

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)

STAFF REPORT

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

Applicant: Stallion Springs Community Services District (District)		ISRF Project Type: Sewage Collection and Treatment	
Financing Amount: \$510,000	Financing Term: 30 years	Interest Rate: 3.20% ¹	
Source of Repayment: Net Wastewater system revenues (Net Revenues) and all legally available amounts in Sewer Operations Fund (Fund)		Fund Rating/Date: N/A	
Security: The ISRF Program financing (Financing) will be payable from, and secured by, a senior lien on the net wastewater system revenues and all legally available amounts in the Fund.			
Project Name: New Wastewater Lift Station (Project)		Project Location: 28500 Stallion Springs Drive, Tehachapi, CA 93561	
Project Description / Sources and Uses of Proceeds: The Project generally consists of the demolition of an existing wastewater lift station and the design and construction of a new lift station. More specifically, the Project includes, but is not limited to, the following activities: 1) demolition of existing pump station; 2) structural excavation and backfill; 3) construction of the wet well and new pump station structure; 4) construction and installation of associated piping improvements and valves needed to integrate the new wastewater lift station into the District's sewage transmission system; 5) pump installation; 6) electrical switchgear and instrumentation component installation; 6) fencing and surface restoration; 7) and other required appurtenant work such as grading the project site, fencing, landscaping, and paving.			
Use of Financing Proceeds: The Financing would provide funds for completion of the Project including, but not limited to equipping, machinery installation, design, engineering, construction, construction contingency ² , demolition, permitting, entitlement, construction management, project administration, and general project development activities. IBank's loan origination fee is included in the loan amount.			
Project Uses		Project Sources	
	IBank	Stallion Springs Community Services District	Total
Project Uses	\$500,000	\$150,000	\$650,000
Origination Fee	\$10,000		\$10,000
Total	\$510,000	\$150,000	\$660,000

¹ Interest Rate quoted August 20, 2018

² Contingency of 7.9% included in total project cost, including monies from the IBank Financing and District's own funds, in a proportion to be determined prior to closing.

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)	(\$40,109)	\$11,980	\$43,183	\$70,284	\$22,558
+ Depreciation Addback	28,028	17,437	19,520	19,520	10,752
+ Non-recurring repair expenses addback	0	0	0	0	3,584
Cash Available for Debt Service	(12,081)	29,417	62,703	89,804	36,894
Debt Service Calculation					
Total Existing Debt Service MADS	0	0	0	0	0
Proposed IBank MADS ⁽¹⁾	28,061	28,061	28,061	28,061	28,061
Total Obligations MADS	\$28,061	\$28,061	\$28,061	\$28,061	\$28,061
Debt Service Coverage Ratio	-0.43	1.05	2.23	3.20	1.31

⁽¹⁾ Calculated at \$510,000 @3.20% 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 1.31 or greater in the most recent three of the five years reviewed. Connection fees are considered non-recurring for purpose of this report and therefore were not considered in the analysis. Please refer to the Cash Flow and Debt Service Analysis section of this Staff Report for further details.

Support for Staff Recommendations:

1. Cash flow analysis demonstrates the Fund's ability to service the existing debt and the proposed Financing.
2. The District has successfully increased rates to maintain its debt service ability.
3. The estimated useful life of the Project is 33 years, which exceeds the term of the Financing.

Special Terms and Conditions:

Changes to the District'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 District is to notify IBank immediately upon the filing of any legal challenge to its rates or charges.

IBank Staff:

Lina Benedict

Date of Staff Report:

October 1, 2018

Date of IBank Board Meeting:

October 23, 2018

Resolution Number:

18-14

Staff Recommendation:

Staff recommends approval of Resolution No. 18-14 authorizing ISRF Program Financing not to exceed \$510,000 to Stallion Springs Community Services District for the New Wastewater Lift Station Project.

PROJECT DESCRIPTION

The Stallion Springs Community Services District (District) requests Infrastructure State Revolving Fund (ISRF) Program financing (Financing) in the amount of \$510,000 to fund the New Wastewater Lift Station Project (Project).

The Project generally consists of the demolition of an existing wastewater lift station and the design and construction of a new lift station. More specifically, the Project includes, but is not limited to, the following activities: 1) demolition of existing pump station; 2) structural excavation and backfill; 3) construction of the wet well and new pump station structure; 4) construction and installation of associated piping improvements and valves needed to integrate the new wastewater lift station into the District's sewage transmission system; 5) pump installation; 6) electrical switchgear and instrumentation component installation; 6) fencing and surface restoration; 7) and other required appurtenant work such as grading the project site, fencing, landscaping, and paving.

The District owns and operates the wastewater collection, treatment, and disposal system that provides sewerage service to a portion of the unincorporated community of Stallion Springs in Kern County. The District currently has 368 connections.

