

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)

STAFF REPORT

**CALIFORNIA LENDING FOR ENERGY AND ENVIRONMENTAL NEEDS (CLEEN)
DIRECT FINANCING EXECUTIVE SUMMARY**

Applicant: City of Big Bear Lake (City)		CLEEN Project Type: Water Treatment and Distribution
Financing Amount: \$1,050,000	Financing Term: 30 years	Interest Rate¹: 2.70%
Source of Repayment: Water Utility Enterprise Fund (Fund)		Fund Rating/Date: None

Security:

The CLEEN Center financing (Financing) will be a Senior lien secured by and payable from net revenues (Net Revenues) of the City's Water Utility Enterprise Fund (Fund), on parity with the liens of the 1996 Water Revenue Refunding Bonds, the 2010 Water Revenue USDA Bonds, the 2012 Water Revenue USDA Bonds, and the 2013 Water Revenue USDA Bonds.

Project Name: 12" Big Bear Blvd. Pipeline Replacement 2016 (Project)	Project Location: Big Bear Blvd., and Georgia St., Big Bear Lake, CA
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Project Description / Sources and Uses of Proceeds:

The Project includes, but is not limited to, the installation and replacement of the following: (1) approximately 4,000 linear feet (LF) of existing 12-inch riveted steel pipeline (2) water and fire service lines (3) eight hydrants and (4) approximately 200 LF of new pipeline.

Use of Financing Proceeds:

The Financing will fund all components necessary to complete the Project including, but not limited to: construction, construction contingency, engineering, design, permits, environmental, project administration, and construction management. IBank's origination fee will be paid by the City upon the closing of the Financing.

Project Uses	Project Sources			Total
	IBank	City	Bureau of Reclamation	
12" Big Bear Blvd. Pipeline Replacement 2016 Project	\$1,050,000	\$70,344	\$300,000	\$1,420,344
Debt Service Reserve		\$46,000		\$46,000
IBank Origination Fee		\$10,500		\$10,500
Total	\$1,050,000	\$126,844	\$300,000	\$1,476,844

Source: Financing Application

¹ As of August 31, 2016

Credit Considerations:

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

CASH FLOW					
Fiscal Year Ending (FYE) June 30	2011	2012	2013	2014	2015
Cash Available for Debt Service	4,760,979	5,400,756	5,641,321	5,478,169	6,496,376
Debt Service Calculation					
Total Existing Debt Service MADS	3,886,114	3,886,114	3,886,114	3,886,114	3,886,114
Proposed IBank Financing ⁽¹⁾	54,351	54,351	54,351	54,351	54,351
Total Obligations MADS	\$3,940,465	\$3,940,465	\$3,940,465	\$3,940,465	\$3,940,465
Debt Service Coverage Ratio	1.21	1.37	1.43	1.39	1.65
<small>(1) Calculated as \$1,050,000 and at the 2.70% for 30 years.</small>					

The historical cash flow over the last five years demonstrates the Fund's ability to service existing and proposed debt. Existing debt requires a Maximum Annual Debt Service (MADS), of at least 1.20 debt service coverage ratio (DSCR), for new parity debt. Analysis shows that the Fund meets this parity debt covenant. For further analysis, see the Credit Analysis section of this report.

Support for Staff Recommendations:

1. City to certify it is compliant with all covenants under its existing financing agreements.
2. Cash flow analysis demonstrates the Fund's ability to service existing debt and the proposed Financing.
3. City has successfully increased rates in order to cover expenses and service its debt.
4. The estimated useful life of the Project is at least 30 years, which exceeds the term of the Financing.
5. The City has manageable long-term debt with 87% of the current debt service maturing in six years.

Special Terms and Conditions:

1. In implementing rates and charges, the City will covenant to ensure its rate structure conforms to the requirements of Proposition 218 (Prop 218). Further, the City will notify IBank immediately upon the filing of any legal challenge to its rates or charges.
2. Future debt senior to the Financing will be prohibited.

IBank Staff:

John Lee, Margrit Lockett

Date of Staff Report:

9/13/16

Date of IBank Board Meeting:

9/27/2016

Resolution Number:

16-20

Staff Recommendation:

Staff recommends approval of Resolution No.16-20 authorizing CLEEN Center financing to the City of Big Bear Lake, for the 12" Big Bear Blvd. Pipeline Replacement 2016 Project.

PROJECT DESCRIPTION

City of Big Bear Lake (City) requests CLEEN Center financing (Financing) in the amount of \$1,050,000 to fund the 12" Big Bear Blvd. Pipeline Replacement 2016 (Project). The Project includes, but is not limited to the installation and replacement of the following: (1) approximately 4,000 linear feet (LF) of existing 12-inch riveted steel pipeline; (2) water and fire service lines; (3) eight hydrants; and (4) approximately 200 LF of new pipeline.

