

# CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)

## STAFF REPORT

### INFRASTRUCTURE STATE REVOLVING FUND PROGRAM (ISRF) DIRECT FINANCING

<b>Applicant:</b> City of Escondido (City)		<b>ISRF Project Type:</b> Water Treatment and Distribution																										
<b>Financing Amount:</b> \$25,000,000	<b>Financing Term:</b> 30 years	<b>Interest Rate:</b> <sup>1</sup> 2.20% + 30 bps Annual Servicing Fee																										
<b>Source of Repayment:</b> Net water system revenues (Net Revenues) and all legally available amounts in the Water fund (Fund)																												
<b>Fund Rating/Date:</b> 1. "AA-" S&P Rating on Water System Revenue Refunding Bonds 2019A & 2019B -November 2019 2. Fitch assessed the City's water system Standalone Credit Profile at "aa-" - December 3, 2020																												
<b>Security:</b> The ISRF Program financing (Financing) would be payable from, and secured by a lien on, Net Revenues and all legally available amounts in the Fund.																												
<b>Project Name:</b> San Pasqual Undergrounding Project (Project)		<b>Project Location:</b> Valley Center in Northern San Diego County																										
<b>Project Description / Sources and Uses of Proceeds:</b> The Project includes but is not limited to: 1) Construction of new desilting basin and access road; 2) Replacement of 2,000 feet of existing Escondido canal with a buried 60 inch pipeline; 3) Removal of approximately two miles of the existing Escondido Canal; 4) Replacement of two miles of existing Escondido canal with buried 60-inch pipeline; and (5) reclamation of land. The Project will be carried out jointly between the City and the Vista Irrigation District (VID). They will each be responsible for 50% of the project. The City will undertake the project and invoice VID.																												
<b>Use of Financing Proceeds:</b> The Financing would fund all components necessary to complete the City's share of the Project, including but not limited to: equipping, installation, design, engineering, construction, demolition, removal, resurfacing, restoration, landscaping, permitting, construction management, project administration, and general project development activities. IBank's loan origination fee is included in the loan amount requested.																												
An 11.82% contingency is included in the City's share of the Project. The majority of this will be included in the Financing, with \$500,000 contributed by the City.																												
<table border="1" style="width: 100%; border-collapse: collapse; background-color: #0000FF; color: white;"> <thead> <tr> <th style="text-align: left;">PROJECT USES</th> <th colspan="4" style="text-align: left;">PROJECT SOURCES</th> </tr> <tr> <th></th> <th style="text-align: center;">IBank</th> <th style="text-align: center;">City of Escondido</th> <th style="text-align: center;">Vista Irrigation District</th> <th style="text-align: center;">Total</th> </tr> </thead> <tbody> <tr> <td>San Pasqual Undergrounding Project + Contingency</td> <td style="text-align: right;">\$24,750,000</td> <td style="text-align: right;">\$1,356,954</td> <td style="text-align: right;">\$26,106,954</td> <td style="text-align: right;">\$52,213,908</td> </tr> <tr> <td>Origination Fee</td> <td style="text-align: right;">250,000</td> <td></td> <td></td> <td style="text-align: right;">250,000</td> </tr> <tr> <td style="text-align: right;"><b>Total</b></td> <td style="text-align: right;"><b>\$25,000,000</b></td> <td style="text-align: right;"><b>\$1,356,954</b></td> <td style="text-align: right;"><b>\$26,106,954</b></td> <td style="text-align: right;"><b>\$52,463,908</b></td> </tr> </tbody> </table>				PROJECT USES	PROJECT SOURCES					IBank	City of Escondido	Vista Irrigation District	Total	San Pasqual Undergrounding Project + Contingency	\$24,750,000	\$1,356,954	\$26,106,954	\$52,213,908	Origination Fee	250,000			250,000	<b>Total</b>	<b>\$25,000,000</b>	<b>\$1,356,954</b>	<b>\$26,106,954</b>	<b>\$52,463,908</b>
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Source: Financing Application

<sup>1</sup> As of May 07, 2021

**Credit Considerations:**

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

<b>CASH FLOW</b>					
For Fiscal Year Ending (FYE) June 30	2016	2017	2018	2019	2020
<b>Operating Income (Loss)</b>	<b>\$2,136,964</b>	<b>\$2,414,910</b>	<b>\$126,520</b>	<b>(\$387,414)</b>	<b>\$2,469,848</b>
<b>Transaction Specific Adjustments</b>					
+ Depreciation	3,767,869	3,977,493	4,132,922	4,082,758	3,777,402
+ Investment Income	264,337	55,053	(\$50,968)	1,079,560	1,300,645
+ Rents and Concessions	963,147	1,118,442	1,160,002	1,304,432	944,470
+ Connection Fees	424,040	424,040	424,040	424,040	424,040
<b>Total of all Adjustments</b>	<b>5,419,393</b>	<b>5,575,028</b>	<b>5,665,996</b>	<b>6,890,790</b>	<b>6,446,557</b>
<b>Cash Available for Debt Service</b>	<b>7,556,357</b>	<b>7,989,938</b>	<b>5,792,516</b>	<b>6,503,376</b>	<b>8,916,405</b>
<b>Debt Service Calculation</b>					
Total Existing Debt Service MADS <sup>1</sup>	4,348,234	4,348,234	4,348,234	4,348,234	4,348,234
Proposed IBank MADS <sup>2</sup>	1,215,609	1,215,609	1,215,609	1,215,609	1,215,609
<b>Total Obligations MADS</b>	<b>\$5,563,843</b>	<b>\$5,563,843</b>	<b>\$5,563,843</b>	<b>\$5,563,843</b>	<b>\$5,563,843</b>
<b>Debt Service Coverage Ratio</b>	<b>1.36</b>	<b>1.44</b>	<b>1.04</b>	<b>1.17</b>	<b>1.60</b>

(1) Maximum Annual Debt Service

(2) Calculated at \$25,000,000 at 2.20% + 30 bps for 30 years.

Analysis of the historical cash flow over the last five years demonstrates the Fund has the capacity to service the proposed Financing in all five years reviewed, with a minimum debt service coverage ratio (DSCR) of 1.04x. For further detail, see the Credit Analysis section.

**Support for Staff Recommendations:**

1. Cash flow analysis demonstrates the Fund's ability to service existing debt and the proposed Financing. The City has an existing ISRF Program loan that is paying as agreed.
2. City has successfully increased rates in order to cover expenses and service its debt.
3. The City estimates the useful life of the Project is at least 30 years, which meets the 30-year term of the Financing.

**Special Terms and Conditions:**

1. In implementing rates and charges, the City will covenant to ensure its rate structure conforms to the requirements of Proposition 218. Further, the City will notify IBank immediately upon the filing of any legal challenge to its rates or charges.
2. The City to provide evidence reasonably satisfactory to IBank that all parity debt conditions precedent set forth in the financing agreements for the 2019 Bonds have been satisfied.

**Exceptions:**

1. The City seeks an IBank Board waiver of the ISRF Program Criteria requirement to complete construction within two years. The Project timeline for the completion of construction is three years, or 36 months from start of construction.
2. The Criteria provides that contractors should be pre-qualified using the Model Questionnaire detailed in the Criteria. The City intends to use its internally-required contractor pre-qualification questionnaire, which substantially meets the intent of the Model Questionnaire. Therefore, the City seeks a waiver of this Criteria requirement.

<b>IBank Staff:</b> Lina Benedict and Betty Bian	<b>Date of Staff Report:</b> June 11, 2021
<b>Date of IBank Board Meeting:</b> June 23, 2021	<b>Resolution Number:</b> 21-10
<b>Staff Recommendation:</b> Staff recommends approval of Resolution No. 21-10 authorizing ISRF Program financing in an amount not to exceed \$25,000,000 to the City of Escondido, for the San Pasqual Undergrounding Project.	

## PROJECT DESCRIPTION

The City of Escondido (City) requests an Infrastructure State Revolving Fund (ISRF) Program financing in the amount of \$25 million (M) to fund the San Pasqual Undergrounding Project (Project).

