

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)
INFRASTRUCTURE STATE REVOLVING FUND PROGRAM (ISRF)**

STAFF REPORT

EXECUTIVE SUMMARY

Applicant: City of Del Mar (City)		Project Type: <input checked="" type="checkbox"/> Infrastructure Project <input type="checkbox"/> Economic Expansion Project
FINANCING TERMS		
Amount: \$3,535,354	Term: 20 years	Interest Rate⁽¹⁾: 2.17%
REPAYMENT AND SECURITY		
Source: Wastewater Enterprise Fund (Fund)		Fund Rating/Date: AA Standard and Poor's, 1993 Certificates of Participation (1993 COPs), March 18, 2014
Security: The Financing will be payable from and secured by a senior lien on net revenues (Net Revenues) of the Fund on parity with the (1) 2010 State Water Resources Control Board loan (SWRCB) and (2) 1993 Certificates of Participation (1993 COPs).		
PROJECT SUMMARY		
Name: Force Main Connection and City-wide Pipeline Upgrade and Rehabilitation Project (Project).	Location: Force Main Connection from the City's 21 st Street Pump Station to the City of Solana Beach's wastewater pipes at the Cedros trunk sewer. Other city-wide pipeline upgrades and rehabilitation (replacement) in various locations throughout the City.	
Description: The Project is comprised of two components: (1) the installation of approximately 1.2 miles, 10 inch diameter pressure flow sewage pipeline (Force Main) between the City's 21 st Street Pump Station and the City of Solana Beach's existing wastewater pipes at Cedros trunk sewer, and (2) upgrade and rehabilitation of approximately 9,000 linear feet of gravity fed wastewater pipes.		
<p>1) Force Main Connection</p> <ul style="list-style-type: none"> • Construction and installation of 1.2 miles Force Main between the City's 21st Street Pump Station and the City of Solana Beach's existing wastewater pipes at Cedros trunk. • Estimated cost is \$1.5 million. <p>2) City-wide Pipeline Upgrade and Rehabilitation (Replacement)</p> <ul style="list-style-type: none"> • Rehabilitate and replace approximately 9,000 linear feet of gravity fed wastewater pipe that are broken, clogged by roots, or are otherwise damaged. • Estimated cost is \$2 million. 		
The estimated useful life of the Project is 33 years, which exceeds the term of the Financing.		

The Financing includes the IBank's loan origination fee in the amount of \$35,354.

SOURCES AND USES

Use of Financing Proceeds:

The Financing will fund the costs of Construction, Construction Contingency, and the IBank Origination Fee for the Project.

PROJECT SOURCES and USES			
Uses	Sources		
	I-Bank	City	Total
Construction & Construction Contingency	\$3,500,000	\$0	\$3,500,000
IBank Origination Fee	\$35,354	\$0	\$35,354
Total	\$3,535,354	\$0	\$3,535,354

Source: Financing Application

CREDIT CONSIDERATIONS

Existing Debt:

- 1) 1993 Certificates of Participation
 - Financed by Del Mar Public Facilities Corporation
 - Matures in September 2015
 - Not included in the analysis below

- 2) 2010 State Water Resources Control Board (SWRCB) loan
 - Matures in August 2032
 - 2.9% interest rate
 - Requires minimum DSCR of 1.15
 - Included in the analysis below

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

CASH FLOW					
For Fiscal Year Ending (FYE) June 30,	2010	2011	2012	2013	2014
Income (Loss Before Operating Transfers)	\$452,609	\$196,961	\$246,943	\$241,644	\$294,542
+ Depreciation and Amortization	\$0	\$377,957	\$382,156	\$578,700	\$576,980
+ Interest Expense	\$5,316	\$204,203	\$204,203	\$191,109	\$191,109
Cash Available for Debt Service	\$457,925	\$779,121	\$833,302	\$1,011,453	\$1,062,631
Debt Service Calculation					
Senior Debt Service @ MADS⁽¹⁾					
SWRCB 2010 note	\$344,017	\$344,017	\$344,017	\$344,017	\$344,017
Proposed CIEDB ⁽²⁾	\$228,805	\$228,805	\$228,805	\$228,805	\$228,805
Total Senior MADS	\$572,822	\$572,822	\$572,822	\$572,822	\$572,822
Cash Available after Debt Service	(\$114,897)	\$206,299	\$260,480	\$438,631	\$489,809
Senior Debt Service Coverage Ratio	0.80	1.36	1.45	1.77	1.86

⁽¹⁾ Maximum Annual Debt Service

⁽²⁾ \$3,535,000 million, 20 yrs, 2.17%

Analysis of historical cash flow from 2010 through 2014 finds the Fund demonstrates its ability to service the existing SWRCB debt and the proposed Financing with at least 1.36:1 coverage in each

of the last four fiscal years (FY). The debt service calculations above do not include payments on the 1993 COPs since this debt matures in September of this year.

Additionally, although not reflected in the above table, the City enacted tiered wastewater rate increases that became effective January 1, 2015. Each consecutive increase will be effective January 1 of each year through 2020. The rate increases will provide additional revenue for debt service.

Criteria Exception:

Underwriting Guidelines for Water/Wastewater Enterprise Fund Secured Debt contained within the ISRF Program's *Amended and Restated Criteria, Priorities, and Guidelines*, adopted October 29, 2013 (Criteria), requires that, "Revenues derived from any single ratepayer must not exceed 15% of system revenues." In FY 2014, the Del Mar Fairgrounds (Fairgrounds) contributed approximately \$463,000 or 15.29%, of the wastewater revenues. The 0.29% excess over the maximum allowed in the Criteria represents approximately \$9,000 year. The table below demonstrates historical debt service coverage ratios after reducing Income in each of the five years analyzed by \$9,000.

