

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)

STAFF REPORT

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

Applicant: City of Torrance (City)		ISRF Project Type: Water Treatment and Distribution
Financing Amount: \$8,625,000	Financing Term:¹ 15 Years or 25 Years	Interest Rate²: 3.30%
Source of Repayment: Water Enterprise Fund (Fund)		Fund Rating/Date: N/A

Security:

The ISRF Program financing (Financing) will be secured by a senior lien on, and payable from the City's net system revenues (Net Revenues) and all legally available amounts in the City's Water Enterprise Fund (Enterprise Fund), (such Net Revenues and legally available amounts are referred to collectively as the Fund (Fund)).

Project Name:

The North Torrance Well Field Project Phase III (Project)

Project Location:

Parcel, behind 17815 Yukon Ave., Torrance, CA 90504

Project Description:

The Project includes, but is not limited to, the entitling, permitting, designing, constructing, and equipping of: (1) two new wells, (2) chemical treatment and storage facilities, (3) a booster pump station, (4) a 3 million-gallon storage reservoir, (5) utility piping, (6) removal of the existing well and appurtenant facilities from McMaster Park, and (7) grading and paving improvements.

Use of Financing Proceeds:

The Financing would fund all components necessary to complete the Project, including, but not limited to construction, equipment and machinery, design, engineering, permitting, entitlement, construction management, project administration and general project development activities. IBank's loan origination fee is included in the financing amount. There is a 10.8% construction contingency included in the project cost.

Additional project financing sources are grants from the Bureau of Reclamation and Integrated Regional Water Management. Details of the grants are discussed in the Project description section of this narrative.

Project Uses	Project Sources				Total
	IBank	City of Torrance	Bureau of Reclamation	Integrated Regional Water Management	
The North Torrance Well Field Project Phase III (Project)	\$7,254,448		\$287,000	\$2,976,305	\$10,517,753
Contingency	\$1,284,302				\$1,284,302
Origination Fee	\$86,250				\$86,250
Total	\$8,625,000	\$0	\$287,000	\$2,976,305	\$11,888,305

¹ City will decide on the term prior to the execution of the Installment Sales Agreement

² Interest Rate quoted September 8, 2017

Credit Considerations:

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

CASH FLOW					
For Fiscal Year Ending (FYE) June 30	2012	2013	2014	2015	2016
Operating Income (Loss)	\$2,729,483	\$3,287,423	\$5,366,657	\$1,799,740	\$1,655,449
+ Depreciation	1,311,086	1,456,904	1,443,390	1,958,473	1,954,185
Total of all Adjustments	1,311,086	1,456,904	1,443,390	1,958,473	1,954,185
Cash Available for Debt Service	4,040,569	4,744,327	6,810,047	3,758,213	3,609,634
Debt Service Calculation					
Total Existing Debt Service MADS	0	0	0	0	0
Proposed IBank MADS ⁽¹⁾	756,645	756,645	756,645	756,645	756,645
Total Obligations MADS	\$756,645	\$756,645	\$756,645	\$756,645	\$756,645
Debt Service Coverage Ratio	5.34	6.27	9.00	4.97	4.77

⁽¹⁾ Calculated as \$8,625,000 and at the 3.30% for 15 years.

NOTE: In the original loan application, the City requested a term of 15 years. Recently, the Staff has been informed that a 25 year term is being explored by the City. The above financial analysis is with a 15 year term as it is the most conservative approach. 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 4.77 or greater in all of the five years reviewed, based on a 15 year financing term. With a 25 year financing term at 3.30% and a MADS of \$534,141, the DSCR is or greater in all of the five years reviewed. (See Fund Cash Flow and Debt Service Analysis section for details).

The City's last rate increase was approved in 2011 to adjust water rates over the five year period of 2011 through 2015. The City plans to request its City Council approve the new rates recommended in the rate study in fall of 2017, with revised rates to go into effect January 1, 2018. Importantly, the DSCR in the above table was calculated using the City's existing rate structure. DSCR will improve if the new rates are implemented.

Support for Staff Recommendation:

1. Cash flow analysis demonstrates the Fund's ability to service the existing debt and the proposed Financing.
2. Existing rates are more than sufficient to service IBank's financing and the City plans to increase its rates, which would further increase the City's ability to service the debt
3. The estimated useful life of the Project is 25 years. The term of the Financing as mentioned in the Credit Considerations section above, will be either 15 or 25 years, therefore the financing term does not exceed the useful life of the Project.

Special Terms and Conditions:

1. Condition precedent to initial disbursement of funds that the City successfully completes its current plan to adopt a new water rate structure that complies fully with the procedural and substantive requirements of Proposition 218 (Prop. 218).
2. City to covenant that future changes to the City's rate structure will comply with the requirements of 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.
3. Future debt senior to the Financing will be prohibited.

IBank Staff: Lina Benedict

Date of Staff Report: August 28, 2017

Date of IBank Board Meeting:
September 26, 2017

Resolution Number:
17-13

Staff Recommendation:

Staff recommends approval of Resolution No. 17-13 authorizing ISRF Program financing to the City of Torrance for The North Torrance Well Field Project Phase III in an amount not to exceed \$8,625,000.

OVERALL PROJECT DESCRIPTION

The City of Torrance (City) is requesting ISRF Program financing (Financing) to complete The North Torrance Well Field Project Phase III (Project). The overall North Torrance Well Field project (NTWF) consists of Phase I, Phase II and Phase III of which Phases I and II have been completed.

The Project includes, but is not limited to, the entitling, permitting, designing, constructing, and equipping of: (1) two new wells, (2) chemical treatment and storage facilities, (3) a booster pump station, (4) a 3 million-gallon storage reservoir, (5) utility piping, (6) removal of the existing well and appurtenant facilities from McMaster Park, and (7) grading and paving improvements.

The Project is located on a 1.5 acre parcel west of Yukon Elementary School at 17815 Yukon Avenue, Torrance CA 90504.

Sources of funding for Phase III	\$ Amount
IBank	\$ 8,538,750
Integrated Regional Water Management (IRWM)	\$ 2,976,305
Bureau of Reclamation	\$ 287,000
Total Project (Phase III)	11,802,055

Note: IBank is also financing the loan origination fee is \$86,250 for Total IBank Loan of \$8,625,000.

The following documents were reviewed by IBank Staff to verify that the grant funds were allotted:

1. A Memorandum of Understanding dated December 19, 2016 between Los Angeles County Flood Control and the City of Torrance for grant funds appropriated through Proposition 84 for Integrated Regional Water Management.
2. An agreement dated September 16, 2016 between the Bureau of Reclamation and the City of Torrance.

The total IRWM grant is \$3,068,304.99, of which \$2,976,305 is being expended in Phase III, the other \$92,000 was previously expended during Phase II. The Bureau of Reclamation of Grant of \$287,000 is primarily for the completion of a portion of Well No. 10.