Project Background

The City states that the existing unlined riveted pipeline, installed nearly 70 years ago, frequently has major and minor leaks that are costly to repair, reduce water efficiency, and diminishes the reliability and stability of the system. In addition to the pipeline, the 12-inch Big Bear Blvd. Transmission Main, which consists of nearly 21,000 LF, is a key transmission facility within the City's system that supports 39 local businesses. The last major leak that occurred in June 2016 was during a weekday. The leak affected the morning and afternoon commuter traffic. However, being a tourist town, if a major leak should occur during a busy holiday/snow weekend, then numerous businesses would be impacted and it is estimated that severe traffic delays would occur. Subsequently, the businesses and the City would lose revenue.

The City began replacing the steel Big Bear Blvd. Pipeline in 1990, and has replaced approximately 17,000 LF. The proposed Project will replace the remaining 4,000 LF of original steel pipeline located within Big Bear Blvd. right-of-way, between Thrush Drive and Catalina Road (Exhibit 1), and install approximately 200 LF of pipeline on Georgia Street. Meanwhile, Caltrans is scheduled to resurface Big Bear Blvd. in 2017, so the City has accelerated the timeline for this project, as it would prefer to complete it prior to the Caltrans paving project, which would save the City money.

The City has received a grant from the Federal Bureau of Reclamation for \$300,000 for the Project. The grant was awarded under Assistance Agreement #R16AP00116 and the City has received its first progress payment of \$24,874.94. IBank financing will enable the City to meet the requirement that at least 50% of the Project be non-federal cost-share. IBank staff reviewed the Assistance Agreement and found no other terms or conditions that materially impact the proposed Financing.

Project Components

The Project includes the following:

- The replacement of approximately 4,000 LF of pipeline
- Replacement of the water service lines connected to the Big Bear Blvd. Transmission Main
- Replacement of three fire services and eight hydrants
- Installation of approximately 200 LF of pipeline on Georgia Street and Big Bear Blvd.
- Replacement of one water service line connected to the Georgia St. Distribution Main
- Other components necessary or desirable in connection with an infrastructure project of this type and that are consistent with the applicable requirements of the IBank Act and the Criteria

Public Benefits

The Project will increase efficiency, conserve water, which contributes to the City's overall conservation plan, and reduce water loss through the reduction of minor and major leaks. The reduction in water loss produces a linear reduction in energy use associated with source production, conveyance, and treatment of the water supply. In its application for the federal WaterSMART:Water and Energy Efficiency Grants

the Department of Water and Power (Department) stated, “the estimated annual water loss during fiscal year (FY) 2014 associated with major and minor leaks on this existing riveted steel pipeline, was 5,400,000 gallons or 17 acre-feet”. Therefore the estimated amount of water conserved associated with the pipeline would be 17 acre-feet, which represents 0.76% of the Department’s average annual supply. In terms of cost savings, the average cost per acre-foot of water produced is \$290. Over the 50-year life of the pipeline, the City would realize \$246,500 in savings just related to the reduction in production at today's cost. Additionally, by escalating the timeframe of the Project to coincide with the Caltrans repavement project, the City will realize cost savings.

Economic Development Benefits

The City anticipates approximately 35 temporary jobs will be created during the construction period. Of these, 19 are expected to be direct jobs and 16 will be indirect jobs. Furthermore, the City states the Project will retain 1200 local jobs, which is the number of employees that would be displaced if there were a major disruption in the water service to the businesses that employ them.

GENERAL INFORMATION

The City, once populated by grizzly bears from which the area received its name, is located in the northeast portion of the County of San Bernardino (County), approximately 100 miles northeast of the City of Los Angeles. The City covering an area of 6.5 square miles operates as a Charter City under the Council-Manager form of government. The City incorporated in 1980 and in 1983 adopted a City Charter (Charter). The City is governed by a City Council , which consists of five council members that are elected at large for four-year overlapping terms, and administered by a City Manager.

The City’s population as reported by the 2010-2014 American Community Survey is 5,104 full-time residents. The temporary population includes recreational visitors and second homeowners that visit during weekends and holidays. Given the influx of weekend and holiday visitors, it is estimated the temporary population reaches approximately 45,527 for weekends and holidays throughout the year.

Based on the City’s popularity as a year-round resort destination, which offers many recreational opportunities, its economy is largely based on the tourism and service industry. The City is also home to one of the nation’s only alpine solar observatories and, for more than a century, Hollywood has made Big Bear Lake its backdrop for countless film productions.

Department of Water and Power

The City’s 1983 Charter created the Department to supply the City and its inhabitants with water and electric energy. The Department operates and maintains the water system (System).

The governing body for the Department is the Board of Water and Power Commissioners (Board) who are appointed by the City Council. The Board is responsible for establishing and collecting water rates, maintaining the System and appointing the General Manager. The City Council relies on the five member Board for advice on matters pertaining to the System.

SYSTEM DESCRIPTION

System Infrastructure

In 1989, the City took over the Big Bear Water Systems of Southern California Water Company System. At that time, the service areas included five licensed water systems, Lake William, Erwin Lake-Sugarloaf, Big Bear Lake-Moonridge, Fawnskin, and Rimforest. In October 2014, Rimforest's system was transferred and is now operated by Lake Arrowhead Community Services District. The System currently serves the following areas:

- City of Big Bear Lake
- Unincorporated communities of Fawnskin
- Lake William
- Moonridge (partly incorporated)
- Sugarloaf
- Whispering Forrest
- Portions of the unincorporated communities of Big Bear City and Erwin Lake

The System's water supply comes strictly from groundwater sources from the Bear Valley Groundwater Basin (Basin). The Basin is unadjudicated and the City works closely with other public water providers to ensure the Basin is not over-drafted.