CASH FLOW ADJUSTED FOR "EXCESS" FAIRGROUNDS REVENUE					
For Fiscal Year Ending (FYE) June 30,	2010	2011	2012	2013	2014
Income (Loss Before Operating Transfers)	\$452,609	\$196,961	\$246,943	\$241,644	\$294,542
- Adjustment to reduce Fairgrounds contribution to Net Income	(\$9,000)	(\$9,000)	(\$9,000)	(\$9,000)	(\$9,000)
+ Depreciation and Amortization	\$0	\$377,957	\$382,156	\$578,700	\$576,980
+ Interest Expense	\$5,316	\$204,203	\$204,203	\$191,109	\$191,109
Cash Available for Debt Service w/o Connection Fees	\$448,925	\$770,121	\$824,302	\$1,002,453	\$1,053,631
Debt Service Calculation					
Senior Debt Service @ MADS⁽¹⁾					
SWRCB 2010 note	\$344,017	\$344,017	\$344,017	\$344,017	\$344,017
Proposed CIEDB ⁽²⁾	\$228,805	\$228,805	\$228,805	\$228,805	\$228,805
Total Senior MADS	\$572,822	\$572,822	\$572,822	\$572,822	\$572,822
Cash Available after Debt Service	(\$123,897)	\$197,299	\$251,480	\$429,631	\$480,809
Senior Debt Service Coverage Ratio	0.78	1.34	1.44	1.75	1.84

⁽¹⁾ Maximum Annual Debt Service

⁽²⁾ \$3,535,000 million, 20 yrs., 2.17%

The table above demonstrates that after reducing Income for the 0.29% (\$9,000) excess revenues received from the Fairgrounds, the Fund demonstrates its ability to service the existing SWRCB debt and the proposed Financing with at least 1.34:1 coverage in each of the last four FYs. For this reason, staff requests that the Board approve an exception to the Criteria requirement that revenues derived from any single ratepayer not exceed 15% of system revenues.

RECOMMENDATIONS AND EXTRAORDINARY COVENANTS

Staff Recommendations:

Approval of the Financing with an exception to the Criteria requirement that revenues from any single ratepayer not exceed 15% for the following reasons:

1. The Fund's historical cash flow demonstrates the City's ability to service existing debt and the proposed Financing.
2. The City enacted incremental wastewater rate increases that will enhance the Fund's ability to meet future aggregate debt service.

Covenants:

1. 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 payable from the Fund.
2. The City will be prohibited from issuing future debt senior to IBank's Financing.

3. 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 the proposed parity debt.
4. Subordinate debt (“Subordinate Debt”) will be allowed if Net Revenues are at least 1.00 times the sum of the MADS on all outstanding debt, payable from the Fund, including the proposed Subordinate Debt.
5. 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.
6. Condition prior to initial disbursement: City to provide documentation evidencing full payoff of 1993 COPs or satisfaction of conditions for parity debt in accordance with 1993 COPs documents.

IBank Staff: Jim Rennie and Tom Dear	Date of Staff Report: 06/10/2015
Date of IBank Board Meeting: 6/23/2015	Resolution Number: 15-11
Staff Recommendation: Staff recommends approval of Resolution No.15-11 authorizing financing to the City of Del Mar for its Force Main Connection and City-wide Pipeline Upgrade and Rehabilitation Project.	

(1) As of February 2, 2015

CITY OF DEL MAR INFORMATION

The City of Del Mar is a coastal city situated between the City of San Diego to the south and the City of Solana Beach to the north within the County of San Diego. The City occupies 1.8 square miles (Exhibit 1) and has a population of 4,234.

A charter city, incorporated in 1959, the City is governed by a five-member City Council (Council) under the Council/Manager form of government. The Council is elected at large and members have staggered four-year terms. The position of Mayor is rotated among the members annually.

The City is primarily a residential community and considers itself to be nearly built out; however, redevelopment and revitalization opportunities exist in its commercial areas. It is common for current homes to be replaced with larger and more elaborate homes, increasing the tax base.

Tourism is the City's primary industry which attractions include the Del Mar Race Track, the San Diego County Fair, and the Del Mar Antique Show. Over the last ten years, Tourism provided average tax revenue of 18% of the City's total General Fund revenues. The top ten non-government employers include five restaurants, two resorts, a real estate company, the Del Mar Fairgrounds, and the Del Mar Thoroughbred Club.

The 22nd District Agricultural Association (22nd DAA) and the Del Mar Fairgrounds have a significant presence in the City and encompass 20% of the City's land area. The Fairgrounds is a 370-acre property that is the site of the annual San Diego County Fair and is managed by a Board of Directors appointed by the Governor.

PROJECT DESCRIPTION

The City requests Financing to fund its Force Main Connection and City-wide Pipeline Upgrade and Rehabilitation Project (Project).

In 2013, the City completed a Utility Master Plan (Plan). The Plan recommends rehabilitation and replacement of approximately 1,500 LF (linear feet) of gravity-fed wastewater force main per year over the next six years for a total of 9,000 LF of new pipeline. The Plan also calls for a citywide wastewater pipe video inspection program to be conducted to accurately assess pipeline conditions. The video inspection is currently underway and is expected to be completed by September 2015. After completion of the video inspection, the City will prioritize pipelines for replacement. The Project will allow the City to complete objectives of the Plan.

The Project consists of two components:

- 1) Force Main Connection
 - Construction and installation of 1.2 miles Force Main between the City's 21st Street Pump Station and the City of Solana Beach's existing wastewater pipes at Cedros trunk.
 - Estimated cost is \$1.5 million.
- 2) City-wide Pipeline Upgrade and Rehabilitation (Replacement)
 - Rehabilitate and replace approximately 9,000 linear feet of gravity fed wastewater pipe that are broken, clogged by roots, or otherwise damaged.
 - Estimated cost is \$2 million.

The Financing will also pay the IBank's loan origination fee.

Project Benefits

The Project will (1) provide a treatment alternative to the City's current treatment and (2) reduce treatment costs by an estimated \$23,000 in the first year and as much as \$60,000 annually in the future. (See System Description for additional information about treatment and related costs.)

Public Benefits

As a result of the treatment alternative and reduced costs provided by the Project (1) the need to increase rates declines and cost savings are passed on to the user; (2) the City saves water by replacing broken, clogged, and damaged pipes; and (3) the City reduces a health hazard of exposure to raw sewage.

The City anticipates 15 construction jobs to be created through the Project.

SYSTEM DESCRIPTION

The City owns, operates, and maintains 29 miles of gravity-fed pipelines and force mains (force mains are pipelines that convey wastewater under pressure from the discharge side of a pump or pneumatic ejector to a discharge point) and two lift stations (System). About one-third of the System's pipes were installed in the 1990's, and 17.5% of the pipes were installed in the 1920's or have no known installation date. The System serves properties located within the City and the Del Mar Estates and Riviera Del Mar developments located within the City of San Diego.