The new wastewater lift station (WWLS) also called the pumping station will replace the existing wastewater lift station located north of Stallion Springs Drive, across from the wastewater treatment plant) near the Horse Thief Country Club golf course lake on Chanac Creek.

The current WWLS is over 40 years old and has shown signs of failing. The District is concerned that a total failure of the lift station may cause raw sewage to run down the main street of Stallion Springs Drive and spill into the water way called Chanac Creek harming the environment and the health of the local population and the population downstream.

The engineering firm, W3i Engineering, was hired by the District for the engineering and design of the new WWLS. The new WWLS will be located adjacent to the existing pump station, which will remain operational during the construction period. Once the new WWLS is fully operational the existing pump station will be abandoned. When the Project is complete the flow from the sewers will be re-routed to the new pump/lift station.

The Project includes upgrades to the electrical controls and instrumentation. The existing force main to the WWTP is in reliable condition and will be retained. Additionally, the project includes the installation of a portable emergency generator in the event of a utility power failure.

The engineering and design of the project is complete. The construction is expected to begin by December 1, 2018.

PROJECT AND PUBLIC BENEFITS

The Project will provide the following benefits:

- 1) Increase reliability and efficiency of the sewer system.
- 2) Save the District money by using energy efficient pumps that will reduce the cost of pumping wastewater.
- 3) Prevent environmental damage by reducing the possibility of raw sewage overflow into streams.
- 4) Ensure the District's continued compliance of environmental regulations.
- 5) 10-20 temporary jobs are anticipated during the construction period as a result of the Project.

The Project will prevent environmental damage and ensuring compliance with environmental regulations. The result will improve the safety and well-being of the communities in and around the District.

DISTRICT INFORMATION

The District, located in Kern County, is in the Sierra Nevada foothills between San Joaquin Valley and the Mojave Desert. The District provides public services such as administration, police services, parks, recreation, roads, trash disposal, sewer, and water service to the residents living within the community boundaries.

The District is governed by an elected board (District Board) of directors comprised of five members who serve a four-year term. The subject District primarily services a portion of the larger District of Tehachapi. District of Tehachapi has a population of approximately 13,000 within its physical limits and there is an estimated 37,000 in the greater Tehachapi region.

Industries in the region include aerospace innovation, mineral mining, and renewable energy. The area has a diverse workforce of highly-skilled and educated personnel working in major employment centers like NASA, Virgin Galactic, Scaled Composites, US Borax, World Wind and Solar, and Grimmway Farms.

The District has a low risk tolerance and manages its investments conservatively to ensure that important services such as public safety, capital improvements, and recreation programs are properly funded.

SYSTEM DESCRIPTION

The District owns and operates the Wastewater System (System). The System includes the following:

1. Wastewater Treatment Facility which includes:
 - a) Treatment Process Equipment and Biological Treatment Process
 - b) Sludge Drying Process
 - c) Wastewater Lift Station
2. Main sewers, lateral and branch sewers, trunk sewers, and interceptor sewers
3. Storage Pond
4. Chlorine Contact Chamber
5. Electrical components

1. Wastewater Treatment Facility (WWTF)

The WWTF was built in the mid-nineteen seventies and has not experienced any significant upgrades since its construction. The facility is well maintained per The Carollo Engineers Wastewater System Condition Evaluation Report (Report) dated October 2005, but much of the mechanical and electrical equipment has reached or is nearing its life expectancy and as the need arises upgrades and repair work is promptly completed by the District.

a. Treatment Process Equipment and Biological Treatment Process

Screening of suspended waste is accomplished at the bar screen where influent wastewater enters the plant. This facility is a manual grate that intercepts solids and retains them on the structure.

Due to the low volume of wastewater, the capacity of screenings is minimal and easily handled by staff. There are two aerator process units and a circular oxidation ditch system using Lakeside rotors, which is wrapped around a centrally located spiral flow peripheral feed clarifier. The aeration process provided by the cage rotor in the oxidation ditch provides the aerobic environment that allows selective bacteria and organisms to consume organic waste.

b. Sludge Drying Process

Waste Activated Sludge (WAS) is periodically removed from the process and routed to the four concrete lined sludge beds. These beds are not covered and therefore solar drying of the material is dependent on climate conditions, with precipitation significantly impacting the process.

At current wastewater flow rates the sludge drying bed capacity must be intensively managed in order for the WAS to dry thoroughly.

c. Wastewater Lift Station

Wastewater pumping stations, also known as pump stations, are facilities designed to move wastewater from lower to higher elevation through pipes. Key elements of pump stations include a wastewater receiving well sometimes equipped with screen or grinder to separate coarse material; pumps and piping with associated valves; motors; a power supply system; an equipment control and alarm system; a ventilation system; and an odor control system.

