergencies involving the GTM and its branch transmission mains.

Project Benefits

The proposed improvements will enhance the City's distribution system by (1) reducing the risk of seawater intrusion, (2) facilitating emergency response by replacing broken valves, (3) improving water flow, (4) improving storage quality, (5) increasing production by replacing wells, and (6) meeting seismic standards.

Public Benefits

The City anticipates 25 temporary jobs will be created during the construction period.

GENERAL CITY INFORMATION

The City was settled in 1769, incorporated in 1866, and became a charter city in 1876. The City of Santa Cruz (City) is located 74 miles south of San Francisco and 30 miles west of San Jose. The City occupies approximately 12 square miles and has a population of 63,440 persons per the U.S. Census Bureau as of 2014. The City is the county seat for the County of Santa Cruz.

The City adopted its current charter in 1948; this charter established a Council-Manager form of government. Policy-making and legislative authority are vested in a seven member governing

council consisting of the mayor and six council members. The council members are elected on a non-partisan basis. Council members serve four-year staggered terms, with no more than four council members elected every two years. The mayor is selected by a majority of the City Council and serves a one-year term. The mayor and council members are elected at large and all are subject to two term limits.

The City Council is responsible for, among other things, passing ordinances, adopting the budget, approving nominees to commissions, and hiring the City Manager, City Clerk, and City Attorney. The City Manager is responsible for fulfilling the policies and ordinances enacted by the City Council, overseeing the day-to-day operations of the City, and appointing the heads of the various departments.

The University of California Santa Cruz (UCSC) generates \$1.3 billion in economic activity within the Santa Cruz regional area. The principal industries of Santa Cruz are agriculture, tourism, education, and high technology. Santa Cruz is a center of the organic agriculture movement, and many specialty products as well as housing the headquarters of California Certified Organic Farmers. Tourist attractions include the redwood forests in the Santa Cruz Mountains above the City; Monterey Bay, a protected marine sanctuary; and the classic Santa Cruz Beach Boardwalk. The Beach Boardwalk celebrated its Centennial in 2007; it is home to the iconic Giant Dipper roller coaster (which is currently the fifth oldest coaster in the United States) and is a National Historic Landmark.

Water Department

The City provides municipal utilities for water (Water Department), wastewater, storm water, and others. The Water Department operates the water system and provides approximately 3 billion gallons of water per day to its users. Water service extends beyond City boundaries to a total user population of approximately 94,000. The mission of the Water Department is to ensure public health and safety by providing a clean, adequate, and reliable supply of water.

The governing body for the Water Department is the City Council; the City Council is responsible for setting water rates. The Director of the Water Department reports to the City Manager. The City Council relies on a seven member water commission (Water Commission) for advice on all matters pertaining to the maintenance and management of the City's water system.

The Water Commission was established by Resolution No. NS-22 in 1948, and reestablished by Ordinance No. 87-10 in 1987. The By-laws of the Water Commission, which set forth the rules, regulations, and procedures governing the Water Commission were last amended by the Water Commission in November 2003 and approved by City Council in March 2004. The Water Commission meets monthly, on the first Monday of each month, the Commission consists of seven members who are appointed by the City Council. Per Ordinance 87-10, one member is required to be a qualified elector who resides outside the City but within the City water service area; and the other six member are qualified electors of the City.

Based on the 2009 City of Santa Cruz Water Supply and Conservation study the Water Commission approved the Water Department's Capital Improvement Plan (CIP). The CIP adopted for fiscal years 2016-2018 addresses a total of 35 projects. All of the projects addressed in this Staff Report are represented in the CIP. There are several projects already completed and there are projects yet to be started. The City's plan is to finish all of these projects by the end of fiscal year 2017. The City has taken advantage of the rare opportunity to address the areas of the water system that are difficult to access (tanks emptied, water levels lowered, water

temporarily diverted, etc.) to complete the Extraordinary Maintenance items while working on the capital improvements to the water system.

SYSTEM DESCRIPTION

System Infrastructure

The water system (System) falls within the geographical boundaries of the City of Santa Cruz's western boundary (the Pacific Ocean) to 41st Avenue in the City of Capitola, and from the Monterey Bay to the foothills of the Santa Cruz Mountains and covers approximately 12 square miles. The City service area includes the following customers: the City of Santa Cruz, a portion of the City of Capitola, the University of California at Santa Cruz, and the unincorporated County areas known as Carbonera Estates, Live Oak, North Coast, Rolling Woods, and Santa Cruz Gardens.

The System has the following components:

- seven watershed sources spanning a total of 245 square miles
- six production wells with an average of 207 feet in depth
- one recreational reservoir, Loch Lomond, with 2,930 million gallons of storage capacity in 8,991 acre feet
- 29 miles of Raw Water Mains
- 264 miles of Treated Water Mains
- 16 storage reservoirs with 15.22 million gallons of capacity
- three treatment plants
- three active groundwater wells
- nine active surface water collection sites
- 10 storage facilities
- 15 pumping facilities

Water Supply, Quality and Storage

Ninety-five percent of the City's water supply comes from local surface waters including San Lorenzo River, Majors Creek, Laguna Creek, and Liddel Spring. The remaining five percent of the water comes from Soquel-Valley Groundwater Basin, which draws water from multiple wells at two locations known as Tait and Beltz. A complex series of tanks, reservoirs and pumps move water from its various sources to the Graham Hill Water Treatment Plant where the raw surface water is cleaned, treated, tested, and made available as safe drinking water.

