CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)

STAFF REPORT

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

Applicant: City of Paramount (City)		**ISRF Project Type:** Water Treatment and Distribution
Financing Amount: $6,700,000	**Financing Term:** 30 years	**Interest Rate:** 3.03%[1]
Source of Repayment: Net water system revenues and all legally available amounts in the Water Enterprise Fund (Fund)		**Fund Rating/Date:** N/A

Security:

The ISRF Program financing (Financing) will be payable from, and secured by, a lien on the net water system revenues and all legally available amounts in the Fund. The senior lien would be on parity with the 2010 IBank financing, with current outstanding principal balance of $4,603,775 and maturity date of August 1, 2039.

Project Name: Water Well Number 16 Construction Project (Project)	**Project Location:** 16317 Garfield Avenue, Paramount, CA 90723

Project Description / Sources and Uses of Proceeds:

The Project includes, but is not limited to; 1) the installation of pumping and water treatment equipment needed to utilize a previously drilled potable water well shaft number (No.) 16; 2) the destruction and decommissioning of the City's existing water Well No. 13; 3) the design and construction of new water Well No. 16, related pumps, motors, valves, controls, and communications equipment; and 4) the construction of associated pipeline improvements needed to integrate Well No. 16 into the City's water transmission system. The project includes required appurtenant work such as grading the well site, constructing a well building and fence, landscaping and paving.

Use of Financing Proceeds:

The Financing would fund all components necessary to complete the Project, including, but not limited to equipping, machinery, installation, design, engineering, construction, demolition, permitting, entitlement, construction management, project administration, and general project development activities. IBank's loan origination fee is included in the loan amount. A construction contingency of 14.3% of total project cost $7,225,000 is included in the project cost. Per the City, the 14.3% is conservative and allows for the potential increase in steel tariffs. Contingency will be funded with a combination of monies from the Financing and the City's own funds, in a proportion to be determined prior to closing

Project Uses	Project Sources		
	IBank	City of Paramount	Total
Water Well No. 16 Construction Project	$6,632,330	$525,000	$7,157,330
Origination Fee	$67,670		$67,670
Total	**$6,700,000**	**$525,000**	**$7,225,000**

[1] Interest Rate quoted January 24, 2018

Credit Considerations:

Cash flow and debt service analysis for the Financing is summarized as follows:

CASH FLOW					
For Fiscal Year Ending (FYE) June 30	2013	2014	2015	2016	2017
Operating Income (Loss)	($306,631)	$597,165	($62,117)	($492,634)	$343,995
+ Depreciation	797,406	954,334	874,519	889,744	917,799
+ Interest Revenue	4,342	4,461	9,144	13,483	24,536
+ Water Import Expense (addback 50%)	857,075	857,075	624,425	624,425	300,150
Total of all Adjustments	1,658,823	1,815,870	1,508,088	1,527,652	1,242,485
Cash Available for Debt Service	**$1,352,192**	**$2,413,035**	**$1,445,971**	**$1,035,018**	**$1,586,480**
Debt Service Calculation					
Total Existing Debt Service MADS	309,823	309,823	309,823	309,823	309,823
Proposed IBank Debt(1)	361,133	361,133	361,133	361,133	361,133
Total Obligations MADS	**$670,955**	**$670,955**	**$670,955**	**$670,955**	**$670,955**
Debt Service Coverage Ratio	**2.02**	**3.60**	**2.16**	**1.54**	**2.36**

(1) Calculated as $6,700,000 and at the 3.03% for 30 years.

Analysis of the historical cash flow over the last five years demonstrates the Fund has the capacity to service the proposed Financing with a debt service coverage ratio (DSCR) of 1.54 or greater in all five years reviewed. Connection fees were not considered in the analysis because the City does not charge this fee. Please refer to the Cash Flow and Debt Service Analysis section of this Staff Report.

Historically the City has imported water from the Central Basin Municipal Water District (CBMWD) when its groundwater pumping capacity is reached. With the completion of this Project, the City's pumping capacity will increase and provide the City with the ability to pump more water. When the City's annual pumping allotment is reached the City now plans to lease water pumping rights, which is less expensive when compared to importing water. The City intends to import water only when there are emergencies or there is a well failure. The cost of ground water production is approximately 30% of the cost of imported water. A conservative 50% of the Water Import Expense has been added back to the cash flow.

Support for Staff Recommendations:

1. Cash flow analysis demonstrates the Fund's ability to service the existing debt and the proposed Financing.
2. The City has successfully increased rates to maintain its debt service ability.
3. The estimated useful life of the Project is at least 40 years, which exceeds the term of the Financing.

Special Terms and Conditions:

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

IBank Staff:	**Date of Staff Report:**
Lina Benedict	April 13, 2018
Date of IBank Board Meeting:	**Resolution Number:**
April 24, 2018	18-05

Staff Recommendation:

Staff recommends approval of Resolution No. 18-05 authorizing ISRF Program financing to the City of Paramount for the Water Well No.16 Construction Project in an amount not to exceed $6,700,000.

PROJECT DESCRIPTION

The City of Paramount (City) requests Infrastructure State Revolving Fund (ISRF) Program financing (Financing) in the amount of $6,700,000 to fund the Water Well No.16 Construction Project (Project).

The Project includes, but is not limited to: 1) the installation of pumping and water treatment equipment needed to utilize a previously drilled potable water well shaft No. 16.; 2) the destruction and decommissioning of the City's existing water Well No. 13.; 3) the design and construction of new water Well No. 16, related pumps, motors, valves, controls, and communications equipment; and 4) the construction of associated pipeline improvements needed to integrate Well No. 16 into the City's water transmission system. The project includes required appurtenant work such as grading the well site, constructing a well building and fence, landscaping and paving.

The City's water utility system (System) provides water service to approximately 7,300 connections. The City lies over the Central Groundwater Basin (CB). The City's water supply sources include:

- Groundwater pumped from CB.
- Groundwater pumped from CB by leasing rights from other Central Basin Municipal Water District (CBMWD) members.
- Imported water purchased from the CBMWD.

Currently, the City meets approximately 90% of its demand for potable water through groundwater. The completion of this Project will enable the City to meet 100% of its demand for potable water through groundwater, which is the intention of the City with this Project. Historically the City has imported water from the CBMWD when its groundwater pumping capacity has been reached. With the completion of this Project, the City's pumping capacity will increase and provide the City with the ability to pump more water. When the City's annual pumping allotment is reached the City will lease pumping rights which is less expensive when compared to importing water. The City intends to import water only when there are emergencies.

PROJECT BENEFITS

The Project will provide the following benefits:

Provide additional water pumping capacity
The Project will provide additional pumping capacity to the City's water production sources and allow the City to maximize its use of available groundwater resources. Groundwater is less expensive than imported water and so the Project will result ultimately in savings to the City's System customers.

Provide needed redundancy and reduce stress on the System
The Project will bring needed redundancy to the groundwater extraction components of the System, which will allow the System to operate at maximum, or near maximum, capacity when a well is temporarily out of commission. Further, the addition of a well will reduce the strain on existing wells, which will result in an increased operating life of the existing wells.

Increase reliability and efficiency
Groundwater supply is more reliable than imported water. Imported water must be conveyed to the City through long transmission pipelines that cross active earthquake faults making the imported water supply system susceptible to damage in a seismic event. Also, transmission pipelines operate at high pressures, which also make them susceptible to rupture from a pressure surge. Further, the Project will use energy-efficient pumps that will reduce the cost of pumping groundwater.

Decommissioning Well No. 13 – the backup
Well No.16 will replace the existing Well No.13, which will be decommissioned as part of the Project. Well No.16 is anticipated to produce approximately 3,000 gallons per minute (GPM) while Well No.13 (the backup), which is over 40 years old, produces less than 1500 GPM and has been decreasing progressively over the past few years. Well No. 14 will become the backup well for the System.

PUBLIC BENEFITS

The City anticipates 10 temporary jobs to be created during the construction period.

GENERAL CITY INFORMATION

The City occupies approximately 4.8 square miles (2,800 acres) in southeastern Los Angeles County, between the Los Angeles and San Gabriel Rivers.

The City located approximately 17 miles southeast of the City of Los Angeles downtown area, is bounded by the cities of South Gate and Downey on the north, Bellflower on the east, Long Beach on the south, and Compton, Lynwood, and unincorporated areas of the County of Los Angeles on the west.