The System provides service to 15,570 connections and consists of the following:

- 27 active vertical groundwater wells
- 33 vertical and 22 slant wells
- 15 reservoirs totaling 9.4 million gallons of storage
- 13 booster stations
- 26 chlorination stations and 22 sample stations
- 15 separate pressure zones and 41 pressure reducing valves
- 180 miles of transmission and distribution pipelines

System Capital Improvements

The City has a 5-year Capital Improvement Plan (CIP), through which recommends upgrades to all elements of the System. The CIP, updated in 2014, ensures that funds are budgeted and reserved. The CIP budget identifies the Project along with other improvements of \$1,722,868. The CIP includes equipping a high capacity well, which will provide additional excess supply capacity, the on-going replacement of water meters that will increase efficiency, and this Project. According to the Department's 2015 Annual Report, over \$60 million in improvements have been made to the System since being acquired by the City.

Water Supply & Reliability

The City produces water from groundwater wells. These wells produce water from the Basin and are a combination of horizontal wells (gravity), and vertical wells (pumped). The Basin recharge is from percolation of precipitation and runoff as well as underflow from fractured rock formations. The water is of good quality and requires little treatment before use in the potable water supply system.

The Basin is well managed with no water rights issues. The City is part of the California Statewide Groundwater Elevation Monitoring program and provides monthly monitoring data to the State. Based on this data and the implementation of a comprehensive conservation program in 2002, the Basin has maintained a steady depth. In addition, the City's 2015 Urban Water Management Plan, which projects water supply for 25 years, states the City has sufficient supply to meet water demand through 2040

The maximum perennial yield for the Basin is estimated at 4,800 acre-feet-yearly (AFY) with approximately 3,100 AFY of that volume, being allocated to the City. Currently, the system only pumps 65% to 70% of the service area's estimated perineal yield. Over the last five years the annual demand has averaged 2,228 AFY, which is within their allocation. These quantities meet all state water conservation requirements.

The following table reflects that the Number of Users By Category has remained stable over the five years, with a slight decrease of 1.12%. The decrease, which is a loss of 300 other users, is due to the sale of the Rimforest system identified earlier in the report. Furthermore, the table 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	2012	2013	2014	2015	2016
Residential	14,594	14,583	14,604	14,650	14,655
Commercial	803	836	857	863	865
Other	357	357	357	57	57
Total	15,754	15,776	15,818	15,570	15,577
% change		0.1%	0.3%	-1.3%	0.0%

Source: Financing Application Addendum

The table below displays Current System Usage and Revenue as of June 30, 2015. Residential customers represent over 67% of Annual Usage while providing more than 76% of the Gross Annual Revenues.

CURRENT SYSTEM USAGE & REVENUE				
	Annual Usage (MGY)⁽¹⁾	% Annual Usage	Gross Annual Revenue	% Gross Annual Revenue
Residential	491.81	75.7%	\$8,634,624	74.3%
Commercial	158.07	24.3%	\$1,682,295	14.5%
Other		0.0%	\$1,303,715	11.2%
Total	649.88	100.0%	\$11,620,634	100.0%

Source: Financing Application

⁽¹⁾ Million Gallons Year

In 2009, HDR Engineering completed a comprehensive water rate study for the City. It was determined a rate increase of approximately 18% was needed. As a result, the Department recommended the increase to the City Council, which was approved. The City complied with Proposition 218 notification requirements and had fewer than 40 protests. In FY 2010, there was a legal challenge to the rate structure. San Bernardino County Superior Court ruled that the rate structure, based on the 2009 Rate Study, complied with Proposition 218. Using the same cost of service methodology as the 2009 Rate Study, the Department in 2013 completed an internal analysis on revenue requirements and proposed rate increases. These increases were approved by the City May 20, 2013, for each of the succeeding four years.

The most recent rate increase was effective July 1, 2016. The City states that its rate and charges, including the increases adopted comply with the requirements of Prop 218.

The following table displays the Historical Rate Increases adopted over the past five years, and reflects that the City's ability to increase rates in order to meet its operational and capital improvement needs.

HISTORICAL RATE INCREASES PAST FIVE YEARS		
Date Adopted	Date Effective	Percent Increase
10/26/2009	7/1/2011	9.00%
5/13/2013	7/1/2013	3.70%
5/13/2013	7/1/2014	2.00%
5/13/2013	7/1/2015	2.00%
5/13/2013	7/1/2016	2.00%

Source: Financing Application Addendum

The following table displays the Historical and Current Average Monthly User Charge as a percent of Median Household Income (MHI) for all residential units. The year-over-year percent change since FY 2012 shows rates correspond to historical rate increases adopted over the five-year period. The table demonstrates that the percent of MHI is well below the 1.5% 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	2012	2013	2014	2015	2016
Residential	\$46.33	\$46.67	\$47.88	\$48.62	\$49.24
% change	N/A	0.7%	2.6%	1.5%	1.3%
% to MHI	0.1%	0.1%	0.1%	0.1%	0.1%

Source: Financing Application Addendum & the 2010-2014 American Community Survey (5-year estimates)

The following table displays the Projected Average Monthly User Charge Per Residential Unit in FYs 2017 through 2020. The City projects increasing rates by 2% in each of the fiscal years presented, which is consistent with the adopted rate increases reflected in the Historical Rate Increases table above.