All wastewater entering the WWTF is pumped from the lift station just to the north of Stallion Springs Drive adjacent to the District office entrance. This lift station is the terminus of the District's wastewater collection system. Current operation of this facility is based on a fill/drain operation where the pump station storage volume is used to cycle the pumping units on and off. This operation results in slug loading of the WWTF head-works and process units.

2. Main sewers, lateral and branch sewers, trunk sewers, interceptor sewers

Building sewers connect a building's internal wastewater collection system to the District's sewer and can connect to a lateral, main or trunk sewer line.

3. Storage Pond

The storage pond is used in wastewater treatment and provides secondary biological treatment.

4. Chlorine Contact Chamber

The principal method used for the disinfection of treated effluents is chlorination. The chamber provides sufficient detention time of chlorine contact with wastewater for disinfection to occur.

5. Electrical Components

These include electrical components such as meters, wiring, generators and drives for the pumps. The majority of the electrical components have received adequate maintenance over the years.

System Capital Improvement Plan (CIP)

The District does not use a formalized Capital Improvement Plan. The Report recommended capital improvements to the System over the next five to ten years include upgrading the WWTF.

The District has a Capital Improvement fund (Fund # 50390), which has various separate capital reserve outlay accounts for Sewer, Public Safety, Water, Roads, Parks and Recreation etc.

As of August 22, 2018, the District's Sewer capital reserve outlay account has a balance of \$267,741. These funds are available for capital improvement obligations and funds can be withdrawn from this account only by District Board approval

The District has not financed any CIP improvements or repair work in past years. The District has paid for improvements as a "pay as you go" process.

The following table displays the Number of Users by Category and reflects stability in the number of users with a gradual increase of 18 additional system users over the past five years. The table further reflects a high proportion of residential users.

NUMBER OF USERS BY CATEGORY					
For Fiscal Year Ending (FYE) June 30	2014	2015	2016	2017	2018
As of Date	6/30/2014	6/30/2015	6/30/2016	6/30/2017	6/6/2018
Residential	326	337	340	343	346
Commercial	24	24	24	24	22
Total	350	361	364	367	368
% change	N/A	3.1%	0.8%	1.7%	0.3%

Source: Financing Application Addendum

The District reviews rates on an annual basis and has adopted rate increases in the five of the last nine fiscal years as shown in the table below. The following table displays the Historical Rate Increases adopted since 2010, and reflects the District's ability to increase rates to meet its operational and capital improvement needs.

HISTORICAL RATE INCREASES		
Date Adopted	Date Effective	Percent Increase
February 16, 2010	July 2010	2.50%
February 19, 2013	July 2013	3.00%
March 18, 2014	July 2014	16.00%
March 17, 2015	July 2015	11.00%
March 15, 2016	July 2016	7.50%

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 2013. 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 2017. The table demonstrates the percentages paid by ratepayers are all 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	2013	2014	2015	2016	2017	
Residential	\$30.74	\$35.74	\$39.74	\$42.74	\$42.74	
% change	N/A	16.3%	11.2%	7.5%	0.0%	
% of MHI (2016 \$42,961)	0.07%	0.08%	0.09%	0.10%	0.10%	

Source: Financing Application Addendum

The following table displays the District's Projected Average Monthly User Charge per Residential Unit in FYs 2018 through 2022. The table reflects a nominal increase planned in each year. The District has not started the Proposition 218 process for a rate increase as the District 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.

STALLION SPRINGS COMMUNITY SERVICES DISTRICT PROJECTED AVERAGE MONTHLY USER					
For Fiscal Year Ending (FYE) June 30	2018	2019	2020	2021	2022
Residential	44.02	45.34	46.70	48.10	48.10
% change	3%	3%	3%	3%	0%

Source: Financing Application Addendum

The following table compares the District's Current Average Monthly System User Charge to Nearby Systems as of June 6, 2018. The table indicates the District's rate is lower than the average of nearby Systems. Golden Hills Community Services District's sewer system that serves 9,000 residents in parts of Kern County, charges the highest rate.

CURRENT AVERAGE MONTHLY SYSTEM USER CHARGE COMPARED TO NEARBY SYSTEMS			
System Name	Distance in Miles	Location	Average Monthly Residential Rate
Stallion Springs Community Services District	N/A		\$42.74
City of Tehachapi	0.0	Tehachapi, CA	\$40.01
Bear Valley Community Services District	0.5	Tehachapi, CA	\$76.14
Golden Hills Community Services District	12.7	Tehachapi, CA	\$91.29
Average Monthly Charge			\$62.55

The following table displays the Top Five System Users and the Percent of System Revenue.

Of the District's top ten users, the first five are commercial and six through ten are residential users with fixed charges per year. The first three System Users shown in the table are businesses related to Woodward West Corporation (Woodward) that contribute 10.9% wastewater distributed by the System. The District 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 no single ratepayer is generating greater than 15% of annual system revenues.