GENERAL CITY INFORMATION

The City of Torrance was founded in 1912, incorporated in 1921, and became a charter city in 1947. The City has a population of 147,175 per 2016 population estimates published by the census bureau and lies within a boundary of approximately 21 square miles. The City is located within Los Angeles County bordering the Pacific Ocean and is part of the larger regional area known as the South Bay.

The City is a Charter City governed as a Council/Manager form of government. The City Council is comprised of the Mayor and six City Council members who are elected by registered voters of the City. The Mayor and Council members each serve a four-year term. The City has a two-term limit for the City Council. The City Clerk and Treasurer are elected every four years and do not have term limits.

SYSTEM DESCRIPTION

The City has owned and operated the City of Torrance's City Water System (System) since its inception in 1934. The System's service area is 10,350 acres of the City serving approximately 105,000 residents and business customers covering 80 percent of the City. The California Water Service (CWS) Company provides domestic water service to the majority of the remainder of the City. The City is nearly fully developed. This limits new customer opportunities, but at the same time renders water demand, and therefore water sales, relatively stable.

Although the City's boundaries extend to the Pacific Ocean, the System does not provide water service to its coastal residents. The System's service area encompasses approximately 80% of the City bounded by the Cities of Los Angeles, Redondo Beach, Lawndale, Gardena, Lomita, Rolling Hills Estates, Palos Verdes Estates, and unincorporated areas of Los Angeles County. The Palos Verdes Hills make up the System's southern border. The remaining 20% of the service area is serviced by CWS.

The City is responsible for local water supply, the monitoring and maintenance of water quality, planning, preventive and predicative maintenance, the operation and repair of the water system, distribution system, and interfacing with the State Health Department and other agencies regarding water quality matters.

Supply:

The City is currently upgrading its groundwater supply facilities to include up to five new wells in the northern part of the City. Additionally, the City is in the process of expanding its Desalter. The System currently imports much of its water from the Metropolitan Water District (MWD). The City is undertaking the Project to reduce its dependence on imported water and expects that within three to five years of Project completion it will have reduced its dependence on MWD water. The use of recycled water is also expected to increase gradually over time as West Basin Municipal Water District (WBMWD) extends recycled pipelines in the City and with additional conversions of customers using potable water for landscaping irrigation to recycled water customers.

The System has four sources of water:

1. Imported Water: The City has access to imported water from the Colorado River and the Sacramento-San Joaquin River Delta in Northern California through Metropolitan Water District (MWD).

2. Wells: The City currently maintains the following wells:

- One active well (Well No.9) that replaced an older Well No.6 in 2010. It has a yield capacity of approximately 2,000 gallons per minute (GPM).
- One standby well (Well No.7) for groundwater extraction. Well No.7 is used only on an as-needed basis for fire flow demands or other emergencies.

3. Desalinated Water: The System receives desalinated water from its Robert W. Goldsworthy Desalter facility. This Desalter is owned by the Water Replenishment City of Southern California (WRD) and operated by the System personnel.

The desalinated water produced from the plant is for the exclusive use by the System and the plant is able to provide up to 10% of the System's total water supply (2.0 million gallons per day (MGD)). The facility is in the process of being expanded to 5.0 MGD capacity and the expansion is scheduled to be on-line by late 2017. This is being completed as part of Phase II.

4. Recycled Water: The System receives recycled water from WBMWD, which receives secondary effluent from the City of Los Angeles Hyperion Wastewater Treatment Plant and provides tertiary treatment to meet Title 22 standards for recycled water. The System purchases recycled water from WBMWD's Water Recycling project. The recycled water comes from the Edward C. Little Water Recycling Facility in El Segundo (ECLWRF) and supplies over 20% of the City's total water requirement.

Water Rights

The System obtains its groundwater supply from the West Coast Groundwater Basin and has an adjudicated right to about 5,640 acre foot per year (AFY) of water. However, the City currently uses only approximately 2,000 to 2,500 AFY of its annual adjudicated water rights due to the inability of the existing groundwater extraction infrastructure to treat sufficiently the groundwater. With approval of the Conjunctive Use Storage program in the Basin in December 2014, the system is converting its excess pumping rights to a "banked" storage account, which will give the City additional water during times of water shortage. The deliberate combined use of groundwater and surface water is commonly termed "conjunctive use". It is the active managing of aquifer systems as an underground reservoir. During wet years, when more surface water is available, surface water is stored underground by recharging the aquifers with surplus surface water.

Storage

For storage needs, the System maintains four water storage reservoirs ranging in capacity from 0.9 million gallons (MG) to 18.7 MG with a total capacity of 30.6 MG. Two of these reservoirs are large underground reservoirs and two are standard above ground tanks. These storage reservoirs allow for storage of water (banking of water) which can then be used if the City were to face a water shortage due to drought.

Treatment

The quality of water delivered to the City's customers is directly related to the quality of the supply sources. The majority of the City's water supply is obtained from MWD. Water received by MWD is treated at five separate treatment plants. MWD conducts water quality tests and meets or exceeds all federal and state water quality requirements and standards.

The Goldsworthy Desalter facility, constructed to treat brackish groundwater resulting from a saline plume located in the Basin, yields approximately 1.5 MGD of potable water.

Potable Water - Currently only one well (Well No. 9) provides potable water to the System. Water from this well is treated with chloramines for disinfection and is fluorinated. The water also receives a sequestering agent to minimize corrosivity. When the Project is completed, the City will have three treated water wells capable of delivering potable water.

Recycled Water – As discussed above, the City receives recycled water from WBMWD. All recycled water is used for non-potable commercial recycled uses.

Transmission, Distribution and Capacity

The System distributes its water to over 26,500 service customers through a 320-mile network of distribution mains with pipeline sizes ranging from four to 24 inches. The water system consists of three pressure zones that provide sufficient water pressure to customers.

The System is one of 15 member agencies served by MWD and receives imported water from five interconnections ranging in capacity from 2,245 GPM to 11,220 GPM, which is more than sufficient capacity to supply all available water under the City's contract with MWD. The interconnections are capable of serving well over 100 percent of the System's water needs if necessary.

Emergency Interconnections –The System maintains four, two-way emergency inter-connections to adjacent water purveyor systems. Each has a two-way interconnection, allowing water transfers to and from the System, depending on the emergency situation. There are also two 10- inch one-way metered interconnections that can only flow from the System to California Water Service Company.