### **Project Background**

The Project is part of a settlement agreement dated January 30, 2015 (Settlement) among the City of Escondido, the Bands of Mission Indians (the La Jolla, Rincon, San Pasqual, Pauma, and Pala), and Vista Irrigation District (VID).

The Settlement concerned certain rights to the San Luis Rey River watershed, and rights-of-way (ROWs) for the operation and maintenance of water conveyance facilities and appurtenant structures. In 1969, a lawsuit was filed by the federal government and five local Indian Tribes along the San Luis Rey River, contending that the City and VID had improperly received water via the Canal that was designated for the Tribes water by construction of the canal. After nearly 50 years of litigation, the Settlement was finally reached in 2015.

One condition of the Settlement is that the portion of the Escondido Canal that runs through the San Pasqual Reservation or on nearby land owned by the Tribe be put underground by the year 2023. If the undergrounding project is not completed by May 17 of that year, per the Settlement Agreement, the City and VID must jointly pay damages of \$1,000 per day to the San Pasqual Band of the Mission Indians.

The Project area is located in northern San Diego County and encompasses unincorporated portions the County within the community of Valley Center, and portions of the San Pasqual Reservation, as well as portions of the Escondido service areas.

### **Project Description**

The City and VID share local water resources and maintain the existing Escondido Canal (a concrete-lined canal built in the 1890s), and are jointly responsible for implementing the Project, the cost of which will be equally divided between them. The proposed Project will be 50% financed by City from a combination of the IBank loan and city funds, and the other 50% of the project cost will be paid by VID. The City owns and operates the Escondido Canal and will therefore be taking the lead on executing the Project. VID will be invoiced by the City for its share of Project costs as these costs are incurred.

VID has long been aware of the financial obligations associated with the Project. Accordingly, it has set aside funds in its reserves to pay for the Project and has the resources to pay for its 50% share of the Project Costs.

Total Project cost is \$52,213,908, excluding the IBank Origination Fee. The City will cover its half of the Project budget with \$1,356,954 of its own resources and \$24,750,000 of proceeds from the IBank loan (not including the \$250,000 origination fee).

Broadly, the Project will remove, relocate, and replace with an underground pipeline most or all of that portion of the Escondido Canal and its appurtenant structures, facilities, and rights-of-way that currently occupy land within the San Pasqual Reservation, located five miles northeast of Escondido. The Project includes reclamation of the land occupied by the replaced canal by means of demolition, debris removal, grading, and reestablishment of drainage, as well as any associated mitigation of environmental impacts that may be required.

The proposed Project components include:

#### **1. Construction of new desilting basin and access road**

Construction of a new desilting basin and associated access road on the San Pasqual Reservation along

the existing Escondido Canal alignment where the canal first enters the Reservation.

**2. Replacement of 2,000 feet of existing Escondido Canal with a buried 60-inch pipeline**

Replacement of about 2,000 feet of existing canal with a buried 60-inch pipeline within the existing Escondido Canal ROWs.

**3. Removal of approximately two miles of the existing Escondido Canal**

Removal of approximately two miles of the existing Escondido Canal that will be dewatered when the Project is complete.

**4. Replacement of two miles of existing Escondido Canal with buried 60-inch pipeline**

Replacement of two miles of existing canal with a buried 60-inch pipeline within new alignments crossing the San Pasqual Reservation, private lands, and public ROWs in Lake Wohlford Road.

**5. Reclamation of land**

The reclamation of the land formerly occupied by the canal by means of demolition, debris removal, grading, and reestablishment of drainage, as well as any associated mitigation of environmental impacts that may be required.

No pumping would be required to convey flows through the proposed underground pipeline.

**Public Benefits and Impact**

The Project would improve public safety and reduce water loss from evaporation from the undergrounded section of the canal; recover land from the abandonment section; and improve the City's ability to provide safe, reliable, quality water to its residents, businesses and agricultural interests.

The Project is a requirement of the Implementing Agreement, which is an integral component of the Settlement. Following this resolution of extended litigation, IBank does not expect further future issues or controversies that may have a material impact on the Project.

Roughly 30% of the water used by the City and VID Users comes from the water transported through the local canal system, saving on the cost of importing water from Northern California and the Colorado River. The Project would not substantially alter the current drainage patterns along the proposed pipeline alignment or result in an increase in sedimentation rates or runoff volumes and flows. The Project would be required to comply with State and Federal water quality standards and permits, and applicable county codes and permits.

It is estimated that 40-50 full-time-equivalent jobs will be developed over a two-year period for this Project. These will be temporary construction positions, which would be paid prevailing wage appropriate for each position.

**GENERAL INFORMATION**

The City is located in northern San Diego County, about 30 miles north-east of the City of San Diego, 15 miles inland from the Pacific Ocean and 40 miles from the Mexican border. Incorporated in 1888, the City is a general law city governed by a five-member City Council. The City is divided into four districts, with each district electing its own Council Member representative. The Mayor is the presiding officer of the City Council and is elected at large. The term of office for each member of the City Council is four years with staggered terms.

Originally an agricultural center, the City has grown and diversified as the greater San Diego region has expanded. The City has a population of 151,625 (Census Bureau estimates as of July 1, 2019). Its economy is diversified, with industries such as education, healthcare, specialty food and beverage manufacturing,

agriculture, professional services and precision manufacturing.

Retail sales are among the highest in San Diego County due to the presence of the Escondido Auto Park and the Westfield North County shopping mall. Palomar Medical Center, located in the Escondido Research and Technology Center, is the centerpiece of the region's health care system and is recognized as one of the most technologically advanced hospitals in the world. The City is also home to many innovative companies such as Baker Electric Solar, DynamiCard Inc., One Stop Systems Inc., Ingenium, Advanced Chemical Transport, and Communications USA. The City has one of the highest numbers of recorded patents per capita in the nation.

## SYSTEM DESCRIPTION

### System Infrastructure

The City's Water Division supplies water to approximately 25,736 residential, 2,098 commercial, and 940 agricultural and temporary service meters. The City's water system includes approx. 440 miles of water main, five water pump stations, 50 pressure-reducing and regulating stations, and 11 reservoirs which provide storage of approx. 30.57 million gallons.

The City of Escondido is a member agency of the San Diego County Water Authority (SDCWA), one of the largest of 26 member agencies of the Metropolitan Water District of Southern California. The SDCWA has 24 member agencies and supplies 75 to 95 percent of the water needs of the San Diego region. All of Escondido's imported water purchases are made from the SDCWA.

The City's potable water system currently utilizes water from two sources: local water (20% of demand), and purchased water or imported water from SDCWA (80% of demand).

Local water from the San Luis Rey River watershed is stored on a seasonal basis in the Lake Henshaw and Lake Wohlford reservoirs. Principal water storage and conveyance facilities include the Warner Basin aquifer, Lake Henshaw, Warner Ranch Well Field, Escondido Canal, Lake Wohlford, Dixon Lake, Bear Valley Pipeline, and Escondido-Vista Water Treatment Plant. A portion of the San Luis Rey River is also used for conveyance. Local water is shared with VID and provides approximately 20 percent of Escondido's average water demand.

The remaining 80% of water is provided by imported raw water from the SDCWA 1st Aqueduct. The City has two operable raw water connections to the SDCWA aqueduct system (Escondido 3 and 4). The imported raw water is conveyed through a 54-inch diameter pipe to the Water Treatment Plant (WTP), which is co-owned by the City and VID.

The WTP was constructed in 1976 and has a permitted capacity of 75 million gallons per day (MGD). After treatment, potable water is distributed by the City from the WTP to its service area, to VID, and to small pockets of the Rincon Del Diablo Municipal Water District service area. The storage capacity of the City's water system includes 30.35 million gallons (MG) in its distribution storage tanks (including the WTP clearwell), 2,610 acre feet (AF) in Dixon Lake, and approximately 2,800 AF in Lake Wohlford. The two City lakes, Dixon Lake and Lake Wohlford, are contained by dams which are maintained by the City. The lakes are used to store untreated water before it passes through the WTP.