Top 10 System Users as of September 4, 2018			
	User	% System Revenues	Customer Class (Residential/ Commercial/ Industrial/Other)
1	Woodward 28400 Stallion Springs Drive, Tehachapi, CA	3.9%	Commercial
2	Woodward Lodge 18100 Lucaya, Tehachapi, CA	2.7%	Commercial
3	LLC 28681 Stallion Springs Drive, Tehachapi, CA	4.3%	Commercial
4	P'Dubs Restaurant	0.7%	Commercial
5	Stallion Springs Community Church	0.3%	Commercial
6	Residence	0.2%	Residential
7	Residence	0.2%	Residential
8	Residence	0.2%	Residential
9	Residence	0.2%	Residential
10	Residence	0.2%	Residential
Total as a % of System Users		12.8%	

Source: Financing Application Addendum

The primary user, Woodward, features 11 parks that include a 54,000 square feet indoor riding facility, an eight-lane bowling alley, a 200 seat theater and is home to one of two full-size mega ramps in the world used in skateboarding and freestyle BMX. Woodward also offers summer camps, and off-season events such as weekend getaways, winter camp, and scooter camps. Woodward’s parent company POWDR Adventure Lifestyle Co. owns 17 similar facilities throughout the United States and Mexico.

The District states that if Woodward was to cease operations, the District would raise sewer rates to make up the loss in revenues. It is important to note: Woodward has been in business for over four decades and appears to have a strong performance as its extreme sports facilities are well utilized. The District has no indication of any Woodward facilities closing.

CREDIT

Source of Financing and Security

The District 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:	N/A
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:	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 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:	2018-2019

Comparative Statement of Net Position

Annual Financial Reports for the District for FYs 2013 to 2017 were reviewed.

STALLION SPRINGS COMMUNITY SERVICES DISTRICT BALANCE SHEET - PROPRIETARY FUNDS - SEWER OPERATIONS										
For Fiscal Year Ending (FYE) June 30	2013		2014		2015		2016		2017	
Source:	CAFR	%	CAFR	%	CAFR	%	CAFR	%	CAFR	%
ASSETS AND DEFERRED OUTFLOW OF RESOURCES										
Current Assets										
Cash and Investments	\$232,216	77.1%	\$29,894	8.8%	\$74,679	19.0%	\$170,990	38.3%	\$224,224	41.4%
Accrued Interest Receivable	11	0.0%	9	0.0%	11	0.0%			29	0.0%
Accounts Receivable - Services	33,700	112%	40,197	119%	42,319	10.7%	41,663	8.8%	40,463	7.5%
Property Assessments Receivable	75	0.0%	83	0.0%	117	0.0%	9	0.0%	73	0.0%
Due to (From) Other Funds	(250,000)	-83.0%								
Total Current Assets	\$16,002	5.3%	\$70,183	20.8%	\$117,126	29.7%	\$212,662	45.1%	\$264,789	48.9%
Non-current Assets										
Capital Assets - Being Depreciated, Net	285,164	94.7%	267,727	79.2%	271,796	69.0%	252,276	53.5%	256,892	47.5%
Total Non Current Assets	\$285,164	94.7%	\$267,727	79.2%	\$271,796	69.0%	\$252,276	53.5%	\$256,892	47.5%
Sub Total Assets	\$301,166	100.0%	\$337,910	100.0%	\$388,922	98.7%	\$464,938	98.6%	\$521,681	96.4%
DEFERRED OUTFLOWS OF RESOURCES										
Deferred Amounts Related to Net Pension Liability					5,099	13%	6,400	14%	19,465	3.6%
Total Deferred Outflow of Resources					5,099	13%	6,400	14%	19,465	3.6%
Total Assets and Deferred Outflows of Resources	\$301,166	100.0%	\$337,910	100.0%	\$394,021	100.0%	\$471,338	100.0%	\$541,146	100.0%
LIABILITIES										
Current Liabilities										
Accounts Payable and Accrued Expenses	2,315	0.8%	2,363	0.7%	5,040	13%	10,634	2.3%	12,916	2.4%
Accrued Wages and Related Payable	3,879	13%								
Accrued Interest Payable			3,375	10%						
Compensated Absences	2,041	0.7%	3,328	10%	55	0.0%			2,186	0.4%
Total Current Liabilities	\$8,235	2.7%	\$9,066	2.7%	\$5,095	13%	\$10,634	2.3%	\$15,102	2.8%
Non-Current Liabilities										
Compensated Absences	6,123	2.0%			82	0.0%			3,280	0.6%
Notes Payable			9,982	3.0%						
Net Pension Liability					60,183	15.3%	52,152	11.1%	75,768	14.0%
Total Non-Current Liabilities	\$6,123	2.0%	\$9,982	3.0%	\$60,265	15.3%	\$52,152	11.1%	\$79,048	14.8%
Total Liabilities	\$14,358	4.8%	\$19,048	5.6%	\$65,360	16.6%	\$62,786	13.3%	\$94,150	17.4%
DEFERRED INFLOWS OF RESOURCES										
Deferred Amounts Related to Net Pension Liability							28,505	6.0%	17,632	3.3%
Recognized Net Differences between Projected and Actual Earnings on Pension Plan Investments					20,224	5.1%				
Changes in Employer Contributions and Differences between Proportionate Share of Pension Expense Recognized Portion due to Differences in Proportions					2,186	0.6%				
					1,176	0.3%				
Total Deferred Inflows of Resources					\$23,586	6.0%	\$28,505	6.0%	\$17,632	3.3%
NET POSITION										
Net Investment in Capital Assets	285,164	94.7%	267,727	79.2%	271,796	69.0%	252,276	53.5%	256,892	47.5%
Unrestricted	1,644	0.5%	51,135	15.1%	33,279	8.4%	127,771	27.1%	172,472	31.9%
Total Net Position	\$286,808	95.2%	\$318,862	94.4%	\$305,075	77.4%	\$380,047	80.6%	\$429,364	79.3%
Total Liabilities, Deferred Inflows of Resources and Net Position and Fund Balance	\$301,166	100.0%	\$337,910	100.0%	\$394,021	100.0%	\$471,338	100.0%	\$541,146	100.0%