The City does not have a treatment plant; instead, it pumps its wastewater to the City of San Diego's Point Loma Wastewater Treatment Plant (Point Loma). The City currently sends 0.6 million gallons per day (MGD) of wastewater to Point Loma for treatment.

Point Loma has been operating under a Federal Environmental Protection Agency (EPA) waiver that allows the plant to operate below the required secondary treatment standards.

San Diego expects to spend over a billion dollars to upgrade Point Loma, and the City anticipates that its costs for treatment at Point Loma will increase significantly.

The Project will allow the City to send 0.5 MGD of wastewater to the San Elijo Wastewater Reclamation Facility (SEWRF) in the City of Encinitas through the Project’s Force Main connection to Solana Beach’s wastewater pipes at Cedros trunk sewer. The SEWRF is operated by the San Elijo Joint Powers Authority (SEJPA), a JPA formed by the City of Encinitas and the City of Solana Beach. In June 2014, the City entered into a 30-year agreement with SEJPA that allows the City to send a designated amount of wastewater to the SEWRF at a rate lower than is currently being paid to the City of San Diego for treatment at Point Loma. The City estimates diverting treatment from Point Loma to the SEWRF will reduce costs by \$23,000 in the first year and as much as \$60,000 annually in the future.

The Council sets rates for the System following the City Manager’s recommendations and Proposition 218 requirements. The Council last adopted incremental rate increases on December 1, 2014, through Ordinance No. 903 (Ordinance). The Ordinance provides for rate increases effective each successive January 1 beginning January 1, 2015 through January 1, 2019. System users are billed bi-monthly (every two months).

The following table displays the Number of System Users as of March 31, 2015:

NUMBER OF END-USERS BY CATEGORY					
For Fiscal Year Ending (FYE) June 30,	2011	2012	2013	2014	2015
Residential	1,596	1,602	1,602	1,602	1,603
Commercial	97	98	95	98	98
Other	15	16	17	17	17
Total	1,708	1,716	1,714	1,717	1,718
% change		0.5%	-0.1%	0.2%	0.1%

Source: Financing Application

The table above reflects that number of users has been fairly stable over the past five years. The table further reflects a high proportion of residential users, which is consistent with the residential nature of the City and provides strong diversity in the user base. The Other category consists of service to the Fairgrounds and City meters.

Current System usage and revenues as of June 30, 2014, are as follows:

CURRENT SYSTEM USAGE & REVENUE				
	Annual Usage (HCF)⁽¹⁾	% Annual Usage	Gross Annual Revenue	Annual Revenue
Residential	301,508	77.4%	2,014,047	66.3%
Commercial	47,877	12.3%	502,388	16.5%
Other	40,256	10.3%	519,384	17.1%
Total	389,641	100.0%	3,035,819	100.0%

Source: Financing Application

⁽¹⁾ Hundred cubic feet

The above table shows that residential customers represent a little more than 77% of Annual Usage and 66% of Annual Revenues, consistent with the previous table.

The following table reflects adopted rates increases since FY 2009:

HISTORICAL RATE INCREASES OVER THE PAST FIVE YEARS		
Date Adopted	Date Effective	Percent Increase
May 26, 2009	FY 10	8.0%
May 26, 2009	FY 11	7.5%
May 26, 2009	FY 12	5.0%
May 26, 2009	FY 13	3.0%
May 26, 2009	FY 14	2.0%
December 1, 2014	1/1/2015	3.0%
December 1, 2014	1/1/2016	3.0%
December 1, 2014	1/1/2017	2.5%
December 1, 2014	1/1/2018	2.5%
December 1, 2014	1/1/2019	2.5%

Source: Financing Application Addendum and City Council Staff Report

The above table reflects the incremental rate increases adopted by the Council on May 26, 2009 and December 1, 2014. The Council increased rate in May 2009 to pay for improvements to its 21st Street Pump Station. Rates were increased in December 2014 in anticipation of the Project. The increases reflect the Council's ability to increase rates to meet the operational and capital improvement needs of the System.

The following table demonstrates the average monthly user charge per residential unit and the year-over-year percent increase since FY 2011.

HISTORICAL AND CURRENT AVERAGE MONTHLY USER CHARGE PER RESIDENTIAL UNIT					
For Fiscal Year Ending (FYE) June 30,	2011	2012	2013	2014	2015
Residential	\$59.13	\$62.08	\$63.95	\$65.22	\$66.79
% change		4.99%	3.01%	1.99%	2.41%

Source: Financing Application

Consistent with historically adopted rate increases, the above table reflects increases in the average monthly user charge per residential unit since FY 2011.

The following table illustrates the projected average monthly user charge per residential unit in FYs 2016 through 2019.

PROJECTED AVERAGE MONTHLY USER CHARGE PER RESIDENTIAL UNIT				
For Fiscal Year Ending (FYE) June 30,	2016	2017	2018	2019
Residential	\$68.84	\$70.75	\$72.35	\$74.18
% change	3.1%	2.77%	2.26%	2.53%

Source: Financing Application

This table is consistent with the adopted rate increases reflected in the Historical Rate Increases table above.

The table below compares the City's Current Average Monthly System User Charge per residential unit to nearby systems as of January 1, 2015.

CURRENT AVERAGE MONTHLY SYSTEM USER CHARGE		
System Name	Location	Average Monthly Residential Rate ⁽¹⁾
City of Del Mar	Del Mar	\$66.79
City of San Diego	San Diego	\$51.31
San Elijo JPA	Solana Beach	\$51.01
Encinitas Sanitary Division	Encinitas	\$45.26
City of Poway	Poway	\$39.80

(1) as of January 1, 2015

Source: Financing Application

The table above shows the City has the highest rates for wastewater treatment in the area. As discussed above, the City increased rates to pay for System projects.

The top ten current System users are identified in the table below:

TOP 10 SYSTEM USERS				
	User	% System Use	% System Revenues	Customer Class (Residential/ Commercial/ Industrial/Other)
1	22nd DAA	9.30%	15.29%	Fairgrounds
2	L'Auberge Del Mar	2.48%	2.55%	Hotel
3	Mosier Development	1.37%	1.56%	Multi Family
4	Beach Colony	0.95%	0.84%	Multi Family
5	Pacifica Stratford LLC	0.72%	0.67%	Hotel
6	Poseidon Restaurant	0.62%	0.85%	Restaurant
8	Jake's Del Mar	0.54%	0.51%	Restaurant
7	Normandy by the Sea	0.52%	0.53%	Multi Family
9	Del Mar Inn	0.48%	0.46%	Hotel
10	Thomas Funke	0.45%	0.60%	Multi Family
	Total	17.43%	23.86%	

Source: Financing Application

The top ten users represent 23.86% of total System revenues. This complies with IBank underwriting requirements that the top ten ratepayers not exceed 50%. There is one customer, 22nd DDA (also referred to as the Fairgrounds) that produces 15.39% of System Revenues. This percentage exceeds the 15% maximum outlined in the Criteria, and Staff is requesting that the Board approve an exception to the Criteria for the Project.