All water is treated at the WTP which has a total treatment capacity of 75 MGD. Vista Irrigation district owns 15 MGD of capacity with the remaining 60 MGD is capacity for City needs. The system's average demand is typically between 17 MGD and 20 MGD, providing ample capacity for the long term.

To diversify its supplies and increase local supply reliability, the City is implementing a long-term potable water reuse project that will provide an additional source of potable water in the City's water service area. In addition, the City will increase local storage at Lake Wohlford once a planned dam replacement project

has been completed.

## Capital Improvement Plan

Based on the recommendations of its Water Rate Study completed on January 17, 2017, the City's Council adopted a Resolution increasing water rates by 5.5% per year for a five-year period starting in Fiscal Year 2017. An additional four year rate increase plan is projected by the City in FY 2022 through 2025. The rate increases will help cover capital improvement plan (CIP) expenditures. The City's CIP projects approximately \$103M in improvements (including the San Pasqual Undergrounding Project) over the five-year planning period, of which \$75M is expected to be debt funded on parity with existing IBank obligations, outstanding Bonds, and the Loans. The following are some of the planned capital improvements in addition to the San Pasqual Undergrounding Project:

- Rincon Penstock (\$6M) – This project will replace the abandoned pipeline connecting the Escondido Canal to the Rincon Indian Reservation, thus restoring the Rincon Band's ability to receive water via the Escondido Canal. This project is required per the terms of the 2017 San Luis Rey Indian Water Rights Settlement and will be funded with CIP cash reserves. Construction is anticipated to begin in 2024.
- Emergency Treated Water Connection (\$2.5M) – This project would install a connection for Escondido to receive potable (treated) water from SDCWA. The City presently has only raw (untreated) water connections. This connection would improve reliability of the water distribution system. The project will be funded with CIP cash reserves and construction is scheduled to begin in 2023.
- Lake Wohlford Dam Replacement (\$66M) – This project will replace the existing Wohlford Dam with a concrete dam immediately downstream. It will be funded via grants (\$15M in grant funding secured), cash already budgeted, and debt issuance via a Water Infrastructure Finance and Innovation Act (WIFIA) loan. Construction of the new dam is scheduled to begin in 2022.
- W. 7th Ave and S. Broadway Water Main Replacement (\$4M) - This project will replace approximately 5,200 feet of existing old water mains that are deteriorated and in need of replacement. The project will be funded with CIP cash reserves and construction is scheduled to begin in late 2021.

These projects will have no temporary impact on system capacity or the ability to meet aggregate demand.

## System Metrics

The following table reflects that the Number of Users by Category over the last five years. With new residential development and the resulting new connections, the number of residential Users have increased. The Other category includes a significant number of agricultural users, irrigation, and TMS (temporary meter sets). The increase in the Other category is primarily from irrigation accounts.

NUMBER OF USERS BY CATEGORY					
	2017	2018	2019	2020	2021
Residential	23,235	23,401	23,514	23,555	23,726
Commercial	1,959	1,965	1,994	1,996	2,002
Industrial	5	5	6	6	6
Other	828	851	898	843	874
<b>Total</b>	<b>26,027</b>	<b>26,222</b>	<b>26,412</b>	<b>26,400</b>	<b>28,780</b>
% change	N/A	0.7%	0.7%	0.0%	9.0%

Source: Financing Application Addendum

The following table displays Current System Usage and Revenue as of May 31, 2021. Residential customers represent more than 69.5% of the Gross Annual Revenues.

<b>CURRENT SYSTEM USAGE &amp; REVENUE</b>				
	<b>Annual Usage (kgal)<sup>(1)</sup></b>	<b>% Annual Usage</b>	<b>Gross Annual Revenue</b>	<b>% Gross Annual Revenue</b>
Residential	3,590,621	57.4%	\$39,820,987	69.5%
Commercial	659,605	10.5%	\$7,457,832	13.0%
Industrial	16,658	0.3%	\$151,149	0.3%
Other	1,992,724	31.8%	\$9,887,384	17.3%
<b>Total</b>	<b>6,259,608</b>	<b>100.0%</b>	<b>\$57,317,352</b>	<b>100.0%</b>

Source: Financing Application

<sup>(1)</sup> Kilogallon

Expected increases or decreases in demand over the next five years:

The City of Escondido's 2017 Rate Study projected stable demand (neither decreasing nor increasing significantly) through 2023. Planned residential development will likely add a few thousand customers over that period, but conservation standards - both in new development and in retrofitting older properties - will keep demand fairly constant (increasing less than 1% annually). Potable water demand among agricultural customers will decrease significantly in FY 2024 with the advent of recycled water for these customers, but this change will be financially advantageous to the Water Enterprise Fund. Although volumetric sales will be lower, agricultural customers will continue to pay the monthly meter service charges. Reduced volumetric sales revenue will be offset by planned rate increases, lower water purchase costs and lower treatment costs.

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

<b>HISTORICAL RATE INCREASES PAST FIVE YEARS</b>		
<b>Date Adopted</b>	<b>Date Effective</b>	<b>Percent Increase</b>
February 1, 2017	March 1, 2021	5.50%
February 1, 2017	March 1, 2020	5.50%
February 1, 2017	March 1, 2019	5.50%
February 1, 2017	March 1, 2018	5.50%
February 1, 2017	March 1, 2017	5.50%

Source: Financing Application Addendum

NOTE: The City's approved water rate increase took effect on March 1, 2021 as planned.

The moratorium that impacts the City and the billing of Utility service is a moratorium on water shutoffs. The City's usual practice (and of water agencies in general) is to shut off service to a property with an overdue account balance after efforts to obtain payment, place the customer on a payment plan, etc. have been exhausted. The Governor's moratorium on such shutoffs did not include a moratorium on rate increases, so the rate increase took effect on March 1, 2021, as authorized by the City Council in 2017.

The following table displays the Historical and Current Average Monthly User Charge per Residential Unit and the year-over-year percent increase of the charge since FY 2017. The table also reflects each year's charge as a percent of the County's Median Household Income (MHI) for residential units. The table demonstrates that the percent of MHI is well below the 2% affordability threshold.

<b>HISTORICAL AND CURRENT AVERAGE MONTHLY USER CHARGE PER RESIDENTIAL UNIT</b>					
<b>For Fiscal Year Ending (FYE) June 30</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Residential	\$43.66	\$46.58	\$49.53	\$52.27	\$55.17
% change	N/A	6.7%	6.3%	5.5%	5.5%
% of MHI (\$64,038)	0.07%	0.07%	0.08%	0.08%	0.09%

Source: Financing Application Addendum

The following table displays the Projected Average Monthly User Charge per Residential Unit in FYs 2022 through 2025.

<b>PROJECTED AVERAGE MONTHLY USER CHARGE PER RESIDENTIAL UNIT</b>				
<b>For Fiscal Year Ending (FYE) June 30</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
Residential	\$56.34	\$57.54	\$58.76	\$60.01
% change	2.12%	2.13%	2.12%	2.13%

Source: Financing Application Addendum

The following table displays the City's Average Monthly System User Charge Compared to Nearby Systems as of May 31, 2021.

<b>CURRENT AVERAGE MONTHLY SYSTEM USER CHARGE COMPARED TO NEARBY SYSTEMS</b>			
<b>System Name</b>	<b>Distance in Miles</b>	<b>Location</b>	<b>Average Monthly Residential Rate</b>
Padre Dam Municipal Water District	31.8	Santee	\$57.76
Valley Center Municipal Water District	10.7	Valley Center	\$56.63
Ramona Municipal Water District	11	Ramona	\$55.61
<b>City of Escondido</b>		<b>N/A</b>	<b>\$55.17</b>
City of San Diego		San Diego County	\$40.36
Rincon del Diablo Municipal Water District	2.7	San Diego County	\$51.14
		<b>Average Monthly User Charge</b>	<b>\$52.78</b>

Source: Financing Application Addendum

The following table displays the Top 10 System Users and reflects that the City complies with IBank's underwriting requirements that revenues derived from the top ten ratepayers not exceed 50% of total system revenues, and that no single ratepayer accounts for 15% or more of revenues. As noted earlier, The Other category includes Agricultural and Irrigation Users.