One major pipeline network is known as the North Coast System (NCS). NCS is 18-mile of pipeline and stream diversion structures. The pipeline and diversion structures distribute up to 30 percent of the City's overall water supply to 24,000 separate connections, serving approximately 90,000 total users. Approximately 88% of NCS's users are residential, the rest are agricultural and business users.

The following table displays the Number of Users by Category and shows consistent number of users by category over the past five years except for a decline in "Other" users (government,

irrigation and golf courses) in 2015. The table further reflects a high proportion of residential users, which is consistent with the residential nature of the City.

NUMBER OF USERS BY CATEGORY					
For Fiscal Year Ending (FYE) June 30,	2011	2012	2013	2014	2015
Residential	21,636	21,705	21,705	21,750	21,711
Commercial	1,894	1,891	1,896	1,900	1,883
Industrial	50	50	49	51	51
Other	819	819	823	810	738
Total	24,399	24,465	24,473	24,511	24,383
% change		0.3%	0.0%	0.2%	-0.1%

Source: Financing Application Addendum

The table below displays Current System Usage and Revenues at the time of application. Residential users represent 61.7% of Annual Usage and 65.3% of Annual Revenues while Commercial users represent 21.7% of Annual Usage and 20.3% of the Annual Revenues. This is consistent with the table above that reflects Residential connections as the primary system users followed by Commercial connections.

CURRENT SYSTEM USAGE & REVENUE				
	Annual Usage (CCF) ⁽¹⁾	% Annual Usage	Gross Annual Revenue	Annual Revenue
Residential	1,838,147	61.7%	14,341,148	65.3%
Commercial	646,186	21.7%	4,464,086	20.3%
Industrial	245,371	8.2%	1,461,730	6.7%
Other	249,598	8.4%	1,678,279	7.6%
Total	2,979,302	100.0%	21,945,243	100.0%

Source: Financing Application Addendum

⁽¹⁾ Hundred cubic feet

The following table displays the Historical Rate Increases Over the Past Five Years. The Water Commission carefully planned the rate increases to fund the capital improvements needs of the System and this table reflects the City's ability to increase rates to meet its operational and capital needs. The City's Council reviews the rates recommended by the Water Commission annually. The City Council has adopted rate increases three out of the last five years, the most recent increase of 10% was effective July 1, 2015.

HISTORICAL RATE INCREASES OVER THE PAST FIVE YEARS		
Date Adopted	Date Effective	Percent Increase
9/23/2014	7/1/2015	10%
9/23/2014	10/1/2014	10%
6/8/2004	1/1/2011	5%

Source: Financing Application Addendum

The following table displays the Historical and Current Average Monthly User Charge per Residential Unit as a Percentage to Median Household Income. The year-over-year percent increase occurred every year except 2014 and 2015 as the City enacted strict water conservation measures. The table demonstrates the percentages paid by ratepayers are all well

below the 2.0% of the Medium Household Income (MHI) affordability threshold established by the California Department of Public Health.

HISTORICAL AND CURRENT AVERAGE MONTHLY USER CHARGE PER RESIDENTIAL UNIT AS A PERCENTAGE TO MEDIAN HOUSEHOLD INCOME				
For Fiscal Year Ending (FYE) June 30,	2012	2013	2014	2015
Residential	\$43.66	\$45.13	\$44.59	\$40.65
% change		3.4%	-1.2%	-8.8%
% to MHI (2014 at \$61,489)	0.85%	0.88%	0.87%	0.79%

Source: Financing Application Addendum

The next table displays the Projected Average Monthly User Charge per Residential Unit in fiscal years (FYs) 2016 through 2019. Increases in revenues are planned in years 2017 and 2018, while no rate increase is planned in 2019. The projections are based on water consumption returning to pre-drought usage levels as well as planned rate increases in 2016-2018.

PROJECTED AVERAGE MONTHLY USER CHARGE PER RESIDENTIAL UNIT				
For Fiscal Year Ending (FYE) June 30,	2016	2017	2018	2019
Residential	\$49.30	\$55.28	\$66.96	\$66.96
% change	21.3%	12.2%	21.0%	0.0%

Source: Financing Application Addendum

The following table presents the City's Current Average Monthly System User Charges Compared to Nearby Systems as of October 31, 2015. The table reflects that the City's rates are some of the lowest in the area. The table indicates that the City's rate is 77.9% of the average of four other water systems. In contrast, the highest rate charged by Soquel Creek Water District is 162.5% of the average rate of the four nearby systems.

CURRENT AVERAGE MONTHLY SYSTEM USER CHARGES COMPARED TO NEARBY SYSTEMS			
System Name	Location	Distance in Miles	Average Monthly Residential Rate ⁽¹⁾
City of Santa Cruz, Water Department	N/A		\$45.36
Watsonville	Santa Cruz County	19.5	\$30.14
Scotts Valley	Santa Cruz County	7.6	\$45.85
San Lorenzo Valley	Santa Cruz County	9.4	\$62.28
Soquel Creek Water District	Santa Cruz County	3.3	\$94.56
Average Monthly Rate of Nearby Systems			\$58.21

⁽¹⁾ as of October 31, 2015

Source: Financing Application Addendum

The table below displays the Top 10 System Users and indicates the City is in compliance with IBank’s underwriting requirements that revenues derived from the top ten ratepayers does not exceed 50%, and that no single ratepayer generates 15% or more of annual system revenues.