PROJECTED AVERAGE MONTHLY USER CHARGE PER RESIDENTIAL UNIT				
For Fiscal Year Ending (FYE) June 30	2017	2018	2019	2020
Residential	50.22	51.22	52.24	53.28
% change	2.0%	2.0%	2.0%	2.0%

Source: Financing Application Addendum

The following table displays the City's Current Average Monthly System User Charge Compared To Nearby Systems as of FY 2015. The table reflects that the City's average monthly user rate of \$49.24 is lower than all but one comparable user rate within the five nearby systems listed. In contrast, the highest rates, charged by Running Springs Water District, are 78.8% higher than the City's.

CURRENT AVERAGE MONTHLY SYSTEM USER CHARGE COMPARED TO NEARBY SYSTEMS		
System Name	Location	Average Monthly Residential Rate
Running Springs Water District	Running Springs	\$88.04
Crestline Village Water District	Crestline	\$84.70
Arrowbear Park County Water	Arrowbear Lake	\$78.50
Mariana Ranchos County Water District	Apple Valley	\$76.70
City of Big Bear Lake	NA	\$49.24
Big Bear City Community Services District	Big Bear City	\$40.50
Average Monthly Charge		\$69.61

Source: Financing Application Addendum

The following table displays the Top 10 System Users and reflects that the City complies with IBank's underwriting requirements that revenues derived from the top ten ratepayers not exceed 50%, and that no single ratepayer generates 15% or greater of the System's annual revenues.

TOP 10 SYSTEM USERS As of June 30, 2015				
	User	% System Use	% System Revenues	Customer Class
1	World Mark	1.5%	1.1%	Commercial
2	Bear Valley Unified School District	1.7%	0.8%	Commercial
3	Bear Valley Rec. & Park District	1.5%	0.7%	Commercial
4	Big Bear Shores HOA	0.9%	0.6%	Commercial
5	City of Big Bear Lake	0.8%	0.5%	Commercial
6	The Salvation Army	0.6%	0.4%	Commercial
7	Northwoods Resort	9.0%	0.4%	Commercial
8	Leisure Bear Mobile Homes	0.7%	0.3%	Commercial
9	Lagonita Lodge Owners Association	0.6%	0.3%	Commercial
10	MCCS Department	0.6%	0.2%	Commercial
	Total	17.9%	5.3%	

Source: Financing Application Addendum

CREDIT ANALYSIS

Source of Financing and Security

The City proposes pledging the Net Revenues of its Water Utility Enterprise Fund (Fund) as security and the source of repayment of the proposed Financing. Such pledge would be on parity with these four liens: 1996 Water Revenue Refunding Bonds, 2010 USDA Bonds, 2012 USDA Bonds, and 2013 USDA Bonds.

Source of Revenue to Repay Proposed CLEEN Center Financing:	Water Utility Enterprise Fund
Outstanding Obligations:	\$16,735,000 1996 Water Revenue Refunding Bonds \$3,326,000 2010 Water Revenue USDA Bonds \$4,708,000 2012 Water Revenue USDA Bonds \$3,067,000 2013 Water Revenue USDA 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:	2016-2017

Comparative Statement of Net Position Analysis

Analysis of the Fund's Comparative Statement of Net Position for the last five fiscal years is as follows:

COMPARATIVE STATEMENT OF NET POSITION											
Fiscal Year Ending (FYE) June 30	2011		2012		2013		2014		2015		
Source:	CAFR	%	CAFR	%	CAFR	%	CAFR	%	CAFR	%	
Current Assets											
Cash and Investments	\$4,055,701	0.7%	\$2,982,221	7.6%	\$4,242,575	8.5%	\$5,071,445	9.7%	\$5,541,014	9.1%	
Receivables:											
Accounts	1,421,822	3.7%	1,566,253	3.7%	1,757,142	3.5%	1,772,605	3.4%	1,685,742	2.8%	
Accrued Interest	3,695	0.0%	6,085	0.0%	4,802	0.0%	4,610	0.0%	6,019	0.0%	
Prepaid Costs			35,500	0.1%	38,823	0.1%	37,189	0.1%	35,489	0.1%	
Due From Other Governments	4,051	0.0%	975,918	2.3%					69,126	0.1%	
Due From Other Funds	143,025	0.4%									
Inventories	234,373	0.6%	253,006	0.6%	222,295	0.4%	235,395	0.5%	297,095	0.5%	
Restricted:											
Cash With Fiscal Agent	4,914,817	12.9%	5,193,870	12.4%	5,238,382	10.6%	5,455,346	10.5%	5,075,136	8.4%	
Total Current Assets	10,777,484	28.4%	11,012,853	28.3%	11,504,019	23.2%	12,576,590	24.1%	12,709,621	20.9%	
Noncurrent Assets											
Deferred Charges	34,712	0.1%	31,556	0.1%							
Notes Receivable									332,257	0.5%	
Capital Assets - Not Being Depreciated			6,220,869	14.8%			4,178,221	8.0%	4,288,996	7.1%	
Capital Assets - Net of Accumulated Depreciation	27,153,943	71.5%	24,650,847	58.8%	36,802,777	74.1%	34,255,910	65.6%	39,713,125	65.3%	
Total Other Non Current Assets	27,188,655	71.6%	30,903,272	73.7%	36,802,777	74.1%	38,434,131	73.6%	44,334,378	72.9%	
Total Assets	37,966,139	100.0%	41,916,125	100.0%	48,306,796	97.3%	51,010,721	97.7%	57,043,999	93.9%	
Deferred Outflows of Resources											
Deferred Pension-related Items									2,694,838	4.4%	
Loss on Refunding					1,332,497	2.7%	1,184,441	2.3%	1,036,386	1.7%	
Total Deferred Outflows					1,332,497	2.7%	1,184,441	2.3%	3,731,224	6.1%	
Total Assets and Deferred Outflows	37,966,139	100.0%	41,916,125	100.0%	49,639,293	100.0%	52,195,162	100.0%	60,775,223	100.0%	
Current Liabilities											
Accounts Payable	674,661	1.8%	1,011,012	2.4%	235,861	0.5%	673,509	1.3%	252,127	0.4%	
Accrued Liabilities			85,346	0.2%	116,122	0.2%	271,092	0.5%	301,496	0.5%	
Accrued Interest	412,909	1.1%	409,050	1.0%	411,086	0.9%	385,159	0.8%	359,405	0.6%	
Deposits Payable	32,500	0.1%	44,080	0.1%	33,168	0.1%	12,630	0.0%	4,360	0.0%	
Due to Other Governments							46,336	0.1%	40,000	0.1%	
Accrued Compensated Absences			272,610	0.7%	269,197	0.6%	263,996	0.5%	287,731	0.5%	
Accrued Claims and Judgements					13,362	0.0%					
Current Portion of Long-term Debt	2,140,120	5.6%	2,330,751	5.6%	2,451,556	5.1%	2,633,622	5.2%	2,449,000	4.3%	
Total Current Liabilities	3,260,190	8.6%	4,152,849	9.9%	3,530,352	7.3%	4,286,344	8.4%	3,694,119	6.5%	
Noncurrent Liabilities											
Accrued Compensated Absences	228,048	0.6%									
Accrued Claims and Judgements					109,167	0.2%	87,886	0.2%	45,770	0.1%	
Net Pension Liability									4,595,016	8.1%	
Bonds, Notes, and Capital Leases	27,531,703	72.5%	27,397,840	65.4%	30,672,457	63.5%	29,873,970	58.6%	28,419,770	49.8%	
Total Long Term Liabilities	27,759,751	73.1%	27,397,840	65.4%	30,781,624	63.7%	29,961,856	58.7%	33,060,556	58.0%	
Total Liabilities	31,019,941	81.7%	31,550,689	75.3%	34,311,976	71.0%	34,248,200	67.1%	36,754,675	64.4%	
Deferred Inflows of Resources											
Deferred Pension Inflows of Resources									2,282,811	4.0%	
Total Deferred Inflows of Resources									2,282,811	4.0%	
Total Liabilities and Deferred Inflows	31,019,941	81.7%	31,550,689	75.3%	34,311,976	71.0%	34,248,200	67.1%	39,037,486	68.4%	
Net Position											
Invested in Capital Assets, Net of Related Debt	2,396,937	6.3%	1,338,986	3.2%	3,678,764	7.6%	5,926,539	11.6%	14,169,737	24.8%	
Restricted for Debt Service	4,914,817	12.9%	5,193,870	12.4%	5,238,382	10.8%	5,455,346	10.7%	5,075,136	8.9%	
Unrestricted	(365,556)	-1.0%	3,832,580	9.1%	6,410,171	13.3%	6,565,077	12.9%	2,492,864	4.4%	
Total Net Position	6,946,198	18.3%	10,365,436	24.7%	15,327,317	31.7%	17,946,962	35.2%	21,737,737	38.1%	
Total Liabilities, Deferred Inflows and Net Position	37,966,139	100.0%	41,916,125	100.0%	49,639,293	100.0%	52,195,162	100.0%	60,775,223	100.0%	
Total Liabilities to Total Assets	0.82		0.75		0.71		0.67		0.64		
Total Net Position/Total Liabilities	0.22		0.33		0.45		0.52		0.59		

Review of the Fund's Comparative Statement of Net Position for FYs 2011-2015 analyzed finds growth in Total Assets of 50.2%, while Total Liabilities only grew 18.5% over the same period. Consequently, Total Net Position increased during the same period by more than \$14.7 million, or 213%. Noteworthy items within categories are mentioned below.