<b>TOP 10 SYSTEM USERS</b> <b>AS OF FEBRUARY 28, 2019</b>				
	User	% System Use	% System Revenues	Customer Class
1	EC & BJ Malone	3.10%	0.90%	Other
2	Zoological Society of SD	2.30%	2.10%	Other
3	Bar-B Ranch	1.30%	0.40%	Other
4	Wylie FLP	1.30%	0.40%	Other
5	Grangetto Ranches	1.10%	0.30%	Other
6	A-1 Sunshine Farms LLC	0.90%	0.40%	Other
7	City of Escondido	0.70%	0.60%	Other
8	Wohlford Land Co	0.50%	0.20%	Other
9	Tradeland Properties LLC	0.50%	0.20%	Other
10	Escondido Mobilepark West	0.50%	0.40%	Residential
	<b>Total</b>	<b>12.20%</b>	<b>5.90%</b>	

Source: Financing Application Addendum

## CREDIT ANALYSIS

### Source of Financing and Security

The Financing would be secured by a lien on Net Revenues and all legally available amounts in the Fund.

<b>Source of Revenue to Repay Proposed ISRF Program Financing:</b>	Net water system revenues and all legally available amounts in the Water Fund
<b>Outstanding Obligations:</b>	See Debt Table for details: four existing obligations with an outstanding balance of \$50,886,002
<b>Type of Audited Financial Documents Reviewed:</b>	<input checked="" type="checkbox"/> Comprehensive Annual Financial Reports (CAFR) <input type="checkbox"/> Basic Financial Statements (F/S) <input type="checkbox"/> Other:
<b>Fiscal Year Ends:</b>	June 30
<b>Audit Fiscal Years Reviewed:</b>	2016-2020
<b>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.</b>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No. [If no, explain]
<b>Adopted Budget(s) Reviewed:</b>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No. [If no, explain]
<b>Budget Year(s) Reviewed:</b>	2016-2020

## Comparative Statement of Net Position Analysis

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

WATER ENTERPRISE FUND STATEMENT OF NET POSITION										
For Fiscal Year Ending (FYE) June 30	2016		2017		2018		2019		2020	
Source:	CAFR	%	CAFR	%	CAFR	%	CAFR	%	CAFR	%
<b>Assets</b>										
<b>Current Assets</b>										
Cash and Investments	\$13,461,674	8.3%	\$4,779,229	3.0%	\$28,216,593	17.1%	\$25,861,245	16.2%	\$33,877,133	18.6%
Accounts	8,735,003	5.4%	8,760,110	5.4%	10,412,672	6.3%	8,284,728	5.2%	9,106,265	5.0%
Interest	83,989	0.1%	68,410	0.0%	113,267	0.1%	131,532	0.1%	111,916	0.1%
Loans	4,040	0.0%								
Due From Other Governments	193,204	0.1%					100,013		100,013	
Deposits	6,800	0.0%								
<b>Total Current Assets</b>	<b>22,484,710</b>	<b>13.9%</b>	<b>13,607,749</b>	<b>8.4%</b>	<b>38,742,532</b>	<b>23.5%</b>	<b>34,377,518</b>	<b>21.5%</b>	<b>43,195,327</b>	<b>23.7%</b>
<b>Noncurrent Assets</b>										
<b>Restricted Assets:</b>										
Restricted Cash and Investments	26,098,615	16.2%	26,175,045	16.2%	45,003	0.0%	375	0.0%	14,859,530	8.2%
Land Held For Sale	104,573	0.1%	104,573	0.1%						
Prepaid Bond Insurance	109,485	0.1%	104,332	0.1%	99,180	0.1%	94,028	0.1%		
<b>Capital Assets:</b>										
Not Being Depreciated	28,231,112	17.5%	37,879,736	23.5%	36,178,186	21.9%	8,855,063	5.5%	9,724,287	5.3%
Depreciated Net	84,218,413	52.2%	83,390,715	51.7%	89,872,224	54.5%	116,272,393	72.9%	114,342,948	62.8%
<b>Total Other Non Current Assets</b>	<b>138,762,198</b>	<b>86.1%</b>	<b>147,654,401</b>	<b>91.6%</b>	<b>126,194,593</b>	<b>76.5%</b>	<b>125,221,859</b>	<b>78.5%</b>	<b>138,926,765</b>	<b>76.3%</b>
<b>Total Assets</b>	<b>161,246,908</b>	<b>100.0%</b>	<b>161,262,150</b>	<b>100.0%</b>	<b>164,937,125</b>	<b>100.0%</b>	<b>159,599,377</b>	<b>100.0%</b>	<b>182,122,092</b>	<b>100.0%</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>										
Deferred Outflows - Related to Pensions	3,185,083	2.0%	3,856,269	2.4%	4,685,276	2.8%	2,886,331	1.8%	2,615,946	1.4%
Deferred Loss on Refundings, Net	951,063	0.6%	892,253	0.6%	833,443	0.5%	774,633	0.5%		
<b>Total Deferred Outflow of Resources</b>	<b>4,136,146</b>	<b>2.6%</b>	<b>4,748,522</b>	<b>2.9%</b>	<b>5,518,719</b>	<b>3.3%</b>	<b>3,660,964</b>	<b>2.3%</b>	<b>2,615,946</b>	<b>1.4%</b>
<b>Liabilities</b>										
Accounts Payable	6,380,382	4.0%	5,781,920	3.6%	4,532,193	2.7%	2,086,955	1.3%	3,317,476	1.8%
Revenue Bonds									5,933,258	
Accrued Expenses	190,676	0.1%	227,759	0.1%	260,268	0.2%	267,671	0.2%	318,065	0.2%
Accrued Interest	875,602	0.5%	861,002	0.5%	845,802	0.5%	830,002	0.5%	862,681	0.5%
Long-Term Debt, Due Within One Year	1,376,322	0.9%	5,793,591	3.6%	1,585,296	1.0%	1,643,015	1.0%	2,134,761	1.2%
Retention Payable					8,088,340		4,686,066			
<b>Total Current Liabilities</b>	<b>8,822,982</b>	<b>5.5%</b>	<b>12,664,272</b>		<b>15,311,899</b>		<b>9,513,709</b>		<b>12,566,241</b>	
<b>Noncurrent Liabilities</b>										
Deposits Payable	497,834	0.3%	509,137	0.3%	608,180	0.4%	615,048	0.4%	590,902	0.3%
Aggregate Net Pension Liabilities	14,505,683	9.0%	17,451,904	10.8%	19,882,564	12.1%	18,992,085	11.9%	19,906,901	10.9%
Long-Term Debt, Due in More Than One Year	69,514,712	43.1%	68,119,308	42.2%	66,559,144	40.4%	65,019,548	40.7%	79,319,122	43.6%
<b>Total Noncurrent Liabilities</b>	<b>84,518,229</b>	<b>52.4%</b>	<b>86,080,349</b>	<b>53.4%</b>	<b>87,049,888</b>	<b>52.8%</b>	<b>84,626,681</b>	<b>53.0%</b>	<b>99,816,925</b>	<b>54.8%</b>
<b>Total Liabilities</b>	<b>93,341,211</b>	<b>57.9%</b>	<b>98,744,621</b>	<b>61.2%</b>	<b>102,361,787</b>	<b>62.1%</b>	<b>94,140,390</b>	<b>59.0%</b>	<b>112,383,166</b>	<b>61.7%</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>										
Deferred Inflows Related to Pensions	2,767,571	1.7%	237,798	0.1%	136,580	0.1%	232,873	0.1%	354,479	0.2%
Deferred Gain on Refundings									528,593	0.3%
<b>Total Deferred Inflows of Resources</b>	<b>2,767,571</b>	<b>1.7%</b>	<b>237,798</b>	<b>0.1%</b>	<b>136,580</b>	<b>0.1%</b>	<b>232,873</b>	<b>0.1%</b>	<b>883,072</b>	<b>0.5%</b>
<b>Net Position</b>										
Net Investments in Capital Assets	69,548,553	43.1%	79,811,295	49.5%	60,541,689	36.7%	64,454,022	40.4%	47,044,485	25.8%
Unrestricted	(274,281)	-0.2%	(12,783,042)	-7.9%	7,415,788	4.5%	4,433,056	2.8%	24,427,315	13.4%
<b>Total Net Position</b>	<b>\$69,274,272</b>	<b>43.0%</b>	<b>\$67,028,253</b>	<b>41.6%</b>	<b>\$67,957,477</b>	<b>41.2%</b>	<b>\$68,887,078</b>	<b>43.2%</b>	<b>\$71,471,800</b>	<b>39.2%</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$161,246,908</b>	<b>100.0%</b>	<b>\$161,262,150</b>	<b>100.0%</b>	<b>\$164,937,125</b>	<b>100.0%</b>	<b>\$159,599,377</b>		<b>\$182,122,092</b>	