CREDIT ANALYSIS

Source of Financing and Security

The City proposes to pledge Fund Net Revenues for the repayment and security of the Financing on parity with the existing SWRCB debt that is payable from the Fund. Analysis of the Funds's financial statements follows:

Comparative Statement of Net Position Analysis

The Fund's comparative Statement of Net Position for the last five fiscal years follows:

COMPARATIVE STATEMENT of NET POSITION											
For Fiscal Year Ending (FYE) June 30,											
	2010		2011		2012		2013		2014		
Source:	CAFR	% ⁽¹⁾	CAFR	%	CAFR	%	CAFR	%	CAFR	%	
Current Assets											
Cash and Investments	\$1,116,039	8.9%	\$903,437	6.0%	\$1,085,620	6.7%	\$1,445,355	8.8%	\$1,495,411	9.4%	
Receivables:											
Accounts	\$705,854	5.6%	\$415,889	2.8%	\$547,365	3.4%	\$483,096	2.9%	\$475,704	3.0%	
Interest	\$1,450	0.0%	\$1,129	0.0%	\$838	0.0%	\$836	0.0%	\$739	0.0%	
Due from Other Agencies	\$17,097	0.1%					\$6,669	0.0%	\$6,877	0.0%	
Prepaid Expense							\$327,683	2.0%			
Inventory	\$14,379	0.1%	\$11,046	0.1%	\$5,395	0.0%	\$5,950	0.0%	\$6,505	0.0%	
Total Current Assets	\$1,854,819	14.8%	\$1,331,501	8.9%	\$1,639,218	10.1%	\$2,269,589	13.8%	\$1,985,236	12.5%	
Restricted Assets:											
Cash and Investments	\$451,174	3.6%	\$451,059	3.0%	\$451,063	2.8%	\$451,064	2.7%	\$451,109	2.8%	
Deferred Charges	\$54,559	0.4%	\$43,999	0.3%	\$33,439	0.2%	\$22,880	0.1%			
Total Restricted Assets	\$505,733	4.0%	\$495,058	3.3%	\$484,502	3.0%	\$473,944	2.9%	\$451,109	2.8%	
Long-term Assets											
Land	423,432	3.4%	583,663	3.9%	583,663	3.6%	\$583,663	3.5%	\$583,663	3.7%	
Construction-in-Progress	1,309,116	10.4%	4,286,122	28.6%			\$15,074	0.1%	\$27,672	0.2%	
Water and Wastewater System	12,137,676	96.6%	12,308,445	82.2%	12,308,443	76.2%	\$13,032,727	79.1%	\$13,312,787	83.8%	
Buildings and Improvements	294,942	2.3%	294,942	2.0%	5,879,268	36.4%	\$4,293,450	26.1%	\$4,293,450	27.0%	
Machinery and Equipment	782,036	6.2%	782,036	5.2%	453,463	2.8%	\$1,527,454	9.3%	\$1,537,652	9.7%	
Less: Accumulated Depreciation	(4,747,329)	-37.8%	(5,114,726)	-34.2%	(5,192,814)	-32.1%	(\$5,728,622)	-34.8%	(\$6,300,894)	-39.7%	
Net Long-Term Assets	10,199,873	81.2%	13,140,482	87.8%	14,032,023	86.9%	13,723,746	83.3%	13,454,330	84.7%	
Total Other Non Current/Capital Assets	10,705,606	85.2%	13,635,540	91.1%	14,516,525	89.9%	14,197,690	86.2%	13,905,439	87.5%	
Total Assets	\$12,560,425	100.0%	\$14,967,041	100.0%	\$16,155,743	100.0%	\$16,467,279	100.0%	\$15,890,675	100.0%	
Current Liabilities											
Accounts Payable	\$239,479	1.9%	\$838,250	5.6%	\$28,756	0.2%	\$23,607	0.1%	\$95,850	0.6%	
Retention on Deposit					\$100,000	0.6%					
Current Portion Long-Term Debt	\$349,005	2.8%	\$361,839	2.4%	\$382,340	2.4%	\$601,188	3.7%	\$624,706	3.9%	
Accrued Interest	\$41,656		\$92,771	0.6%	\$206,849	1.3%	\$154,807	0.9%	\$146,410	0.9%	
Total Current Liabilities	\$630,140	5.0%	\$1,292,860	8.6%	\$717,945	4.4%	\$779,602	4.7%	\$866,966	5.5%	
Long Term Liabilities											
1993 COPS	\$1,980,000	15.8%	\$1,625,000	10.9%	\$1,250,000	7.7%	\$855,000	5.2%	\$440,000	2.8%	
Compensated Absences	\$22,437	0.2%	\$20,518	0.1%	\$22,020	0.1%	\$27,157	0.2%	\$29,573	0.2%	
Notes Payable	\$792,526	6.3%	\$2,691,115	18.0%	\$4,577,583	28.3%	\$4,971,536	30.2%	\$4,771,688	30.0%	
Total Long-term Liabilities	\$2,794,963	22.3%	\$4,336,633	29.0%	\$5,849,603	36.2%	\$5,853,693	35.5%	\$5,241,261	33.0%	
Total Liabilities	\$3,425,103	27.3%	\$5,629,493	37.6%	\$6,567,548	40.7%	\$6,633,295	40.3%	\$6,108,227	38.4%	
Net Assets											
Net Investment in Capital Assets	\$7,536,995	60.0%	\$8,920,426	59.6%	\$8,280,503	51.3%	\$7,756,138	47.1%	\$7,627,794	48.0%	
Unrestricted Assets	\$1,598,327	12.7%	\$417,122	2.8%	\$1,307,692	8.1%	\$2,077,846	12.6%	\$2,154,654	13.6%	
Total Net Assets	\$9,135,322	72.7%	\$9,337,548	62.4%	\$9,588,195	59.3%	\$9,833,984	59.7%	\$9,782,448	61.6%	
Total Liabilities and Net Assets	\$12,560,425	100.0%	\$14,967,041	100.0%	\$16,155,743	100.0%	\$16,467,279	100.0%	\$15,890,675	100.0%	

⁽¹⁾ Percentages calculated on Total Assets

Analysis of the spreadsheet above finds Total Net Assets grew 7.1% over the five years analyzed. Growth was due in part to increases in Cash and Investments of 34.0% due to the positive Change in Net Assets year-over year. Fixed Assets also increased as the City commenced and subsequently completed capital improvement projects, such as the replacement of the 21st Street Pump Station (Pump Station). These increases contributed to a 26.5% growth in Totals Assets over the period analyzed. In 2013, an accounting adjustment was made to reclassify the pumps, generators, and pipelines related to the Pump Station from Buildings and Improvement to Machinery and Equipment.