TOP 10 SYSTEM USERS				
As of FY 2015				
	User	% System Use	% System Revenues	Customer Class (Residential/ Commercial/ Industrial/Other)
1	Universtity of California, Sant Cruz	6.5%	4.9%	Industrial
2	Pasatiempo Golf Course	1.6%	1.5%	Golf Irrigation
3	Delaveaga Golf Course	1.4%	1.0%	Golf Irrigation
4	Harmony Goods	1.4%	0.9%	Industrial
5	Emerald Bay Apartments	0.5%	0.6%	Multifamily Res.
6	Paradise Park	0.6%	0.5%	Multifamily Res.
7	County of Santa Cruz	0.8%	0.5%	Commercial
8	Dignity Health	0.5%	0.5%	Commercial
9	Santa Cruz Seaside Company	0.6%	0.4%	Commercial
10	Cypress Point Apartments	0.5%	0.4%	Multifamily Res.
	Total	14.4%	11.2%	

Source: Financing Application Addendum

CREDIT ANALYSIS

The following table summarizes the source of repayment for the proposed ISRF Program loan, the current outstanding obligations of the repayment source, and the documents reviewed and analyzed for the recommendation.

Source of Revenue to Repay Proposed ISRF Program Financing:	Water Enterprise Fund
Outstanding Obligations:	\$11,260,000 City of Santa Cruz 2014 Water Revenue Refunding Bonds
Type of Audited Financial Documents Reviewed:	<input checked="" type="checkbox"/> Comprehensive Annual Financial Reports (CAFR) <input type="checkbox"/> Basic Financial Statements (F/S) <input type="checkbox"/> Other: _____
Fiscal Year Ends:	June 30
Audit Fiscal Years Reviewed:	2011-2015
The auditor's reports for all years indicate that the financial statements present fairly, in all material respects, the financial position of the 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. [If no, explain]
Adopted Budget(s) Reviewed:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No. [If no, explain]
Budget Year(s) Reviewed:	2015-2016

Source of Financing and Security

The ISRF Program financing will be secured by and payable from Net Revenues of the City's Water Enterprise Fund with a lien on parity with the lien on such Net Revenues by the City of Santa Cruz 2014 Bonds. Analysis of the City's Comparative Statement of Net Position Proprietary Funds for the last five fiscal years is as follows:

CITY OF SANTA CRUZ, WATER DEPARTMENT										
ENTERPRISE WATER FUND										
COMPARATIVE STATEMENT OF NET POSITION PROPRIETARY FUNDS										
For Fiscal Year Ending (FYE) June 30	2011		2012		2013		2014		2015	
Source:	CAFR	% ⁽¹⁾								
Assets										
Cash and Investments	\$39,216,206	33.8%	\$34,877,414	29.0%	\$25,967,522	21.2%	\$19,045,494	15.6%	\$11,166,086	9.2%
Restrict Cash and Investments	\$93,746	0.1%	\$93,975	0.1%	\$93,634	0.1%	\$93,634	0.1%	\$93,621	0.1%
Receivables										
Interest Receivable	83,914	0.1%	65,079	0.1%	41,105	0.0%	35,758	0.0%	24,349	0.0%
Accounts Receivable-Net	2,666,420	2.3%	3,260,328	2.7%	2,847,067	2.3%	2,495,174	2.0%	2,545,191	2.1%
Due from Other Funds	54,088	0.0%	338,078	0.3%	1,800,695	1.5%	2,019,283	1.7%		
Notes Receivable Due within a Year							23,985	0.0%		
Total Current Assets	42,114,374	36.3%	38,634,874	32.1%	30,750,023	25.1%	23,713,328	19.4%	13,829,247	11.4%
Noncurrent Assets										
Restricted Investments									1,000,085	0.8%
Notes Receivable-Due in More Than One Year	401,058	0.3%	401,058	0.3%	432,962	0.4%	510,911	0.4%	401,058	0.3%
Capital Assets Being Depreciated										
Land	58,387	0.1%	58,387	0.0%	58,387	0.0%	58,387	0.0%	58,387	0.0%
Land Improvements	572,807	0.5%	572,807	0.5%	572,807	0.5%	572,807	0.5%	572,807	0.5%
Infrastructure	74,744,307	64.4%	75,760,890	62.9%	83,934,817	68.6%	98,093,532	80.4%	108,930,294	89.7%
Buildings	9,257,467	8.0%	16,579,457	13.8%	16,579,457	13.6%	16,789,844	13.8%	16,789,844	13.8%
Machinery and Equipment	7,095,036	6.1%	7,417,283	6.2%	7,774,805	6.4%	8,648,866	7.1%	12,569,593	10.4%
Software	561,412	0.5%	561,412	0.5%	561,412	0.5%	561,412	0.5%	592,032	0.5%
Construction in Progress	25,988,611	22.4%	27,183,192	22.6%	30,707,556	25.1%	24,513,311	20.1%	21,083,105	17.4%
Less Accumulated Depreciation	(44,651,823)	-38.4%	(46,739,430)	-38.8%	(49,077,206)	-40.1%	(51,530,314)	-42.3%	(54,439,297)	-44.8%
Total Other Non Current Assets	74,027,262	63.7%	81,795,056	67.9%	91,544,997	74.9%	98,218,756	80.6%	107,557,908	88.6%
Total Assets	116,141,636	100.0%	120,429,930	100.0%	122,295,020	100.0%	121,932,084	100.0%	121,387,155	100.0%
Deferred Charges	(371,371)	-0.3%	(356,415)	-0.3%					(385,085)	-0.3%
Deferred Pension Outflows									(889,263)	-0.7%
Total Deferred Outflow of Resources	(371,371)		(356,415)						(1,274,348)	
Current Liabilities										
Accounts Payable and Other Current Liabilities	2,149,194	1.9%	2,725,453	2.3%	2,025,578	1.7%	3,025,595	2.5%	3,171,998	2.6%
Interest Payable	170,185	0.1%	166,098	0.1%	161,871	0.1%	157,394	0.1%	66,052	0.1%
Unearned Revenue	622	0.0%	622	0.0%			35,842	0.0%		
Deposits Payable	24,390	0.0%	31,840	0.0%	32,351	0.0%	305,769	0.3%	45,438	0.0%
Compensated Absences Payable	332,398	0.3%	299,620	0.2%	309,594	0.3%	380,580	0.3%	328,459	0.3%
Bonds, Notes, Loans and Leases Payable Due in Less Than One Year	342,934	0.3%	355,440	0.3%	367,963	0.3%			435,000	0.4%
Total Current Liabilities	2,648,352	2.3%	3,222,658	2.7%	2,897,357	2.4%	3,905,180	3.2%	4,046,947	3.3%
Noncurrent Liabilities										
Other Post Employment Benefits	438,565	0.4%	149,810	0.1%	154,797	0.1%	152,885	0.1%	907,007	0.7%
Net Pension Liability									12,306,390	10.1%
Compensated Absences Payable	166,199	0.1%	570,375	0.5%	664,766	0.5%	766,129	0.6%	164,229	0.1%
Bonds, Notes, Loans and Leases Payable Due in Less Than One Year	11,272,372	9.7%	10,916,933	9.1%	10,548,970	8.6%	10,168,390	8.3%	10,242,829	8.4%
Total Long Term Liabilities	11,877,136	10.2%	11,637,118	9.7%	11,368,533	9.3%	11,087,404	9.1%	23,620,455	19.5%
Total Liabilities	14,525,488	12.5%	14,859,776	12.3%	14,265,890	11.7%	14,992,584	12.3%	27,667,402	22.8%
Deferred Pension Inflows									3,911,936	3.2%
Fund Balance										
Invested in Capital Assets, Net of Related Debt	62,104,644	53.5%	70,215,600	58.3%	80,195,102	65.6%	87,158,875	71.5%	95,864,021	79.0%
Unrestricted or Unassigned	39,511,504	34.0%	35,354,554	29.4%	27,834,028	22.8%	19,780,625	16.2%	(4,781,856)	-3.9%
Total Fund Balances	101,616,148	87.5%	105,570,154	87.7%	108,029,130	88.3%	106,939,500	87.7%	91,082,165	75.0%
Total Liabilities and Fund Balance	116,141,636	100.0%	120,429,930	100.0%	122,295,020	100.0%	121,932,084	100.0%	121,387,155	100.0%

⁽¹⁾Calculated as a percent of Total Assets.

A review of the Comparative Statement of Net Position of Proprietary Funds shows Cash and Investments declined 71.5% in the five years reviewed due to the Water Department self-funding System capital improvements. Due from Other Funds grew to over \$2,000,000 between FYs 2011 and 2014 but was zero in FY 2015. The City stated that monies in this category came from the City's Governmental Fund, General Capital Improvement category, to cover the capital outlay of various water construction projects and were spent as of the end of FY 215. The decline in Cash and Investments and Due from Other Funds led to a decline Current Assets.

The spreadsheet above reflects a new category, Restricted Investments, in FY 2015. The City states this is a sinking fund established for the 2014 Bonds.

Capital Assets Being Depreciated reflect the investment in capital improvements discussed earlier in this report. Infrastructure increased by more than \$34,000,000, a 45.7% increase, representing upgrades the City has completed to the System since FY 2013. The Bay Street Reservoir represents the majority of the spending at \$21,000,000 and the Beltz Well No. 12 contributed an additional \$4,500,000. The City has seven other projects under various stages of construction that accounts for the remaining \$8,500,000.

Buildings increased 81.4% by way of \$5,600,000 in electrical upgrades, \$318,000 for a retaining wall at the Graham Hill Water Treatment Plant, and the remodel of the Water Quality Lab for approximately \$1,600,000. Machine and Equipment increased 77.2% in the period reviewed. The City states this was primarily due to the completion of Phase 1 and Phase 2 of the Bay Street Reservoir and the Beltz Well Replacement projects.

There are two additional new categories in FY 2015: Deferred Pension Outflows and Net Pension Liability, with balances of \$889,263 and \$12,306,390, respectively. These categories are part of the City's overall pension debt obligation solution. More information is provided later in this report under Pension Plan.

It was also noted that the 54.4% growth of Invested in Capital Assets, Net of Related Debt was nearly offset by the 112% decreased of the Unrestricted Funds balance that now shows a balance of -\$4,781,856. The City states this shift in fund balances is based on the various water construction projects recently completed and currently under construction.

