

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)

STAFF REPORT

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

Applicant: City of Laguna Beach (City)		ISRF Project Type: Sewage Collection and Treatment
Financing Amount: Phase 1) \$7,500,000	Financing Term: 30 years	Interest Rate: 2.20% + 30 bps Annual Servicing Fee ¹
Source of Repayment: Net system revenues and all legally available amounts in the Wastewater (Sewer) Enterprise Fund (Fund)		Existing Credit Rating/Date: None
Security: The ISRF Program financing (Financing) would be secured by a senior lien on Net Revenues and all legally available amounts in the Fund, on parity with IBank's existing senior liens of the three Installment Sales Agreements: No. CIEDB-B04-052, No. ISRF 18-123, and No. ISRF 19-133.		
Project Name: Six Wastewater Systems Project (Project)		Project Location: Multiple sites in the City

Project Description / Sources and Uses of Proceeds:

The North Coast Interceptor (NCI) is a pressurized sewer pipeline in Laguna Beach. The City is undertaking to complete projects to upgrade the City's collection system and replace the portion of the NCI in Aliso Canyon. The City estimates the total projects timeline will be over 60 months and cost nearly \$17,000,000. Given the extended timeline, the City's strategy is to break the overall project up into two phases, to be financed with two separate loans from IBank. The first loan for \$7,500,000 (presented here) is for Phase 1.

Phase 1 has a total cost of \$8,422,500. The City will cover the \$922,500 in excess of the IBank loan, including the IBank Origination Fee, with its own resources. While Phase 1 consists of six wastewater projects, Phase 2 consists of the actual NCI portion replacement in Aliso Canyon, at an estimated cost of \$8,500,000. The City expects to request the second loan (for the full amount of Phase 2) in approximately two years, in the first quarter of 2024. Since the Phase 2 funds are not needed in the near term, the City made the decision to delay the request for the subsequent financing, and thus save on interest expense.

Use of Financing Proceeds for Phase 1:

Project Uses	Project Sources		
	IBank	City	Total
Siphon Inspection	\$500,000	\$15,000	\$515,000
Anita Street Lift Station Reconstruction	\$2,500,000	\$75,000	\$2,575,000
Pipeline Rehabilitation (Zone 5)	\$1,000,000	\$0	\$1,000,000
Forcemain Inspection Project	\$250,000	\$7,500	\$257,500
SOCWA CTP Projects	\$2,256,000	\$0	\$2,256,000
SCWD Lift Station No 2 Intertie	\$975,000	\$750,000	\$1,725,000
Rounding to \$7.5M (Additional Contingency)	\$19,000	\$0	\$19,000
Origination Fee		\$75,000	\$75,000
Total	\$7,500,000	\$922,500	\$8,422,500

The City states that the project components each include a minimum of 10% contingency. Any additional contingencies will be paid by the City. If the City borrows the full anticipated amount for the two phases of the Project, it will eventually be repaying \$16M to IBank (in addition to prior outstanding debt).

¹ Indicative Interest Rate quoted 3/24/21

Cash Flow Consideration:

HISTORICAL CASH FLOW					
For Fiscal Year Ending (FYE) June 30	2017 ACFR	2018 ACFR	2019 ACFR	2020 ACFR	2021 Draft ACFR
Operating Income (Loss)	\$1,064,731	(\$227,110)	\$52,193	\$21,510	\$623,613
Transaction Specific Adjustments					
+ Depreciation	1,746,598	1,735,451	2,021,372	1,967,359	1,917,079
+ Investment income	\$18,087	\$17,193	\$14,099	\$218,267	\$23,514
Total of all Adjustments	\$1,764,685	\$1,752,644	\$2,035,471	\$2,185,626	\$1,940,593
Cash Available for Debt Service	\$2,829,416	\$1,525,534	\$2,087,664	\$2,207,136	\$2,564,206
Debt Service Calculation					
Total Existing MADS Debt Service	\$1,102,367	\$1,102,367	\$1,102,367	\$1,102,367	\$1,102,367
Proposed MADS for Phase 1 \$7,500,000 (1)	\$373,012	\$373,012	\$373,012	\$373,012	\$373,012
Total Obligations MADS	\$1,475,379	\$1,475,379	\$1,475,379	\$1,475,379	\$1,475,379
Debt Service Coverage Ratio (2)	1.92	1.03	1.42	1.50	1.74
(1)	Calculated at \$7,500,000 for 30 years, @2.20% plus 0.30 annual servicing fee				
(2)	Existing Parity Debt Minimum Required DSCR 1.20				

The historical cash flow over the last five years demonstrates the Fund's ability to service existing debt and the proposed Financing with a DSCR of 1.20x or greater in four of the five years reviewed except for Fiscal year (FY) 2018. Please see Fund Cash Flow section for further details.

Project Benefits

The rehabilitation of the aging NCI is critical to the protection of the local coastal environment in Laguna Beach and the surrounding region. The Project will address components that are critical to the operation and reliability of the wastewater treatment plant, and are at the end of their useful life, having been installed 30 years ago. The Project will serve to ensure the quality of the water discharged to the ocean outfall meets stringent regulatory standards, thereby preventing damage to the local environment and economy. The Project will benefit the City's public health and safety by improving and enhancing the reliability and useful life of the City's sanitary sewer system components.

The Project will also protect the beaches in the area from being impacted by sewer spills caused by the City's mountainous terrain during large storms. It will also protect the ocean water quality and the surrounding 7.5 miles of beach and pristine coastline environment. Laguna Beach's largest revenue source is tourism related to the City's renowned surfing, scuba diving, marine life, world class hotels, and restaurants.

The City anticipates approximately 35 jobs will be created during the construction period as a result of the Project. Average wages are estimated at \$34.00/hr.

Support for Staff Recommendations:

1. Cash flow analysis demonstrates the Fund's ability to service existing debt and the proposed Financing.
2. City has successfully increased rates in order to cover expenses and service its debt.
3. The estimated useful life of the Project exceeds the 30-year term of the Financing.
4. The City's existing IBank debts are being paid as agreed, and all loan compliance conditions continue to be met.

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. Disbursement to be conditional upon satisfactory evidence that all project funding sources, other than IBank's Financing, are secured to pay for the current project.

Criteria Waivers

1. Readiness and Feasibility: Due to the amount of time needed to complete the Project, the City requests a waiver of IBank's Criteria that construction be completed within two years after IBank's Financing approval. The City is requesting 36 months from Financing Agreement closing to complete Phase 1 of the Project.
2. The Contractor Criteria: For those components of the Project which the City will carry out directly (as opposed to the South Orange County Wastewater Authority), it requests waiver of the provision that requires contractors to 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.

IBank Staff: Lina Benedict and Richard Nesbitt	Date of Staff Report: March 16, 2022
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Date of IBank Board Meeting: March 23, 2022	Resolution Number: 22-06
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Staff Recommendation:
Staff recommends approval of Resolution No. 22-06 authorizing ISRF Program financing in an amount not to exceed \$7,500,000 to the City of Laguna Beach, for the Six Wastewater Systems Project.