Fund growth was tempered by the loan obtained in February 2010 from SWRCB to replace the Pump Station. The loan was disbursed incrementally as expense reimbursements were requested resulting in an increase in Long Term Liabilities beginning in 2011.

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

The Fund's comparative historical revenues, expenses, and changes in net position for the last five fiscal years are summarized below.

COMPARATIVE STATEMENT of REVENUES, EXPENSES, and CHANGES IN NET POSITION											
For Fiscal Year Ending (FYE) June 30,		2010		2011		2012		2013		2014	
	Source:	CAFR	% ⁽¹⁾	CAFR	%	CAFR	%	CAFR	%	CAFR	%
	% Change										
Operating Revenues											
		\$2,574,247	93.8%	\$2,613,797	98.8%	\$2,862,906	100.4%	\$2,985,814	99.3%	\$3,026,198	99.3%
		\$10,157	0.4%	\$8,656	0.3%	\$11,845	0.4%	\$12,707	0.4%	\$9,620	0.3%
		\$159,169	5.8%	\$23,872	0.9%	(\$21,873)	-0.8%	\$9,763	0.3%	\$12,188	0.4%
		\$2,743,573	100.0%	\$2,646,325	100.0%	\$2,852,878	100.0%	\$3,008,284	100.0%	\$3,048,006	100.0%
Operating Expenses											
		\$183,089	6.7%	\$194,791	7.4%	\$183,653	6.4%	\$252,743	8.4%	\$123,329	4.0%
		\$1,002,279	36.5%	\$1,083,107	40.9%	\$1,081,203	37.9%	\$1,050,705	34.9%	\$673,437	22.1%
		\$612,134	22.3%	\$638,449	24.1%	\$757,570	26.6%	\$702,377	23.3%	\$1,194,252	39.2%
		\$380,022	13.9%	\$377,957	14.3%	\$382,156	13.4%	\$578,700	19.2%	\$576,980	18.9%
		\$2,177,524	79.4%	\$2,294,304	86.7%	\$2,404,582	84.3%	\$2,584,525	85.9%	\$2,567,998	84.3%
		\$566,049	20.6%	\$352,021	13.3%	\$448,296	15.7%	\$423,759	14.1%	\$480,008	15.7%
Nonoperating Revenues (Expenses)											
		\$8,272		\$3,641		\$2,850		\$8,905		\$5,643	
		(\$121,712)		(\$158,701)		(\$204,203)		(\$191,020)		(\$191,109)	
		(\$113,440)		(\$155,060)		(\$201,353)		(\$182,115)		(\$185,466)	
		\$452,609		\$196,961		\$246,943		\$241,644		\$294,542	
Capital Contributions and Transfers											
		\$5,316		\$5,265		\$3,704		\$4,145		\$4,484	
		\$457,925		\$202,226		\$250,647		\$245,789		\$299,026	
		\$8,677,397		\$9,135,322		\$9,337,548		\$9,588,195		\$9,833,984	
				\$0		\$0		\$0		(\$350,562)	
		\$9,135,322		\$9,337,548		\$9,588,195		\$9,833,984		\$9,782,448	

The above table reflects year-over-year growth in Sewer Revenue resulting in growth between FY 2010 and FY 2014 of 17.6%. Growth was primarily due to scheduled rate increases, but increased winter flows in 2012 and 2013 also contributed some growth in Sewer Revenues in those years. Together with other System revenues, Total Operating Revenues grew 11.1% over the years analyzed.

Total Operating Expenses over the same period grew at 17.9%; however, Operating Income remained positive in all years. The Fund had Transfers-in of a fraction of a percent in each year and no Transfers-out. The Change in Net Assets is positive in each year.

In 2014, the City reported a Prior Period Adjustment in the amount of \$350,562 that consists of two items. One item in the amount of \$22,880 was due to an accounting rule change (GASB 65) that now requires recognition and reporting of bond issuance costs as an expense at the time of issuance rather than over time. The second item, the City's payment to CalPERS as discussed below. The practice has been to record such payments as a prepaid expense or as a restatement to equity, but the City's new auditor recommended the City restate the entry and report the adjustment based on recommendations from the Government Finance Officers Association and how other cities have reported such transactions.

Pension Plan

The City contributes to the California Public Employees Retirement System (CalPERS). The City makes its annual contributions based upon the actuarially determined rate provided by CalPERS. In 2013, the City paid off an off-balance sheet unfunded liability to CalPERS in the amount of \$327,682 using the City's available cash.

Debt Service Analysis

The Fund's current outstanding obligations are as follows:

CURRENT OBLIGATIONS						
Origination Date	Original Financing Amount	Issuer/ Lender	Maturity	Interest Rate %	MADS ⁽¹⁾	Balance as of 04/01/15
12/27/14	\$5,000,000	California State Water Resources Control Board (SWRCB)	8/2/36	2.90%	\$344,017	\$4,783,718
9/1/93	\$6,000,000	Del Mar Facilities Corporation (1993 COPs)	9/1/15	5.00%	\$440,000	\$444,000
Total Debt					\$784,017	\$5,227,718

⁽¹⁾ Maximum Annual Debt Service

The City is currently obligated to pay two loans from Net Revenues as reflected in the above table. The loan from SWRCB financed the replacement the 35 year old 21st Street Pump Station. The loan is secured by a senior lien on and pledge of the net System revenues.

The 1993 COPs was underwritten by the Del Mar Public Facilities Corporation to finance needed additional system improvements. The 1993 COPs mature September 1, 2015, and therefore will no longer be an obligation of the Fund so is not included in the tables and analysis that follow.