The City is located near four major freeways (Interstates 710, 605, and 105, and California State Route 91), the Los Angeles International Airport, and the ports of Long Beach and Los Angeles. The City incorporated in January 30, 1957, as a general law city and operates under the Council-Manager form of government with a five-member council, elected at large. Each year, the elected Council members elect one member to serve as mayor, and another member to serve as vice-mayor. Each member of the Council serves a four-year term of office.

The City has a predominantly residential land use pattern: (52%) of the City is residential, 23% is industrial, 5% is commercial, and 20% is public lands which includes municipal, parks, schools, and hospitals. Although the City has reached near full development, infill and redevelopment projects are ongoing and planned for the future. The City projects an 8.0% population increase by 2030, resulting in an increased water demand from the most recently measured average use of 6,990 acre-feet per year (afy) to 8,185 afy. The City has attractive land prices, business incentive programs, and a business friendly reputation. Major industries in the City include construction, metal and metal products, administrative and support, waste management services, accommodation and food services, transportation, and miscellaneous manufacturing.

The City manages its investments conservatively to ensure that important services such as public safety, capital improvements, and recreation programs are properly funded. State and federal financial organizations have given the City awards for its financial reporting and management for the last 25 years.

SYSTEM DESCRIPTION

Two water utilities serve the City: Golden State Water Company and the City's Water Department. The City's Water Department services the majority of the population. Southern California Water Company services two small northern portions of the City, north of the I-105 Freeway.

Water supply sources include groundwater pumped from CB and the supplemental treated water, imported through the Central Basin Municipal Water District (CBMWD) transmission pipelines.

When the CB was adjudicated in 1965, the City was allocated an annual pumping right that currently stands at 5,883 afy. In addition, the City is entitled to draw from the CB certain "carry-over" water and "stored water," which essentially represents a "banked" water allotment for years when the City did not draw its entire annual allotment from the CB. Additionally, the City may draw up to 20% above its annual allotment

from the CB in any given year, provided that the City must offset its overdraw in the immediately following year by either (1) drawing less than its annual allotment by the same percentage as the prior year's overdraw, or (2) leasing excess water rights from another member agency overlying the CB. As of the CB Water Master Annual Report for 2013/2014, the City had accumulated 8,336 acre-feet (afy) of carry-over water and stored water. The City may also lease water rights to pump in excess of its water rights from other member agencies overlying the CB. However, utilizing this lease right depends on other member agencies having an allocation in CB water exceeding their customer's annual water demand. Per the City, the water rights lease market is very robust. Many members of CBMWD do not have the pumping capacity to use their full allotment of water and therefore leasing water rights for the City is not an issue, unless all members of the CBMWD reach their allocated pumping capacity. If that were to happen, the City would then have to consider importing water from the Central Basin Municipal Water District.

However, per the Watermaster Service (Report) dated November 2017, the 113 members of the CB have a combined Allowed Pumping Allocation (APA) of 217,367 afy with an unused allotment of 132,772 afy. The City currently needs to obtain approximately 742 additional afy, based on the City's average usage. Of the 113 members, 100 did not use their APA, and 28 of these members have 800 afy or more in available water. Although there is no guarantee that pumping-rights lease options will be available and obtained annually, it is likely the City will be able to obtain the water needed based on the current use of the aquafer.

The goal for the City is to utilize all of these groundwater rights, as groundwater production is significantly less expensive than the purchase of imported water. In addition, groundwater is considered to be a more reliable supply source than imported water. Imported water is conveyed through long pipelines that cross active earthquake faults. Imported water supply may be interrupted in the event of an earthquake. Also, imported water is conveyed through high-pressure transmission lines, which makes the lines susceptible to rupture from a pressure surge, which in turn would result in a supply interruption.

The City currently purchases imported water from CBMWD, which is a member agency of the Metropolitan Water District of Southern California (MWD) and distributer of water from the MWD. MWD imports raw water from northern California and the Colorado River, and then treats the majority of this water to potable standards. MWD water imported from northern California as part of the State Water Project is stored at Castaic Lake and at Silverwood Lake near San Bernardino. MWD water imported from the Colorado River is stored at Lake Matthews in Riverside County. The Diamond Valley Reservoir in Hemet provides regional seasonal and emergency storage of SWP water and Colorado River water.

System Infrastructure

The City owns and operates the System that includes the following:

1. Groundwater wells
2. Connections for imported water from CB
3. Water transmission and distribution mains and supporting equipment

Groundwater Wells

The City currently has three active wells; Well No. 13, Well No. 14, and Well No. 15. Groundwater from all three wells meets all water quality standards; however, Well No. 13 groundwater periodically produced substandard water quality and the well was shut down. Then the City constructed an iron/manganese and arsenic treatment facilities at Well No. 13 in 2006, returning this facility to normal operation levels. Then, the City built Well No. 15 in 2010, and transitioned Well No. 13 into a backup well. Currently, Well No. 13 is service redundancy and is operated only in the event of scheduled maintenance or in case of an emergency outage of Well Nos. 14 and 15.

The City's wells pump groundwater from the CB and have the capacity to produce approximately 6,081 afy, exceeding its allocated 5,883 afy when operating at or near full capacity. The Water Master Plan states that the existing wells operate at 65% of capacity on an average day, and 100% capacity for all other demand conditions. Two of the existing wells, No. 14 and No. 15, are 35 and six years old respectively,

each having a total estimated useful life of 40 to 50 years. Due to water quality and maintenance issues, each well has been out of operation from time-to-time, increasing the need to purchase imported water. The construction of Well No. 16 will provide needed System redundancy, allow groundwater pumping to occur at necessary levels even when one well is out of commission for maintenance, and ultimately reduce the amount of imported water the City must purchase. Well No. 15 was completed and became operational in calendar year 2012 i.e. fiscal year (FY) 2013.

In February 2010, IBank's Board of Directors approved financing for $5,500,000. The financing funded the design, construction, and installation of Well No. 15. The financing also included funds for the related equipment, a treatment system, the construction of a secondary well treatment system, construction of storm drains, and sewer connections for collecting, transporting, and disposing of runoff.

Connections for Imported Water from CB

The City has the ability to take imported water from CB two connections. The two connections are Central Basin (CB) No. 13 and CB No. 52. CB No. 13 has a maximum supply of 12.5 cubic feet per second (CFS) (5,600 GPM) and CB 52 has a maximum supply of 10.0 CFS.

Water Transmission and Distribution Mains and Supporting Equipment

There are approximately 130 miles of active transmission and distribution piping in the System with sizes ranging from two to 16 inches in diameter (primarily made of cast iron). Some of the older water mains in the system were constructed in diameters of two to four inches. Over the years, the City has replaced many of these small mains with eight-inch diameter water mains. However, there are still approximately half a mile of active water mains in the system that are two to four inches in diameter. A ten-year program began in 2007 to replace all of the smaller water mains in the City to an eight-inch diameter water mains; this program is near completed and helped ensure fire protection and adequate service pressures. The majority of water mains in the City are made of durable, corrosion-resistant materials such as asbestos concrete and polyvinyl chloride or PVC.

The City has three emergency mutual-aid water connections with the City of Long Beach for use during fire events and other emergencies. The City also has emergency mutual-aid water connections with the City of Downey, and Golden State Water Company.

Per the Water Master Plan, either the groundwater or the contracted purchased imported water alone can meet 100% of demand of the System and this Project is facilitating the City's access to 100% groundwater. The City's plan is to use 100% groundwater, and imported water only if needed for emergencies.

System Capital Improvement Plan (CIP)

The City completed a Water Master Plan (WMP) for its water system in 2007 and updated the plan in 2015. The plan recommends regular maintenance and well rehabilitation to extend the life of each existing well. Wells generally have a useful life of between 40 and 50 years. Well No. 14 is currently 35 years old and will likely need to be either refurbished or replaced during the term of the subject financing. Because Well No. 15 is only six years old, it should not require replacement or refurbishment during the term of the subject financing.

In accordance with a recommendation made in the WMP update in 2015, the City has included construction of a new Well No. 16 to its capital improvement program to supplement the groundwater supply and allow for the decommissioning and abandonment of Well No. 13. In addition, this new well will allow the transition of Well No. 14 to a backup facility. The addition of Well No. 16 will increase the reliability of the City's pumping capacity to ensure full utilization of its groundwater pumping rights and eliminate the need to purchase water from outside sources.

The major capital asset additions in the last ten years include:

- Construction of Well No. 15.
- Replacement of many of the two to four inches (small mains) throughout the System.
- Refurbishment of current wells.