SYSTEM CAPITAL IMPROVEMENTS PLAN (CIP)

The System has developed a 20 year CIP. The proposed construction of new groundwater wells is estimated at approximately \$22.5 million and the Project is included within the CIP. The System is currently embarking on a water diversification program to include additional groundwater wells, groundwater desalination, and recycled supplies for irrigated landscapes. Future Capital Improvement projects will be funded by a five-year (2018-2023) rate adjustment scheduled to be voted on by the City Council in the fall of 2017 and proposed to be put into effect in January 2018, all in accordance with Prop. 218 substantive and procedural requirements. An investment of approximately \$4 million annually is required for infrastructure replacement to maintain operational reliability and system integrity. Since this is an ongoing perpetual requirement, funding would be on a pay-as-you-go basis through rate increases. Therefore, the City will not need additional financing for CIP projects.

The municipal system has over 300 miles of water mains, most of which are 40 to 50 years old. These deteriorated mains must be replaced on a systematic basis at the rate of 3 to 5 miles per year to prevent disruptive pipeline breaks, reduce water outages and maintain the integrity of the water system. Currently, the System relies on expensive and vulnerable imported water supplies for approximately 65% of its water needs. Proposed new groundwater wells will not only diversify the City's water source portfolio and enhance reliability; they will also provide a more cost-effective supply source that will assist in keeping the rates low in the future.

BACKGROUND ON PREVIOUS PHASES OF NTFW

Phase I work completed in November 2014 included the following:

1. Construction of 8-foot high block wall and double-leaf chain link gate along the east property line.
2. Construction of 20-foot wide double leaf chain link gate within the north property line.
3. Utilities within the site access road:
 - a) 30" high density polyethylene (HDPE) overflow line, ending within a school parking lot.
 - b) 24" cement mortar lined and coated steel pipe (CMLCSP), ending within the school parking lot.
 - c) 16" and 20" HDPE inlet pipeline, ending within the school parking lot near future Well No. 11.
 - d) 4" fiber-optic conduit, ending at a pull box within the school parking lot.
 - e) 12" ductile iron pipe (DIP) blending/concentrate pipeline, ending at its connection to an existing 12" DIP in Yukon Avenue.
 - f) Two 5" electrical conduits, ending near future Well No.11.
 - g) 6" vitrified clay pipe (VCP) sewer, ending at its connection to an existing sewer stub-out in Yukon Avenue.
4. The access road was paved, ending at the school parking lot.
5. The school parking lot was modified.

Phase II work completed in 2016 included the following:

1. 16" HDPE pipeline from Well No. 9 to its connection to the existing inlet line at Yukon Avenue.
2. Extend the 24" CMLCSP outlet pipe to its connection to the existing 12" DIP in Yukon Avenue.
3. 18" CMLCSP outlet line in Yukon Avenue to its connection to the existing 12" DIP in 182nd Street. This requires installation of a 30" steel casing along Yukon Avenue beneath the 405 Freeway.
4. 30" Reinforced Concrete Pipe drain line from the school parking lot to its connection to the existing storm drain system in Yukon Avenue, just north of 182nd Street. This requires installation of a 48" jacked steel casing across the 405 Freeway.
5. Interception of the conduit near future Well No.11 & extension along the 16" pipeline to Well No.9.

PROJECT DETAIL

The North Torrance Well Field Project Phase III – (Project) consists of the following components:

1. Construction and Equipping of Two New Wells: Well No.10 And Well No.11

Well No. 10 will be drilled to a depth of approximately 900 feet below ground surface (BGS) and backfilled to a depth of roughly 50 feet BGS. The expected well yield is 3,000 GPM.

Well No.11 will be constructed in a location west of Yukon Avenue, north of the I-405 Freeway within the expanded school parking lot. The expected well yield is 3,000 GPM. Discharge from Well No.11 will join the pipeline from Well No. 9.

Both test wells have been successfully completed.

2. Chemical Treatment and Storage Facilities

The water treatment system is expected to be designed for a flow of 9,000 GPM and provides treatment for the bacteriological and virus disinfection as required by The Division of Drinking Water (DDW) within The State Water Resources Control Board. Provisions in the design include treatment systems for fluoridation and hydrogen sulfide. Fluoride will be purchased and stored in tanks. A ventilations system will be included to remove fluoride vapors ventilated through the roof.

The City practices disinfection by chloramination to maintain compatibility with imported water supplies and practices fluoridation to be consistent with MWD water. Provisions in the design will include hydrogen sulfide removal system and fluoride introduction. The water treatment system will also include facility for

the application and handling of chemical use in the water treatment process that may include chlorine, ammonia, and polyphosphate.

3. Booster Pump Station (BPS)

The BPS is to discharge treated water to the City's distribution system. The station capacity is to be equal to the total project design inflow capacity expected to be 9,000 GPM. Because the well flow will be variable, due to fluctuating groundwater conditions and water system gradient, and operational flexibility is required, two pumps will be provided with a variable frequency drive to provide a means of matching total inflow. Drain lines will likely be included to address any project waste flows.

An overflow line will be included in the design to remove well inflow in case of system failure.

4. Storage Reservoir

A reservoir is being constructed as a forebay for the BPS and for emergency storage. The reservoir will allow a tank with a maximum diameter of about 115 feet. The expected design capacity of the reservoir will be three million gallons.

5. Utility Piping: Piping of Well No. 9 - Existing Well

Discharge from the existing Well No. 9 will be rerouted to connect to the project.

6. Removal of the Existing Well and Appurtenant Facilities from McMaster Park

After completion of the Project, all of the existing water facilities at McMaster Park, except Well No. 9, will be demolished.

7. Grading and Paving Improvements

After the McMaster Park completion of demolition work, any damaged pavement will be repaired and the site will be graded for proper drainage. Vegetation and other appropriate materials will be placed to cover the bare areas and the existing park irrigation system will be extended as needed.

As contingency an overflow line will be included to remove water. An overflow piping will also be included as a contingency measure in case the wells fail to shut down when the associated storage system is at or near full capacity.

PROJECT BENEFITS

The project will enable the City to increase its well water use dramatically and reduce the City's dependence on imported water which currently provides on average over 85% of the City's potable water. The completion of this project will help to reduce imported water use to an estimated 65% of the City's water needs. Total water costs are projected to be reduced by 6% to 10% depending on the quality of water produced as water costs are not linear to volumetric water supplied.

The implementation of the Project will benefit the City in the following ways:

1. Improve water source reliability by–
 - a) enabling the City to expand its pumping and treatment capacity
 - b) obtaining the City's full groundwater allotment
 - c) providing sufficient reserve capacity to participate in conjunctive use
 - d) enabling additional groundwater extractions during a drought or emergency
2. Provide diversification of the City's water portfolio mix to reduce its current reliance on MWD water.
3. Mitigate against future rate increases through cost savings.

Public and Economic Benefits

The City estimates 97 direct jobs will be created during the construction period, with an average wage of \$72.20 per hour. In addition, it estimates 100 indirect and induced jobs.

The direct job estimate is based on a multiplier of 8.34 jobs per million dollars of construction spending, with project construction spending estimated at \$11.57 million; thus, $8.34 \times 11.57 = 96.49$ or 97 direct jobs.