In FY 2012, within Total Current Assets the Cash and Investments decreased due to expenses incurred by major pipeline and well projects that were started. Grants received for the pipeline and well projects, increased and are reported in Due From Other Governments.

In FY 2015, Noncurrent Assets increased approximately \$5,500,000 due to capitalization of assets related to the major pipeline and well projects. In addition, an increase of \$332,257 was due to the transfer of the Rimforest water system to Lake Arrowhead Community Services District. The transfer agreement requires Lake Arrowhead Community Services District to pay the City monthly installments for Rimforest’s prorated share of acquisition and improvement debt. The agreement matures when the 1996 Bonds mature in 2022.

In FY 2015, Deferred Outflows of Resources identifies a new line item, Deferred Pension-related Items of \$2,694,838, is the result of implementation of GASB 68 and is the pension liability identified by the San Bernardino County Employees Pension Association.

In FY 2013, 2014, and 2015, Current Liabilities and Noncurrent Liabilities, Accrued Claims and Judgements shows a total for all years of \$256,185. This is a result of the City participating in the California Joint Powers Insurance Authority’s insurance program (CJPIA), and these amounts represent their share of retroactive deposit requirements for claims. Consequently, CJPIA has since adopted a proactive formula, which will eliminate retroactive adjustments. The City does not anticipate any additional costs.

In FY 2015, Net Pension Liability and Deferred Pension Inflows of Resources, reflect \$4,595,016 and \$2,282,811 respectively. This is the result of implementation of GASB 68.

In FY 2015, Invested in Capital Assets, Net of Related Debt increased primarily due to implementing an infrastructure replacement program of approximately \$5,500,000, and previously unrecorded water mains of \$3,683,564 identified during an audit of the Department’s pipelines.

The following table displays Accounts Receivable Aging as of April 30, 2016, and reflects that 89.2% of receivables are collected within 60 days.

ACCOUNTS RECEIVABLE AGING						
As of April 30, 2016						
	Current	Over 30	Over 60	Over 90	Over 120	Total
	\$584,156	\$51,259	\$1,494	\$3,788	\$71,433	\$712,130
Percent	82.0%	7.2%	0.2%	0.5%	10.0%	100.0%

Source: Financing Application Addendum

When customers fail to pay their account by the due date they receive a disconnect notice, which provides 7-10 additional days to remit payment to avoid loss of service (locked meter). In addition, the City continues to bill its accounts in perpetuity as long as the customer has a service connection, and employs the City’s right to lien the property if the balance and conditions meet the criteria for liening. Since there is a 97% collectability of these balances when the parcels change ownership, the City leaves them in the Over 120 category.

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

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

BIG BEAR LAKE WATER ENTERPRISE FUND STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION										
Fiscal Year Ending (FYE) June 30	2011		2012		2013		2014		2015	
Source:	CAFR	%	CAFR	%	CAFR	%	CAFR	%	CAFR	%
% Change		2.8%		3.1%		3.2%		3.0%		
Operating Revenues										
Sales, Fees, and Service Charges	\$10,249,111	100.0%	\$10,540,582	97.6%	\$10,863,896	98.1%	\$11,206,636	99.3%	\$11,537,514	99.4%
Miscellaneous			\$257,793	2.4%	\$210,164	1.9%	\$82,833	0.7%	\$64,048	0.6%
Total Operating Revenues	\$10,249,111	100.0%	\$10,798,375	100.0%	\$11,074,060	100.0%	\$11,289,469	100.0%	\$11,601,562	100.0%
Operating Expenses										
Administration and General	\$2,948,528	28.8%	\$2,102,247	19.5%	\$1,992,868	18.0%	\$2,189,099	19.4%	\$1,912,444	16.5%
Source of Supply	\$1,453,640	14.2%	\$1,269,344	11.8%	\$1,417,238	12.8%	\$1,453,330	12.9%	\$1,361,371	11.7%
Transmission and Distribution	\$1,100,845	10.7%	\$1,306,722	12.1%	\$1,381,367	12.5%	\$1,380,063	12.2%	\$1,084,387	9.3%
Water Operations			\$739,035	6.8%	\$656,302	5.9%	\$809,521	7.2%	\$768,995	6.6%
Depreciation Expense	\$1,599,435	15.6%	\$1,565,944	14.5%	\$1,269,692	11.5%	\$1,430,004	12.7%	\$1,537,316	13.3%
Total Operating Expenses	\$7,102,448	69.3%	\$6,983,292	64.7%	\$6,717,467	60.7%	\$7,262,017	64.3%	\$6,664,513	57.4%
Operating Income (Loss)	\$3,146,663	30.7%	\$3,815,083	35.3%	\$4,356,593	39.3%	\$4,027,452	35.7%	\$4,937,049	42.6%
Nonoperating Revenues (Expenses)										
Intergovernmental	\$2,122		\$1,436,274		\$2,378,926				\$1,157,133	
Interest Revenue	\$14,881		\$19,729		\$15,036		\$20,713		\$22,011	
Interest Expense	(\$1,812,459)		(\$1,778,634)		(\$1,749,116)		(\$1,676,760)		(\$1,598,146)	
Miscellaneous	\$5,552						\$326,293			
Research and Development			(\$177,569)							
Gain (Loss) on Disposal of Capital Assets	\$6,457				(\$8,002)		(\$78,053)		\$89,391	
Total Non-operating Revenues (Expenses)	(\$1,783,447)		(\$500,200)		\$636,844		(\$1,407,807)		(\$329,611)	
Income (Loss) Before Contributions	\$1,363,216		\$3,314,883		\$4,993,437		\$2,619,645		\$4,607,438	
Contributions										
Change in Net Position	\$1,363,216		\$3,419,238		\$4,993,437		\$2,619,645		\$4,607,438	
Net Position										
Beginning of Fiscal Year, as Previously Reported	\$5,600,992		\$6,946,198		\$10,365,436		\$15,327,317		\$17,946,962	
Restatements	(\$18,010)				(\$31,556)				(\$816,683)	
Beginning of Fiscal Year, as Previously Restated	\$5,582,982		\$6,946,198		\$10,333,880		\$15,327,317		\$17,130,279	
End of Fiscal Year	\$6,946,198		\$10,365,436		\$15,327,317		\$17,946,962		\$21,737,717	