Recommended capital improvements to the System over the next five to ten years include:

- Installing emergency generators
- Water connection improvements
- Building a 4.0 million gallon reservoir
- Replacing water mains that are cast iron with PVC

Cast iron pipes can lose design flow capacity with age due to interior pipeline tuberculosis. Old unlined cast iron pipe can also cause water quality problems by leaching iron into the water supply.

Well No. 14 is 35 years old and will need to be refurbished or replaced during the term of the subject financing. The City plans to address all the needed capital improvements mentioned above on a pay-as-you-go basis as funds become available. Given the need for the improvements, the City'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. Future, large capital improvements may be financed either through revenue from water rates or through loans and/or bonds. The City anticipates CIP projects up to $20 million over the next 20 years. Please refer to the Cash Flow and Debt Service Analysis section of this Staff Report.

The City currently does not have any water storage reservoirs, although CB acts as ground storage for the City. Without separate storage reservoirs, all demands including peak hour demand and maximum-day demand, and fire flow demand, must be supplied by City wells and the imported water connections. It is not desirable to rely on imported water to supply fire demands in the summer as a more reliable supply source should be in reserve. For these reasons, it was recommended that the City construct a buried 4.0 million gallon storage reservoir to provide fire demands as well as peak demands in the summer. The City plans to do this in the next few years.

Water Demand and Supply

There are approximately 14,600 dwelling units in the City with 56% of the units classified as single-family residences and 44% classified as multifamily residences (which includes mobile homes).

Since the City's incorporation in 1957 its population has been growing at a high annual rate. The City grew 52.7% during the 25-year period 1980 and 2005. Now that the City has reached near full development, population growth is expected to be only 8.0% from 2015 to 2030 per California Department of Finance projections.

With the decrease in new development and an increase in the City's water conservation efforts in the past 10 years, the City's domestic water demand has been flat while averaging approximately 6.5 million gallons per day. The City estimates water demand to increase slightly in the future based on the projected increase in population. The City's water demand also fluctuates due to climatic variations. For example, between calendar years 1995 through 2003, the City's water demand decreased 7%, in part due to the high rainfall (29.7 inches) in the winter of 1997/1998, and increased 5% in fiscal year 2003/2004 when rainfall was low (7.5 inches).

The City is currently permitted to pump 5,883 afy (APA) from the CB. Each CB Member may pump 20% over its APA as long as the over-extraction is made up the following year, or it may purchase water or pumping rights annually from other member agencies as needed.

The table below, Historical City Water Supply (Acre Feet) Per Year, reflects the amount of water pumped each year from each well and imported water. The City treats its water through chlorine disinfection and sand removal. The City monitors its water quality, which continually meets or exceeds requirements.

The table also demonstrates the City's usage of its APA in the last nine years. Going forward, the City estimates not have a need for imported water from CBMWD. The City used an average of 6,626 afy. The City has worked to reduce overall water usage by helping some Industrial Users to use reclaimed water, and/or the Industrial Users found and implemented new processes that did not need as much water. In FY 2015 through FY 2017, there was reduced use of water due to the drought conditions and the April 1, 2015 order from Governor Brown, Executive Order B-29-15, to reduce water use by 25% statewide. The City projects average use of an estimated 6,700 afy over the coming years.

In the future the City may purchase rights to pump CB water in excess of its allotment from other agencies that are not using their full allotment if the need arises. The City plans to keep the CB 13 and CB 52 connections for use for catastrophic situations only.

HISTORICAL DISTRICT WATER SUPPLY (ACRE FEET) PER YEAR

Source	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY 16	FY17	Average
Well No. 13	2378.21	2351.43	941.38	159.75	101.05	264.36	189.85	166.90	113.72	740.74
Well No. 14	2510.84	1842.14	3851.04	4009.61	1592.37	2793.12	2964.18	2499.62	3404.86	2829.75
Well No. 15	0.00	0.00	0.00	0.00	2548.15	3006.96	2669.31	2534.57	2794.98	1506.00
Imported CB13	1754.84	2105.59	1624.45	2504.63	1916.93	259.31	443.24	481.20	48.79	1237.66
Imported CB52	569.29	412.25	377.48	194.17	645.25	310.48	128.93	144.80	26.66	312.15
Total afy	**7213.18**	**6711.41**	**6794.35**	**6868.16**	**6803.75**	**6634.23**	**6395.51**	**5824.09**	**6389.01**	**6625.97**
Total Pumped	**4889.05**	**4193.57**	**4792.42**	**4169.36**	**4241.57**	**6064.44**	**5823.34**	**5201.09**	**6313.56**	**5076.49**
% of Legal Draw (1)	**83.1%**	**71.3%**	**81.5%**	**70.9%**	**72.1%**	**103.1%**	**99.0%**	**88.4%**	**107.3%**	**86.3%**
Total afy / Allotted (2)	**122.6%**	**114.1%**	**115.5%**	**116.7%**	**115.7%**	**112.8%**	**108.7%**	**99.0%**	**108.6%**	**112.6%**

Source: The City of Paramount

Allotted = 5,883 afy

(1) Total Pumped / afy

(2) Total afy / allotted afy

The following table displays the Number of Users by Category and reflects stability in the number of users with only a slight increase of 79 users over the past five years. The table further reflects a high proportion of residential users.

NUMBER OF USERS BY CATEGORY

	2014	2015	2016	2017	2018
As of Date	12/31/2014	12/31/2015	12/31/2016	12/31/2017	3/13/2018
Residential	6,048	6,056	6,064	6,066	6,097
Commercial	530	525	532	531	533
Industrial	541	547	551	548	553
Other	274	250	289	289	289
Total	7,393	7,378	7,436	7,434	7,472
% change	N/A	-0.2%	0.8%	0.8%	0.5%

Source: Financing Application Addendum

The table below displays current System Usage and Gross Revenues. Residential users represent 63.5% of Annual Usage and 59.7% of the percent of Total Revenues. The City provides a senior citizen discount to qualifying customers with residential accounts and the City also subsidizes some of the residential service charges in other account categories. The "Other" user category is comprised primarily of irrigation customers. The City believes its rate structure, and in particular, the discounts it provides are necessary for members of its community to afford critical water services and continue to lead healthy and productive

lives. The City has conferred with its attorneys and consultants and believes its current rate structure complies fully with all laws related to setting utility rates, including Proposition 218.

CURRENT SYSTEM USAGE & REVENUE				
	Annual Usage (per unit type)	% Annual Usage	Gross Annual Revenue	% Gross Annual Revenue
Residential	1,517,198	63.5%	$4,557,538	59.7%
Commercial	277,624	11.6%	$966,410	12.7%
Industrial	297,125	12.4%	$1,027,237	13.5%
Other	295,590	12.4%	$1,078,853	14.1%
Total	**2,387,537**	**100.0%**	**$7,630,038**	**100.0%**

Source: Financing Application - As of March, 2018

The City reviews rates on an annual basis and has adopted rate increases in the fiscal years (FY) 2009, 2010, 2011, 2012 and 2016 as shown in the table below. These rate increases were carefully planned to begin the process of raising revenue to fund needed repairs and to construct capital improvements under the CIP. The following table displays the Historical Rate Increases adopted over the past six years, and reflects the City's ability to increase rates to meet its operational and capital improvement needs.

HISTORICAL RATE INCREASES		
Date Adopted	Date Effective	Percent Increase
June 7, 2016	June 7, 2016	8%
October 16, 2012	October 17, 2012	8%
August 2, 2011	September 1, 2011	7%
August 3, 2010	September 1, 2010	10%
October 20, 2009	October 21, 2009	10%

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 FY 2014. The table also reflects each year's charge as a percent of the County's Median Household Income (MHI) for residential units as of FY 2016. The table demonstrates the percentages paid by ratepayers are all well below the 2.0% of the 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	2014	2015	2016	2017	2018
Residential	$49.53	$49.53	$53.48	$53.48	$53.48
% change	N/A	0.0%	8.0%	0.0%	0.0%
% of MHI (2016 $46,634)	0.11%	0.11%	0.11%	0.11%	0.11%

Source: Financing Application Addendum

The following table displays the Projected Average Monthly User Charge per Residential Unit in FYs 2018 through 2022. The table reflects a nominal increase planned in each year. The City has not started the Proposition 218 process for a rate increase as the City is planning to do a comprehensive water rate study within a year to determine if a rate increase is needed.