GENERAL INFORMATION

The City of Laguna Beach (City), with a population of approximately 23,190 residents, is located midway between Los Angeles and San Diego, along the southern coast of Orange County (County). The City was incorporated in 1927 as a general law city, operates under a Council-Manager form of government, and is governed by a five-member council. The position of mayor is non-elected and chosen annually among the members of the city council.

The City's location on the Pacific Coast has enhanced its position as a regional arts and tourism center and is home to more than 70 art galleries and 400 working artists and studios. The City's economy, based predominately on tourism, is dependent upon its unique coastal environment that showcases beaches and ocean views that draw a wide variety of visitors to the area. An estimated six million visitors annually are drawn to the City for its picturesque beaches, art festivals, village-scale shopping district, and bluff-top walkways. The City ranks No. 1 in the U.S. in economic impact of the arts on a per capita basis, which includes total spending by both organizations and audiences at galleries, museums, and at art events, according to Visit Laguna Beach. Condé Nast Traveler named the City among "The Best Small Cities in the U.S." in 2016.

The City has a history of environmental stewardship and historic preservation and is the only Orange County city protected by a dedicated greenbelt inland and blue belt seaward. As of 2011, the City has successfully protected from development more than 20,000 acres of contiguous wildlands, the majority for which is in the Laguna Coast Wilderness Park, Jim Dilley Preserve, Crystal Cove State Park, and the Aliso-Wood Canyons Wilderness Park. The coastal area of the City is a bird sanctuary and a marine life refuge. All the City's marine refuge system is a fully protected marine reserve - nothing can be fished for or removed from this area. The City is known throughout Southern California for its tide pools and the variety of marine life they support.

PROJECT DESCRIPTION

The City requests Infrastructure State Revolving Fund (ISRF) Program financing in the amount of \$7.5 million to fund the Six Wastewater Systems Project (Project). This Project is Phase 1, and the North Coast Interceptor (NCI) replacement project is Phase 2. (Exhibit 1).

Project Background and Project Description

The North Coast Interceptor (NCI) is a pressurized sewer pipeline in Laguna Beach. The City is undertaking to complete projects to upgrade the City's collection system and replace the portion of the NCI in Aliso Canyon. The City estimates the total projects timeline will be over 60 months and cost nearly \$17,000,000. Given the extended timeline, the City's strategy is to break the overall project up into two phases, to be financed with two separate loans from IBank. The first loan for \$7,500,000 (presented here) is for Phase 1.

Phase 1 has a total cost of \$8,422,500. The City will cover the \$922,500 that exceeds the IBank loan request, including the IBank Origination Fee, with its own resources. The extended timeline prompted the City to break the project up into two phases, to be financed with two separate loans from IBank (and thus save on interest expense). The City expects to request the second loan (for the full amount \$8,500,000 projected budget of Phase 2) in the first quarter of 2024.

Laguna Beach's Wastewater Division is responsible for maintaining 95 miles of sewer lines, 25 lift stations, the four-mile NCI and 25 Urban Runoff Diversion Units. The City's wastewater is combined via the NCI with that of other member agencies and transmitted to the Coastal Treatment Plant (CTP). The CTP is owned, operated, and maintained by a joint powers authority known as the South Orange County Wastewater Authority (SOCWA), described in further detail below. Wastewater is treated at the CTP and discharged to the Pacific Ocean via an outfall. The improvements are critical to the protection of the local

coastal environment (Exhibit 2).

The NCI transmission system was put into operation in 1987 and is nearing the end of its useful life. It is a single pipe system ranging from 21" to 27" that includes two major lift stations to convey two million gallons of sewage a day from Laguna Beach and Emerald Bay to the CTP. This single pipe system does not allow for inspection without significant bypassing that is expensive, disruptive, and involves significant risk of a sewage spill during the inspection process. Also, the NCI transmission system is adequate to handle the system's current wastewater load, however, the current system lacks redundancy to allow the City to perform maintenance on the pipeline. The spills are of such significant pressure and volumes that it is impossible to prevent thousands, if not millions, of gallons spilling before repairs can be made. The spills have ranged from 50 gallons to 1.7 million gallons and resulted in beach closures of up to 15 miles, reaching from Newport Beach to Dana Point.

SOCWA is a JPA consisting of ten member agencies, including the City of Laguna Beach. It facilitates and manages the collection, transmission, treatment, and disposal of wastewater, as well as the production of recycled water for irrigation and commercial usage, for approximately 500,000 homes and businesses across the southern portion of the County. Its role of guarding the environment and creating new water supplies requires it to maintain among the most advanced treatment facilities in the State. SOCWA's three primary treatment facilities (including the CTP) can treat upwards of 26 million gallons of wastewater per day. Historically, about half of this water is treated for recycled water use. The balance is treated and discharged miles off our coast through two ocean outfalls. The CTP provides the capacity to treat 6.7 million gallons of sewage from the City of Laguna Beach, Emerald Bay Services District, the South Coast Water District, and the Moulton Niguel Water District.

SOCWA members enter into collective agreements to share the costs of various SOCWA wastewater processing facilities in exchange for members' use of the facilities. A component of the scope of work for Phase 1 includes contributing to SOCWA for upgrades at the CTP facility, the costs of which are shared through a Project Committee (PC 15) Agreement between SOCWA's members. SOCWA has no taxing authority, and nearly all funding for its operation comes directly from the contributions of its members. SOCWA bills members for their share of SOCWA's costs to construct, operate, and maintain the facilities the members' use. As such, the City will contribute its proportionate share of the cost for the CTP facility improvements to SOCWA.

The Phase 1 \$8,422,500 Project consists primarily of the following components:

1. Siphon Inspection Project.
2. Anita Street Lift Station Reconstruction-the project will reconstruct/rehabilitate a sewer lift station located at the beach access stairs to the Anita Street Beach,
3. Pipeline Rehabilitation (Zone 5) rehabilitate existing sanitary sewer mains using trenchless Cured-In-Place pipe (CIPP) methods.
4. Force main Inspection Project- inspection of 23 force mains.
5. Projects to upgrade the SOCWA CTP facilities.
6. Lift Station No.2 Intertie Project.

Project components one through four will be paid directly by the City. Components 5 and 6 will be undertaken by SOCWA, and the City will pay its proportion of the costs from the financing proceeds to SOCWA. Project costs include but are not limited to: construction hard costs and contingency, equipment, machinery, installation, engineering, architecture, design, permitting, environmental review, project administration, construction management, demolition, and general project development activities.

The city intends for the estimated \$8,500,000 Phase 2 of the NCI project to include the following:

1. Replacing approximately one mile of pressurized and gravity sections of the transmission system. The project will replace a portion of the NCI system.

The NCI Project in conjunction with the CTP project will provide long-term reliability and bypass capability for preventative maintenance and prevent failures along the transmission pipeline.