The Cash and Investments line item is the largest item in current assets, accounting for 18.6% of Total Assets in FY 2020. Cash and Investments fluctuated over the years reviewed primarily due to the reimbursement of capital expenditures, and the uneven pace at which these occurred. According to the City, if the disbursement requests were kept up (and not lagging) Cash and Investments would have amounted to \$33.9M, and \$30.2M for FYs 2016 and 2017, respectively. Additionally, in FY 2020 Cash and Investments increased by \$8M as a result of the increase in operating income and non-operating revenues.

Restricted Cash and Investments, under Non-Current Assets, of \$14.8M was cash held with a fiscal agent, representing the disbursement of IBank ISRF loan # 19-134.

Long-term Debt, Due within One Year increased approximately \$4.4M in FY 2017, primarily due to the San Luis Rey settlement arrangement of \$4.1M payable to the Indian Water Authority.

Total Liabilities increased 20.4% over the five years reviewed, primarily due ISRF Loan #19-134; the 2019 Bond issuance (along with the refinance of then existing bonds), and the implementation of GASB Statements No. 68 & 71 beginning in FY 2015, which required the recording of net pension liability and pension related deferred inflows and outflows.

The City provided the Accounts Receivable Aging Summary Report:

<b>CITY OF ESCONDIDO - ACCOUNTS RECEIVABLE AGING AS OF MAY 31, 2021</b>						
	<b>Current</b>	<b>Over 30</b>	<b>Over 60</b>	<b>Over 90</b>	<b>Over 120</b>	<b>Total</b>
Annual Receipts	\$2,551,043	\$166,402	\$87,585	\$86,458	\$488,460	\$3,379,948
<b>Percent</b>	<b>75.5%</b>	<b>4.9%</b>	<b>2.6%</b>	<b>2.6%</b>	<b>14.5%</b>	<b>100.0%</b>
Source: Financing Application Addendum						

Under the City's billing and collection procedures, customers have approximately sixty days from the bill date to pay the balance owed before water service is terminated. At this point the receivables amount would be removed from the receivables account and transferred to the City's collections department, and there would be no accounts receivable greater than 60 days old.

In response to the Governor's the Executive Order in March 2020 placing a moratorium on water shutoffs, the City placed the collections and severance process in the billing system on hold. Since that time, customer balances have been accruing in the system. When the Governor's Order is lifted, the City will resume the normal billing and collection procedures and pursue the amounts that are owed. The Collections staff will attempt to collect the balance in full or negotiate a payment plan with the customer when the pandemic related moratorium is lifted. Seven percent interest per year is applied to all balances in Collections as a routine.

The City's Finance director anticipates that a significant portion will be recovered by the Water Fund, either through payment plans offered by the City or through the various available federal, state, and local assistance programs specific to utilities. The Governor's announcement of potential relief for agencies impacted by COVID is hopeful news that the City may still realize the revenue.

The Water Fund has not been impacted severely by the pandemic. The number of accounts in delinquency has not changed significantly, and the total dollar amount of delinquencies is still well below \$1M. The City projects Charges for Services revenue at end of FY 20-21 at \$67.4M a 11.9% increase from FY ended 19-20.

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

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

WATER ENTERPRISE FUND REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION										
For Fiscal Year Ending (FYE) June 30	2016		2017		2018		2019		2020	
Source:	CAFR	%	CAFR	%	CAFR	%	CAFR	%	CAFR	%
% Change of Total Revenues		-8.2%		7.8%		12.8%		-4.4%		5.6%
<b>Operating Revenues:</b>										
Charges for Services	\$49,105,084	100.0%	\$52,936,039	100.0%	\$59,696,574	100.0%	\$57,044,241	100.0%	\$60,212,236	100.0%
<b>Total Operating Revenues</b>	<b>49,105,084</b>	<b>100.0%</b>	<b>52,936,039</b>	<b>100.0%</b>	<b>59,696,574</b>	<b>100.0%</b>	<b>57,044,241</b>	<b>100.0%</b>	<b>60,212,236</b>	<b>100.0%</b>
<b>Operating Expenses:</b>										
Personnel Services	8,210,368	16.7%	9,690,510	18.3%	11,969,610	20.1%	12,067,358	21.2%	12,917,876	21.5%
Purchased Water	21,493,055	43.8%	21,058,343	39.8%	27,511,621	46.1%	24,017,147	42.1%	23,055,757	38.3%
Administrative Expenses	5,715,530	11.6%	6,352,417	12.0%	6,192,917	10.4%	6,128,265	10.7%	6,397,646	10.6%
Supplies	1,850,963	3.8%	2,188,124	4.1%	2,268,038	3.8%	2,639,917	4.6%	3,759,032	6.2%
Repairs and Maintenance	1,286,172	2.6%	1,720,494	3.3%	1,816,827	3.0%	1,974,600	3.5%	2,371,288	3.9%
Utilities	2,200,615	4.5%	2,787,961	5.3%	3,192,497	5.3%	3,580,720	6.3%	2,956,600	4.9%
Professional Services	989,746	2.0%	1,061,054	2.0%	999,452	1.7%	1,182,011	2.1%	983,030	1.6%
Insurance Premiums	651,215	1.3%	599,085	1.1%	541,170	0.9%	578,240	1.0%	565,075	0.9%
Rent	338,193	0.7%	352,628	0.7%	367,524	0.6%	459,440	0.8%	464,682	0.8%
Other	464,394	0.9%	733,020	1.4%	577,476	1.0%	721,199	1.3%	494,000	0.8%
Depreciation	3,767,869	7.7%	3,977,493	7.5%	4,132,922	6.9%	4,082,758	7.2%	3,777,402	6.3%
<b>Total Operating Expenses</b>	<b>46,968,120</b>	<b>95.6%</b>	<b>50,521,129</b>	<b>95.4%</b>	<b>59,570,054</b>	<b>99.8%</b>	<b>57,431,655</b>	<b>100.7%</b>	<b>57,742,388</b>	<b>95.9%</b>
<b>Operating Income (Loss)</b>	<b>2,136,964</b>	<b>4.4%</b>	<b>2,414,910</b>	<b>4.6%</b>	<b>126,520</b>	<b>0.2%</b>	<b>(387,414)</b>	<b>-0.7%</b>	<b>2,469,848</b>	<b>4.1%</b>
<b>Nonoperating Revenues (Expenses)</b>										
Investment Income	264,337	0.5%	55,053	0.1%	(50,968)	-0.1%	1,079,560	1.9%	1,300,645	2.2%
Rents and Concessions	963,147	2.0%	1,118,442	2.1%	1,160,002	1.9%	1,304,432	2.3%	944,470	1.6%
Intergovernmental	1,436,288	2.9%	667,334	1.3%	382,326	0.6%				
Interest and Fiscal Charges	(2,726,003)	-5.6%	(2,677,581)	-5.1%	(2,625,313)	-4.4%	(2,722,427)	-4.8%	(4,848,978)	-8.1%
Miscellaneous	186,241	0.4%	64,985	0.1%	130,079	0.2%	341,737	0.6%	862,517	1.4%
Settlements			(4,110,762)	-7.8%	(35,470)	-0.1%				
<b>Net Non-Operating Revenues (Expenses)</b>	<b>124,010</b>	<b>0.3%</b>	<b>(4,882,529)</b>	<b>-9.2%</b>	<b>(1,039,344)</b>	<b>-1.7%</b>	<b>3,302</b>	<b>0.0%</b>	<b>(1,741,346)</b>	<b>-2.9%</b>
<b>Income (Loss Before Operating Transfers)</b>	<b>2,260,974</b>	<b>4.6%</b>	<b>(2,467,619)</b>	<b>-4.7%</b>	<b>(912,824)</b>	<b>-1.5%</b>	<b>(384,112)</b>	<b>-0.7%</b>	<b>728,502</b>	<b>1.2%</b>
<b>Capital Contributions and Transfers</b>										
Transfer (Out)			(1,948,746)		(12,500)					
Connection Fees	583,790		1,937,953		1,854,548		451,312		424,040	
Intergovernmental							153,456		434,598	
Developer Contributions	355,348		232,393				708,945		997,582	
<b>Total Contributions and Transfers</b>	<b>939,138</b>		<b>221,600</b>		<b>1,842,048</b>		<b>1,313,713</b>		<b>1,856,220</b>	
<b>Changes in Net Position</b>	<b>3,200,112</b>		<b>(2,246,019)</b>		<b>929,224</b>		<b>929,601</b>		<b>2,584,722</b>	
<b>Net Position at Beginning of Year</b>	<b>66,074,160</b>		<b>69,274,272</b>		<b>67,028,253</b>		<b>67,957,477</b>		<b>68,887,078</b>	
<b>Net Position at End of Year</b>	<b>\$69,274,272</b>		<b>\$67,028,253</b>		<b>\$67,957,477</b>		<b>\$68,887,078</b>		<b>\$71,471,800</b>	