Total Assets have increased over the last four years due to the following:

1. Significant growth in the Cash and Investments category. This is the impact of ongoing special assessments and connection fees which resulted in an increase in Unrestricted funds. This is an indication of growth and a strengthening liquidity position.
2. Deferred Amounts Related to Net Pension Liability (Details in the Balance Sheet section below).

Total Liabilities were impacted due to the District's Net Pension Liability, which increased due to changes related to GASB 68. This additional liability was introduced in FY 2015 and seen through FY 2017. Non-Current Assets fluctuated approximately \$30,000 over the five-year period reviewed as capital assets were purchased and depreciated. More detail on pension is found in the Pension Obligation section of this staff report.

Total Net Position, during the five years reviewed, increased 49.7% over the five year period beginning at the value of \$286K increasing to \$429K in FY 2017. This is a result of a year over year increase in revenues from the Sewer Service Charge rate increases, Special Assessments that are ongoing, and Other Charges for Services.

In summary, the Fund shows consistent growth reflected in Total Net Position. As a result of the activities discussed above the District's Unrestricted Net Position grew from 0.5% to 31.9% of Total Assets and Deferred Outflows of Resources, with the most current year's (FY 2017) balance of \$172,472. The District also retained a growing Cash and Investment position in the years reviewed, with \$224,224 reported in FY 2017, providing flexibility in handling unexpected expenses.

The following table displays accounts receivable aging as of June 6, 2018, reflecting that the District collects over 99% of receivables within 30 days of billing. The District bills every other month for sewer service and has an excellent collection rate. Any uncollectible accounts are put as a delinquent charge on the user's tax bill.

STALLION SPRINGS COMMUNITY SERVICES DISTRICT ACCOUNTS RECEIVABLE AGING							
AS OF JUNE 21, 2018							
	Current	Over 30	Over 40	Over 60	Over 90	Over 120	Total
	\$251,021		\$0	\$0	\$0	\$949	\$251,969.50
Percent	99.6%	0.0%	0.0%	0.0%	0.0%	0.4%	100.0%