SYSTEM DESCRIPTION

System Infrastructure

Per the City, the Sewer System (System) serves a population of approximately 22,723 in an 8.7 square mile service area. The System serves 8,165 residential connections and 761 commercial, industrial, and institutional customers as of FY 2022. The System consists of 85.7 miles of gravity sewers, 2,674 manholes, 9.4 miles of force mains, and 25 lift stations. The sewers range in size from 4 to 27 inches in diameter. Key functions include maintaining the wastewater collection system, continuing an aggressive capital improvement program to reduce sewer spills, securing grants, and managing low-interest funding, coordinating with the South Orange County Wastewater Authority, complying with mandates from the Environmental Protection Agency and the Regional Water Quality Control Board, and advocating the City policies necessary to meet Federal Clean Water Act requirements.

In addition to the sewer system facilities, the City maintains a system of 25 urban water diversion units that connect the storm drain system to the sewer system so dry weather nuisance flows may be diverted away from the receiving waters to the sanitary sewer system. These diversion units also divert sanitary sewer overflows within the watersheds they serve.

Capital Improvement Plan

The City of Laguna Beach wastewater service area includes the area north of Cardinal Way at Coast Highway, the northerly limits span to Irvine Cove and the northeasterly limits reach out to the Artisan condominium complex at El Toro Road and the 73 Toll Road.

The City has a ten-year Capital Improvement Plan (CIP) through which it recommends upgrades to all the elements of the System. It also has a financing plan that is used to project the rate increases and debt issuance needed to finance the CIP projects. The CIP budget includes the Project along with other improvements. The City currently estimates the need for \$61M in System improvements over the next fourteen years.

System User and Rate Structure

The following table displays the Number of Users by Category and reflects stability in the number of users. The City of Laguna Beach is fully built out, and no material changes are expected in service demand over the next 5 years. The table further reflects a high proportion of residential users, which is consistent with the residential nature of the City and provides a stable anchor to its user base.

NUMBER OF USERS BY CATEGORY					
For Fiscal Year Ending (FYE) June 30	2018	2019	2020	2021	2022
Residential	8,175	8,160	8,161	8,167	8,165
Commercial	361	363	363	362	368
Other	393	393	393	393	393
Total	8,929	8,916	8,917	8,922	8,926
% change	N/A	-0.1%	0.0%	0.1%	0.0%

Source: Financing Application Addendum

The table below displays Current System Usage and Revenue as of February 24, 2022. Residential customers represent approximately 82.9% of the Gross Annual Revenues.

CURRENT SYSTEM USAGE & REVENUE		
	Gross Annual Revenue	% Gross Annual Revenue
Residential	\$8,008,232	82.9%
Commercial	\$1,416,133	14.7%
Other	\$230,078	2.4%
Total	\$9,654,443	100.0%

Source: Financing Application

The following is the historical monthly average system rates per residential unit over the last 5 years and current rate information since FY 2018:

HISTORICAL RATE INCREASES OF THE PAST FIVE YEARS		
Date Adopted	Date Effective	Percent Increase
April 14, 2015	July 1, 2017	4.75%
April 14, 2015	July 1, 2018	4.75%
April 14, 2015	July 1, 2019	4.00%
July 14, 2020	July 1, 2020	5.00%
June 29, 2021	July 1, 2021	6.00%

Source: Financing Application Addendum

All rate increases have strictly adhered to Prop 218 noticing, voting procedures and public hearings. On February 16, 2021, the Laguna Beach City Council approved a finance plan which included wastewater fund rate increases of up to 6% each year for the next 14 years to fund the estimated \$61M in improvements noted above. The City staff at the City Council's direction, pursued rate increases of up to 6% for the next five years, starting with FY 2022 and running through FY 2026. The proposal was approved on June 23, 2021, with new effective as of July 1, 2021. (The City will go through this process again two more times, first for the five-year period after FY 2026, and then again for the four-year period after that for a total of 14 years of CIP improvements mentioned earlier.)

CURRENT AND HISTORICAL AVERAGE MONTHLY USER CHARGE PER RESIDENTIAL UNIT

The following tables display respectively the Historical Projected Average Monthly User Charge Per Residential Unit from FY18 through FY 2022, and the projected figures through FY 2025.

HISTORICAL AND CURRENT AVERAGE MONTHLY USER CHARGE PER RESIDENTIAL UNIT						
For Fiscal Year Ending (FYE) June 30	2018	2019	2020	2021	2022	
Residential	\$55.67	\$58.33	\$60.67	\$63.70	\$67.52	
% change	N/A	4.8%	4.0%	5.0%	6.0%	
% of MHI (2021 at \$129983)	0.04	0.04%	0.05%	0.05%	0.05%	

Source: Financing Application Addendum

PROJECTED AVERAGE MONTHLY USER CHARGE PER RESIDENTIAL UNIT						
For Fiscal Year Ending (FYE) June 30	2022	2023	2024	2025	2026	
Residential	67.52	71.57	75.87	80.42	85.25	
% change	0.06	0.06	0.06	0.06	0.06	

Source: Financing Application Addendum

The following table displays the City's Average Monthly System User Charge Compared to Nearby Systems as of February 24, 2022. The City states the comparison costs are difficult to compile since there

are various structures to local wastewater systems, e.g. a stand-alone enterprise fund, an enterprise fund combined with a water system, etc. The City has the most lift stations per population served of any agency known in the state, due to its topography and need to lift waste water in areas where gravity flow is not possible. This drives up the cost for operating and maintaining the System.

CURRENT AVERAGE MONTHLY SYSTEM USER CHARGE COMPARED TO NEARBY SYSTEMS			
System Name	Distance in Miles	Location	Average Monthly Residential Rate
City of Laguna Beach		Laguna	\$63.67
San Clemente	20.5	San Clemente	\$36.82
Huntington Beach	21.9	Hungtington Beach	\$43.66
Newport Beach	7.7	Newport Beach	\$47.51
South Coastal Water District	3.9	S C W D	\$72.33
Seal Beach	30.7	Seal Beach	\$81.29
Source: Financing Application Addendum		Average Monthly Charge	\$57.55

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

TOP 10 SYSTEM USERS AS OF FEBRUARY 24, 2022			
	User	% System Revenues	Customer Class (Residential/ Commercial/ Industrial/Other)
1	Apartment Buildings (211 units)	1.47%	Residential
2	Apartment Buildings (210 units)	1.46%	Residential
3	Surf and Sand Hotel	1.22%	Commercial
4	Inn at Laguna Hotel	0.37%	Commercial
5	Laguna Beach High School	0.36%	Commercial
6	Las Brisas Restaurant	0.33%	Commercial
7	Laguna Brisas Hotel	0.29%	Commercial
8	Pavillions	0.29%	Commercial
9	Pacific Edge Hotel	0.27%	Commercial
10	Langlois Fancy Frozen Foods Inc.	0.27%	Commercial
	Total	6.33%	

CREDIT ANALYSIS

The ISRF Program financing (Financing) would be secured by a senior lien on Net Revenues and all legally available amounts in the Fund, on parity with IBank's existing liens of the three Installment Sales Agreements Numbers CIEDB-B04-052, ISRF 18-123 and ISRF 19-133.