NOTE: The rate increases are not required to meet the subject Project's debt service.

CITY OF PARAMOUNT PROJECTED AVERAGE MONTHLY USER CHARGE PER RESIDENTIAL UNIT					
For Fiscal Year Ending (FYE) June 30	2018	2019	2020	2021	2022
Residential	53.48	56.15	58.96	61.91	65.01
% change	N/A	5%	5%	5%	5%

Source: Financing Application Addendum

The following table compares the City's Current Average Monthly System User Charge to Nearby Systems as of March 09, 2018. The table indicates the City's rate is lower than the average of nearby Systems. The Park Water Company Inc., the water system that serves parts of the City of Downey, charges the highest rate.

CURRENT AVERAGE MONTHLY SYSTEM USER CHARGE COMPARED TO NEARBY SYSTEMS			
System Name	Distance in Miles	Location	Average Monthly Residential Rate
City of Cerritos	7.9	Cerritos	$38.23
City of Downey	4.3	Downey	$41.76
City of Paramount	**N/A**		**$53.48**
City of Long Beach	10.9	Long Beach	$71.01
South Gate	8.8	Southgate	$112.75
Park Water Company Inc.	4.3	Downey	$125.32
Average Rate			**$70.79**

Source: Financing Application Addendum

The following table displays the Top 10 System Users, each User's Percent of System Use and Percent of System Revenue, and reflects the highest System User uses 3.64% of total water distributed by the System. The table further shows that the City is in compliance with IBank's underwriting requirements that revenue 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 AS OF MARCH 09				
	User	% System Use	% System Revenues	Customer Class
1	Paramount Unified School District	3.51%	3.64%	Other
2	Paramount Petroleum Corp	3.33%	3.44%	Industrial
3	City of Paramount	3.30%	3.42%	Other
4	Braun Towel-Lin	1.44%	1.49%	Industrial
5	California Mobile Home East	0.94%	0.97%	Residential
6	Country Club	0.92%	0.95%	Residential
7	The Enclave Apartments	0.81%	0.84%	Residential
8	Compton Unified School District	0.76%	0.79%	Other
9	Americana Paramount LP	0.74%	0.76%	Residential
10	Weber Metals	0.63%	0.65%	Industrial
	Total	**16.38%**	**16.95%**	

Source: Financing Application Addendum

CREDIT ANALYSIS

Source of Financing and Security

The City proposes pledging net System revenues and all legally available amounts in the Fund as security and the source of repayment for the proposed Financing.

Source of Revenue to Repay Proposed ISRF Financing:	Net System revenues and all legally available amounts in the Fund.
Outstanding Obligations:	2010 IBank Loan, CIEDBBC08-095 with $4,603,775 outstanding as of March 28, 2018
Type of Audited Financial Documents Reviewed:	[X] Comprehensive Annual Financial Reports (CAFR) [ ] Basic Financial Statements (F/S) [ ] Other: _____
Fiscal Year Ends:	June 30
Audit Fiscal Years Reviewed:	2013-2017
The auditor's reports for all years indicate that the financial statements present fairly, in all material respects, the financial position of the City, and that the results of its operations and the cash flows are in conformity with generally accepted accounting principles.	[X] Yes [ ] No. [If no, explain]
Adopted Budget(s) Reviewed:	[X] Yes [ ] No. [If no, explain]
Budget Year(s) Reviewed:	2017-2018

Comparative Statement of Net Position

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

CITY OF PARAMOUNT STATEMENT OF NET POSITION - PROPRIETARY FUNDS- BUSINESS TYPE ACTIVITIES - WATER ENTERPRISE FUND										
For Fiscal Year Ending (FYE) June 30	2013		2014		2015		2016		2017	
Source:	CAFR	%	CAFR	%	CAFR	%	CAFR	%	CAFR	%
ASSETS										
Current Assets										
Cash and Cash Equivalents	$1,597,958	6.0%	$3,281,471	12.4%	$3,825,890	14.4%	$3,309,625	12.3%	$4,134,086	15.0%
Cash with Fiscal Agent	1,642,513	6.1%								
Accounts Receivable	636,496	2.4%	429,579	16%	118,742	0.4%	301,857	1.1%	568,745	2.1%
Interest Receivable	1,000	0.0%	1,648	0.0%	2,654	0.0%	4,240	0.0%	8,355	0.0%
Prepaid Items	4,984	0.0%	5,084	0.0%	5,859	0.0%	7,107	0.0%	10,796	0.0%
Inventory	169,394	0.6%	171,490	0.6%	174,208	0.7%	161,547	0.6%	150,340	0.5%
Total Current Assets	**$4,052,345**	15.2%	**$3,889,272**	14.7%	**$4,127,353**	15.5%	**$3,784,376**	14.1%	**$4,872,322**	17.7%
Noncurrent Assets										
Construction in Progress	578,045	2.2%	3,500	0.0%	532,016	2.0%	1,916,002	7.1%	1,939,050	7.0%
Land and Water Rights	2,270,763	8.5%	2,270,763	8.6%	2,270,763	8.5%	2,270,763	8.4%	2,270,763	8.3%
Buildings and Well Improvements	10,879,460	40.7%	10,879,460	412%	10,879,460	40.9%	10,879,460	40.4%	10,863,475	39.5%
Water Mains	20,233,856	75.7%	21,614,830	818%	21,614,830	813%	21,614,830	80.3%	21,614,830	78.5%
Water Distribution Equipment	6,953,290	26.0%	6,953,290	26.3%	6,953,290	26.1%	6,953,290	25.8%	6,953,290	25.3%
Other Water Equipment	1,719,398	6.4%	1,719,398	6.5%	1,775,230	6.7%	1,775,230	6.6%	1,768,834	6.4%
Furniture, Machinery and Equipment	322,282	12%	327,782	12%	338,982	13%	420,521	16%	441,643	16%
Vehicles	366,520	14%	366,520	14%	366,520	14%	366,520	14%	489,427	18%
Less Accumulated Depreciation	(20,633,348)	-77.2%	(21,587,682)	-817%	(22,462,201)	-84.4%	(23,351,945)	-86.8%	(24,238,134)	-88.1%
Total Non Current Assets	**$22,690,266**	84.8%	**$22,547,861**	85.3%	**$22,268,890**	83.7%	**$22,844,671**	84.9%	**$22,103,178**	80.3%
SubTotal Assets	**$26,742,611**	100.0%	**$26,437,133**	100.0%	**$26,396,243**	99.2%	**$26,629,047**	98.9%	**$26,975,500**	98.0%
DEFERRED OUTFLOWS OF RESOURCES										
Deferred Outflows- Pensions					204,536	0.8%	284,480	1.1%	548,046	2.0%
Total Deferred Outflow of Resources	**$0**	0.0%	**$0**	0.0%	**$204,536**	0.8%	**$284,480**	1.1%	**$548,046**	2.0%
Total of All Assets	**$26,742,611**	100.0%	**$26,437,133**	100.0%	**$26,600,779**	100.0%	**$26,913,527**	100.0%	**$27,523,546**	100.0%
Current Liabilities										
Accounts Payable	1,046,325	3.9%	609,972	2.3%	678,877	2.6%	454,040	17%	483,564	18%
Deposits Payable	255,353	10%	256,558	10%	251,754	0.9%	258,059	10%	261,221	0.9%
Interest Payable	72,605	0.3%	70,900	0.3%	69,138	0.3%	67,317	0.3%	65,437	0.2%
Current Portion of Employee Leave Payable	6,089	0.0%	4,145	0.0%	4,423	0.0%	4,592	0.0%	4,136	0.0%
Current Portion of Lease Payable									28,750	0.1%
Current Portion of Notes Payable	337,043	13%	342,361	13%	347,874	13%	164,705	0.6%	170,805	0.6%
Total Current Liabilities	**$1,717,415**	6.4%	**$1,283,936**	4.9%	**$1,352,066**	5.1%	**$948,713**	3.5%	**$1,013,913**	3.7%
Noncurrent Liabilities										
Employee Leave Payable - Long Term Portion	44,687	0.2%	48,055	0.2%	46,251	0.2%	50,951	0.2%	50,079	0.2%
Capital Lease-Long Term Payable									61,395	0.2%
Net OPEB Obligation	369,620	14%	409,924	16%	419,161	16%	433,509	16%	422,545	15%
Net Pension Liability					1,442,009	5.4%	1,960,840	7.3%	2,423,724	8.8%
Notes Payable- Long Term Portion	5,629,520	21.1%	5,287,159	20.0%	4,939,285	18.6%	4,774,579	17.7%	4,603,775	16.7%
Total Noncurrent Liabilities	**$6,043,827**	22.6%	**$5,745,138**	21.7%	**$6,846,706**	25.7%	**$7,219,879**	26.8%	**$7,561,518**	27.5%
Total Liabilities	**$7,761,242**	29.0%	**$7,029,074**	26.6%	**$8,198,772**	30.8%	**$8,168,592**	30.4%	**$8,575,431**	312%
DEFERRED INFLOWS OF RESOURCES										
Deferred Inflows - Pensions					526,062	2.0%	130,345	0.5%	102,284	0.4%
Total Deferred Inflows of Resources	**$0**		**$0**		**$526,062**	2.0%	**$130,345**	0.5%	**$102,284**	0.4%
NET POSITION										
Net Investments in Capital Assets	16,723,703	62.5%	16,918,341	64.0%	16,981,731	63.8%	17,905,387	66.5%	17,238,453	62.6%
Unrestricted	2,257,666	8.4%	2,489,718	9.4%	894,214	3.4%	709,203	2.6%	1,607,378	5.8%
Total Net Position	**$18,981,369**	710%	**$19,408,059**	73.4%	**$17,875,945**	67.2%	**$18,614,590**	69.2%	**$18,845,831**	68.5%
Total Liabilities, Deferred Inflow of Resources and Net Position	**$26,742,611**	100.0%	**$26,437,133**	100.0%	**$26,600,779**	100.0%	**$26,913,527**	100.0%	**$27,523,546**	100.0%