The Total Fund Balances decreased 14.8% between FYs 2014 and 2015 and a 10.4% reduction in the five years reviewed. Total Liabilities and Fund Balance had little changed during FYs 2012-2015, the majority of the \$5,245,519 increase took place between FYs 2011. The before mention changed was a direct result of the increase in the balance of Invested in Capital Assets, Net of Related Debt, a 13.1% change in 2012 and a 54.4% in the five years reviewed. This increase is based on the various water projects completed.

The following table displays Accounts Receivable Aging as of August 25, 2015, and reflects that the City collects over 84% of its receivables within 60 days of billing.

ACCOUNTS RECEIVABLE AGING					
as of: JANUARY 6, 2016					
	Current	Over 30	Over 60	Over 90	Total
	\$1,437,272	\$85,112	\$174,046	\$110,187	\$1,806,618
Percent	79.6%	4.7%	9.6%	6.1%	100.0%

Source: City of Santa Cruz Water Department

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

The Comparative Fund Revenues, Expenditures, and Changes in Fund Balance for the last five years are summarized below:

CITY OF SANTA CRUZ, WATER DEPARTMENT										
COMPARATIVE STATEMENT of REVENUES, EXPENSES, and CHANGES IN NET POSITION										
For Fiscal Year Ending (FYE) June 30	2011		2012		2013		2014		2015	
Source:	CAFR	%	CAFR	%	CAFR	%	CAFR	%	CAFR	%
% Change		4%		4%		-1%		-4%		-100%
Operating Revenues										
Charge for Services	\$23,388,153	98.7%	\$24,310,950	98.6%	\$25,169,981	98.7%	\$24,801,342	97.9%	\$23,706,405	96.5%
Rental Revenues	\$6,600	0.0%	\$6,600	0.0%	\$6,600	0.0%	\$3,300	0.0%	\$7,624	0.0%
Other Revenue	\$292,170	1.2%	\$326,338	1.3%	\$313,524	1.2%	\$523,278	2.1%	\$846,478	3.4%
Total Operating Revenues	\$23,686,923	100.0%	\$24,643,888	100.0%	\$25,490,105	100.0%	\$25,327,920	100.0%	\$24,560,507	100.0%
Operating Expenses										
Personnel Services	\$8,619,320	36.4%	\$9,084,764	36.9%	\$9,344,718	36.7%	\$9,737,978	38.4%	\$10,354,138	42.2%
Services, Supplies and other Charges	\$9,368,039	39.5%	\$10,899,150	44.2%	\$10,919,339	42.8%	\$14,245,689	56.2%	\$11,425,087	46.5%
Depreciation and Amortization	\$2,021,236	8.5%	\$2,152,584	8.7%	\$2,336,835	9.2%	\$2,553,112	10.1%	\$3,009,314	12.3%
Total Operating Expenses	\$20,008,595	84.5%	\$22,136,498	89.8%	\$22,600,892	88.7%	\$26,536,779	104.8%	\$24,788,539	100.9%
Operating Income (Loss)	\$3,678,328	15.5%	\$2,507,390	10.2%	\$2,889,213	11.3%	(\$1,208,859)	-4.8%	(\$228,032)	-0.9%
Nonoperation Revenues (Expenses)										
Intergovernmental					\$60,114	0.2%			\$24,028	0.1%
Investment Earnings	\$323,409	1.4%	\$428,090	1.7%	\$80,549	0.3%	\$186,680	0.7%	\$99,883	0.4%
Interest Expense and Fiscal Charges	(\$523,421)	-2.2%	(\$510,740)	-2.1%	(\$497,100)	-2.0%	(\$484,120)	-1.9%	(\$106,815)	-0.4%
Debt Issuance Cost	(\$14,360)	-0.1%	(\$14,359)	-0.1%			\$595	0.0%	(\$324,391)	-1.3%
Gain(Loss) on Sale of Capital Assets			\$8,627	0.0%			\$9,131	0.0%	\$22,651	0.1%
Net Non-operating Revenues (Expenses)	(\$214,372)	-0.9%	(\$88,382)	-0.4%	(\$356,437)	-1.4%	(\$287,714)	-1.1%	(\$284,644)	-1.2%
Income (Loss Before Operating Transfers)	\$3,463,956	14.6%	\$2,419,008	9.8%	\$2,532,776	9.9%	(\$1,496,573)	-5.9%	(\$512,676)	-2.1%
Capital Contributions and Transfers										
Capital Contribution-Other Agencies	\$870,203		\$1,567,286		\$332,823		\$440,849			
Interagency Transfer Out	(\$83,735)									
Transfer Out	(\$71,150)		(\$32,288)		(\$50,208)		(\$33,906)		(\$109,821)	
Change in Net Assets	\$4,179,274		\$3,954,006		\$2,815,391		(\$1,089,630)		(\$622,497)	
Beginning Net Assets	97,436,874		101,616,148		105,570,154		108,029,130		106,939,500	
Prior Period Adjustments					(356,415)				(15,234,838)	
Ending Net Assets	\$101,616,148		\$105,570,154		\$108,029,130		\$106,939,500		\$91,082,165	

Review of the Comparative Statement of Revenues, Expenses, and Changes in Net Position found little change in Charges for Services as water rates were consistent from January 2011 through October 2014. Charges for Services declined slightly in FY 2014 and again in FY 2015 as a result of voluntary water conservation. Other Revenue, representing interest earnings, fines, and forfeitures, increased by 189.7% primarily due to charges collected for excess water use during the drought. Overall, Total Operating Revenue increased by \$873,584 in the five years reviewed.