Source of Revenue to Repay Proposed ISRF Program Financing:	Net sewer system revenues and all legally available amounts in the Sewer Service Fund
Outstanding Obligations:	Three Installment Sales Agreements with IBank: CIEDB-B04-052, ISRF 18-123 and ISRF 19-133 with respective outstanding balances of \$1,414,326, \$3,688,315, and \$4,286,117.
Type of Audited Financial Documents Reviewed:	<input checked="" type="checkbox"/> Annual Comprehensive Financial Reports (ACFR) <input type="checkbox"/> Basic Financial Statements (F/S) <input type="checkbox"/> Other:
Fiscal Year Ends:	June 30
Audit Fiscal Years Reviewed:	2017-2021
The auditor's reports for all years indicate that the financial statements present fairly, in all material respects, the financial position of the City, and that the results of its operations and the cash flows are in conformity with generally accepted accounting principles.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No. [If no, explain]
Adopted Budget(s) Reviewed:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No. [If no, explain]
Budget Year(s) Reviewed:	2017-2021

Thanks to Laguna Beach's strong economy, the City's revenues, including those of the Wastewater Fund, have grown consistently in recent years. The pandemic has had little effect on the Fund's overall financial performance as residential water usage and corresponding sewer charges increased as people have stayed at home more and residential water consumption has increased. While the Fund posted an operating deficit in FY 2018, this was primarily due to one-time legal costs related to a lawsuit that has now been resolved. The draft FY 2021 financials show improved operating results thanks to steady revenue growth combined with lower spending than the prior year.

The Fund's net position has remained consistently over \$35M over the past five years, and exceeds \$39M in draft FY 2021 financial statements. The Fund's total debt, consisting of the three outstanding IBank loans, decreased by \$589K during the current fiscal year. The City has been using debt proceeds combined with its own resources to fund capital improvement projects. This city continues to maintain sufficient cash reserves, its prioritization of investment projects, combined with break-even operating performance, has contributed to the decline in the Current Ratio as seen in the chart below. However, as noted it appears that performance has improved. Based on its approved rate increases for the next 5 years, projections show the Fund generating sufficient net revenues to support the additional debt it plans to incur.

Laguna Beach and Water Fund indicators

(\$000)	as of FYE June 30	2016	2017	2018	2019	2020	2021 (draft)
Median Family Income (as % of US Median)		251.4%	273.1%	288.3%	288.9%	ND	ND
Cash Balance	\$	3,684	\$ 2,277	\$ 1,285	\$ 3,067	\$ 2,342	\$ 1,353
Operating Revenue	\$	7,400	\$ 7,700	\$ 8,051	\$ 8,389	\$ 8,626	\$ 9,059
Cash Balance as % of Operating Revenue		49.8%	29.6%	16.0%	36.6%	27.2%	14.9%
Current Ratio		4.3	3.2	8.0	3.9	2.0	1.2
Leverage Ratio		0.1	0.2	0.3	0.4	0.4	0.3
Operating Margin		20.7%	13.8%	-2.8%	0.6%	0.2%	6.9%

* Median Family Income source: Moody's Investors Service

Comparative Statement of Net Position Analysis

The City does not complete the ACFR until February/March of each year but has provided a draft of the Wastewater Fund section of the ACFR for FY 2021. Analysis of the Fund's Comparative Statement of Net Position for the last five fiscal years is as follows:

CITY OF LAGUNA BEACH WASTEWATER (SEWER) ENTERPRISE FUND PROPRIETARY FUNDS STATEMENT OF NET POSITION											
For Fiscal Year Ending (FYE) June 30	2017		2018		2019		2020		2021 Draft		
Source:	ACFR	%	ACFR	%	ACFR	%	ACFR	%	ACFR	%	
ASSETS AND DEFERRED OUTFLOW OF RESOURCES											
Current Assets											
Cash and Investments	\$2,277,463	5.3%	\$1,285,420	2.8%	\$3,067,257	2.8%	\$2,342,125	4.5%	\$1,353,239	2.6%	
Receivables:											
Accounts	21,895	0.1%			4,949		17,405	0.0%			
Taxes	73,533	0.2%	72,921	0.2%	78,366	0.2%	125,792	0.2%	143,284	0.3%	
IBank Installment Agreement			4,000,000	8.7%		8.7%					
Total Current Assets	\$2,372,891	5.6%	\$5,358,341	11.6%	\$3,150,572	11.6%	\$2,485,322	4.8%	\$1,496,523	2.9%	
Noncurrent Assets											
Notes Receivable							98,447	0.2%			
Capital Assets, Not Being Depreciated	380,743	0.9%	410,691	0.9%	1,633,364	0.9%	194,129	0.4%	194,129	0.4%	
Capital Assets, Net of Depreciation	39,141,980	91.7%	39,376,317	85.6%	38,658,620	85.6%	41,895,481	80.3%	44,789,187	85.8%	
IBank Installment Agreement					8,088,484		6,972,044	13.4%	5,402,142	10.3%	
Total Other Non Current Assets	\$39,522,723	92.6%	\$39,787,008	86.5%	\$48,380,468	86.5%	\$49,160,101	94.2%	\$50,385,458	96.5%	
Subtotal Assets	\$41,895,614	98.1%	\$45,145,349	98.1%	\$51,531,040	98.1%	\$51,645,423	98.9%	\$51,881,981	99.4%	
DEFERRED OUTFLOWS OF RESOURCES											
Deferred Amounts Related to Pensions	\$793,785	1.9%	\$871,297	1.9%	\$650,712	1.9%	\$527,117	1.0%	\$596,878	1.1%	
Deferred Amounts Related to OPEB					29,458		32,965	0.1%	66,481	0.1%	
Total Deferred Outflow of Resources	\$793,785	1.9%	\$871,297	1.9%	\$680,170	1.9%	\$560,082	1.1%	\$663,359	1.3%	
Total of All Assets	\$42,689,399	100.0%	\$46,016,646	100.0%	\$52,211,210	100.0%	\$52,205,505	100.0%	\$52,545,340	100.0%	
Liabilities											
Accounts Payable and Accrued Liabilities	\$324,144	0.8%	\$236,124	0.5%	\$114,289	0.2%	\$342,912	0.7%	\$618,913	1.2%	
Compensated Absences Due Within One Year	10,265	0.0%	11,943	0.0%	12,967	0.0%	19,726	0.0%	20,592	0.0%	
IBank Installment Agreement Due Within One Year	411,943	1.0%	423,189	0.9%	587,979	1.1%	774,939	1.5%	510,260	1.0%	
Interest Payable					90,797	0.2%	82,007	0.2%	143,864	0.3%	
Total Current Liabilities	\$746,352	1.8%	\$671,256	1.5%	\$806,032	1.6%	\$1,219,584	2.4%	\$1,293,629	2.5%	
Noncurrent Liabilities											
Compensated Absences	\$41,061	0.1%	\$47,771	0.1%	\$51,867	0.1%	\$78,905	0.2%	\$82,368	0.2%	
IBank Installment Agreement	2,718,867	6.5%	6,295,678	13.9%	10,163,699	19.7%	9,388,760	18.2%	8,878,500	17.1%	
Net OPEB Liability			96,814	0.2%	134,434	0.3%	146,086	0.3%	190,016	0.4%	
Net Pension Liability	2,661,436	6.4%	2,909,216	6.4%	2,767,523	5.4%	2,836,665	5.5%	3,002,498	5.8%	
Total Long Term Liabilities	\$5,421,364	12.9%	\$9,349,479	20.7%	\$13,117,523	25.5%	\$12,450,416	24.1%	\$12,153,382	23.4%	
Total Liabilities	\$6,167,716	14.7%	\$10,020,735	22.2%	\$13,923,555	27.0%	\$13,670,000	26.5%	\$13,447,011	25.9%	
Deferred Inflows of Resources											
Deferred Amounts Related to Pensions	80,059	0.2%	35,810	0.1%	53,180	0.1%	50,917	0.1%	2,901	0.0%	
Total Deferred Inflows of Resources	\$80,059	0.2%	\$35,810	0.1%	\$53,180	0.1%	\$50,917	0.1%	\$2,901	0.0%	
Net Position:											
Net Investment in Capital Assets	\$36,391,913	86.9%	\$37,068,141	82.1%	\$37,628,790	73.0%	\$38,851,557	75.2%	\$39,095,428	75.4%	
Unrestricted	49,711	0.1%	(\$1,108,040)	-2.5%	605,685.00	0.01	(366,969.00)	(0.01)	\$39,095,428	75.4%	
Net Position	\$36,441,624	87.0%	\$35,960,101	79.7%	\$38,234,475	74.2%	\$38,484,588	74.5%	\$39,095,428	75.4%	
Total Liabilities and Fund Balance	\$41,895,614	100.0%	\$45,145,349	100.0%	\$52,211,210	101.3%	\$52,205,505	101.1%	\$52,545,340	101.3%	