Review of the Fund's Comparative Statement of Revenues, Expenses, and Changes in Net Position for FYs 2011-2015 reflects that Total Operating Revenues grew 13.2%, while Total Operating Expenses remained relatively consistent over the same period. The increase in Total Operating Revenues was primarily due to annual rate increases. Change in Net Position increased from \$1,363,216 in FY 2011 to \$4,607,438 in FY 2015, which demonstrates the strength of the Fund. Noteworthy items within categories are mentioned below.

In FY 2014, Non-operating Revenues, Intergovernmental, reflects no revenue received in FY 2014 as this category reflects grant income. As grant funds were received in FYs 2012 and 2013, the City must exhaust its allocation prior to applying for additional grant funds. Subsequently, Total Non-operating Revenues reflects a decrease of revenue.

In FY 2015, the Net Position Restatement is due to adjustments pursuant to GASB 68.

Pension Plan

The City and the Department contribute to the San Bernardino County Employee's Retirement Association (SBCERA) pension plan, a cost-sharing multiple-employer defined benefit pension plan

(Plan). On January 1, a Tier II plan as allowed under the California Public Employees' Pension Reform Act of 2013 was implemented. Tier I plan is closed to new entrants.

The City and the Department are two separate employers in the SBCERA pension plan. The Net Pension Liability and related pension activities for the Department are recorded in the Fund, in the City's CAFR.

The Department contributed 100% of its annual required contributions for the last three years and intends to continue making full contributions of the Departments portion of the Net Pension Liability. As of FY 2015, the funded ratio of the Departments portion of the Plan is 72%. Other Post-Employment Benefits (OPEB), is not offered to participants.

Existing Obligations Payable from the Fund

The table below shows the Fund's four outstanding obligations payable from Fund, the outstanding balances of those obligations (as of April 19, 2016), and the proposed Financing for the Project.

OBLIGATIONS							
Debt Issues	Underlying Rating (at Issuance)	Date Issued	Amount Issued	MADS	Outstanding Balance	Lien Position	Maturity
1996 Water Revenue Refunding Bonds	NA	1996	\$37,585,000	\$3,407,400	\$16,735,000	Senior	2022
2010 Water Revenue Bond USDA-RD Loan Security	NA	2010	\$3,628,000	\$141,000	\$3,326,000	Senior	2049
2012 Water Revenue Bond USDA-RD Loan Security	NA	2012	\$5,000,000	\$207,658	\$4,708,000	Senior	2052
2013 Water Revenue Bond USDA-RD Loan Security	NA	2013	\$3,157,000	\$130,056	\$3,067,000	Senior	2053
Proposed IBank Financing				\$54,351	\$1,050,000	Senior	2046
Total				\$3,940,465	\$28,886,000		

The above outstanding obligations permit subsequent parity debt upon certain conditions including satisfying a debt service coverage ratio (DSCR), and delivery of an opinion from bond counsel. The City has provided IBank a certificate from LSL CPAs and Advisors that the Fund meets the DSCR requirements. Delivery of the opinion, and satisfactory documentation evidencing the establishment of the reserve fund will be a closing condition of the Financing.

Parity covenants for the existing obligations are as follows:

1. 1996 Water Revenue Refunding Bonds used to finance and refinance capital improvements.
 - Parity debt allowed with certain conditions including a reserve fund
 - Requires maintenance of at least 1.10 DSCR with Connection Fees
 - Requires maintenance of at least 1.00 DSCR without Connection Fees

2. 2010, 2012, and 2013 USDA Water Revenue Bonds used to finance capital improvements.
 - Parity debt allowed with certain conditions including a reserve fund
 - Requires maintenance of at least 1.20 DSCR with Connection Fees
 - Requires maintenance of at least 1.00 DSCR without Connection Fees