The Water Fund ended FY 2020 with an increase in net position of \$2.6M. This positive result was driven mainly by a year-over-year increase in revenue from water charges for services of \$3.2M, due to increased water consumption.

The Borrower's largest revenue source, Charges for Services, decreased by \$4.4M, or 8.2% in FY 2016 as a result of State-mandated drought restrictions. The line item increased by \$6.8M, or 12.8% in FY 2018 over the previous year, primarily due to an increase in water consumption after the removal of drought restrictions, as well as the 5.5% rate increase implemented in March 2017. The increase in revenue was partially offset by an increase in the cost of purchased water, which was also driven by below-average rainfall that year. In FY 2019 there was a 4.4% decrease in Charges for Services mainly due to decreased water consumption resulting from a wet winter.

**Potential drought impacts:** Like most water agencies, the City charges monthly fixed charges that are independent of water consumed in a given billing cycle. Over the past 10 years, the City has increased the monthly fixed charges as well as the volumetric charges. During the last drought, which lasted several years, the fixed revenue held steady, allowing the City to fund its fixed operating costs (e.g., employees,

equipment, etc.) without interruption. Volumetric revenue decreased because drought restrictions reduced sales, but that reduction was partially offset by a reduction in water imports.

Personnel Services increased cumulatively by 57% over the five years reviewed, by a total of over \$4.7M, due to a noncash entry of \$1.5M for pension expense in FY 2017 to record unfunded pension liability, as well as negotiated salary increases.

Total Operating Expenses have remained stable at \$57M in FYs 2019 and 2020 after increasing 7.56% and 17.9% in FY 2017 and FY 2018, respectively, due to purchased water costs and increased salaries, pension costs, and utilities.

Intergovernmental revenue in FYs 2016 through 2018 reflect fluctuations of grant funding and reimbursements from VID of project-related expenditures.

In FY 2017, Non-operating Expenses include \$4.1M of the San Luis Rey settlement arrangement. The total settlement payment of \$4.4M was paid in full as of June 30, 2018.

Miscellaneous Revenue is comprised of various other non-operating revenue and miscellaneous reimbursements received during the year. In FY 2020 of \$862,517 was predominantly from a reimbursement from the County of San Diego due to the overpayment of property taxes that had been assessed on property owned by the Water Fund.

Looking at Capital Contributions and Transfers, in FY 2017 a Transfer Out of \$1.9M was recorded to the Wastewater Fund. Prior to FY 2017, the Receivable for both the water and wastewater customer fees were recorded in the Water Fund. In FY 2017, the wastewater portion was moved to the Wastewater Fund and wastewater customer fees are now recorded under that entity.

Connection Fees have fluctuated from a high of nearly \$2M to a low of \$424K over the five years reviewed reflecting the change in rate of economic and real estate growth in the city, (i.e. the addition of new Users). The last couple of years also show higher Developer Contributions (\$709K in FY 2019 and \$998K in FY 2020) an indication of upcoming real estate growth in the City.

In Summary the Fund showed positive Changes in Net Position in all years, except in FY 2017 when the settlement expense mentioned was incurred. The Fund's Net Position at the end of each of the five years reviewed have remained stable between \$67M and a high of \$71.4M in FY 2020.

## Existing Obligations Payable from the Fund

The table below shows the information for the City's outstanding obligations payable from the Fund:

WATER FUND OBLIGATIONS				
Debt Issued	Underlying Rating (at issuance)	Date Issued	Amount Issued	Maturity
IBank ISRF Loan #19-134		2019	\$15,000,000	2048
2019A Water Refunding Revenue Bonds	AA-	2019	\$20,380,000	2038
2019B Water Refunding Revenue Bonds	AA-	2019	\$30,000,000	2042
2009 Dept. of Public Health Water Loan		2009	\$2,813,324	2032
2002 Dept. of Water Resources Loan		2003	\$2,048,125	2024
		<b>Total</b>	<b>\$55,241,449</b>	

- In June 2019, the City entered into an ISRF installment sale agreement with IBank. ISRF loan # 19-134 was for the City's Lindley Reservoir Tank Replacement Project. The loan amount approved was \$15M with a term of 30 years at an annual interest rate of 3.00%. Repayment of the loan began in August 2020. The estimated Project completion date is May 2022. The current outstanding balance at the time of this writing is \$14,668,279
- 2019A (Tax-exempt) and the 2019B (Taxable) Water Refunding Revenue Bonds were issued for new capital projects as well as refunding of the outstanding balance of \$11,075,000 on prior bonds and certificates of appreciation.
- 2009 Loan with Department of Public Health for Alexander Area Phase II Water Line.
- 2002 DWR loan was for the City's Gravity Float Line project

The 2002 DWR Loan and the 2009 DPH Loan (collectively, the Loans), with an aggregate outstanding balance of approximately \$2.6M, are silent on parity debt. The Security section of the 2009 DPH Loan states "[The City] agrees that it shall not incur any additional indebtedness having any priority in payment over [the City's] obligations to State under this Agreement ..." and the 2002 DWR Loan uses roughly equivalent language. The provision seems to contemplate additional debt and specifically forecloses senior debt, which could lead to the conclusion in any (theoretical) lien enforcement action that the City's issuance of parity debt was permissible and so each subsequent financing (including the Financing) is on parity with the Loans. Alternatively, a court reviewing the parties' relative priorities could also conclude that the Loans do not permit anything other than subordinate debt and so each lien granted after the issuance of the Loans is subordinate to the lien created by the Loans.

IBank's Financing Agreement will require evidence reasonably satisfactory to IBank that all parity debt conditions precedent set forth in the financing agreements the 2019 Bonds have been satisfied.