Total Operating Expenses increased 23.9% (\$4,779,944) in the five years analyzed. Increases occurred in each Personnel Service; Services, Supplies and other Charges; and Depreciation Expense. The most significant increase was reported in Services, Supplies and other Charges in FY 2014. The City stated that this increase was related to expenses for extraordinary System maintenance performed as a result of the major System improvements; meaning attention to areas generally not accessible without major work being performed. The increases in Total Operating Expenses resulted in Operating Losses in FY 2014 and FY 2015, with FY 2015 reporting a smaller loss as Services, Supplies and other Charges declined in this year. It was noted that excluding the non-cash Depreciation Expense results in a positive Operating Income in both FYs 2014 and 2015.

Net Non-operating Revenues were negative in all five years. Non-operating Revenues include both revenue and expense categories. Revenues include Intergovernmental, Investment Earnings, and Capital Gains; all transient sources. Investment Earnings declined as the City drew down funds for the construction of capital improvements.

Capital Contributions-Other Agencies was inconsistent during the period reviewed ending with FY 2015 showing no contribution. The City explained this was due to the Soquel Creek Water Supply Project being put on hold, and the funds were no longer being allocated by the City. The majority of Transfers Out (96%) went to the Governmental Capital Improvement Fund. There is no annual obligation for the Water Enterprise Fund to transfer to this fund. The amount of the transfers (and when) is determined when the Capital Improvements are being furnished.

The Change in Net Assets was positive from FY 2011 through FY 2013. In FYs 2014 and 2015 the change was negative due to the increase in spending required for the City's water projects and this was also noted on the Balance Sheet within Unrestricted Funds.

Finally, Prior Period Adjustments were made in FYs (a small portion of) 2014 and 2015 due to the implementation of GASB 68 that went into effect as on June 15, 2014. This change required the restatement of the beginning net position to recognize the Net Pension Liability.

Pension Plan

The City contributes to CalPERS. As of 2013, miscellaneous employees, including Water Department employees, were funded 75.9% leaving an unfunded pension liability of \$72,600,000. The City's strategic plan is to reduce the impact of unfunded liability for both CalPERS pensions and the unfunded post-employment obligations as follows:

- 1) In June 2013 the City established an unfunded obligation stabilization fund to accumulate resources dedicated to offsetting unfunded liabilities. To date the City has accumulated \$1,300,000 distributed between Governmental and Proprietary Funds.

- 2) In September 2014 the City Council adopted budgetary policies directing 30% of year-end surpluses towards the reduction of unfunded retiree health obligations.
- 3) The City has planned a public study session in Spring 2016 on additional actions including, but not limited to, creation of a retiree benefit trust and annual, budgetary contributions to bring unfunded status within 10 years to the target funding level.

The City fully funded its last three years pension obligations.

Existing Obligations Payable from the Fund

The Fund currently has one outstanding obligation, the 2014 Bonds, as reflected in the table. The 2014 Bonds allows the issuance of parity debt if certain conditions are met, including satisfying a debt service coverage ratio (DSCR) of 1.15 or better and a favorable opinion from bond counsel as to satisfaction of such parity debt conditions. The proposed financing has a minimum adjusted DSCR of 1.61. Receipt by the IBank of a favorable opinion from bond counsel as to satisfaction of the 2014 parity debt conditions will be required as a condition of the ISRF Program loan.

Debt Issues	Underlying Rating (at issuance)	Date Issued	Debt Amount	Outstanding Balance	Purpose	Lien Position / Repayment Pledge	Maturity
2014 Water Revenue Refunding Bonds	Standard & Poor's: "AA-" Fitch Ratings: "A+"	7/8/2014	\$11,260,000	\$10,235,000	The proceeds of the Bonds will be used to (i) refinance outstanding water revenue bonds of the City and a State Revolving Fund loan; and (ii) pay the costs of issuing the Bonds	Senior lien on net system revenues	8/1/2036
Proposed IBank ISRF Financing	N/A	TBD	\$25,000,000	\$0	A Portion of the Santa Cruz Safe and Reliable Drinking Water Project	A parity lien on net revenues	2/1/2040
Total			\$36,260,000	\$10,235,000			

Three-Year Revenue and Expenses Projections

The Comparative Fund Revenues, Expenditures, and Changes in Fund Balance projected for the next three years are summarized below:

CITY OF SANTA CRUZ, WATER DEPARTMENT									
THREE-YEAR PROJECTIONS									
For Fiscal Year Ending (FYE) June 30		2015 Actual		2016 Projected		2017 Projected		2018 Projected	
	Source:	CAFR	%	CAFR	%	CAFR	%	CAFR	%
	% Change		N/A		13%		0%		0%
Operating Revenues									
	Charge for Services	\$23,706,405	96.5%	\$27,851,575	100.0%	\$27,851,575	100.0%	\$27,851,575	100.0%
	Rental Revenues	\$7,624	0.0%			\$0	0.0%	\$0	0.0%
	Other Revenue	\$846,478	3.4%			\$0	0.0%	\$0	0.0%
	Total Operating Revenues	\$24,560,507	100.0%	\$27,851,575	100.0%	\$27,851,575	100.0%	\$27,851,575	100.0%
Operating Expenses									
	Personnel Services	\$10,354,138	42.2%	\$10,664,762	38.3%	\$10,984,705	39.4%	\$11,314,246	40.6%
	Services, Supplies and other Charges	\$11,425,087	46.5%	\$11,371,461	40.8%	\$11,598,890	41.6%	\$11,830,868	42.5%
	Depreciation and Amortization	\$3,009,314	12.3%	\$3,009,314	10.8%	\$3,009,314	10.8%	\$3,009,314	10.8%
	Total Operating Expenses	\$24,788,539	100.9%	\$25,045,537	89.9%	\$25,592,909	91.9%	\$26,154,428	93.9%
	Operating Income (Loss)	(\$228,032)	-0.9%	\$2,806,038	10.1%	\$2,258,666	8.1%	\$1,697,147	6.1%
Nonoperation Revenues (Expenses)									
	Intergovernmental	\$24,028	0.1%						
	Investment Earnings	\$99,883	0.4%	\$49,942	0.2%	\$49,942	0.2%	\$49,942	0.2%
	Interest Expense and Fiscal Charges	(\$106,815)							
	Existing Debt (MADS)			(\$705,238)	-2.5%	(\$705,238)	-2.5%	(\$705,238)	-2.5%
	Debt Issuance Cost	(\$324,391)	-1.3%	(\$250,000)	-0.9%	\$0	0.0%	\$0	0.0%
	Gain(Loss) on Sale of Capital Assets	\$22,651	0.1%	\$0	0.0%				
	Net Non-operating Revenues (Expenses)	(\$284,644)	-1.2%	(\$905,296)	-3.3%	(\$655,296)	-2.4%	(\$655,296)	-2.4%
	Income (Loss Before Operating Transfers)	(\$512,676)	-2.1%	\$1,900,742	6.8%	\$1,603,370	5.8%	\$1,041,851	3.7%
Capital Contributions and Transfers									
	Interagency Transfer Out								
	Transfer Out	(\$109,821)		(\$109,821)		(\$109,821)		(\$109,821)	
	Change in Net Assets	(\$622,497)		\$1,790,921		\$1,493,549		\$932,030	

The table below represents a three year projection and cash flow analysis using the following information and assumptions:

- 2015 actual results, as reported in the Santa Cruz Comprehensive Annual Financial Report (CAFR), were used in the Three-Year Projections for comparison purposes.
- 2016 Charges for Services value was derived from the Rate Adjustment and Financial Plan (RAFP) of the City of Santa Cruz Water Department dated November 2014. The RAFP recommended a rate increase of 10%, and the City Council approved such increase. The approved rate increase was effective July 1, 2015. The Council also approved a 3% increase in fees collected through Drought Cost Recovery Fees (DCRF). The DCRF is implemented when the City declares it is in a drought. As of February 2014, Santa Cruz declared a Stage 3 Water Shortage Emergency that remains the current status.
 - Although there are rate increases planned for each year going forward only the 2015 rate increase is approved. To be conservative 2017 and 2018 Charges for Services were not adjusted.
 - Per the RAFP, Rental Revenues and Other Revenues, were rolled into the Charges for Services therefore no adjustments were made to these lines.
- The RAFP Escalations Assumptions were provided and used for the following expenses:
 - Personnel Services (Salary) 3% annual adjustments
 - Services, Supplies, and other Charges (General, Chemicals and Energy); 3%, 9.2% and 9.1% respectfully. Staffed used a 6% adjustment as an average.
- Depreciation has been trending upward for the last five years, to be conservative the value of 2015 Depreciation was used in each of the three years projected.
- Intergovernmental expenses were inconsistent in the last five years, and since this income line item would typically be adjusted out of the System's income, no value was given in the three years projected.
- Investment Earnings have been trending downward in the last five years as the City has used its cash reserves to support the various water improvement projects. To be conservative 50% of the 2015 value of this line item was used in each of the three years projected.
- Interest Expenses and Fiscal Charges was a category reported in FY 2015, but is not continued forward in the Three-Year Projections. This line item is replaced by the Existing Debt (MADS) line item to represent the current expense to the System.
- Debt Issuance Cost shows the anticipated cost of the IBank loan in 2016.
- No value was used for Gains (Loss) on Sale of Capital Assets for the three years projected.

Historical 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) June 30	2011	2012	2013	2014	2015
Operating Income (Loss)	\$3,678,328	\$2,507,390	\$2,889,213	(\$1,208,859)	(\$228,032)
ADJUSTMENTS					
+ Depreciation and Amortization	2,021,236	2,152,584	2,336,835	2,553,112	3,009,314
+ Investment Earnings	323,409	428,090	80,549	186,680	99,883
+ Extraordinary Maintenance				3,878,587	425,362
Cash Available for Debt Service	6,022,973	5,088,064	5,306,597	5,409,520	3,306,527
Total Existing Debt Service MADS ⁽¹⁾	705,238	705,238	705,238	705,238	705,238
Proposed CIEDB ⁽²⁾	1,353,940	1,353,940	1,353,940	1,353,940	1,353,940
Total Obligations (MADS)	\$2,059,178	\$2,059,178	\$2,059,178	\$2,059,178	\$2,059,178
Debt Service Coverage Ratio	2.92	2.47	2.58	2.63	1.61

⁽¹⁾ Maximum Annual Debt Service

⁽²⁾ Calculated as \$25,000,000 and at the 3.24% for 30 years.