PROPOSED OBLIGATIONS							
Origination Date	Original Financing Amount	Issuer/ Lender	Maturity	Interest Rate %	MADS ⁽¹⁾	Balance as of 09/01/15	Lien Position/ Repayment Pledge
12/27/14	\$5,000,000	California State Water Resources Control Board (SWRCB)	8/2/36	2.90%	\$344,017	\$4,783,718	Senior lien on net system revenues
tbd	\$3,535,000	IBank	9/1/29	2.17%	\$228,805	\$4,440,000	Senior lien on net system revenues on parity with SWRCB loan
Total Debt					\$572,822	\$9,223,718	

⁽¹⁾ Maximum Annual Debt Service

Cash Flow and Debt Service Analysis with and without “Excess” Fairgrounds Revenues

With “Excess” Fairgrounds Revenues

CASH FLOW					
For Fiscal Year Ending (FYE) June 30,	2010	2011	2012	2013	2014
Income (Loss Before Operating Transfers)	\$452,609	\$196,961	\$246,943	\$241,644	\$294,542
+ Depreciation and Amortization	\$0	\$377,957	\$382,156	\$578,700	\$576,980
+ Interest Expense	\$5,316	\$204,203	\$204,203	\$191,109	\$191,109
Cash Available for Debt Service	\$457,925	\$779,121	\$833,302	\$1,011,453	\$1,062,631
Debt Service Calculation					
Senior Debt Service @ MADS⁽¹⁾					
SWRCB 2010 note	\$344,017	\$344,017	\$344,017	\$344,017	\$344,017
Proposed CIEDB ⁽²⁾	\$228,805	\$228,805	\$228,805	\$228,805	\$228,805
Total Senior MADS	\$572,822	\$572,822	\$572,822	\$572,822	\$572,822
Cash Available after Debt Service	(\$114,897)	\$206,299	\$260,480	\$438,631	\$489,809
Senior Debt Service Coverage Ratio	0.80	1.36	1.45	1.77	1.86

⁽¹⁾ Maximum Annual Debt Service

⁽²⁾ \$3,535,000 million, 20 yrs, 2.17%

Cash flow and debt coverage were calculated starting with Income/Loss Before Operating Transfers. As a non-cash expense, Depreciation expense was added back to Income/Loss Before Operating Transfers, as was Interest Expense because the entire payment amount is include further in the table under Senior Debt Service @ MADS.

Following these adjustments, the table above demonstrates that the Fund has sufficient historical cash flow to service the SWRCB debt and the Financing with the “excess” Fairgrounds revenues discussed above and without including additional revenue projected to be received over the next four years as a result of the adopted rate increases.

Without “Excess” Fairgrounds Revenues

CASH FLOW ADJUSTED FOR "EXCESS" FAIRGROUNDS REVENUE					
For Fiscal Year Ending (FYE) June 30,	2010	2011	2012	2013	2014
Income (Loss Before Operating Transfers)	\$452,609	\$196,961	\$246,943	\$241,644	\$294,542
- Adjustment to reduce Fairgrounds contribution to Net Income	(\$9,000)	(\$9,000)	(\$9,000)	(\$9,000)	(\$9,000)
+ Depreciation and Amortization	\$0	\$377,957	\$382,156	\$578,700	\$576,980
+ Interest Expense	\$5,316	\$204,203	\$204,203	\$191,109	\$191,109
Cash Available for Debt Service w/o Connection Fees	\$448,925	\$770,121	\$824,302	\$1,002,453	\$1,053,631
Debt Service Calculation					
Senior Debt Service @ MADS⁽¹⁾					
SWRCB 2010 note	\$344,017	\$344,017	\$344,017	\$344,017	\$344,017
Proposed CIEDB ⁽²⁾	\$228,805	\$228,805	\$228,805	\$228,805	\$228,805
Total Senior MADS	\$572,822	\$572,822	\$572,822	\$572,822	\$572,822
Cash Available after Debt Service	(\$123,897)	\$197,299	\$251,480	\$429,631	\$480,809
Senior Debt Service Coverage Ratio	0.78	1.34	1.44	1.75	1.84

⁽¹⁾ Maximum Annual Debt Service

⁽²⁾ \$3,535,000 million, 20 yrs, 2.17%

The table above includes the adjustments made in the table immediately preceding it as well as adjusts for the 0.29% “excess” Fairgrounds revenues and demonstrates that the Fund has sufficient historical cash flow to service the SWRCB debt and the Financing without the “excess” Fairgrounds revenues (discussed above in this report) and without including additional revenue projected to be received over the next four years as a result of the adopted rate increases.

RISK FACTORS

1. The State of California has mandated a 25% reduction of water usage that could impact the City’s wastewater revenue.
2. Fund revenues are concentrated 15.29% in the Fairgrounds.

MITIGATING FACTORS

1. When considering the recently implementing rate increases, the City anticipated the reduction in water and wastewater revenues due to the existing drought.
2. There is no indication at this time that the State intends to sell the property. However, in the unlikely event the Fairgrounds is sold, a buyer could operate the Fairgrounds as is, thereby likely avoiding a reduction in Fund revenues, or develop the property for another use, which would likely increase Fund revenues.

Compliance with I-Bank Underwriting Criteria

- The Financing will be secured by a senior lien on System Net Revenues, on parity with the SWRCB debt.
- Revenues derived from the top ten System ratepayers do not exceed 50% of annual System revenues.
- Revenues derived from a single ratepayer exceed 15% of System revenues. Since the System generates over \$3 million in wastewater revenues annually, the 0.29%

differential over the maximum allowed in the Criteria represents less than \$9,000 a year. Staff requests that the Board approve an exception to this Criteria requirement.

- The Council has the power to establish and enact rates and charges without the approval of any other governing body.

Interest Rate Setting Demographics

The interest rate for the proposed ISRF loan was set based upon the following statistics obtained from the 2008-2012 American Community Survey (5-year estimate).

Unemployment Rate	The City's unemployment rate was 3.7%, which is 33.6% of the State's rate of 11.0%.
Median Household Income	The City's median household income was \$102,729, which is 167.3% of the State's median household income of \$61,400.

STAFF RECOMMENDATIONS

Staff recommends approval of Resolution No.15-11 authorizing financing to the City of Del Mar for its Force Main Connection and City-wide Pipeline Upgrade and Rehabilitation Project.