The City is in good standing and current on all debt. All payments have been made on time and the City is not in default on any required covenants including IBank required DSCR covenants per IBank annual surveillances completed in FY 2019 and 2020. As indicated in the table above, the 2019 bonds each received AA- ratings from S&P.

## Fund Cash Flow and Debt Service Analysis

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

CASH FLOW					
For Fiscal Year Ending (FYE) June 30	2016	2017	2018	2019	2020
<b>Operating Income (Loss)</b>	<b>\$2,136,964</b>	<b>\$2,414,910</b>	<b>\$126,520</b>	<b>(\$387,414)</b>	<b>\$2,469,848</b>
<b>Transaction Specific Adjustments</b>					
+ Depreciation	3,767,869	3,977,493	4,132,922	4,082,758	3,777,402
+ Investment Income	264,337	55,053	(\$50,968)	1,079,560	1,300,645
+ Rents and Concessions	963,147	1,118,442	1,160,002	1,304,432	944,470
+ Connection Fees (3)	424,040	424,040	424,040	424,040	424,040
<b>Total of all Adjustments</b>	<b>5,419,393</b>	<b>5,575,028</b>	<b>5,665,996</b>	<b>6,890,790</b>	<b>6,446,557</b>
<b>Cash Available for Debt Service</b>	<b>7,556,357</b>	<b>7,989,938</b>	<b>5,792,516</b>	<b>6,503,376</b>	<b>8,916,405</b>
<b>Debt Service Calculation</b>					
Total Existing Debt Service MADS <sup>1</sup>	4,348,234	4,348,234	4,348,234	4,348,234	4,348,234
Proposed IBank MADS <sup>2</sup>	1,215,609	1,215,609	1,215,609	1,215,609	1,215,609
<b>Total Obligations MADS</b>	<b>\$5,563,843</b>	<b>\$5,563,843</b>	<b>\$5,563,843</b>	<b>\$5,563,843</b>	<b>\$5,563,843</b>
<b>Debt Service Coverage Ratio</b>	<b>1.36</b>	<b>1.44</b>	<b>1.04</b>	<b>1.17</b>	<b>1.60</b>

(1) Maximum Annual Debt Service

(2) Calculated at \$25,000,000 at 2.20% + 30 bps for 30 years.

(3) Connection Fees are considered at FY 2020 levels for a conservative estimate as this year was the lowest of the five years.

The chart above shows DSCR of existing debt plus the new loan debt considered in the five historical years reviewed.

Staff analysis of the City's cash flow reflects the following assumptions:

- Non-cash Depreciation expense was added back.
- Recurring Investment Income is included.
- Rents and Concessions, which are recurring income, are also included. The Water Fund operates two drinking water reservoirs, Lake Wohlford and Dixon Lake. Both lakes host recreational activities (e.g., camping, boating, fishing, etc.). Revenue from fees charged for these activities is included in the Water Fund budget under Rents and Concessions.
- Connection Fees were conservatively maintained at 2020 levels (the lowest of the five years reviewed). Although the City is at a mature stage of development, development has actually picked up in FY 2020-2021. The City has quite a few housing projects in the pipeline and City managers anticipate that Connection Fees will be on the higher end of that scale for the next couple of years. They are currently at \$1.7M for FY 2020-2021. Once these housing projects are completed the infrastructure is then contributed to the City to maintain, and some larger developer contributions are anticipated in the future years as well.

Analysis of the historical cash flow over the last five years demonstrates the Fund has the capacity to service the proposed financing with a debt service coverage ratio (DSCR) of 1.04 or greater in all five years reviewed.

The City actually has other non-operating revenues not included in the conservative analysis above, i.e., miscellaneous income, investment income, intergovernmental transfers-in and Developer Contributions. The City is therefore well able to meet the required 1.20X DSCR coverage required for its bond debt ad existing ISRF loan.

The chart below shows historical cash flow analysis using all actual cash available for debt service and

actual historical debt service. It shows that the 1.20X required DSCR (per the 2019 bonds and per prior IBank 2019 ISRF loan) was met comfortably.

<b>CASH FLOW WITH ACTUAL CASH AVAILABLE FOR DEBT SERVICE AND ACTUAL HISTORICAL MADS</b>				
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Actual Cash Available for Debt Service</b>	<b>9,503,851</b>	<b>7,223,024</b>	<b>7,734,786</b>	<b>11,211,102</b>
<b>Debt Service Calculation</b>				
<b>TOTAL Actual MADS</b>	<b>4,815,401</b>	<b>4,815,401</b>	<b>4,832,059</b>	<b>4,832,059</b>
<b>Debt Service Coverage Ratio</b>	<b>1.97</b>	<b>1.50</b>	<b>1.60</b>	<b>2.32</b>

### **COVID-19 Pandemic Impact**

The Fund has not experienced significant loss in revenues in response to the pandemic, due to the essential nature of the enterprise.

There has not been a reduction in Charges for Services revenues, as the number of gallons of water used has increased from the prior year (See projection chart below). This is primarily attributed to the diversification in customer types of the City's water system, as well as the rate increase implemented March of 2020, just prior to the outbreak.

The City's utility customers are primarily residential. Water use has increased for this customer class as various stay-at-home orders have been in place since March of 2020. The largest water system customers are for agriculture and irrigation services. Water use has also increased for this customer class from the prior year.

Although demand from commercial customers has decreased from the prior year, most businesses have been able to reopen since the initial health orders have been modified since March of 2021. The slight decrease in demand is expected to continue as most businesses are required to reduce activities due to the pandemic; however, commercial customers only represent 7.8% of the total number of utility connections, therefore the impact to total water and wastewater revenues is minimal.

Prior to COVID-19, approximately 85% to 90% of all bills were paid within 19 days, and almost all delinquencies were paid prior to the disconnection of service. On March 4, 2020, Governor Newsom issued Executive Order N-42-20 restricting water shutoffs on homes and small businesses. The City has suspended all billing penalties and related water service shutoffs since the Order was issued. When the health order is lifted, the outstanding balances of delinquent customers will be placed into a payment plan in order to bring their accounts current.

From the 12-03-2020 Fitch Rate Report affirming the AA- rating:

"Given the overriding economic uncertainty related to the coronavirus, Fitch considered an additional sensitized 4% revenue decline with a recovery stretched over the following years. This additional sensitization produced net leverage metrics that could be supported by the current rating."

As of June 30, 2020 the Fund's Unrestricted Net Fund Balance stood at \$24.4M, and its unrestricted cash position stood at nearly \$34M, all of which would further mitigate the risk of any potential revenue shortfall, as would the Fund's authority and ability over the medium term to increase revenue by raising service rates.

## Financial Projections

The following are projections provided by the City:

	City of Escondido Water Enterprise Fund									
	PROJECTIONS									
For Fiscal Year Ending (FYE) June 30	2021 Projected		2022 Projected		2023 Projected		2024 Projected		2025 Projected	
Source:	Projections	%	Projections	%	Projections	%	Projections	%	Projections	%
% Change		13.29%		3.78%		1.48%		2.41%		1.80%
Total Revenues										
Charges for Services	\$67,397,460	96.9%	\$70,193,339	97.1%	\$71,267,095	97.1%	\$73,071,899	97.2%	\$74,438,389	97.2%
Connection Fees	\$428,280	0.6%	\$432,563	0.6%	\$436,889	0.6%	\$441,258	0.6%	\$445,670	0.6%
Investment Income	\$270,485	0.4%	\$188,308	0.3%	\$178,705	0.2%	\$169,581	0.2%	\$160,912	0.2%
Rents and Concessions	\$953,915	1.4%	\$963,454	1.3%	\$973,089	1.3%	\$982,820	1.3%	\$992,648	1.3%
Other	\$522,616	0.8%	\$527,843	0.7%	\$533,121	0.7%	\$538,452	0.7%	\$543,837	0.7%
Total Revenues	\$69,572,756	100.0%	\$72,305,507	100.0%	\$73,388,899	100.0%	\$75,204,010	100.0%	\$76,581,456	100.0%
Expenses										
Operation and Maintenance	\$34,039,508	48.9%	\$35,159,244	48.6%	\$36,323,492	49.5%	\$37,640,956	50.1%	\$38,953,538	50.9%
Purchased Water	\$25,621,135	36.8%	\$25,564,306	35.4%	\$25,530,839	34.8%	\$25,842,398	34.4%	\$25,978,843	33.9%
Total Expenses	\$59,660,643	85.8%	\$60,723,550	84.0%	\$61,854,331	84.3%	\$63,483,354	84.4%	\$64,932,381	84.8%
Net Income (Loss)	\$9,912,113	14.2%	\$11,581,957	16.0%	\$11,534,568	15.7%	\$11,720,656	15.6%	\$11,649,075	15.2%
Nonoperation Revenues (Expenses)										
Net Non-operating Revenues (Expenses)	\$0		\$0		\$0		\$0		\$0	
Income (Loss Before Operating Transfers)	\$9,912,113	14.2%	\$11,581,957	16.0%	\$11,534,568	15.7%	\$11,720,656	15.6%	\$11,649,075	15.2%
Change in Net Assets	\$9,912,113		\$11,581,957		\$11,534,568		\$11,720,656		\$11,649,075	
Total Operating Expenses/Total Operating Revenues		85.8%		84.0%		84.3%		84.4%		84.8%

Revenues include non-operating Revenues such as Connection Fees, Investment Income, Rents and Concession Revenue. Other revenues include reimbursements from outside agencies, credit card fees, gain/loss fixed assets, transfers (mostly with CIP), bad debt recoveries/offset, and other non-budgeted revenues.

The City projects Connections fees starting with Actual FY 2020 connection fees and projecting approximately 1% increase each year.

The City had the following assumptions for the Projections:

- Included in Operation and Maintenance expense is a 5% escalation of water department staff costs. The model is conservative and assumes escalation factors for salary and benefits.
- The City conservatively projects no account and usage growth.
- 2% rate increases for FYs 2022, 2023, 2024, and 2025. These rate increases are planned and the City is to begin the rate increase process in early 2022.
- The projections assume reduced water usage due to Agricultural customers moving to recycled water. This is offset by less purchase water costs.

CASH FLOW PROJECTIONS					
For Fiscal Year Ending (FYE) June 30	2021	2022	2023	2024	2025
<b>Operating Income (Loss)</b>	<b>\$9,912,113</b>	<b>\$11,581,957</b>	<b>\$11,534,568</b>	<b>\$11,720,656</b>	<b>\$11,649,075</b>
<b>Cash Available for Debt Service</b>	<b>9,912,113</b>	<b>11,581,957</b>	<b>11,534,568</b>	<b>11,720,656</b>	<b>11,649,075</b>
<b>Debt Service Calculation</b>					
Existing Debt Service MADS	4,348,234	4,348,234	4,348,234	4,348,234	4,348,234
Proposed IBank MADS <sup>2</sup>	1,215,609	1,215,609	1,215,609	1,215,609	1,215,609
<b>Total Obligations MADS</b>	<b>\$5,563,843</b>	<b>\$5,563,843</b>	<b>\$5,563,843</b>	<b>\$5,563,843</b>	<b>\$5,563,843</b>
<b>Debt Service Coverage Ratio</b>	<b>1.78</b>	<b>2.08</b>	<b>2.07</b>	<b>2.11</b>	<b>2.09</b>
(1) Maximum Annual Debt Service					
(2) Calculated at \$25,000,000 at 2.20% + 30 bps for 30 years.					

The cash flow projections above are based on the City's revenue and expense projections, and consider same projected MADS as our initial analysis above.

Cash Available For Debt Service Include all Revenues as described under the City's Projections. Depreciation is not included in the projections provided or Cash Available for Debt Service.

## **Risk Factors**

1. Certain aspects of the City's rate structure are similar to those successfully challenged in a California appellate court case as having violated Prop 218 requirements.
2. The City is not prohibited from incurring additional obligations payable from the Fund.
3. The Loans do not include specific parity debt conditions, therefore there can be no assurance that the proposed Financing would be on parity with the Loans.

## **Mitigating Factors**

1. 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.
2. The City's council has an independent rate-setting authority and enacts rates and charges without the approval of any other governing body. A rate increase of about 5.5% was implemented in March 2017 through 2021.
3. The City will be prohibited from issuing future debt senior to the IBank financing, and new parity debt would only be permitted if Net Revenues accumulated within the Fund are at least 1.20 times its Annual Debt Service (ADS).
4. Defaults are rare among rated municipal bonds, with a default rate of 0.08% from 1970-2019. (Moody's Investor' service – US Municipal Bonds Defaults and Recoveries, 1970-2019), according to S&P the City's current debt rating is AA-. The City's water system is rated AA- by Fitch. (The City's Financing Authority, and the 2019 revenue bonds for the water system also have this rating)
5. Revenue of the City's water fund is stable with minimal effect by the pandemic as the system serves a largely residential customer base.
6. The City has an existing ISRF loan with IBank which is paid as agreed and in compliance with all covenant requirements.

## **Compliance with IBank Underwriting Criteria**

The proposed Financing is in compliance with the criteria as follows: 1) revenues derived from the top ten System ratepayers do not exceed 50% of annual System revenues, 2) revenues derived from any single ratepayer do not exceed 15% of annual System revenues, 3) the estimated useful life of the Project is 30 years, which meets the term of the Financing, and 4) the City has the power to establish and enact rates and charges without the approval of any other governing body.

## **Criteria Exceptions**

1. The City seeks an IBank Board waiver of the Criteria requirement to complete construction within two years. The Project timeline for the completion of construction is two and a half years or 30 months from start of construction.
2. The City requests that the IBank Board waive the Criteria provision that provides contractors should be pre-qualified using the Model Questionnaire detailed in the Criteria. The City intends to use its internally-required contractor pre-qualification questionnaire, which substantially meets the intent of the Model Questionnaire.

## STAFF RECOMMENDATION

Staff recommends approval of Resolution No. 21-10 authorizing ISRF Program financing to the City of Escondido (City), for the San Pasqual Undergrounding Project.

1. **Applicant/Borrower:** The City of Escondido
2. **Project:** The San Pasqual Undergrounding Project
3. **Amount of Financing:** \$25,000,000
4. **Maturity:** Thirty (30) years
5. **Repayment/Security:** The ISRF Program financing would be secured by a lien on Net Revenues and all legally available amounts in the Fund.
6. **Interest Rate:** 2.20%
7. **Fees:** The City to pay an origination fee of 1.00%, (\$250,000), included in the Financing amount, and an annual servicing fee of 0.30% of the outstanding principal balance.
8. **Not an Unconditional Commitment:** IBank's resolution shall not be construed as an unconditional commitment to finance the Project, but rather IBank's approval pursuant to the Resolution is conditioned upon entry by IBank and the City into a Financing Agreement, in form and substance satisfactory to IBank.
9. **Limited Time:** 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.
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 maximum annual debt service ratio for obligations on parity with the Financing.
  - b. 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. The City will covenant against reducing rates below levels used for all debt service payable from the Fund, and to take actions to increase rates or fund a rate stabilization fund if the debt service coverage ratios fall below required levels.
  - f. Upon implementing rates and charges, the City to covenant to ensure that its rate structure conforms to the requirements of Proposition 218 and those of the statutes implementing it and the cases interpreting it. Further, the City to covenant to notify IBank immediately upon the filing of any legal challenge to its rates or charges.
  - g. The City to comply with the requirements of the Criteria and all applicable laws, regulations, and permitting requirements associated with public works projects.
  - h. The City to provide to IBank annually within 180 days of the end of each of the 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 any other information as IBank may request from time to time.
  - i. The City to provide evidence reasonably satisfactory to IBank that all parity debt conditions precedent set forth in the financing agreements for the 2019 Bonds have been satisfied.

## PROJECT SITE





