

**INFRASTRUCTURE STATE REVOLVING FUND PROGRAM  
STAFF REPORT**

**Summary terms**

<b>Applicant:</b>	The Sunset Beach Sanitary District of Orange County (District or Borrower)
<b>Project name:</b>	Broadway Pump Station Bypass Sewer Project (Project)
<b>Applicant eligibility category:</b>	Public Development Facilities
<b>Project eligibility category:</b>	10. Sewage Collection and Treatment
<b>Project location:</b>	Huntington Beach, CA
<b>Financing amount:</b>	\$8,500,000
<b>Financing term:</b>	30 years
<b>Interest rate:</b>	All-in interest rate of 4.78% (inclusive of 0.15% servicing fee), based on January 11, 2024, MMD Revenue scale, Non-Investment Grade (no subsidies)
<b>Fees:</b>	1% origination fee. To be paid by borrower
<b>Source of repayment:</b>	Borrower net revenues
<b>Security:</b>	A senior pledge of net revenues and all legally available resources of the District.
<b>Applicant credit rating:</b>	None (Staff has assumed Non-Investment Grade)
<b>ISRF funding source(s):</b>	Equity funds - Bond Anticipation Loan to be reimbursed by the next ISRF Bond proceeds.
<b>Applicant ISRF financing exposure:</b>	None beyond this request.

**Executive Summary**

**Borrower Description and Background:**

The community of Sunset Beach was established in 1904, and further developed later in response to the 1920 discovery of oil in the Huntington Beach Oil Field. In 2010 the Huntington Beach city council voted to annex Sunset Beach, making the community a part of the much larger municipality (population 194,310). Using data for Huntington Beach, the City has a low unemployment rate of 3.6% (EDD, September 2023) compared to the State rate of 4.9%. The Median Household income (MHI) of \$97,469 is 124% of the State figure (ACS, 2020 – 5 yr. est.). Huntington Beach is the fourth largest city in Orange County, and the 23rd largest in California. It is recognized as a prime location to live, work and play, ranking #1 in the nation for “Quality of City Services” and #1 for “Best-Run City” in the State of California by WalletHub (June 2022).

The borrower, Sunset Beach Sanitary District of Orange County (District), is located within the City of Huntington Beach. The District is an independent entity which provides sanitation services for the Sunset Beach area. It is funded mainly from a share of the Orange County basic property tax levy, and service fees. The City of Huntington Beach has no authority or control of the District. It makes its own decisions, sets its own assessments/rates, and has an independent Prop 218 process.

This is the District’s first financing request to IBank.

**Project Description and Project Benefits:**

The Broadway Sewage Pump Station, located at Broadway and North Pacific Avenue, is an underground station that pumps sewage from about 90% of the District’s service area. The Pump Station, which was built in 1935, discharges to a pressure-force main. Both the Pump Station and the force main have reached the end of their useful lives and need replacement.

The Pump Station also has operating flaws. The first is that, as an underground station, it has electrical equipment below grade. Should the streets flood from high tides and storm surges, the pump station could flood and then fail, spilling sewage into the ocean, harbors, and estuaries. (While this has never happened before, it is considered a greater risk now due to climate change.) The second flaw is that, given the Pump Station’s age, it is out of compliance with current earthquake standards for critical infrastructure.

The following is a Sources and Uses Table for the Project:

Project Uses	Project Sources		
	IBank	The Sunset Beach Sanitary District of Orange County	Total
Project Costs and Contingency	\$8,500,000	\$1,800,000	\$10,300,000
Origination Fee		\$85,000	\$85,000
<b>Total</b>	<b>\$8,500,000</b>	<b>\$1,885,000</b>	<b>\$10,385,000</b>

The District has included a 5% contingency cost in the Project budget. The District will draw from unrestricted balance sheet reserves of approximately \$2,405,630 to fund its portion of the Project.

**Financial and Repayment Analysis**

The proposed ISRF financing will be secured by a pledge of the District’s net revenues and all other legally available resources. On November 8, 2023, the District approved its first new rate increase since 2016, to take effect on July 1, 2024, with combined annual sewer and trash fees increasing from around \$440 to \$600 for all customers. With this increase the Fund is projected to generate consistent operating surpluses going forward at a level more than sufficient to cover debt service on the requested IBank loan. The District also has the ability to increase rates in the future if deemed necessary.

The District has a healthy financial position. Its Current Ratio has been very strong, averaging over 10x over the last five fiscal years. Days Cash on Hand as of FYE June 2022 was 1,059, equivalent to nearly three years of operations. The District has had no long-term debt during the period, and its Leverage Ratio has remained very low, at just 0.4x in FY 2022. Its Operating Margin has been consistently strong over the 5-year period, averaging 29.9%, demonstrating good revenue performance while maintaining low expenditure.

As discussed in more detail in this report, the District’s historical cash flows have generated sufficient net revenues to meet debt service on the proposed loan, with a minimum DSCR of 1.01x in FY19. However, as shown in the table below, once the rate increases take effect in FY 2024, minimum DSCR is projected at 1.25x in FY 2025. (Please see the repayment analysis in the report, as well as Exhibit 4, for more detail on projection assumptions.)