Review of the Comparative Statement of Net Position for the last five years found the City's overall financial position remained stable with a fluctuation of $1,532,144 between the highest and the lowest Net Position in the years reviewed. Total Net Position was $18,981,369 in FY 2017.

Total Current Assets increased 20.2% over the five year period reviewed. Cash and Cash Investments make up the majority of current assets and increased 158% to $4,134,086. This is the Enterprise Fund's equity in the City's cash and investment pool, unrestricted and restricted cash on hand, and investments purchased with a maturity within 90 days. This is an indication of the City's growing liquidity, which improved its cash savings when Well No. 15 became operational in FY 2013 resulting in the reduction of the cost of Water Production, and with the rate increase implemented in June 2016. The City needs the cash to fund its CIP in the next 10 years. Also included in current assets is Inventory that consists mainly of maintenance parts and miscellaneous supplies.

Within Non-current Assets, Capital Assets remained stable at over $22 million over the five-year period. These Capital Assets include Construction in Progress, Building and Well Improvements, Water Mains and related equipment. Construction in Progress increased in FY 2016 and 2017 to $1.9 million as the City started the design, drilling, and testing for a new water well i.e. Well No. 16, which is the subject Project.

Total Current Liabilities decreased from $1,717,415 to $1,013,913, or 40.9% in the five years reviewed, most notably due to a decrease in Accounts Payable as services received were paid with cash reserves beginning in FY 2014. The Current Notes Payable is the City's debt to construct Well No. 15; this is the debt that IBank financed and is the only existing debt of the Fund.

Total Non-Current Liabilities include net pension liability, OPEB Obligations, and IBank debt mentioned above. As of December 31, 2015, the City implemented Governmental Accounting Standards Board (GASB) Statements No. 68 and 71, and reported its proportionate share of the net pension liability of $1,442,009 in FY 2015, $1,960,840 in FY 2016 and $2,423,724 in FY 2017. The implementation of the GASB Statements also resulted in pension expense and deferred inflow of resources. (More detail on pension is found in the Pension Obligation section of this staff report).

In summary, the Total Fund Balance shows stability over the period reviewed. The City maintained an Unrestricted or Unassigned Fund Balance, between 8.4% and 5.8% of Total Fund Balances, with the most current year's (FY 2017) balance of $1,607,378. This is $898,175 more than the prior year and is a reflection of increase in revenues from water sales and partly a result of the suspended State water conservation effort and the rate increase that took effect in June 2016. The City retained a growing Cash and Investment position in the years reviewed, with $4,134,086 reported in FY 2017, providing flexibility in handling unexpected expenses.

The following table displays accounts receivable aging as of March 9, 2018, reflecting that the City collects over 78% of receivables within 30 days of billing. All other-monthly bills are processed every 58-63 days. The total billing cycle, from the mailing of the bill to service interruption is 42 days. Past Due notices are processed 22 days after billing. Turn-Off notices with an $8.00 penalty are processed 13 days after Past Due notices are hand delivered by staff to the service location. Shut-Off notices for service interruption with a $30.00 fee are processed seven-days after turn-off notices are delivered. The City states that the $78,205 that is over 90 days is uncollectible and represents 1% of total revenues. There is not a concentration of Users in this category. After multiple payment collection attempts by the City, the City sends uncollected payments to a collection agency.

ACCOUNTS RECEIVABLE AGING AS OF March 09, 2018						
	Current	Over 30	Over 60	Over 90	Over 120	Total
	$387,216	$13,798	$13,799	$78,205	$0	$493,018.00
Percent	**78.5%**	**2.8%**	**2.8%**	**15.9%**	**0.0%**	**100.0%**

Source: Financing Application Addendum

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

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

CITY OF PARAMOUNT STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND POSITION - PROPRIETARY FUNDS-BUSINESS TYPE ACTIVITIES- WATER ENTERPRISE FUND										
For Fiscal Year Ending (FYE) June 30	2013		2014		2015		2016		2017	
Source:	CAFR	%	CAFR	%	CAFR	%	CAFR	%	CAFR	%
% Change		N/A		0%		-10%		-1%		12%
OPERATING REVENUES										
Charges for Services	$7,839,725	98.9%	$7,815,043	98.9%	$7,040,916	98.4%	$6,972,036	99.2%	$7,812,294	99.4%
Other Revenues	$83,937	1.1%	$88,688	1.1%	$117,285	1.6%	$54,673	0.8%	$48,723	0.6%
Total Operating Revenues	**$7,923,662**	100.0%	**$7,903,731**	100.0%	**$7,158,201**	100.0%	**$7,026,709**	100.0%	**$7,861,017**	100.0%
OPERATING EXPENSES										
Water Commission	$2,525	0.0%	$2,303	0.0%	$2,496	0.0%	$2,111	0.0%	$2,118	0.0%
Water System Administration	1,170,490	14.8%	1,132,270	14.3%	1,099,721	15.4%	1,136,532	16.2%	1,161,502	14.8%
Water Production	4,498,345	56.8%	3,545,098	44.9%	3,537,879	49.4%	3,679,915	52.4%	3,396,328	43.2%
Water Distribution	1,107,077	14.0%	1,107,635	14.0%	1,069,379	14.9%	1,081,354	15.4%	1,263,301	16.1%
Water Customer Service	243,193	3.1%	225,530	2.9%	225,342	3.1%	273,418	3.9%	233,474	3.0%
Water Billing	278,420	3.5%	283,377	3.6%	312,194	4.4%	324,774	4.6%	362,690	4.6%
Other Operating Expenses	132,837	1.7%	56,019	0.7%	98,788	1.4%	131,495	1.9%	179,810	2.3%
Depreciation	797,406	10.1%	954,334	12.1%	874,519	12.2%	889,744	12.7%	917,799	11.7%
Total Operating Expenses	**$8,230,293**	103.9%	**$7,306,566**	92.4%	**$7,220,318**	100.9%	**$7,519,343**	107.0%	**$7,517,022**	95.6%
Operating Income (Loss)	**($306,631)**	-3.9%	**$597,165**	7.6%	**($62,117)**	-0.9%	**($492,634)**	-7.0%	**$343,995**	4.4%
NONOPERATING REVENUES (EXPENSES)										
Interest Revenue	$4,342	0.1%	$4,461	0.1%	$9,144	0.1%	$13,483	0.2%	$24,536	0.3%
Interest Expense	($177,082)	-2.2%	($174,936)	-2.2%	($171,832)	-2.4%	($166,189)	-2.4%	($160,338)	-2.0%
Total Non-operating Revenues (Expenses)	**($172,740)**	-2.2%	**($170,475)**	-2.2%	**($162,688)**	-2.3%	**($152,706)**	-2.2%	**($135,802)**	-1.7%
Income (Loss) Before Operating Transfers	**($479,371)**	-6.0%	**$426,690**	5.4%	**($224,805)**	-3.1%	**($645,340)**	-9.2%	**$208,193**	2.6%
EXTRAORDINARY ITEMS										
Extraordinary Item					$528,516		$1,383,986		$23,048	
Change in Net Position	**($479,371)**		**$426,690**		**$303,711**		**$738,646**		**$231,241**	
Beginning Net Position - July 1	19,460,740		18,981,369		17,572,234		17,875,945		18,614,591	
Prior Period Adjustment (=/-)			(1,835,825)							
Ending Net Position - June 30	**$18,981,369**		**$17,572,234**		**$17,875,945**		**$18,614,591**		**$18,845,832**	

Analysis of the Comparative Statement of Revenues, Expenses, and Changes in Fund Position – Proprietary Funds shows fluctuations in the Total Operating Revenues for two reasons.