1. **Applicant/Borrower:** City of Del Mar
2. **Project:** Force Main Connection and City-Wide Pipeline Upgrade and Rehabilitation Project
3. **Amount of Financing:** \$3,535,354
4. **Maturity:** Twenty (20) years
5. **Repayment/Security:** Senior lien on the City's Wastewater Enterprise Fund net revenues on parity with the State Water Resources Control Board loan in the amount of \$5,000,000 dated December 27, 2014.
6. **Interest Rate:** 2.17%
7. **Fees:** Origination fee of 1.00% of the Financing amount and an annual fee of 0.30% of the outstanding principal balance.
8. **Condition Precedent to Disbursement:**
 - a. Prior to initial disbursement, City to provide documentation evidencing either full payoff of 1993 COPs or satisfaction of conditions for parity debt in accordance with 1993 COPs documents.
 - b. Board approval of an exception to ISRF Program Criteria requiring that revenues derived from any single ratepayer not exceed 15% of system revenues.
9. **Reserve Account:** So long as the 1993 COPs are outstanding, the City must establish and maintain a reserve account in an amount prescribed by the 1933 COPs documents . Upon providing IBank with evidence that the 1993 COPs have been fully paid, the IBank will no longer require the City to maintain such reserve account. However, if future parity debt issued by the City requires a reserve account, the City must fund a reserve account for the IBank Financing in the amount required by such parity debt.
10. **Not an Unconditional Commitment:** If approved by the Board, IBank's resolution shall not be construed as an unconditional commitment to finance the Force Main Connection and City-wide Pipeline Upgrade and Rehabilitation Project, but rather IBank approval pursuant to the Resolution is conditioned upon entry by IBank and the City into a financing agreement, in form and substance satisfactory to IBank and its counsel.
11. **Limited Time:** If approved by the Board, the Board's approval expires 180 days from the date of its adoption. Thus, the Borrower and IBank must execute a 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 grant the loan to the Borrower or consider extending the approval period.
12. **Financing Agreement Covenants:** The Financing Agreement shall include, among other things, the following covenants:


- a. City will be required to maintain rates and charges in an amount sufficient to ensure that Net Revenues produce a minimum 1.20 times aggregate annual debt service payable from the Fund.
 - b. The City will be prohibited from issuing future debt senior to the IBank Financing.
 - c. Parity debt will be allowed if Net Revenues amount to at least 1.20 times the MADS taking into consideration the MADS payable in any Fiscal Year on the proposed parity debt.
 - d. Subordinate debt ("Subordinate Debt") will be allowed if Net Revenues are at least 1.00 times the sum of the MADS on all outstanding debt, payable from the Fund, including the proposed Subordinate Debt.
 - e. City will covenant against reducing rates below levels used for all debt service payable from the Fund, and to take actions to increase rates or fund a rate stabilization fund if the debt service coverage ratios fall below required levels.
 - f. City to comply with the requirements of the Criteria and all applicable laws, regulations, and permitting requirements associated with public works projects.
 - g. City to submit audited financial statements to IBank annually within 240 days of fiscal year end.
 - h. City to submit to IBank annual certifications demonstrating compliance with foregoing covenants and other terms and conditions of the financing agreement with the City's audited financial statements.
 - i. City to submit other information to IBank as IBank may request from time to time.
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EXHIBIT 1
City of Del Mar Area Map