The indirect and induced job estimate is based on a direct multiplier of 8.63 jobs per million dollars of construction spending, with project construction spending estimated at \$11.57 million; thus, $8.63 \times 11.57 = 99.85$ or 100 indirect and induced jobs.

The following table displays the Number of Users by Category and reflects stability with only a nominal decrease of 23 users over the past five years. The table further reflects a high proportion of residential users. The table shows a decline in commercial users, however per City officials, it is an illusion of a decline caused by the purging of old accounts as a result of a new billing system.

NUMBER OF USERS BY CATEGORY					
For Fiscal Year Ending (FYE) June 30	2012	2013	2014	2015	2016
Residential	23,332	23,266	23,295	23,376	23,264
Commercial	1,884	1,885	1,888	1,901	1,795
Industrial	261	261	264	266	265
Other (Includes Recycle)	1,045	1,033	1,062	1,038	1,175
Total	26,522	26,445	26,509	26,581	26,499

Source: Financing Application Addendum

The table below displays current System Usage and Gross Revenues as of June 30, 2016. Residential users represent 56% of Annual Usage and 53% of the Total Gross Revenues, consistent with the data presented in the table above. Staff noticed that the "Other" Category of Users has a higher percentage of gross revenue to usage. The City is researching this abnormality and if needed will correct the abnormality when it applies its new rates.

CURRENT SYSTEM USAGE & REVENUE AS OF JUNE 30, 2016				
	Annual Usage (CCF) ⁽¹⁾	% Annual Usage	Gross Annual Revenue	% Gross Annual Revenue
Residential	3,715,308	55.7%	\$15,547,619	53.0%
Commercial	1,091,212	16.4%	\$4,590,536	15.7%
Industrial	327,618	4.9%	\$1,397,752	4.8%
Other	1,533,850	23.0%	\$7,772,154	26.5%
Total	6,667,988	100.0%	\$29,308,061	100.0%

Source: Financing Application

⁽¹⁾ Hundred cubic feet

The System rates are set in accordance with all modified Prop. 218 requirements, processes, and procedures.

In February 2011, the City Council approved a plan at a public hearing, to adjust water rates over the five year period of 2011 through 2015, for customers served by the municipal system. In addition, a conservation tiered rate structure was adopted to encourage ongoing conservation and to meet the State of California mandated reduction targets.

The annual increases to System water rates were 6.5% in 2011 and 2012, with subsequent annual internal increases in 2013, 2014, 2015 corresponding to the change in the Consumer Price Index for the Los

Angles/Riverside/Orange County area. The increase was approved through the Prop. 218 hearing process. There were no rate increases in 2016 and 2017.

The City commissioned a new rate study, which was published in January 2016. The City intends to propose a revised rate structure to its City Council in the fall of 2017 and expects the new rates to be in effect starting January 1, 2018. The City is currently in the process of following the Prop. 218 procedural requirements necessary to meet this target. Further, the City’s rate study was published following the *Capistrano Taxpayers* decision and the proposed new rates were designed to comply with the interpretation of Prop. 218 expressed in that case. The city is proposing two rate increase options. Under option one, a 9.5% increase in 2018 and 2019 followed by three years of rate increases based on the Consumer Price index (CPI) estimated at 3 to 5.5% per year. Option two, is a 19% rate increase in 2018 followed by four years of CPI based rate increases estimated at 3% to 5.5% per year.

THE LAST THREE HISTORICAL RATE INCREASES		
Date Adopted	Date Effective	Percent Increase
2/15/2011	1/1/2015	3.60%
2/15/2011	1/1/2014	6.50%
2/15/2011	1/1/2013	4.40%

Source: Financing Application Addendum

The following table displays the Historical and Current Average Monthly User Charge per Residential Unit and the year-over-year percent increase of the charge since fiscal year (FY) 2012. The table also reflects each year’s charge as a percent of the County’s Median Household Income (MHI) for residential units as of fiscal year 2015. 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	2012	2013	2014	2015	2016	
Residential	\$48.23	\$50.35	\$53.63	\$55.53	\$55.53	
% change	N/A	4.4%	6.5%	3.5%	0.0%	
% of MHI (2015 AT \$79,921)	0.72%	0.76%	0.81%	0.83%	0.83%	

Source: Financing Application Addendum

The following table displays the Projected Average Monthly User Charge per Residential Unit in FYs 2017 through 2020. The table reflects an increase planned in each year. The increases are supported by a 2016 Rate Study (Rate Analysis), submitted by the City that came out after the landmark San Juan Capistrano ruling, and although the Rate Analysis reflects that the City has a tiered rate structure. The new rates are designed to be in compliance.

CITY OF TORRANCE PROJECTED AVERAGE MONTHLY USER CHARGE PER RESIDENTIAL UNIT				
For Fiscal Year Ending (FYE) June 30	2017	2018	2019	2020
Residential	60.81	66.58	70.24	74.11
% change	9.51%	9.49%	5.50%	5.51%

Source: Financing Application Addendum

The following table compares the City’s Current Average Monthly System User Charge to Nearby Systems as of March 31, 2017. The table indicates the City’s rate of \$55.53 rate (FY 2016) is lower than the average of Nearby Systems by 24%. The highest rate is charged by the City of Palos Verdes. The competitiveness of rates compared with neighboring communities can be an important aspect of users’ willingness to accept further rate adjustments.

CURRENT AVERAGE MONTHLY SYSTEM USER CHARGE COMPARED TO NEARBY SYSTEMS AS OF MARCH 31, 2017			
System Name	Distance in Miles	Location	Average Monthly Residential Rate
City of Torrance	N/A		
Rancho Dominguez	11.0	The City of Rancho Dominguez	\$65.11
Manhattan Beach	7.0	The City of Manhattan Beach	\$71.59
Hermosa Beach	5.0	The City of Hermosa Beach	\$71.59
City of Torrance Service Area	-	CWS- Hermosa Redondo	\$71.89
City of Torrance Service Area	-	CWS-Dominguez	\$73.89
Gardena	5.0	The City of Gardena	\$76.73
Palos Verdes	12.0	The City of Palos Verdes	\$83.00
Average Monthly Charge			\$73.40

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 that the highest System User uses 9.9% of total water distributed by the System. The table further shows that the City is in compliance with IBank's underwriting requirements that revenues derived from the top ten ratepayers does not exceed 50% of total system revenue and that no single ratepayer is generating greater than 15% of annual system revenues.