In addition to the standard add back for non-cash Depreciation Expense and the addition of Investment Earnings that is reported below the Operating Income (Loss) line, expenses incurred for Extraordinary Maintenance for the Proposed Project (as discussed above) were added back since such expenses are one-time costs. Adjusted historical cash flows demonstrate the Fund's ability to service existing debt and the proposed ISRF Program financing with at least 1.61 DSCR in all five years reviewed. The Transfer Out occurred annually however the amount was insignificant as compared to the total cost of the transaction. 96% of the funds were annually transferred directly to the General Capital Improvement Fund and are not tied to any other outside obligation.

Projected Fund Cash Flow and Debt Service Analysis

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

PROJECTED CASH FLOW				
For Fiscal Year Ending (FYE) June 30	2015	2016	2017	2018
Operating Income (Loss)	(228,032)	2,806,038	2,258,666	1,697,147
ADJUSTMENTS				
+ Depreciation and Amortization	3,009,314	3,009,314	3,009,314	3,009,314
+ Investment Earnings	99,883	49,942	49,942	49,942
+ Extraordinary Maintenance	425,362			
Cash Available for Debt Service	3,306,527	5,865,294	5,317,921	4,756,403
Total Existing Debt Service MADS (1)	705,238	705,238	705,238	705,238
Proposed CIEDB(2)	1,353,940	1,353,940	1,353,940	1,353,940
Total Obligations (MADS)	2,059,178	2,059,178	2,059,178	2,059,178
Debt Service Coverage Ratio	1.61	2.85	2.58	2.31

⁽¹⁾ Maximum Annual Debt Service

⁽²⁾ Calculated as \$25,000,000 and at the 3.24% for 30 years.

RISK FACTORS

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

2. The State Water Resources Control Board (SWRCB) has mandated an 8% conservation reduction in response to Governor Brown’s April 1, 2015 Executive Order B-29-15. The reduction which began June 1, 2015 and goes through February 2016, could impact the City’s water revenue.

MITIGATING FACTORS

1. The City has implemented rate increases to maintain revenues at required levels, in order to mitigate the drop in water demand experienced over the last two years due to the drought. Also, the City has been voluntarily meeting the mandated 8% water reduction.
2. In implementing rates and charges, the City to covenant to ensure that its rate structure conforms to the requirements of Prop 218 and those of the statutes implementing it and the cases interpreting it. Further, the City to notify IBank immediately upon the filing of any legal challenge to its rates or charges.

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 greater than 30 years, which exceeds the term of the Financing.
- The City 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 2010-2014 American Community Survey (5-year estimates) or the ISRF program cost of funds.

Unemployment Rate	The City Santa Cruz unemployment rate was 4.6%, which is 65.7% of the State’s rate of 7.0%.
Median Household Income	The City of Santa Cruz median household income was \$61,533, which is 100% of the State’s median household income of \$61,489.

STAFF RECOMMENDATION

Staff recommends approval of Resolution No. 16-06 authorizing ISRF Program financing to the City of Santa Cruz for a Portion of the Santa Cruz Safe and Reliable Drinking Water Project.

1. **Applicant/Borrower:** City of Santa Cruz
2. **Project:** A Portion of Santa Cruz Safe and Reliable Drinking Water Project
3. **Amount of ISRF Program Financing:** \$25,000,000
4. **Maturity:** Thirty (30) years
5. **Repayment/Security:** Lien on Net Revenues on parity with the lien of the 2014 Bonds
6. **Interest Rate:** 3.24%
7. **Fees:** The City to pay an origination fee of 1.00%, \$250,000, 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 City 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 City 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 City or consider extending the approval period.
10. **Special Covenants, Terms and Conditions:** The financing agreement shall include, among other things, the following covenants:
 - a. The City 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 on parity with the ISRF Program financing.
 - b. The City will be prohibited from issuing future debt senior to the IBank financing.
 - c. Parity debt will be allowed if Net Revenues amount to at least 1.20 times the MADS taking into consideration the MADS payable in any Fiscal Year on the proposed parity debt.
 - d. Subordinate debt ("Subordinate Debt") will be allowed if Net Revenues are at least 1.00 times the sum of the MADS on all outstanding debt, payable from the Fund, including the proposed Subordinate Debt.
 - e. The City 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. The City to comply with the requirements of the Criteria and all applicable laws, regulations, and permitting requirements associated with public works projects.
 - g. The City to submit audited financial statements to IBank annually within 240 days of fiscal year end.
 - h. The City to submit to IBank annual certifications demonstrating compliance with foregoing covenants and other terms and conditions of the ISRF Program financing agreement with the City's audited financial statements.

- i. The City to submit other information to IBank as may be requested from time to time.
- j. As a condition precedent to initial disbursement of funds, the City must adopt a new water rate structure that fully complies with Prop 218.
- k. In implementing future rates and charges, the City covenants to ensure that its rate structure conforms to the requirements of Proposition 218 (Prop 218) and the statutes implementing it and any case law interpreting it. Further, the City to notify IBank immediately upon the filing of any legal challenge to its rates or charges.
- l. Condition precedent to entry into financing agreement that the City successfully complete a passive validation action with respect to its authority to incur an obligation for the proposed financing under its authority under state law.
- m. Receipt by the IBank of a favorable opinion from bond counsel as to satisfaction of the 2014 parity debt conditions will be required as a condition of the ISRF Program loan.

THE CITY AREA MAP Exhibit 1