Source: Financing Application Addendum

Statement of Revenues, Expenses, and Changes in Net Position

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

STALLION SPRINGS COMMUNITY SERVICES DISTRICT										
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUNDS										
For Fiscal Year Ending (FYE) June 30	2013		2014		2015		2016		2017	
Source:	CAFR	%	CAFR	%	CAFR	%	CAFR	%	CAFR	%
% Change		N/A		17%		9%		5%		1%
Operating Revenues										
Sewer Service Charges	193,259	97.3%	225,013	97.2%	247,292	98.3%	252,938	95.8%	254,916	95.7%
Special Assessments							8881	3.4%	8698	3.3%
Other Charges for Services	5,403	2.7%	6,431	2.8%	4,335	1.7%	2,326	0.9%	2,653	1.0%
Total Operating Revenues	\$198,662	100.0%	\$231,444	100.0%	\$251,627	100.0%	\$264,145	100.0%	\$266,267	100.0%
Operating Expenses										
Operations	210,743	106.1%	202,027	87.3%	188,924	75.1%	174,341	66.0%	232,957	87.5%
Total Operating Income before Depreciation	(\$12,081)	-6.1%	\$29,417	12.7%	\$62,703	24.9%	\$89,804	34.0%	\$33,310	12.5%
Depreciation	28,028	14.1%	17,437	7.5%	19,520	7.8%	19,520	7.4%	10,752	4.0%
Operating Income (Loss)	(\$40,109)	-20.2%	\$11,980	5.2%	\$43,183	17.2%	\$70,284	26.6%	\$22,558	8.5%
Nonoperating Revenues (Expenses)										
Interest Earnings	89	0.0%	74	0.0%		0.0%		0.0%		0.0%
Investment Earnings		0.0%		0.0%	266	0.1%	688	0.3%	2624	1.0%
Total Non-operating Revenues (Expenses), Net	89	0.0%	\$0		\$266	0.1%	\$688	0.3%	\$2,624	1.0%
Capital Contributions:										
Capacity Charges	\$4,000		\$10,000							
Connection Fees			\$10,000		\$20,000		\$4,000		\$24,135	
Total Contributions	\$4,000		\$20,000		\$20,000		\$4,000		\$24,135	
Change in Net Position	(\$36,020)		\$31,980		\$63,449		\$74,972		\$49,317	
Beginning of Year	322,828		286,808		318,862		305,075		380,047	
Prior Period Adjustment (=/-)					(77,236)					
End of Year	\$286,808		\$318,788		\$305,075		\$380,047		\$429,364	

Operating Revenues include annual charges reflect the sewer user fees billed to the District's sewer users, Special Assessment income and Other Charges Income. Operating Revenues increased 34% over the five-year period. The increase is related to a rate increases and assessments collected by Kern County.

Total Operating Expenses fluctuated and dropped to a low \$174,341 in 2016 and increased by \$58.6K to \$233K in FY 2017. The change is a result of the following:

1. The hiring of a full time operator at the Wastewater Treatment Plant. The prior operator left in FY 2015 and a new full time operator was hired in FY 2017 with an annual salary of \$50K.
2. The increase salaries and benefits was also influenced by the GASB 68 adjustments. This rise was due to annual pay increases and an increase in accrued compensation related to a new hire.

Operating Income (Loss) dropped in 2017 due to the items mentioned above and additional one-time expenses of \$3,584 that were incurred related to repair work for the current wastewater pump station (without the subject Project this repair expense would continue and escalate.)

- Depreciation expense fluctuated as depreciable assets varied. Depreciation is a standard added back as this is a non-cash expense.
- The Connection Fee revenues along with Capacity Charges, have contributed to the overall health and cash position of the District.
- Revenue growth outpaced the growth in expenditures.

As a result of the changes discussed above, the Ending Net Position from the beginning of the five year period to the end showed an increase of \$142,556.

Pension Plan

The District contributes to the California Public Employees' Retirement System (CalPERS), a cost sharing multiple employer defined benefit pension plan. The Plan consists of individual rate plans within a safety risk pool (police and fire) and a miscellaneous risk pool (all other). Per the CalPERS website, as of June 30, 2016, the District's funded ratio in the Miscellaneous Plan was 77.2% with the plan's share of Pool's unfunded liability of \$517,175.

As of June 30, 2017, the District's funded ratio in the California Public Employees' Pension Reform Act (PEPRA) Miscellaneous Plan was 94.8% with the plan's share of the Pool's unfunded liability of \$4,918.

As of June 30, 2017, the District's funded ratio in the Safety Plan was 78.7% with the plan's share of the Pool's unfunded liability of \$408,686.

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)	(\$40,109)	\$11,980	\$43,183	\$70,284	\$22,558
+ Depreciation Addback	28,028	17,437	19,520	19,520	10,752
+ Non-recurring repair expenses addback	0	0	0	0	3,584
Cash Available for Debt Service	(12,081)	29,417	62,703	89,804	36,894
Debt Service Calculation					
Total Existing Debt Service MADS	0	0	0	0	0
Proposed IBank MADS ⁽¹⁾	28,061	28,061	28,061	28,061	28,061
Total Obligations MADS	\$28,061	\$28,061	\$28,061	\$28,061	\$28,061
Debt Service Coverage Ratio	-0.43	1.05	2.23	3.20	1.31

⁽¹⁾ Calculated at \$510,000 @3.20% for 30 years

Total Operating Revenues dropped in 2017 due to a one-time expenses (Non-recurring repair expenses addback, as stated earlier without the subject project these expenses would continue and escalate) that was incurred related to repair of the existing lift pump station and increases in costs related to the hiring of a full time operator at the treatment plant.

Cash flow is adequate for debt service payments. A rate increase is in the planning state and is expected to be implemented within the next 12–18 months which will further increase the DSCR. However a rate increase is not needed to meet debt service coverage for the subject proposed debt.

Depreciation expense fluctuated as depreciable assets such as equipment and vehicles are purchased and depreciated over the five years reviewed. Depreciation is a standard add back as this is a non-cash expense.