TOP TEN SYSTEM USERS AS OF JUNE 30, 2016				
	User	% System Use	% System Revenues	Customer Class (Residential/ Commercial/ Industrial/Other)
1	ExxonMobil (Torrance Refining Co.)	9.9%	10.0%	Contract
2	California Water Service	5.6%	3.1%	Wholesale
3	City of Torrance	1.9%	1.9%	Commercial
4	Torrance Unified School District	1.6%	1.5%	Commercial
5	Honeywell International	1.1%	1.0%	Commercial
6	Toyota Motor Sales, USA	0.9%	0.9%	Commercial
7	Torrance Memorial Medical Center	0.9%	0.8%	Commercial
8	Don Wilson Builders	0.8%	0.8%	Commercial
9	Summerwind HOA	0.7%	0.7%	Commercial
10	New Horizons	0.6%	0.6%	Commercial
Total		24.0%	21.1%	

Source: Financing Application Addendum

Toyota Motor Sales, USA has announced their relocation to Texas. The effects of the relocation, on the City, are expected to be temporary. The City states the company has not yet vacated their campus and there are multiple offers to occupy the space. The City expects water-use to remain consistent when a new business member moves in. Toyota currently accounts for less than 0.09% of the City's gross water revenue.

ExxonMobil is the System's largest User contributing 10% of System Revenues. The cash flow was stress tested with a 10% reduction in revenues and related costs. The resulting DSCR was 3.21 or greater in all

of the 5 years reviewed. If ExxonMobil were to leave Torrance for any reason the Fund's repayment ability on the loan would not be negatively impacted.

CREDIT ANALYSIS

Source of Financing and Security

The City proposes pledging the Fund as security and the source of repayment for the proposed Financing.

Source of Revenue to Repay Proposed ISRF Financing Analysis:	Water Enterprise Fund
Outstanding Obligations:	None
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:	2012-2016
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.	<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

The following table displays accounts receivable aging as of November 30, 2016, reflecting the City collects 94% of receivables within 30 days of billing, indicating a strong collection process.

CITY OF TORRANCE ACCOUNTS RECEIVABLE AGING AS OF NOVEMBER 30, 2016						
	Current	Over 30	Over 60	Over 90	Over 120	Total
Annual Receipts	\$3,180,677	\$49,699	\$53,874	\$101,106	\$0	\$3,385,356
Percent	94.0%	1.5%	1.6%	3.0%	0.0%	100.0%

Source: Financing Application Addendum

Comparative Statement of Net Assets

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

CITY OF TORRANCE WATER ENTERPRISE FUND STATEMENT OF NET ASSETS - PROPRIETARY FUNDS										
For Fiscal Year Ending (FYE) June 30	2012		2013		2014		2015		2016	
Source:	CAFR	%	CAFR	%	CAFR	%	CAFR	%	CAFR	%
ASSETS AND DEFERRED OUTFLOW OF RESOURCES										
Current Assets										
Pooled Cash and Investments	\$7,182,600	8.7%	\$8,030,281	9.3%	\$17,152,520	17.3%	\$20,319,279	20.5%	\$23,689,817	23.1%
Restricted Cash and Investments	527,100	0.6%	548,956	0.6%	7,865,837	7.9%	5,510,647	5.6%		
Accounts Receivable	6,486,311	7.8%	6,816,800	7.9%	52,532	0.1%	63,190	0.1%	6,753,283	6.6%
Accrued Interest Receivable	33,521	0.0%	33,671	0.0%	420,927	0.4%	690,986	0.7%	79,424	0.1%
Inventory	484,885	0.6%	487,182	0.6%	0	0.0%	0	0.0%	383,503	0.4%
Prepaid	0	0.0%	33,178	0.0%	6,139	0.0%	104	0.0%	15,790	0.0%
Total Current Assets	14,714,417	17.8%	15,950,068	18.5%	25,497,955	25.8%	26,584,206	26.8%	30,921,817	30.1%
Noncurrent Assets										
Interfund Advances Receivable (Success or Agency)	1,154,432	14%	1,154,432	13%	1,197,966	12%	1,206,566	12%	1,215,228	12%
Capital Assets, Net	67,003,136	80.9%	69,249,762	80.2%	72,255,721	73.0%	71,254,028	71.9%	70,575,002	68.7%
Total Other Non Current Assets	68,157,568	82.2%	70,404,194	81.5%	73,453,687	74.2%	72,460,594	73.2%	71,790,230	69.9%
SubTotal Assets	82,871,985	100.0%	86,354,262	100.0%	98,951,642	100.0%	99,044,800	100.0%	102,712,047	100.0%
DEFERRED OUTFLOWS OF RESOURCES										
Pension Contributions	0	0.0%	0	0.0%	0	0.0%	461,841	0.5%	546,582	0.5%
Total Deferred Outflow of Resources	0		0		0		461,841	0.5%	546,582	0.5%
Total of All Assets	82,871,985	100.0%	86,354,262	100.0%	98,951,642	100.0%	99,506,641	100.5%	103,258,629	100.5%
Current Liabilities										
Accounts Payable	4,642,025	5.6%	4,327,098	5.0%	4,871,288	4.9%	2,996,078	3.0%	4,634,695	4.5%
Contract Retainage Payable	106,885	0.1%	52,483	0.1%	0	0.0%	0	0.0%	0	0.0%
Deposits Payable	0	0.0%	31,570	0.0%	40,570	0.0%	44,570	0.0%	44,570	
Accrued Liabilities	1,007,637	12%	595,193	0.7%	621,458	0.6%	1,064,999	1.1%	233,869	0.2%
Current Bonds Payable - Interest	17,767	0.0%	8,267	0.0%	0	0.0%	0	0.0%	0	0.0%
Current Bonds Payable - Principal	570,000	0.7%	620,000	0.7%	0	0.0%	0	0.0%	0	0.0%
Construction Advances	26,570	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Due to Other Funds	0	0.0%	0	0.0%	127,778	0.1%	124,997	0.1%	129,807	0.1%
Total Current Liabilities	6,370,884	7.7%	5,634,611	6.5%	5,661,094	5.7%	4,230,644	4.3%	5,042,941	4.9%
Noncurrent Liabilities										
Interfund Advance Payable					6,459,587	6.5%	6,364,201	6.4%	6,263,568	6.1%
Long-Term Obligations	620,000	0.7%	1,452,900	1.7%	1,452,900	1.5%	1,452,900	1.5%	1,452,900	1.4%
Net Pension Liability	0	0.0%	0	0.0%	0	0.0%	4,438,971	4.5%	4,872,817	4.7%
Total Long Term Liabilities	620,000	0.7%	1,452,900	1.7%	7,912,487	8.0%	12,256,072	12.4%	12,589,285	12.3%
Total Liabilities	6,990,884	8.4%	7,087,511	8.2%	13,573,581	13.7%	16,486,716	16.6%	17,632,226	17.2%
Deferred Inflows of Resources										
Pension Actuarial	0	0.0%	0	0.0%	0	0.0%	1,494,839	1.5%	780,952	0.8%
Total Deferred Inflows of Resources	0		0		0		1,494,839	1.5%	780,952	0.8%
Total Liabilities and Deferred Inflows of Resources	6,990,884		7,087,511		13,573,581		17,981,555		18,413,178	
Net Assets:										
Invested in Capital Assets, Net of Related Debt	66,340,236	80.1%	67,725,818	78.4%	70,802,821	71.6%	69,801,128	70.5%	69,122,102	67.3%
Unrestricted	9,540,865	11.5%	11,540,933	13.4%	14,575,240	14.7%	11,723,958	11.8%	15,723,349	15.3%
Total Net Assets	75,881,101	91.6%	79,266,751	91.8%	85,378,061	86.3%	81,525,086	82.3%	84,845,451	82.6%
Total Liabilities and Fund Balance	82,871,985	100.0%	86,354,262	100.0%	98,951,642	100.0%	99,506,641	100.5%	103,258,629	100.5%

Total Current Assets increased 110% over the five year period reviewed. Pooled and Restricted Cash and Investments increased 207% to \$23,689,817. 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.