Fund Cash Flow and Debt Service Analysis

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

CASH FLOW					
Fiscal Year Ending (FYE) June 30	2011	2012	2013	2014	2015
Operating Income (Loss)	\$3,146,663	\$3,815,083	\$4,356,593	\$4,027,452	\$4,937,049
Transaction Adjustments					
Depreciation Expense	1,599,435	1,565,944	1,269,692	1,430,004	1,537,316
Interest Revenue	14,881	19,729	15,036	20,713	22,011
Total of all Adjustments	1,614,316	1,585,673	1,284,728	1,450,717	1,559,327
Cash Available for Debt Service	4,760,979	5,400,756	5,641,321	5,478,169	6,496,376
Debt Service Calculation					
Total Existing Debt Service MADS	3,886,114	3,886,114	3,886,114	3,886,114	3,886,114
Proposed IBank Financing ⁽¹⁾	54,351	54,351	54,351	54,351	54,351
Total Obligations MADS	\$3,940,465	\$3,940,465	\$3,940,465	\$3,940,465	\$3,940,465
Debt Service Coverage Ratio	1.21	1.37	1.43	1.39	1.65
⁽¹⁾ Calculated as \$1,050,000 and at the 2.70% for 30 years.					

Analysis of historical cash flow demonstrates the Fund's ability to service current debt and the proposed Financing by greater than 1.20 times MADS in all five years reviewed. Although not reflected in the above analysis, the City implemented a 2% water rate increase effective July 1, 2016, and an additional 2% increase will be effective July 1, 2017. The City also projects a 2% increase each year through 2020. These events noted above will contribute to the Fund's meeting all its outstanding obligations and results in DSCR continuing to increase. Additionally, the 1996 Water Revenue Refunding Bonds mature in 2022, which represents 87% of the Fund's annual debt service payment.

RISK FACTORS

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

MITIGATING FACTORS

1. In implementing rates and charges, the City will covenant to ensure that its rate structure conforms to the requirements of Prop 218. Further, the City will notify IBank immediately upon the filing of any legal challenge to its rates or charges.
2. In FY 2010, as a result of litigation, the San Bernardino County Superior Court ruled the rate structure, based on the 2009 Rate Study, complied with Proposition 218.

Compliance with IBank Underwriting Criteria

- The financing will be secured by a lien on Net Revenues, on parity with the liens of the 1996 Water Revenue Refunding Bonds, 2010 Water Revenue USDA Bonds, 2012 Water Revenue USDA Bonds, and 2013 Water Revenue USDA Bonds.
- 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 City has the power to establish and enact rates and charges without the approval of any other governing body.

- The useful life of the Project exceeds the 30-year term financing.

Interest Rate Setting Demographics

The interest rate for the proposed Financing was set based upon the following statistics obtained from the USA.Com Air Quality Index.

The Air Quality Index (AQI), is a number used by government agencies to communicate how polluted the air currently is. The higher the number, the more pollutants are present in the air, and the population may experience increasingly adverse health effects.

The AQI for the City is 87. The AQI for the State is 40. Consequently, the City's rate represents 217.5% of the State's rate.

STAFF RECOMMENDATION

Staff recommends approval of Resolution No.16-20 authorizing CLEEN Center financing (Financing) to the City of Big Bear Lake (City), for the 12" Big Bear Blvd. Pipeline Replacement 2016 (Project).

1. **Applicant/Borrower:** City of Big Bear Lake
2. **Project:** 12" Big Bear Blvd. Pipeline Replacement 2016
3. **Amount of Financing:** \$1,050,000
4. **Maturity:** Thirty (30) years
5. **Repayment/Security:** Senior lien on Net Revenues on parity with the outstanding liens of the 1996 Water Revenue Refunding Bonds, 2010 Water Revenue USDA Bonds, 2012 Water Revenue USDA Bonds, and 2013 Water Revenue USDA Bonds.
6. **Interest Rate:** 2.70%
7. **Fees:** City to pay an origination fee of 1.00%, \$10, 500, upon loan closing, 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 an 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 a Financing agreement, in form and substance satisfactory to IBank.
9. **Limited Time:** The Board's approval expires 120 days from the date of its adoption. Thus, the City and IBank must enter into the Financing agreement no later than 120 days from such date. Once the approval has expired, there can be no assurances that IBank will be able to provide the Financing to the City or consider extending the approval period.
10. **CLEEN Center Financing Agreement Covenants and Conditions:** The financing agreement shall include, among other things, the following covenants and conditions:
 - a. The City must 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 all outstanding parity obligations.
 - b. The City will be prohibited from issuing future debt senior to the IBank financing.
 - c. New parity debt permitted if Net Revenues are 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") permitted if Net Revenues are at least 1.00 times the sum of the MADS on all outstanding debt, payable from Net Revenues, including the proposed Subordinate Debt.
 - e. The City will maintain rates sufficient for all debt service payable from Net Revenues, 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 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. In implementing rates and charges, the City will covenant to ensure that its rate structure conforms to the requirements of Proposition 218. Further, the City is to notify IBank immediately upon the filing of any legal challenge to its rates or charges.

- k. City to provide to IBank an opinion of counsel as to satisfaction of the Fund's existing parity debt conditions as a condition of the Financing.

Exhibit 1

PROPOSED PROJECT LOCATIONS