Cash and Investments have fluctuated, first falling in FY 2018 and then rebounding the following year in part due the costs and subsequent settlement related to a lawsuit. In 2017 the Moulton Niguel Water District

filed a lawsuit seeking to release itself from the PC 15 Agreement, arguing that it was not obligated to fund its proportionate share of various costs associated with the operation of the CTP, including some project costs. In 2019, the court decision was in the favor of SOCWA and MNWD was required to pay \$4.8 million in the settlement which was proportionally distributed to the other PC 15 members.

Total Current Assets increased 125.8% for FY 2018, primarily due to the reporting of the 2018 IBank \$4M loan proceeds under this section. This was reclassified in the 2019 ACFR under Noncurrent Liabilities. As of FY 2021, Total Current Assets were only \$1.5M.

The Unrestricted negative balance of (\$1,108,040) in FY 2018 reflects the one-time legal fees described above. There was also an Unrestricted balance of (\$366,969) in FY 2019 that the city expected to offset with a transfer from a fund related to capital projects. As noted, net position has consistently remained over \$35M during the period reviewed and appeared to exceed \$39M at the end FY 2021.

Accounts Receivable

Accounts Receivable of User charges have been minimal over the years primarily due to higher collection activity as these are paid directly from property taxes. The County of Orange collects the City of Laguna Beach Sewer Fees through the property tax assessment, which results in minimal (if any) receivables due Over 30 or more days. Outstanding receivables are collected as expeditiously as possible, and the collection rate is typically 98% or greater. On the rare occasion a user fee is charged directly to the customer, the collection is the responsibility of the Water Quality Department. The invoice and related receivables are reviewed every month. The table below shows that as of February 24, 2022, the collection rate was 100%.

CITY OF LAGUNA BEACH ACCOUNTS RECEIVABLE AGING AS OF FEBRUARY 24, 2022							
	Current	Over 30	Over 40	Over 60	Over 90	Over 120	Total
Annual Receipts	\$6,080	\$0	\$0	\$0	\$0	\$0	\$6,079.70
Percent	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%

Source: Financing Application Addendum

Existing Obligations Payable from the Fund

The table below shows the Fund’s outstanding obligations, all payable to IBank, as of February 4, 2022:

ENTERPRISE FUND OBLIGATIONS FOR CITY OF LAGUNA BEACH SUBJECT FUND							
Debt Issued	Date Issued	Maturity	Amount Issued	Outstanding Balance	Purpose of Debt	Parity / Subordinate Debt Allowed	Required DSCR
IBank Installment Sales Agreement (B04-052)	6/1/2004	6/1/2024	\$4,000,000	\$955,524	Sewer Line Reconstruction	Parity	1.10 MADS
IBank Installment Sales Agreement (18-123)	6/1/2018	6/1/2038	\$4,000,000	\$3,524,482	Improvement Sewer Treatment Facility	Parity	1.20 MADS
IBank Installment Sales Agreement (19-133)	6/5/2019	6/1/2039	\$4,456,000	\$4,110,374	City Coastal Treatment Improvement	Parity	1.20 MADS
Total			\$12,456,000	\$8,590,380			1.20

The existing IBank obligations permit parity debt upon certain conditions, including satisfying a minimum 1.20x coverage requirement based on Maximum Annual Debt Service (MADS). IBank’s Servicing Unit has verified that all IBank loans are current and paid as agreed and the City complies on all reporting covenants.

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:

CITY OF LAGUNA BEACH WASTEWATER (SEWER) ENTERPRISE FUND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION										
For Fiscal Year Ending (FYE) June 30	2017		2018		2019		2020		2021 Draft	
Source:	ACFR	%	ACFR	%	ACFR	%	ACFR	%	ACFR	%
% Change		N/A		4.4%		4.0%		2.7%		4.8%
Operation Revenue										
Charges for services	\$7,699,521	100.0%	\$8,050,631	100.0%	\$8,388,932	100.0%	\$8,626,052	100.0%	\$9,058,908	100.0%
Total Operating Revenues	\$7,699,521	100.0%	\$8,050,631	100.0%	\$8,388,932	100.0%	\$8,626,052	100.0%	\$9,058,908	100.0%
Operating Expenses										
Personnel services	\$1,401,478	18.2%	\$1,725,642	21.4%	\$1,734,742	20.7%	\$2,032,059	23.6%	\$1,866,566	20.6%
Contractual services	2,418,256	31.4%	3,064,202	38.1%	3,342,408	39.8%	2,522,341	29.2%	3,054,745	33.7%
Materials and supplies	1,047,823	13.6%	1,741,613	21.6%	1,225,911	14.6%	2,073,991	24.0%	1,589,306	17.5%
Administration	20,635	0.3%	10,833	0.1%	12,306	0.1%	8,792	0.1%	7,599	0.1%
Depreciation	1,746,598	22.7%	1,735,451	21.6%	2,021,372	24.1%	1,967,359	22.8%	1,917,079	21.2%
Total Operating Expenses	\$6,634,790	86.2%	\$8,277,741	102.8%	\$8,336,739	99.4%	\$8,604,542	99.8%	\$8,435,295	93.1%
Operating Income (Loss)	\$1,064,731	13.8%	\$ (227,110)	-2.8%	\$52,193	0.6%	\$21,510	0.2%	\$623,613	6.9%
Nonoperating Revenues (Expenses)										
Investment income	\$18,087	0.2%	\$17,193	0.2%	\$14,099	0.2%	\$218,267	2.5%	\$23,514	0.3%
Intergovernmental			\$9,563	0.1%						
Interest expense	(85,322)	-1.1%	(85,169)	-1.1%	(205,590)	-2.5%	(181,343)	-2.1%	(484,107)	-5.3%
Gain (Loss) on disposal of capital assets			(18,134)	-0.2%						
Other revenue	21,895	0.3%	74,577	0.9%	2,413,672	28.8%	191,679	2.2%	447,820	4.9%
Net Non-operating Revenues (Expenses)	\$ (45,340)	-0.6%	\$ (1,970)	0.0%	\$2,222,181	26.5%	\$228,603	2.7%	\$ (12,773)	-0.1%
Income (Loss Before Operating Transfers)	\$1,019,391	13.2%	\$ (229,080)	-2.8%	\$2,274,374	27.1%	\$250,113	2.9%	\$610,840	6.7%
Capital Contributions and Transfers										
Transfer In	\$546,074									
Transfer Out	(\$160,000)		(155,000.00)							
Total Contributions and Transfers	\$440,074		(\$155,000)							
Increase (decrease) in Net Position	\$1,459,465		(\$384,080)		\$2,274,374		\$250,113		\$610,840	
Beginning Net Assets	43,102,989		36,344,181		35,960,101		38,234,475		38,484,588	
Adjustments	(\$8,120,830)									
Ending Net Assets	\$36,441,624		\$35,960,101		\$38,234,475		\$38,484,588		\$39,095,428	

The pandemic has not had a major negative impact on the Water Fund. The Fund saw an increase of 4.8% in Charges for Services in FY 2021 per draft statement provided. This is primarily because there were more customers working from home, leading to an increase in residential water usage. Total Operating Revenues increased each year of the five years reviewed, and overall, by 17.7% from FY 2017 to 2021, primarily due to a steady increase in annual rates as discussed above.

Total Operating Expenses increased 27.1% between FYs 2017 and 2021, primarily attributable to annual increases in Contractual Services, and an increase in Depreciation. The increase in Contractual Services of 26.7% in 2018 and another 9% in 2019 was primarily due to annual SOCWA Operations & Maintenance share increases and increases in insurance and legal fees related to the litigation mentioned earlier. Material and Supplies increased in FY 2018 and 2020, primarily due to maintenance and repairs performed through a contract.

The Fund's operating margin (operating result as a percent of revenues) declined in FY 2018, to -2.8%, and was only slightly above break-even for FY 2019 & 2020. As noted above, rates increased 4.75% to 6.0% per year over the five-year period through June 30, 2021. Also, the pandemic did result in more people staying home and more water usage and therefore more wastewater. This resulted in the most recent year i.e. FY 2021's operating margin rebounding and increasing to 6.9%.

Other Revenue reflects recurring reimbursement from the Emerald Bay Service District (EBS) for services related to the NCI. In FY 2019 the Other Revenue reflects cash received from insurance and settlements. These included receipt from the Moulton Niguel Settlement of \$1.2M, additional reimbursements from SOCWA for audit of \$454K, and \$606K from insurance.

In FY 2017 the \$546K Transfer In amount was primarily due to an internal service fund used to acquire vehicles. The \$160K Transfer Out that year was to the General Fund for expenditures related to repairs to sewer lines as part of the Anita Storm Drain project. In FY 2018, \$155K was transferred out to the General Fund for the Dewitt Property project. The transfers in or out have been recorded since then.

Ending Net Assets in FY 2017 and 2018 decreased primarily due to Prior Period Adjustments of \$8.1M in FY 2017, which accounts for capital assets and accumulated depreciation for infrastructure assets not previously depreciated.

Fund Cash Flow and Debt Service Analysis

HISTORICAL CASH FLOW					
For Fiscal Year Ending (FYE) June 30	2017 ACFR	2018 ACFR	2019 ACFR	2020 ACFR	2021 Draft ACFR
Operating Income (Loss)	\$1,064,731	(\$227,110)	\$52,193	\$21,510	\$623,613
Transaction Specific Adjustments					
+ Depreciation	1,746,598	1,735,451	2,021,372	1,967,359	1,917,079
+ Investment income	\$18,087	\$17,193	\$14,099	\$218,267	\$23,514
Total of all Adjustments	\$1,764,685	\$1,752,644	\$2,035,471	\$2,185,626	\$1,940,593
Cash Available for Debt Service	\$2,829,416	\$1,525,534	\$2,087,664	\$2,207,136	\$2,564,206
Debt Service Calculation					
Total Existing MADS Debt Service	\$1,102,367	\$1,102,367	\$1,102,367	\$1,102,367	\$1,102,367
Proposed MADS for Phase 1 \$7,500,000 (1)	\$373,012	\$373,012	\$373,012	\$373,012	\$373,012
Total Obligations MADS	\$1,475,379	\$1,475,379	\$1,475,379	\$1,475,379	\$1,475,379
Debt Service Coverage Ratio (2)	1.92	1.03	1.42	1.50	1.74
⁽¹⁾ Calculated at \$7,500,000 for 30 years, @2.20% plus 0.30 annual servicing fee					
⁽²⁾ Existing Parity Debt Minimum Required DSCR 1.20					

The chart above shows existing and proposed Maximum Annual Debt Service (MADS). Historical cash flows over the last five years demonstrate the Fund’s ability to meet our minimum debt service coverage ratio (DSCR) target of 1.20x in four of the five years reviewed. As mentioned earlier, in FY 2018 the Fund experienced higher legal fees, maintenance and repair, and material and supplies costs than expected.

PROJECTIONS

Looking ahead, the table below reflects the City's revenue and expense projections, taking into account the approved rate increases until FY 2026.