1. Water rates increased 8% in FY 2017 due to the rate increase that became effective in June of 2016.
2. The Charges for Services decreased 10.7% from $7,815,043 in FY 2014 down to $6,972,036 in FY 2016 due to the State's water conservation mandate. The State Water Resources Control Board (SWRCB) mandated a 25% conservation reduction in response to Governor Brown's April 1, 2015, Executive Order B-29-15.

Other revenues include late fees, disconnection fees and other service related fees and charges.

The Fund's primary expenses are the Water System Administration costs, the Water Production costs, and the Water Distribution costs. The remainder of the operating expense relates to customer service and billing functions. A portion of the Water Production costs will be non-recurring when the Project is completed, as these costs are associated with the import of water. (Please refer Fund Cash Flow and Debt Service Analysis section of this Staff Report).

The Fund's Operating Income (Expenses) contributed to the Fund's cash flow over the period reviewed and ranged between ($492,634) and $343,995 due to the events discussed above.

The Fund has a long-term debt obligation with IBank related to the construction of Well No. 15. Interest Expense related to this debt is listed on Comparative Statement of Revenues, Expenses, and Changes in Fund Position. This obligation has been paid as agreed and has a current outstanding principal balance of $4,603,775.

The Extraordinary Item (Gain) in FYs 2015, 2016, and 2017 is due to the transfer of various capital improvement projects from the Successor Agency to the Fund pursuant to a California Department of Finance approved long-range property management plan. In FY 2016, it was the Long Beach Joint Water Well Project, in 2017 it was the Well No. 16 Project.

The Prior Period Adjustment in FY 2014 is due to the inclusion of Net Pension Liability of $1,835,825 resulting from the adoption of GASB Statement No. 6.
As a result of the changes discussed above, the Ending Net Position from the beginning of the five year period to the end showed a slight decrease of $135,537. The Enterprise Fund's Ending Net Assets were impacted by two significant issues; first, the rate increases, second was a State imposed conservation mandate discussed earlier.

Pension Plan

All qualified permanent and probationary employees are eligible to participate in the Local Government's separate Safety (police and fire) and Miscellaneous (all other) plans, agent multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers.

As of June 30, 2016, the most recent valuation date, the status of the pension plans was as follows:

- The funded ratio of the City's Miscellaneous Plan at was 71.6% i.e. an unfunded accrued liability of $21,934,795.
- The City's PEPRA Miscellaneous Plan of the City had a funded ratio of 89.2% i.e. an unfunded accrual liability of $12,364,000.
- The Safety Plan's Accrued Liability was $91,820,000 with an Unfunded Accrued Liability of $(147,113) resulting in a Funded Ratio of 260.2% as of June 30, 2016.

As of December 31, 2015, the City implemented GASB Statements No. 68 and 71, and as a result, reported its proportionate share of the net pension liability of $20,010,860 in FY 2017, pension expense and deferred inflow of resources $102,284 for the pension plan and deferred outflow of resources of $548,046 for the pension plan.

The City has always met the annual pension contribution requirement established by CalPERS. During the FY 2017-2018 Midyear budget adoption, the City Council approved to pay an extra $700,000 contribution to CalPERS towards the unfunded pension liabilities. It is the City's goal to continue to set aside funding every year toward unfunded pension liabilities in an effort to lower the liabilities and reduce future pension rate increase.

Existing Obligations Payable from the Fund

IBank Installment Sale Agreement. No. CIEDB-BC08-095 is the Fund's only outstanding debt.

Fund Cash Flow and Debt Service Analysis

Fund cash flow table and debt service analysis for the Financing is as follows:

CASH FLOW					
For Fiscal Year Ending (FYE) June 30	2013	2014	2015	2016	2017
Operating Income (Loss)	($306,631)	$597,165	($62,117)	($492,634)	$343,995
+ Depreciation	797,406	954,334	874,519	889,744	917,799
+ Interest Revenue	4,342	4,461	9,144	13,483	24,536
+ Water Import Expense (addback 50%)	857,075	857,075	624,425	624,425	300,150
Total of all Adjustments	1,658,823	1,815,870	1,508,088	1,527,652	1,242,485
Cash Available for Debt Service	**$1,352,192**	**$2,413,035**	**$1,445,971**	**$1,035,018**	**$1,586,480**
Debt Service Calculation					
Total Existing Debt Service MADS	309,823	309,823	309,823	309,823	309,823
Proposed IBank Debt[1]	361,133	361,133	361,133	361,133	361,133
Total Obligations MADS	**$670,955**	**$670,955**	**$670,955**	**$670,955**	**$670,955**
Debt Service Coverage Ratio	**2.02**	**3.60**	**2.16**	**1.54**	**2.36**

(1) Calculated as $6,700,000 and at the 3.03% for 30 years.

Analysis of historical cash flow over the last five years demonstrates the Fund has the capacity to service the proposed Financing with a debt service coverage ratio (DSCR) of 1.54 or greater in all five years reviewed. Please note: Connection fees were not considered in the analysis because the City does not charge this fee. Please refer to the Cash Flow and Debt Service Analysis section of this Staff Report.

As mentioned earlier, the City intends to use groundwater for its needs and import water only when there are emergencies or there is a well failure. The cost of ground water production is approximately 30% of the cost of imported water. A conservative 50% of the Water Import Expense is added back to the cash flow. The city provided the non-recurring expense detail from its water production budget with the historical imported water expenses identified.

RISK FACTORS

1. Certain aspects of the City's rate structure are similar to those successfully challenged in a recent California appellate court case as having violated Prop 218 requirements.
2. Possible drought in the future would adversely impact the Fund's revenues as User's would use less water due to potential water conservation mandates. The State Water Resources Control Board (SWRCB) mandated a 25% conservation reduction in response to Governor Brown's April 1, 2015, Executive Order B-29-15. The mandate began June 1, 2015, was effective February 2016, and negatively affected the City's water revenue. The mandate has since been rescinded but similar conservation mandates could be needed again during times of drought.
3. The City obtains 100% of its water through an adjudicated water basin with an annual limit on the amount of water the City can pump.

MITIGATING FACTORS

1. The City has implemented prior rate increases to maintain revenues at levels needed for the City to maintain its ability to meet its expenses and service debt. A new rate increase proposal is to be put forth later this year.
2. In implementing rates and charges, the City will covenant that its rate structure will conform to the requirements of Prop. 218 and statutes implementing it and case law interpreting it. Further, in its financing agreement, the City will covenant to notify IBank immediately upon the filing of any legal challenge to its rates or charges.
3. The drilling of Well No.15 increased the City's access to water, and with the drilling of Well No. 16 the City will likely not need to purchase imported water. This makes the City more self-reliant without needing to purchase imported water.
4. The City has the ability to purchase additional water from other water systems with water rights from the CB if needed.
5. Being a member of an adjudicated water basin, in cases of overdraft, courts have historically 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 40 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 Financing was set based upon the following statistics obtained from the 2016 American Community Survey (one year estimate) or the ISRF program cost of funds.