Within Noncurrent Assets, Interfund Advances Receivable (Successor Agency) represents a loan to the Successor Agency Trust for assets of the former redevelopment agency to fund infrastructure improvements. All redevelopment agencies in the State of California were dissolved effective February 1, 2012.

The five-year increase of Noncurrent Assets of Capital Assets is a result of the ongoing capital improvement projects that the City began in 2013 funded through Long Term Obligations from the General Fund. The General Fund debt was retired in June of 2017.

Total Current Liabilities decreased from \$6,370,884 to \$5,042,941, or 20.8% in the five years reviewed due to a decrease in Accrued Liabilities. The Enterprise Fund accrues, as inventory, the Water Replenishment District (WRD) adjudicated rights carryover that are recorded as Accrued Liabilities.

Interfund Advances Payable are advance payables from the City of Torrance of over 6 million in FY 2014, 2015 and 2016. This represents a capital project improvement debt funded by the General Fund mentioned earlier.

In FY 2015, the Enterprise Fund implemented GASB Statements No. 68 and 71, and reported its proportionate share of the Net Pension Liability \$4,438,971 in 2015 and \$4,872,817 in 2016, pension expense and Deferred Inflow of Resources of \$1,494,839 and \$780,952 in FY 2015 and 2016, and Deferred Outflow of Resources of \$546,582 for the pension plan. (More detail on Pension can be found in the Pension Obligation section of this staff report).

The changes described above in Interfund Advances Payable and Net Pension Liability (GASB 68) resulted in Total Long Term Liabilities growing 19.3% over the 5-year period reviewed.

In summary, as a result of the activities discussed above, the City's Net Assets grew from \$75,881,101 in Fiscal Year (FY) 2012 to \$84,845,451 in FY 2016, a total of 11.8%. The Total Liabilities and Fund Balance shows significant growth over the period reviewed primarily due to Interfund Advance Payable and Net Pension Liabilities. The City maintained a large Unrestricted Fund Balance, between 11.5% and 15.3% of Total Fund Balances during the period reviewed with a balance in the amount of \$15,723,349 in FY 2016. The City retained a similar Cash and Investment position in the years reviewed, with \$23,689,817 reported in FY 2016, providing flexibility in handling unexpected expenses.

Comparative Statement of Revenues, Expenses, and Changes in Fund Net Assets

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

CITY OF TORRANCE WATER ENTERPRISE FUND STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS-PROPRIETARY FUNDS										
For Fiscal Year Ending (FYE) June 30	2012		2013		2014		2015		2016	
Source:	CAFR	%	CAFR	%	CAFR	%	CAFR	%	CAFR	%
% Change		N/A		7%		13%		-12%		-8%
Operating revenues										
Charges for Services	\$32,538,639	95.7%	\$34,779,317	96.2%	\$39,262,022	96.4%	\$34,643,875	96.2%	\$31,757,986	94.9%
Other	\$1,472,196	4.3%	\$1,376,392	3.8%	\$1,463,596	3.6%	\$1,357,537	3.8%	\$1,715,213	5.1%
Total Operating Revenues	\$34,010,835	100.0%	\$36,155,709	100.0%	\$40,725,618	100.0%	\$36,001,412	100.0%	\$33,473,199	100.0%
Operating Expenses										
Salaries and Employee Benefits	\$4,770,869	14.0%	\$4,599,769	12.7%	\$4,950,053	12.2%	\$4,977,605	13.8%	\$5,142,145	15.4%
Services and Supplies	\$1,440,966	4.2%	\$1,469,540	4.1%	\$1,547,433	3.8%	\$2,156,902	6.0%	\$2,022,154	6.0%
Other Professional Services	\$855,324	2.5%	\$790,300	2.2%	\$817,702	2.0%	\$1,124,897	3.1%	\$1,124,756	3.4%
Insurance and Claims	\$127,970	0.4%	\$146,199	0.4%	\$104,703	0.3%	\$114,126	0.3%	\$59,451	0.2%
City Charges	\$1,722,776	5.1%	\$1,772,358	4.9%	\$1,895,944	4.7%	\$1,174,907	3.3%	\$1,311,208	3.9%
Costs of Water	\$20,591,517	60.5%	\$22,565,668	62.4%	\$24,282,552	59.6%	\$22,395,443	62.2%	\$19,943,663	59.6%
Other	\$460,844	1.4%	\$67,548	0.2%	\$317,184	0.8%	\$299,319	0.8%	\$260,188	0.8%
Depreciation / Amortization	\$1,311,086	3.9%	\$1,456,904	4.0%	\$1,443,390	3.5%	\$1,958,473	5.4%	\$1,954,185	5.8%
Total Operating Expenses	\$31,281,352	92.0%	\$32,868,286	90.9%	\$35,358,961	86.8%	\$34,201,672	95.0%	\$31,817,750	95.1%
Operating Income (Loss)	\$2,729,483	8.0%	\$3,287,423	9.1%	\$5,366,657	13.2%	\$1,799,740	5.0%	\$1,655,449	4.9%
Nonoperating Revenues (Expenses)										
Investment Earnings	\$146,001	0.4%	\$123,403	0.3%	\$228,319	0.6%	\$186,913	0.5%	\$306,160	0.9%
Interest Expense	(\$74,003)	-0.2%	(\$46,503)	-0.1%	(\$56,548)	-0.1%	(\$211,857)	-0.6%	(\$25,440)	-0.1%
Net Non-operating Revenues (Expenses)	\$71,998	0.2%	\$76,900	0.2%	\$171,771	0.4%	(\$24,944)	-0.1%	\$280,720	0.8%
Income (Loss Before Operating Transfers)	\$2,801,481	8.2%	\$3,364,323	9.3%	\$5,538,428	13.6%	\$1,774,796	4.9%	\$1,936,169	5.8%
Capital Contributions and Transfers										
Capital Grants	\$21,679		\$37,423		\$0		\$0		\$0	
Transfer Out	(\$22,042)		(\$16,096)		(\$15,520)		(\$15,483)		(\$15,483)	
Transfer of Capital Assets	\$0		\$0		\$0		\$0		\$1,399,679	
Total Contributions and Transfers					\$0		\$0		\$1,384,196	
Increase (decrease) in Net Position	\$2,801,118		\$3,385,650		\$5,522,908		\$1,759,313		\$3,320,365	
Beginning Net Assets	73,079,983		75,881,101		79,266,751		85,378,061		81,525,086	
Prior Period Adjustment (=/-)					588,402		(5,612,288)			
Ending Net Assets	\$75,881,101		\$79,266,751		\$85,378,061		\$81,525,086		\$84,845,451	