Connection Fee income is not included in the cash flow analysis it is considered to be non-recurring income. For information purposes the cash flow table below shows DSCR with the Connection Fees included.

CASH FLOW INCLUDING CONNECTION FEES					
For Fiscal Year Ending (FYE) June 30	2013	2014	2015	2016	2017
Operating Income (Loss)	(\$40,109)	\$11,980	\$43,183	\$70,284	\$22,558
+ Depreciation Addback	28,028	17,437	19,520	19,520	10,752
+ Non-recurring repair expenses addback	0	0	0	0	3,584
Cash Available for Debt Service	(12,081)	29,417	62,703	89,804	36,894
Debt Service Calculation					
Total Existing Debt Service MADS	0	0	0	0	0
Proposed IBank MADS ⁽¹⁾	28,061	28,061	28,061	28,061	28,061
Total Obligations MADS	\$28,061	\$28,061	\$28,061	\$28,061	\$28,061
Debt Service Coverage Ratio	-0.43	1.05	2.23	3.20	1.31
Connection Fees	\$0	\$10,000	\$20,000	\$4,000	\$24,135
Total Cash Available for Debt Service	(12,081)	\$39,417	\$82,703	\$93,804	\$61,029
Combined Debt Service Calculation with Connection Fees	-0.43	1.40	2.95	3.34	2.17

⁽¹⁾ Calculated at \$510,000 @3.20% for 30 years

The Fund currently has no debt obligations. 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 1.05 or greater in four of the five years reviewed, and with the Connection Fees included has a DSCR of 1.40 or better in four of the five years reviewed.

The District has a required standalone Capital Improvement fund, which has various allocated capital improvement accounts. As of August 22, 2018 the District has \$267,747 in the Sewer Fund Capital Reserve Outlay Account. When this account balance is included in the Cash Available for Debt Service

the DSCR is greater than 9.11 in all the years reviewed, and 10.86 in FY 2017.

RISK FACTORS

1. Inherent risk in a small District with less than 400 connections.

MITIGATING FACTORS

1. The District has implemented prior rate increases to maintain revenues at levels needed for the District to maintain its ability to meet its expenses and service debt. A new rate increase proposal is to be put forth next year.
2. In implementing rates and charges, the District 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 District will covenant to notify IBank immediately upon the filing of any legal challenge to its rates or charges.
3. The District is a member of the Special District Risk Management Authority (SDRMA), an intergovernmental risk sharing Joint Powers Authority created to provide self-insurance programs for California special districts. The purpose of the SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage.
4. The inherent risk in a small district is mitigated by the following insurance coverages that the District has in place: General and auto liability, Public officials and employees' errors and omissions; Employee dishonesty coverage, Property loss coverage, boiler and machinery coverage, Public Officials personal liability, and workers' compensation.

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 33 years, which exceeds the term of the Financing.
- The District has the power to establish and enact rates and charges without the approval of any other governing body.

Interest Rate Setting Demographics

The interest rate for the proposed Financing was set based upon the following statistics obtained from the 2016 American Community Survey (one year estimate); and the Employment Development Department Monthly Labor Force Data for California, as of July 2018.

Unemployment Rate	The District's unemployment rate was 8.2%, which is 186.4% of the State's rate of 4.4%.
Median Household Income	The District's median household income was \$42,961, which is 63.4% of the State's median household income of \$67,739.