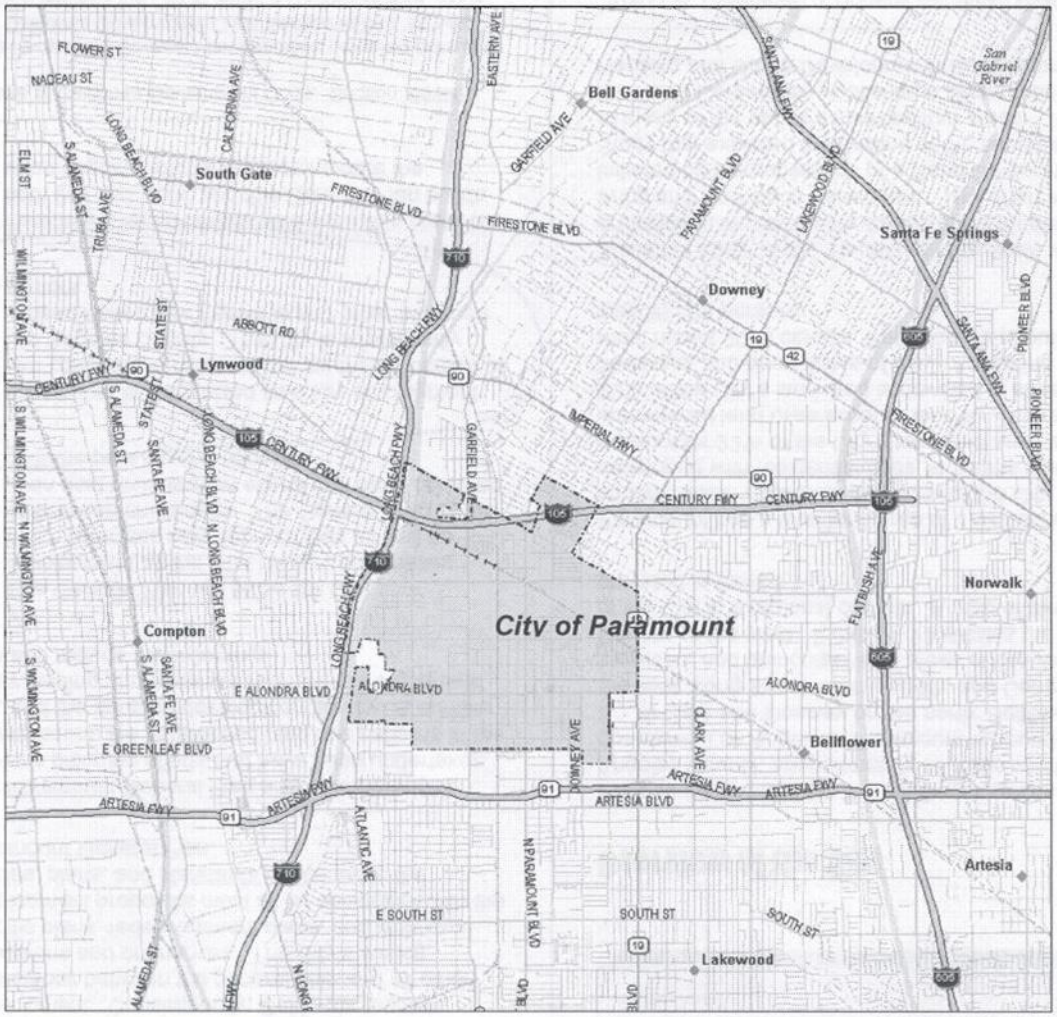
Unemployment Rate	Paramount City's unemployment rate was 5.8%, which is 138.10% of the State's rate of 4.2%.
Median Household Income	Paramount City's median household income was $46,634, which is 68.84% of the State's median household income of $67,739.

STAFF RECOMMENDATION

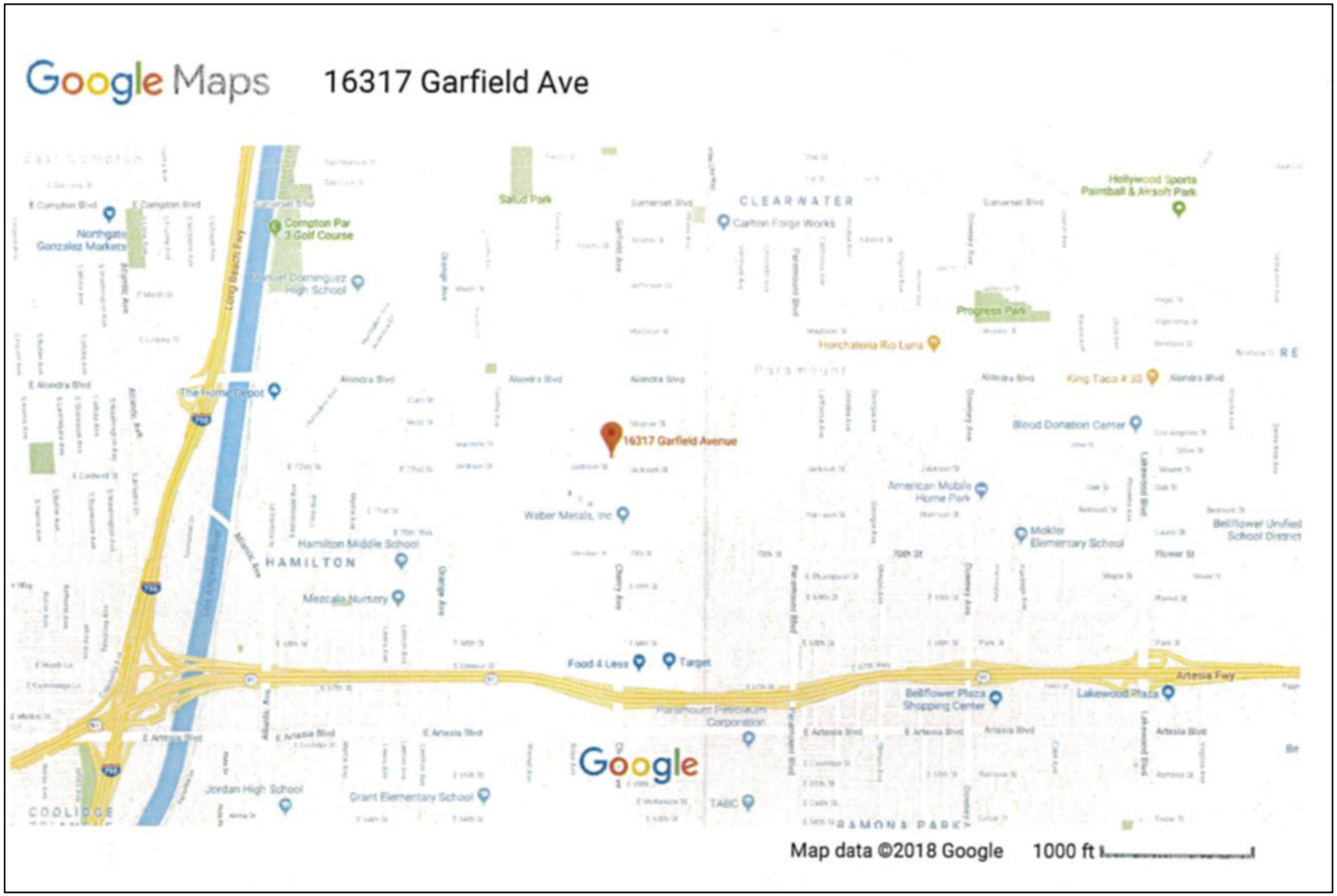
Staff recommends approval of Resolution No. 18-05 authorizing ISRF Program financing to the City of Paramount for the Water Well No. 16 Construction Project as follows:

1. **Applicant/Borrower:** City of Paramount
2. **Project: City of Paramount** Well No. 16 Construction Project
3. **Amount of ISRF Program Financing:** $6,700,000
4. **Maturity:** Thirty (30) years
5. **Repayment/Security:** ISRF Program financing (Financing) would be secured by a senior lien on the City's net system revenues (Net Revenues) and all legally available amounts in the City's Water Enterprise Fund (Fund) on parity with the IBank's lien of the Installment Sale Agreement. No. CIEDB-BC08-095.
6. **Interest Rate:** 3.03%
7. **Fees:** City to pay an origination fee of 1.00%, $67,670, included in loan amount, and an annual fee of 0.30% of the outstanding principal balance.
8. **Not an Unconditional Commitment:** IBank's resolution shall not be construed as unconditional commitment to finance the Project, but rather IBank's approval pursuant to the Resolution in conditioned upon entry by IBank and the City into a Financing Agreement, in form and substance satisfactory to IBank.
9. **Limited Time**: The Board's approval expires on June 15, 2018. Thus, the City and IBank must enter into the Financing agreement no later than June 15, 2018. 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. **ISRF Program Financing Agreement Covenants and Conditions:** The Financing Agreement shall include, among other things, the following covenants:
    a. 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 Financing.
    b. The City has no senior liens and the City will be prohibited from issuing future debt senior to the Financing.
    c. Parity debt will be allowed if Net Revenues amount to at least 1.20 times the Maximum Annual Debt Service (MADS) taking into consideration the MADS payable in any Fiscal Year on all existing debt and 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. 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. Upon implementing rates and charges, City 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, City to covenant to notify IBank immediately upon the filing of any legal challenge to its rates or charges.
    g. City to comply with the requirements of the Criteria and all applicable laws, regulations, and permitting requirements associated with public works projects.
    h. City to provide to IBank annually within 180 days of the end of each of City'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.