Analysis of the Comparative Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds show fluctuations in the Total Charges for Services for two reasons. First, water rates increased in FY's 2012 through 2015 as discussed earlier. Second, the Charges for Services decreased 19.1% (primarily for the line item Costs of Water) from \$39,262,022 in FY 2014 down to \$31,757,986 in FY 2016 due to the water conservation program. 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. Water revenues decreased significantly, despite the rate increase, influenced by a State mandated water conservation. Other revenues include late fees, disconnect fees, indirect labor, chemical fees, repairs & maintenance fee, fire protection charges, pumping charges, and capital received.

The Enterprise Fund's primary expense, the Costs of Water, peaked in FY 2014 prior to the Governor's conservation mandate. Imported water is a major component of the "cost of water" however the cost shown in the financial statements is an aggregate of all water costs including imported water from MWD, desalinated water, groundwater, and chemicals and power used in the production of local supplies. Total Operating Expenses also followed the trend of Total Revenues and peaked in 2014.

This Fund's Net Non-Operating Revenues (Expenses) ranged from (\$24,944) to \$280,720 over the five year period reviewed due to an increase in investment earnings. The Fund had a long term debt obligation related to capital project improvements. Interest Expense related to this debt is seen on Comparative Statement of Revenues, Expenses, and Changes in Fund Net Assets. This obligation was paid in full in June of 2017 and the Fund currently has no outstanding obligations.

The Fund's Capital Contributions were primarily derived from a Transfer of Capital Assets of \$1,399,679 in FY 2016 due to assets transfers from Fleet Services. These funds were used in Phase I and Phase II of the Fund's Capital Improvement Plan.

The beginning position of the Enterprise Fund was adjusted in FY 2014 by \$588,402. This was done to capitalize a project to construct water wells expensed in prior year's financial statements. A Fund equity adjustment in FY 2015 of (\$5,612,288) was made due to the adjustment in the beginning net position to give retroactive effect to the implementation of GASB Statement No. 68, which is the accounting and reporting for pensions.

As a result of the changes discussed above, the Ending Net Assets increased by \$8,964,350 or 11.8% over the five years analyzed, with FY 2016 Ending Net Assets of \$84,845,451. The Enterprise Fund's Ending Net Assets were impacted by three significant issues. First, the rate increases. Second was a State imposed conservation mandate that required the City of Torrance to cut back its water sales by 8% or risk being fined \$10,000 per day by the State Water Resources Control Board. The third issue that impacted the Fund's 2015 audit is the recognition of GASB Statement No. 68 (Accounting and Financial Reporting for Pensions) and Statement No.71 (Pension Transition for Contributions Made Subsequent to the Measurement Date).

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.

The City of Torrance's 2016 contribution rate was 15.18% with a contributed amount of \$10,056,207 and a funded ratio of 80.90%. The City's Safety Fire plan has a funded ratio of 66.80% and the city's Police Plan has a funded Ratio of 63.80%.

Existing Obligations Payable from the Fund

The Enterprise Fund had a long-term obligation related to capital project improvements; this was debt from the General Fund. This debt was retired in June of 2017 and the Fund currently has no outstanding obligations.

There are no other existing liens on the Fund and the lien of IBank's Installment Sales Agreement will be senior to or on parity with any future liens on the Fund.

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	2012	2013	2014	2015	2016
Operating Income (Loss)	\$2,729,483	\$3,287,423	\$5,366,657	\$1,799,740	\$1,655,449
+ Depreciation	1,311,086	1,456,904	1,443,390	1,958,473	1,954,185
Total of all Adjustments	1,311,086	1,456,904	1,443,390	1,958,473	1,954,185
Cash Available for Debt Service	4,040,569	4,744,327	6,810,047	3,758,213	3,609,634
Debt Service Calculation					
Total Existing Debt Service MADS	0	0	0	0	0
Proposed IBank MADS ⁽¹⁾	756,645	756,645	756,645	756,645	756,645
Total Obligations MADS	\$756,645	\$756,645	\$756,645	\$756,645	\$756,645
Debt Service Coverage Ratio	5.34	6.27	9.00	4.97	4.77

⁽¹⁾ Calculated as \$8,625,000 and at the 3.30% for 15 years.

In the original loan application, the City requested a term of 15 years. Recently, the Staff has been informed that a 25 year term is being explored by the City. The above financial analysis is with a 15 year term as it is the most conservative approach.

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 4.77 or greater in all of the five years reviewed, based on a 15 year financing term.

The table below shows the Fund cash flow and debt service analysis for a 25 year term loan:

CASH FLOW					
For Fiscal Year Ending (FYE) June 30	2012	2013	2014	2015	2016
Operating Income (Loss)	\$2,729,483	\$3,287,423	\$5,366,657	\$1,799,740	\$1,655,449
+ Depreciation	1,311,086	1,456,904	1,443,390	1,958,473	1,954,185
Total of all Adjustments	1,311,086	1,456,904	1,443,390	1,958,473	1,954,185
Cash Available for Debt Service	4,040,569	4,744,327	6,810,047	3,758,213	3,609,634
Debt Service Calculation					
Total Existing Debt Service MADS	0	0	0	0	0
Proposed IBank MADS ⁽¹⁾	534,141	534,141	534,141	534,141	534,141
Total Obligations MADS	\$534,141	\$534,141	\$534,141	\$534,141	\$534,141
Debt Service Coverage Ratio	7.56	8.88	12.75	7.04	6.76

⁽¹⁾ Calculated as \$8,625,000 and at the 3.30% for 25 years.

With a 25 year financing term shows that the DSCR is 6.76 or greater in all of the five years reviewed.

The City plans to request its City Council approve the new rates recommended in the rate study in fall of 2017, with revised rates to go into effect January 1, 2018. Importantly, the DSCR in the above tables was calculated using the City's existing rate structure. DSCR will improve if the new rates are implemented.

The completion of the Project will decrease the purchase of imported water by the City and it is expected that the Fund's Operating Income will increase by 6%-8%. This surplus in income was not included in the analysis.

RISK FACTORS

1. Future possible drought would adversely impact the Fund's revenues as User's would use less water due to potential water conservation mandates.
2. 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.
3. The City's contract for MWD will expire during IBank's financing and it is possible that once the current MWD contract expires, MWD will increase its charges for water, decrease the amount of the water available to the City, or both.