LAGUNA BEACH													
PROJECTED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION													
FYE 6/30	2021		2022		2023		2024		2025		2026		
Source	Draft	ACFR	%	Projections	%	Projections	%	Projections	%	Projections	%	Projections	%
% Change		N/A		6%		6%		6%		6%		6%	
Operation Revenue													
Charges for Services	\$9,058,908	100.0%	\$9,672,000	100.0%	\$10,247,000	100.0%	\$10,856,000	100.0%	\$11,502,000	100.0%	\$12,186,000	100.0%	\$12,866,000
Total Operating Revenues	\$9,058,908	100.0%	\$9,672,000	100.0%	\$10,247,000	100.0%	\$10,856,000	100.0%	\$11,502,000	100.0%	\$12,186,000	100.0%	\$12,866,000
Operating Expenses	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0
Personnel services	\$1,866,566	20.6%	\$1,988,800	20.6%	\$2,048,500	20.0%	\$2,110,000	19.4%	\$2,173,300	18.9%	\$2,238,500	18.4%	\$2,308,500
Contractual services	\$3,054,745	33.7%	\$2,694,200	27.9%	\$2,775,100	27.1%	\$2,858,400	26.3%	\$2,944,200	25.6%	\$3,032,600	24.9%	\$3,124,500
Materials and supplies	\$1,589,306	17.5%	\$1,961,100	20.3%	\$1,987,000	19.4%	\$2,036,700	18.8%	\$2,084,900	18.1%	\$2,132,500	17.5%	\$2,182,000
Administration	\$7,599	0.1%	\$24,400	0.3%	\$24,400	0.2%	\$24,400	0.2%	\$24,400	0.2%	\$24,400	0.2%	\$24,400
Depreciation	\$1,917,079	21.2%	\$1,900,000	19.6%	\$1,900,000	18.5%	\$1,900,000	17.5%	\$1,900,000	16.5%	\$1,900,000	15.6%	\$1,900,000
Total Operating Expenses	\$8,435,296	93.1%	\$8,568,500	88.6%	\$8,735,000	85.2%	\$8,929,500	82.3%	\$9,126,800	79.3%	\$9,328,000	76.5%	\$9,536,500
Operating Income (Loss)	\$623,613	6.9%	\$1,103,500	11.4%	\$1,512,000	14.8%	\$1,926,500	17.7%	\$2,375,200	20.7%	\$2,858,000	23.5%	\$3,330,000
Nonoperating Revenues (Expenses)	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0
Investment income	23,514	0.3%	200,000	2.1%	200,000	2.0%	200,000	1.8%	200,000	1.7%	200,000	1.6%	200,000
Intergovernmental													
Interest expense	\$ (484,107)	-5.3%	\$ (607,000)	-6.3%	\$ (700,000)	-6.8%	\$ (744,000)	-6.9%	\$ (844,000)	-7.3%	\$ (1,000,000)	-8.2%	\$ (1,166,000)
Gain (Loss) on disposal of capital assets													
Other revenue	\$447,820	4.9%	\$21,000	0.2%	\$39,000	0.4%	\$39,000	0.4%	\$22,000	0.2%	\$15,000	0.1%	\$15,000
Net Non-operating Revenues (Expenses)	\$ (12,773)	-0.1%	\$ (386,000)	-4.0%	\$ (461,000)	-4.5%	\$ (505,000)	-4.7%	\$ (622,000)	-5.4%	\$ (785,000)	-6.4%	\$ (966,000)
Income (Loss Before Operating Transfers)	\$610,840	6.7%	\$717,500	7.4%	\$1,051,000	10.3%	\$1,421,500	13.1%	\$1,753,200	15.2%	\$2,073,000	17.0%	\$2,364,000

More specifically, the projections reflect the following assumptions:

- The approved 6% rate increase each year i.e. FY 2022 through FY 2026
- A 3% increase in costs related to personnel services, contractual services, and materials and supplies considering cost increases due to supply chain issues and inflation.
- Assumptions considered assets becoming fully depreciated or removed from the asset list and new assets added based on projected construction schedule.
- Investment income can fluctuate based on market and cash on hand balances. This assumption looked at the five-year history of interest returns and used an average figure.
- Other Revenue is based on operational costs and construction schedule for projects that impact sewer services for Emerald Bay. Laguna Beach Staff performed a reasonableness test by considering amounts received from Emerald Bay over the past five years.

PROJECTED CASH FLOW						
For Fiscal Year Ending (FYE) June 30	2021 Draft ACFR	2022 Projected	2023 Projected	2024 Projected	2025 Projected	2026 Projected
Operating Income (Loss)	\$623,613	\$1,103,500	\$1,512,000	\$1,926,500	\$2,375,200	\$2,858,000
Transaction Specific Adjustments						
+ Depreciation	1,917,079	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000
+ Investment income	23,514	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000
Total of all Adjustments	\$1,940,593	\$2,100,000	\$2,100,000	\$2,100,000	\$2,100,000	\$2,100,000
Cash Available for Debt Service	\$2,564,206	\$3,203,500	\$3,612,000	\$4,026,500	\$4,475,200	\$4,958,000
Debt Service Calculation						
Total Existing MADS Debt Service	\$1,102,367	\$1,102,367	\$1,102,367	\$1,102,367	\$1,102,367	\$1,102,367
Proposed MADS for Phase 1 \$7.5M (1)	\$373,012	\$373,012	\$373,012	\$373,012	\$373,012	\$373,012
Total Obligations MADS	\$1,475,379	\$1,475,379	\$1,475,379	\$1,475,379	\$1,475,379	\$1,475,379
Debt Service Coverage Ratio (2)	1.74	2.17	2.45	2.73	3.03	3.36
(1) Calculated at \$7,500M for 30 years, @2.20% plus 0.30 annual servicing fee						
(2) Existing Parity Debt Minimum Required DSCR 1.20						

The City meets the 1.20 DSCR requirement in the most recent FY 2021(draft ACFR) and all projected years. If, starting in FY 2024, the Phase 2 estimated \$8.5M project loan were included, debt service would increase by \$456K (assuming 3% interest and a 30-year term). Under this scenario we would see a minimum DSCR of 2.32x in FY 2024.

Staff feels the projections above are based on reasonable assumptions, and show good capacity for the Borrower to cover the proposed debt service.

Strengths and Weaknesses

Strengths

- The projected cash flow based on approved rate increases shows that the fund has adequate cash flow to debt service the required debt service not only for the \$7.5M Phase 1 loan but for the entire anticipated \$16M borrowing for the Project, in addition to the City’s existing debt. Laguna Beach’s City Council has an independent rate-setting authority which enables it to enact increases in rates and charges without the approval of any other governing body. Current rate increases are in place through Fiscal year 2026.
- Revenue of the City’s Sewer fund is stable with minimal effect by the pandemic as the system serves a largely residential customer base.
- The City has three existing ISRF loans with IBank which are being paid as agreed and in compliance with all covenant requirements.
- Revenues derived from the top ten System ratepayers do not exceed 50% of annual System revenues.
- Revenues derived from any single ratepayer do not exceed 15% of annual System revenues.

Weaknesses (Risks)

- 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.
- The City is not prohibited from incurring additional obligations payable from the Fund.
- Between FY 2018 to FY 2020 the City of Laguna Beach saw an increase in legal costs which contributed to a decline in overall performance.

Mitigating Factors

- 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 in 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.
- The City will continue to be prohibited from issuing future debt senior to the IBank financing, and new parity debt would only be permitted if Net Operating Income accumulated within the Fund are at least 1.20 times its Annual Debt Service.
- FY 2021 Draft ACFR looks strong and Projections for FY 2022 based on Year-To-Date figures appears strong.

Compliance with IBank Criteria, Priorities, and Guidelines

The application and the proposed financing are in accordance with IBank Criteria, Priorities and Guidelines (ISRF Criteria).

- The financing will be secured by a lien on Net Revenues, on parity with IBank’s existing liens of the three Installment Sales Agreements CIEDB-B04-052, ISRF 18-123 and ISRF 19-133.