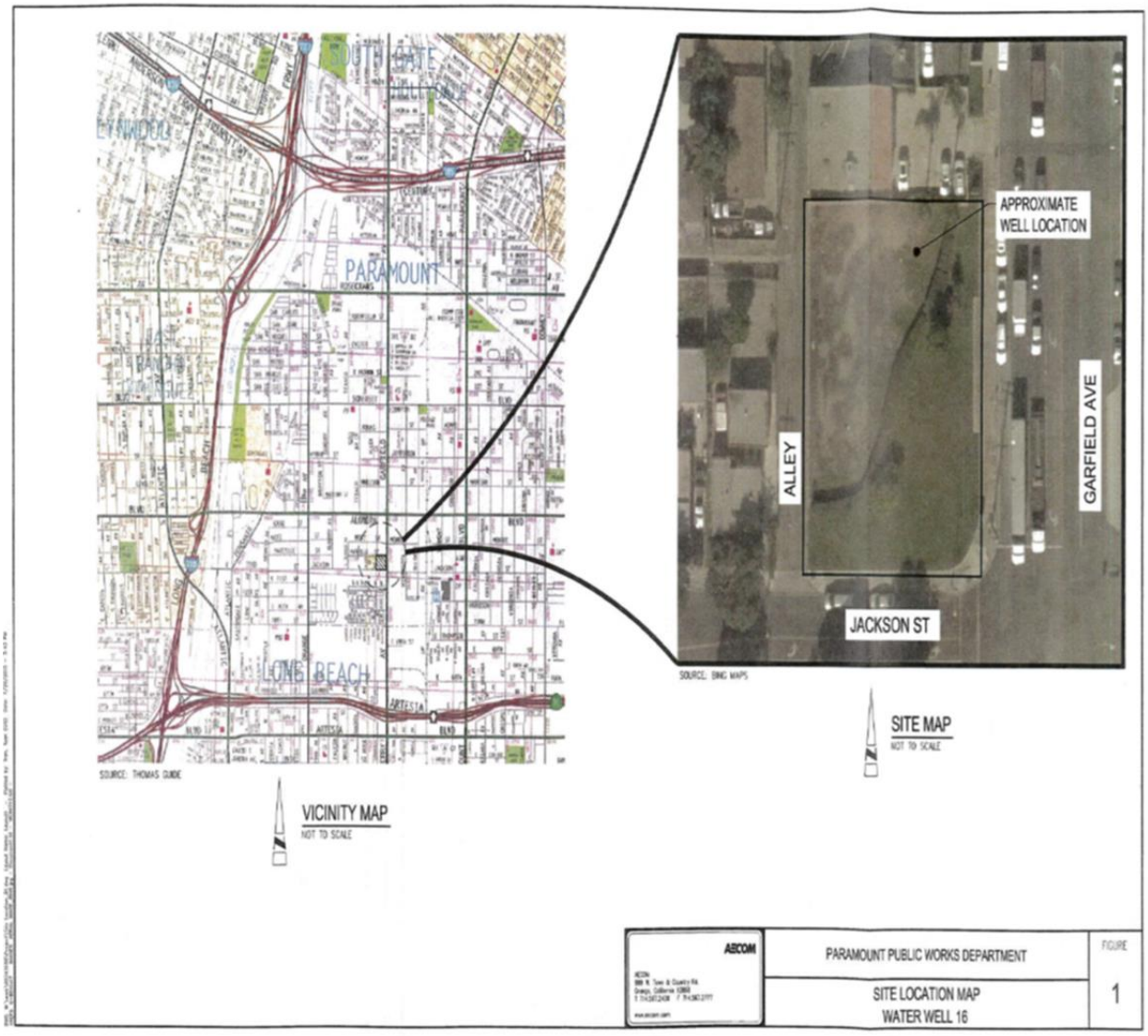
CITY OF PARAMOUNT MAP



MAP OF THE NEW WELL LOCATION



MAP OF THE NEW WELL LOCATION



CENTRAL BASIN MAP

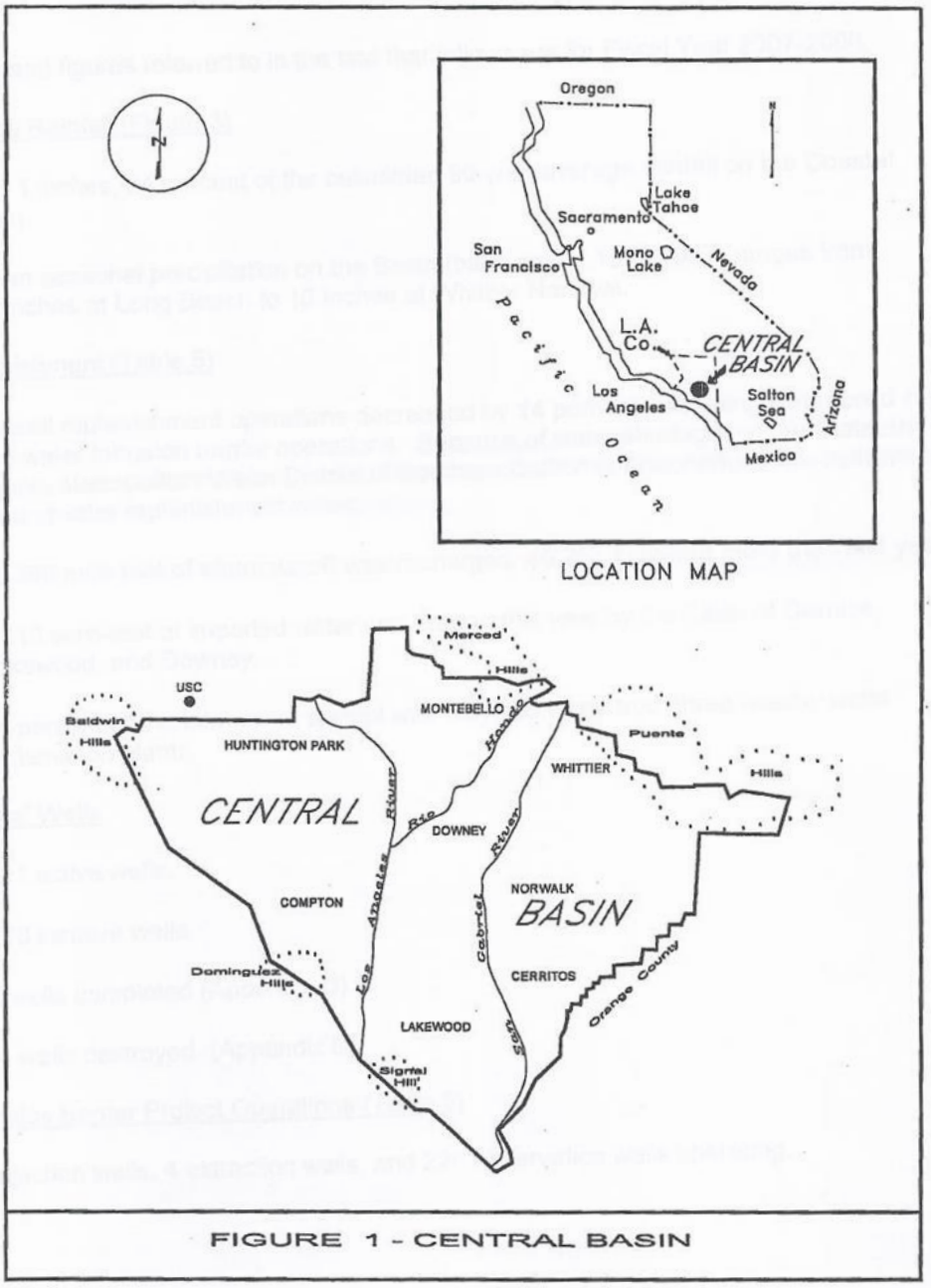


FIGURE 1 - CENTRAL BASIN