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 (since paid off). 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. 10 and Well No.11 increase the City's access to water, and going forward the City will purchase less water from MWD, resulting in an increase in the net position of the Enterprise Fund.

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 25 years. The term of the Financing as mentioned earlier, will be either 15 or 25 years, therefore the financing term does not exceed the useful life of the Project.
- 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 2015 American Community Survey (1 year estimate) or the ISRF program cost of funds.

Unemployment Rate	The City of Torrance's unemployment rate was 2.8%, which is 57.1% of the State's rate of 4.9%.
Median Household Income	The City of Torrance's median household income was \$79,921, which is 124% of the State's median household income of \$64,500.





STAFF RECOMMENDATION

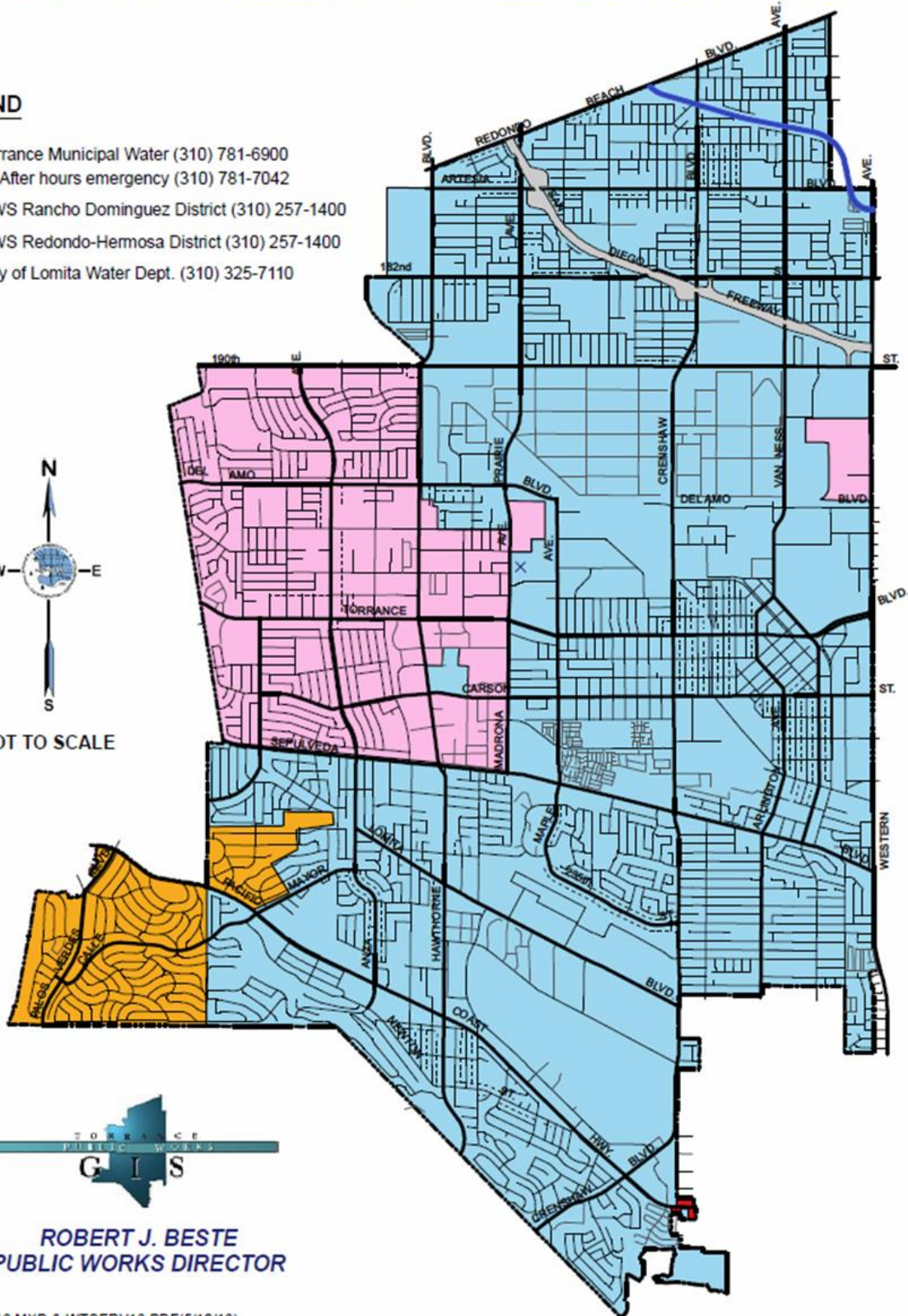
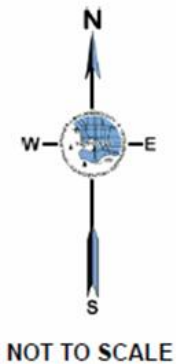
Staff recommends approval of Resolution No. 17-13 authorizing ISRF Program financing to the City of Torrance for The North Torrance Well Field Project Phase III as follows:

1. **Applicant/Borrower:** The City of Torrance
2. **Project:** The North Torrance Well Field Project Phase III
3. **Amount of ISRF Program Financing:** \$8,625,000
4. **Maturity:** Fifteen Years (15) years or Twenty Five (25) years.
5. **Repayment/Security** The ISRF Program financing (Financing) will be secured by a senior lien on, and payable from the City's net system revenues (Net Revenues) and all legally available amounts in the City's Water Enterprise Fund (Enterprise Fund), (such Net Revenues and legally available amounts are referred to collectively as the Fund (Fund)).
6. **Interest Rate:** 3.30%
7. **Fees:** City to pay an origination fee of 1.00%, \$86,250, included in financing 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 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 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. The City will be required to maintain rates and charges in an amount sufficient to ensure that Net Revenues produce a minimum 1.20 times aggregate annual debt service ratio for obligations on parity with the Financing.
 - b. The Fund 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. Disbursements will be permitted only after the new water rates that comply fully with Proposition 218 go into effect.
 - f. 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.
 - g. Upon implementing new rates and charges, the City must 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, the City must covenant to notify IBank immediately upon the filing of any legal challenge to the City's rates or charges.
 - h. City to comply with the requirements of the Criteria and all applicable laws, regulations, and permitting requirements associated with public works projects.
 - i. 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 TORRANCE WATER PURVEYORS

LEGEND

-  Torrance Municipal Water (310) 781-6900
After hours emergency (310) 781-7042
-  CWS Rancho Dominguez District (310) 257-1400
-  CWS Redondo-Hermosa District (310) 257-1400
-  City of Lomita Water Dept. (310) 325-7110



ROBERT J. BESTE
PUBLIC WORKS DIRECTOR

PROJECT LOCATION