- The total Fund obligation (inclusive of the Financing) is less than 15% of the City's Total Revenues for FY 2021
- The Fund adequately covers existing expenditures, financing obligations, and the proposed IBank Lease payments
- The useful life of the Project is over 45 years and exceeds the term of this Financing

ISRF Criteria Waivers

1. Readiness and Feasibility: Due to the amount of time needed to complete the Project, the City requests a waiver of IBank's Criteria that construction be completed within two years after IBank's Financing approval. The City is requesting 36 months from Financing Agreement closing to complete the Project.
2. The Contractor Criteria: For those components of the Project which the City will carry out directly the request is to waive the 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. 22-06 authorizing ISRF Program financing to the City of Laguna Beach (City), for the Six Wastewater Systems Projects in Laguna Beach.

1. **Applicant/Borrower:** The City of Laguna Beach
2. **Project:** Six Wastewater Systems Projects in Laguna Beach
3. **Amount of Financing:** \$7,500,000
4. **Maturity:** Thirty (30) years
5. **Repayment/Security:** The ISRF Program financing (Financing) would be secured by a senior lien on the City's sewer system revenues (Net Revenues) and all legally available amounts in the City's Sewer Service Fund (Fund) on parity with IBank's existing liens of the three Installment Sales Agreements Numbers CIEDB-B04-052, ISRF 18-123 and ISRF 19-133.
6. **Interest Rate:** 2.20%
7. **Fees:** The City to pay an origination fee of 1.00%, \$75,000, and an annual fee of 0.30% of the outstanding principal balance.
8. **Not an Unconditional Commitment:** IBank's resolution shall not be construed as an unconditional commitment to finance the Project, but rather IBank's approval pursuant to the Resolution is conditioned upon entry by IBank and the City into a Financing Agreement, in form and substance satisfactory to IBank.
9. **Limited Time:** The Board's approval shall expire June 30, 2022. Thus, the City and IBank must enter into the Financing agreement no later than June 30, 2022. Once the approval has expired, there can be no assurances that IBank will be able to provide the Financing to the City or consider extending the approval period.
10. **ISRF Program Financing Agreement Covenants and Conditions:** The Financing Agreement shall include, among other things, the following covenants:
 - a. The City will be required to maintain rates and charges in an amount sufficient to ensure that Net Revenues produce a minimum 1.20 times aggregate annual debt service (ADS) ratio for obligations on parity with the Financing.
 - b. The City has no senior liens, and the City will be prohibited from issuing future debt senior to the Financing.
 - c. Parity debt will be allowed if Net Revenues amount to at least 1.20 times the Maximum Annual Debt Service (MADS) taking into consideration the MADS payable in any Fiscal Year on all existing debt and the proposed parity debt.
 - d. Subordinate debt will be allowed if Net Revenues are at least 1.00 times the sum of the MADS on all outstanding debt, payable from the Fund, including the proposed Subordinate Debt.
 - e. 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 ISRF Program Criteria, except to the extent of any Criteria waivers, 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 other information as IBank may request from time to time.

- i. No disbursements will be allowed until the City provides evidence reasonably satisfactory to IBank that all project funding sources, other than IBank's financing, are secured to pay for the entire project.

Exhibit 1

NORTH COAST INTERCEPTOR AND SOCWA COASTAL TREATMENT PLANT



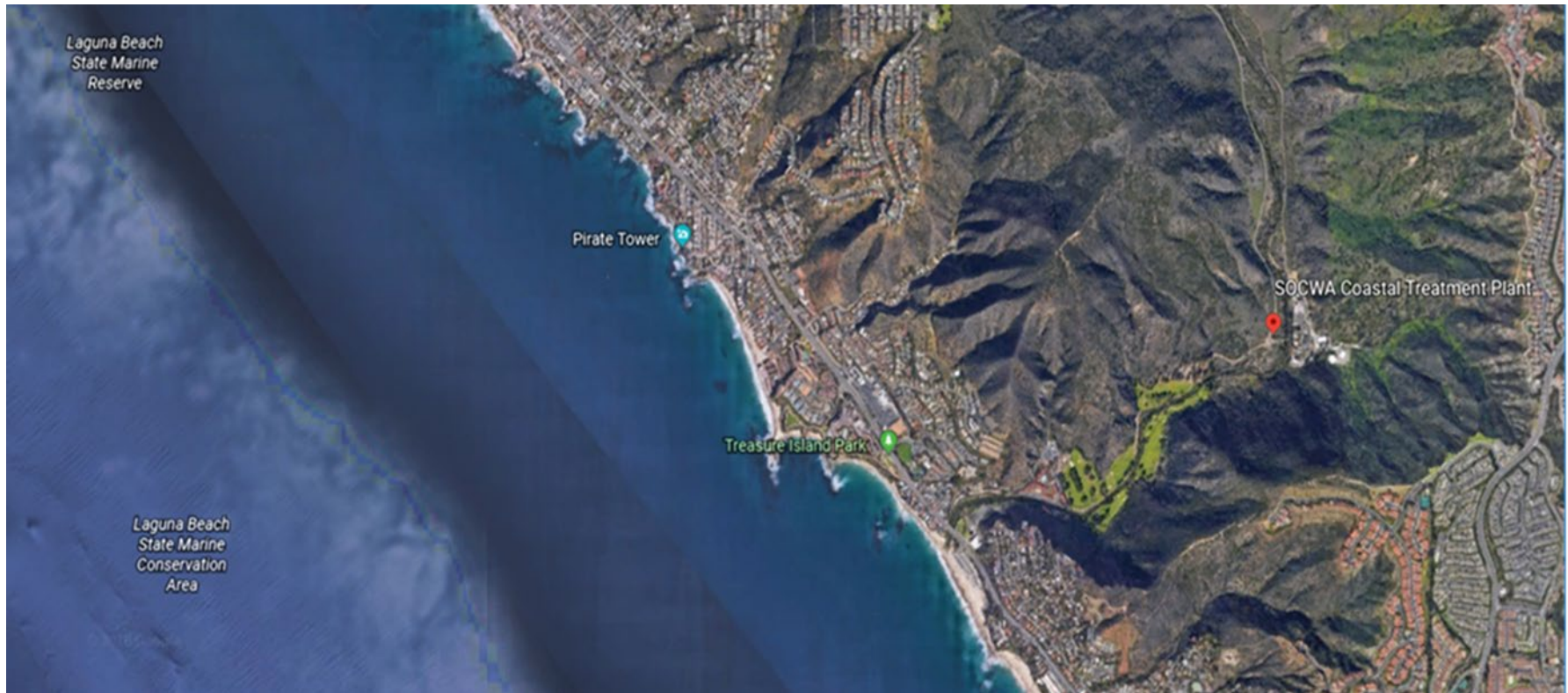
Source: Google Earth



Source: City Presentation

EXHIBIT 2

THE LAGUNA BEACH STATE MARINE RESERVE AND CONSERVATION AREA



Source: Google Earth