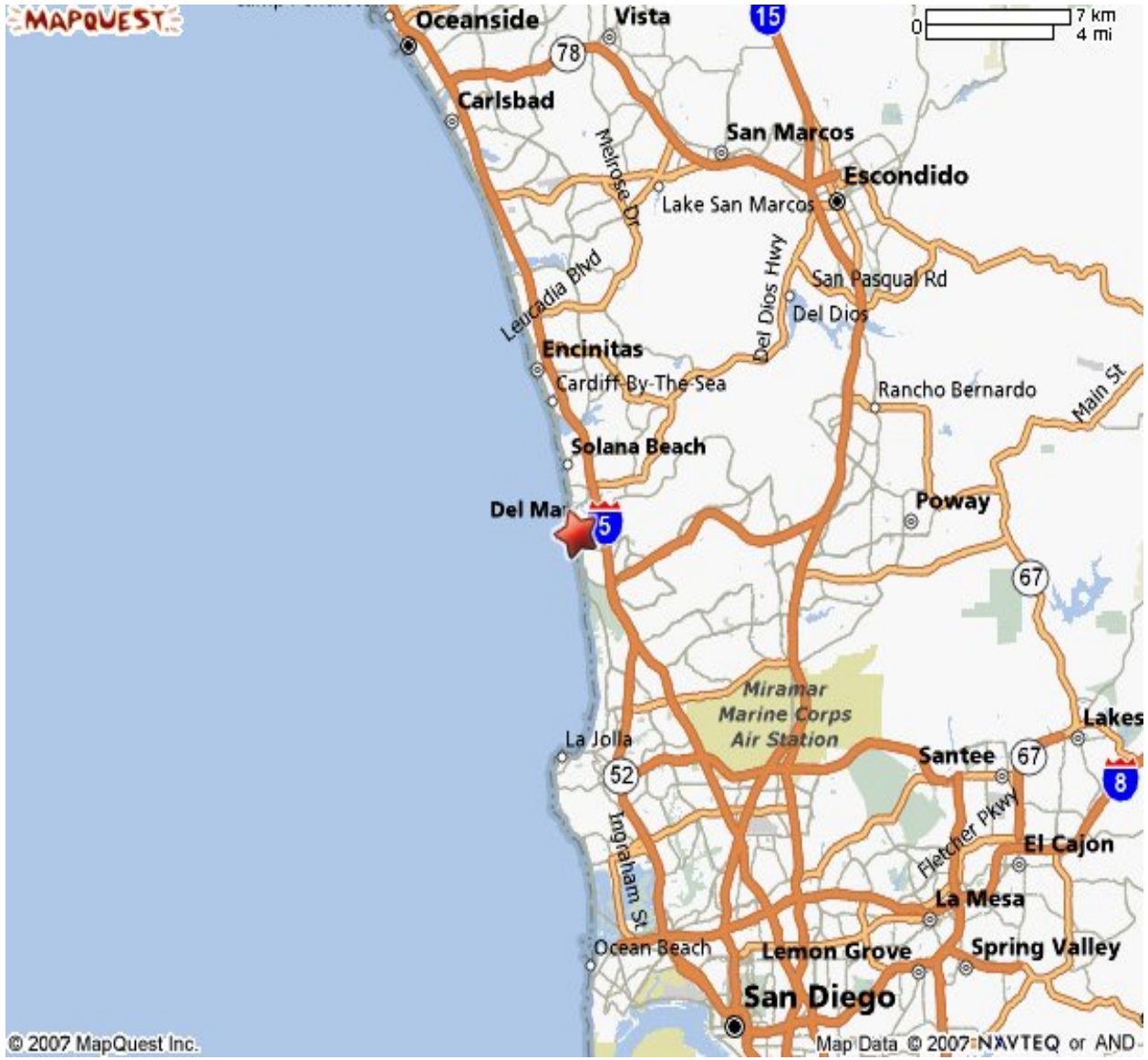


EXHIBIT 2
City of Del Mar Amortization Schedule

Payment Date	Ending Principal Balance	Principal Payment	Interest Payment	Total Principal & Interest	Annual Fee	Total Payment	Total Payment Fiscal Year Ending 30-Jun
1-Sep-2015	\$3,535,354.00						
1-Feb-2016			\$31,965.49	\$31,965.49		\$31,965.49	\$31,965.49
1-Aug-2016	\$3,392,297.29	\$143,056.71	\$38,358.59	\$181,415.30	\$10,606.06	\$192,021.36	
1-Feb-2017			\$36,806.43	\$36,806.43		\$36,806.43	\$228,827.79
1-Aug-2017	\$3,246,136.25	\$146,161.04	\$36,806.43	\$182,967.46	\$10,176.89	\$193,144.36	
1-Feb-2018			\$35,220.58	\$35,220.58		\$35,220.58	\$228,364.93
1-Aug-2018	\$3,096,803.52	\$149,332.73	\$35,220.58	\$184,553.31	\$9,738.41	\$194,291.72	
1-Feb-2019			\$33,600.32	\$33,600.32		\$33,600.32	\$227,892.04
1-Aug-2019	\$2,944,230.27	\$152,573.25	\$33,600.32	\$186,173.57	\$9,290.41	\$195,463.98	
1-Feb-2020			\$31,944.90	\$31,944.90		\$31,944.90	\$227,408.88
1-Aug-2020	\$2,788,346.17	\$155,884.09	\$31,944.90	\$187,828.99	\$8,832.69	\$196,661.68	
1-Feb-2021			\$30,253.56	\$30,253.56		\$30,253.56	\$226,915.24
1-Aug-2021	\$2,629,079.39	\$159,266.78	\$30,253.56	\$189,520.33	\$8,365.04	\$197,885.37	
1-Feb-2022			\$28,525.51	\$28,525.51		\$28,525.51	\$226,410.88
1-Aug-2022	\$2,466,356.53	\$162,722.87	\$28,525.51	\$191,248.38	\$7,887.24	\$199,135.62	
1-Feb-2023			\$26,759.97	\$26,759.97		\$26,759.97	\$225,895.59
1-Aug-2023	\$2,300,102.57	\$166,253.95	\$26,759.97	\$193,013.92	\$7,399.07	\$200,412.99	
1-Feb-2024			\$24,956.11	\$24,956.11		\$24,956.11	\$225,369.10
1-Aug-2024	\$2,130,240.91	\$169,861.66	\$24,956.11	\$194,817.78	\$6,900.31	\$201,718.08	
1-Feb-2025			\$23,113.11	\$23,113.11		\$23,113.11	\$224,831.20
1-Aug-2025	\$1,956,693.25	\$173,547.66	\$23,113.11	\$196,660.78	\$6,390.72	\$203,051.50	
1-Feb-2026			\$21,230.12	\$21,230.12		\$21,230.12	\$224,281.62
1-Aug-2026	\$1,779,379.60	\$177,313.65	\$21,230.12	\$198,543.77	\$5,870.08	\$204,413.85	
1-Feb-2027			\$19,306.27	\$19,306.27		\$19,306.27	\$223,720.12
1-Aug-2027	\$1,598,218.25	\$181,161.35	\$19,306.27	\$200,467.62	\$5,338.14	\$205,805.76	
1-Feb-2028			\$17,340.67	\$17,340.67		\$17,340.67	\$223,146.43
1-Aug-2028	\$1,413,125.69	\$185,092.55	\$17,340.67	\$202,433.22	\$4,794.65	\$207,227.88	
1-Feb-2029			\$15,332.41	\$15,332.41		\$15,332.41	\$222,560.29
1-Aug-2029	\$1,224,016.63	\$189,109.06	\$15,332.41	\$204,441.48	\$4,239.38	\$208,680.85	
1-Feb-2030			\$13,280.58	\$13,280.58		\$13,280.58	\$221,961.43
1-Aug-2030	\$1,030,803.90	\$193,212.73	\$13,280.58	\$206,493.31	\$3,672.05	\$210,165.36	
1-Feb-2031			\$11,184.22	\$11,184.22		\$11,184.22	\$221,349.58
1-Aug-2031	\$833,398.46	\$197,405.45	\$11,184.22	\$208,589.67	\$3,092.41	\$211,682.08	
1-Feb-2032			\$9,042.37	\$9,042.37		\$9,042.37	\$220,724.45
1-Aug-2032	\$631,709.31	\$201,689.14	\$9,042.37	\$210,731.52	\$2,500.20	\$213,231.71	
1-Feb-2033			\$6,854.05	\$6,854.05		\$6,854.05	\$220,085.76
1-Aug-2033	\$425,643.51	\$206,065.80	\$6,854.05	\$212,919.84	\$1,895.13	\$214,814.97	
1-Feb-2034			\$4,618.23	\$4,618.23		\$4,618.23	\$219,433.20
1-Aug-2034	\$215,106.09	\$210,537.43	\$4,618.23	\$215,155.66	\$1,276.93	\$216,432.59	
1-Feb-2035			\$2,333.90	\$2,333.90		\$2,333.90	\$218,766.49
1-Aug-2035		\$215,106.09	\$2,333.90	\$217,439.99	\$645.32	\$218,085.31	\$218,085.31
Total Payments:		\$3,535,354.00	\$853,730.70	\$4,389,084.70	\$118,911.12	\$4,507,995.83	\$4,507,995.83