STAFF RECOMMENDATION

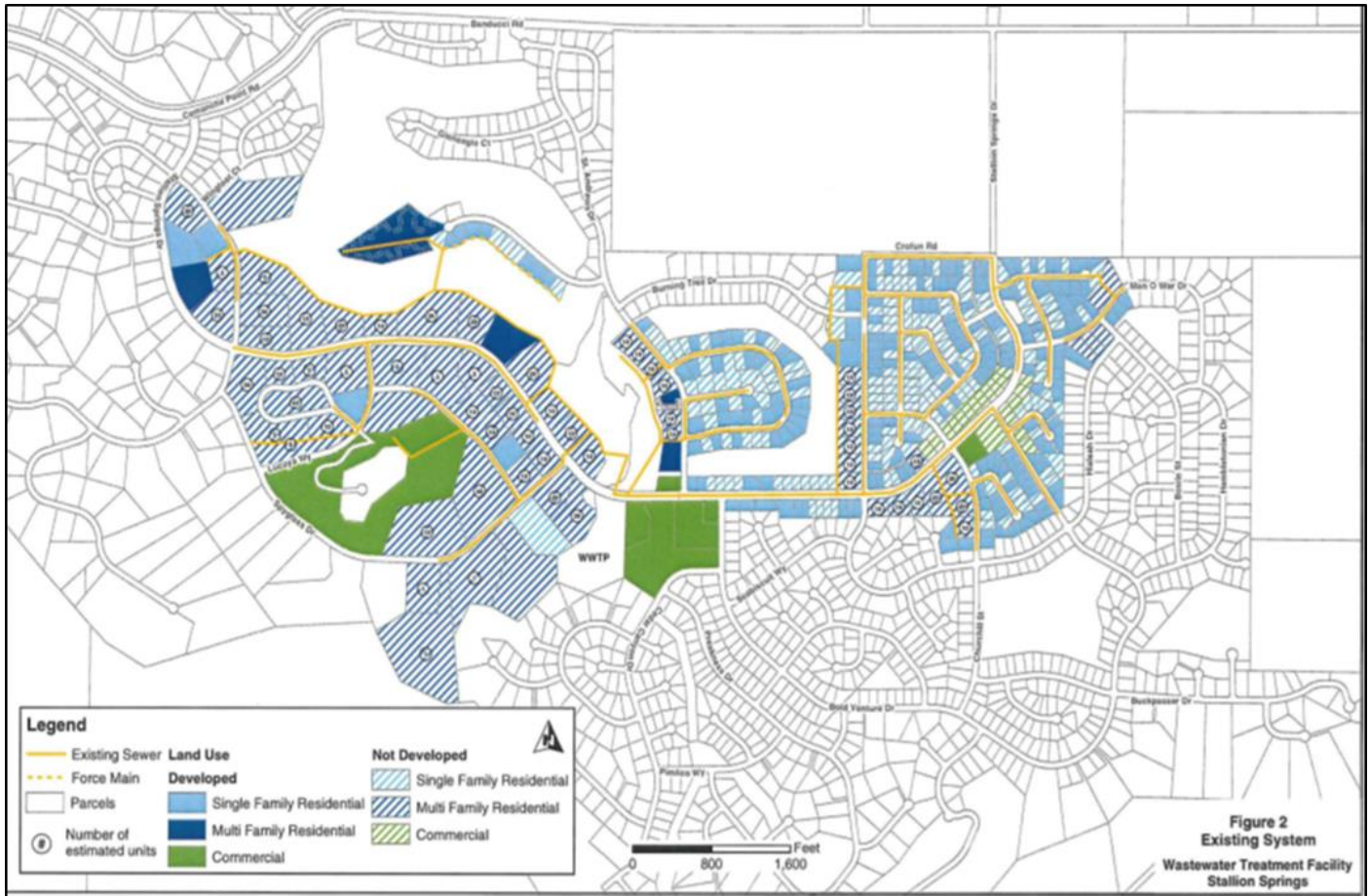
Staff recommends approval of Resolution No. 18-14 authorizing ISRF Program financing to the Stallion Springs Community Services District for the New Wastewater Lift Station Project as follows:

1. **Applicant/Borrower:** Stallion Springs Community Services District
2. **Project:** Stallion Springs Community Services District New Wastewater Lift Station Project
3. **Amount of ISRF Program Financing:** \$510,000
4. **Maturity:** Thirty (30) years
5. **Repayment/Security:** ISRF Program financing (Financing) would be secured by a senior lien on the District's net wastewater system revenues and all legally available amounts in the Wastewater Enterprise Fund (Fund)
6. **Interest Rate:** 3.20%
7. **Fees:** District to pay the minimum origination fee of \$10,000, to be 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 is conditioned upon entry by IBank and the District into a Financing Agreement, in form and substance satisfactory to IBank.
9. **Limited Time:** The Board's approval expires 180 days from the date of its adoption. Thus, the City and IBank must enter into the Financing agreement no later than 180 days from such date. Once the approval has expired, there can be no assurances that IBank will be able to provide the 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. District will be required to maintain rates and charges in an amount sufficient to ensure that Net Revenues produce a minimum 1.20 times aggregate annual debt service ratio for obligations on parity with the Financing.
 - b. The District has no senior liens and the District 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. District will covenant against reducing rates below levels used for all debt service payable from the Fund, and to take actions to increase rates or fund a rate stabilization fund if the debt service coverage ratios fall below required levels.
 - f. Upon implementing rates and charges, District to covenant to ensure that its rate structure conforms to the requirements of Proposition 218 and those of the statutes implementing it and the cases interpreting it. Further, District to covenant to notify IBank immediately upon the filing of any legal challenge to its rates or charges.
 - g. District to comply with the requirements of the Criteria and all applicable laws, regulations, and permitting requirements associated with public works projects.
 - h. District to provide to IBank annually within 180 days of the end of each of District's fiscal year a copy of its audited financial statements together with an annual certificate demonstrating compliance with the foregoing covenants, as well as other information as IBank may request from time to time.

Project Location



Source – Google Earth



Source - The Carollo Engineers Wastewater System Condition Evaluation Report