PROJECTED CASH FLOW					
For Fiscal Year Ending (FYE) June 30	2022	2023	2024	2025	2026
Net Income (Loss)	\$466,147	\$483,000	\$680,400	\$672,300	\$684,200
<b>Transaction Specific Adjustments</b>					
+ Depreciation	170,208				
<b>Total of all Adjustments</b>	170,208	0	0	0	0
<b>Cash Available for Debt Service</b>	<b>\$636,355</b>	<b>\$483,000</b>	<b>\$680,400</b>	<b>\$672,300</b>	<b>\$684,200</b>
<b>Debt Service Calculation</b>					
<b>Total Existing MADS Debt Service</b>	0	0	0	0	0
<b>Proposed IBank MADS <sup>(1)</sup></b>	539,432	539,432	539,432	539,432	539,432
<b>Total Obligations MADS</b>	<b>\$539,432</b>	<b>\$539,432</b>	<b>\$539,432</b>	<b>\$539,432</b>	<b>\$539,432</b>
<b>Debt Service Coverage Ratio</b>	<b>1.18</b>	<b>0.90</b>	<b>1.26</b>	<b>1.25</b>	<b>1.27</b>

(1) Calculated at \$8,500,000 at an all-in rate of 4.78% (including a 0.15% annual servicing fee) for a term of 30 years.

**Risks and mitigants**

Risk: The District is small and has not completed a project of this size.

Mitigants:

- Although the District has not completed a project of this size, they have been successful in maintaining an aging system for over 89 years.
- The District has a fixed-price contract.

Risk: The District will rely on rate increases from sewer and trash services.

Mitigants:

- Rate increases approved to go into effect 7/1/2024 are adequate to cover the proposed debt service.
- Subject to meeting applicable legal requirements, the District Board can approve future rate increases as necessary to meet repayment obligations.

Risk: The District is not prohibited from incurring additional debt during the life of the Loan.

Mitigants:

- The District currently has no debt.
- New parity debt will only be permitted if Net Revenues support a Debt Service Coverage Ratio (DSCR) of at least 1.20x, based on Maximum Annual Debt Service (MADS).
- The District will be required to maintain rates and charges in an amount sufficient to support a minimum DSCR of 1.20x, based on Annual Debt Service (ADS), for the Loan and any parity debt.

**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 District intends to use its internally required contractor pre-qualification questionnaire, which IBank Staff has determined substantially meets the intent of the Model Questionnaire.

**ISRF Criteria Waivers:** None.

**Staff Recommendation**

Staff recommends the approval of Resolution No. 24-04 authorizing ISRF Program Financing in an amount not to exceed \$8,500,000 for the for the District’s Broadway Pump Station Bypass Sewer Project.

<b>IBank Staff:</b>	Richard Nesbitt and Lina Moeller
<b>Date of Staff Report:</b>	January 16, 2023
<b>Date of IBank Board Meeting:</b>	January 24, 2024 Board Meeting
<b>Resolution Number:</b>	24-04

## **Borrower background**

### **Borrower description**

The community of Sunset Beach was established in 1904, and further developed later in response to the 1920 discovery of oil in the Huntington Beach Oil Field. On August 2, 2010, the Huntington Beach city council, in a 5-2 vote, voted to annex Sunset Beach, making the community a part of the much larger municipality (population 194,310).

The Sunset Beach Sanitary District (District) serves a small portion of Huntington Beach. It provides sewage and trash collection and disposal services. This is the District's first loan request from IBank. It does not have a credit rating.

### **Local Economy**

The economy of Sunset Beach is mostly restaurants and bars, including the famous Captain Jack's, founded by noted surfer Jack Haley Sr., the father of basketball player Jack Haley.

The Sunset Beach Art Festival is held annually during Mother's Day weekend. It was created in 1948 by the local women's group to promote education and social activities and was initially called the Beachcomber's Carnival. The festival generates \$30,000 to \$40,000, with all the proceeds going to charity.

The City of Huntington Beach boasts an annual median household income of \$97,469, 77% higher than the median household income for the United States, and 28% higher than the State of California. In addition, more than half of its residents, or 53%, have a college education. There are over 104,300 people employed by public and private entities in Huntington Beach.

Tourism and technology are the leading industries in Huntington Beach today. The City is home to more than 650 industrial businesses, including Boeing, Quicksilver, Cambro Manufacturing, and C&D Aerospace. Per the city of Huntington Beach Annual Comprehensive Financial Report for FY 2022, the City has seen the job market (i.e. number of jobs) increase by 0.6% over the last year. Future job growth over the next ten years is predicted to be 31.3%, which is lower than the US average of 33.5%. The projected job growth is related to the City's commitment (per City website) to promoting and sustaining a strong, healthy business climate, and the City's Economic Development Division is dedicated to enhancing the local economy and business environment by attracting business and investment to the community, expanding the City's tax base, and balancing private sector needs with neighborhood quality of life.

## **Project background**

The District is requesting \$8.5M from IBank to assist with financing a \$10.3M project to close down the existing Broadway Sewer Pump Station (Pump Station) and replace it with a new gravity sewer main to bypass the station (Project). (The additional funds will come from the District's unrestricted fund balance as mentioned earlier.) The applicant is eligible under the ISRF Criteria eligibility category "Public Development Facilities" and the project eligibility category "Sewage Collection and Treatment".

The goal of the District is to discontinue the use of the below-grade aging Pump Station to minimize increasing risks associated with climate change and seismic activity, as well as to save on maintenance costs. The District has chosen to replace the Pump Station and force main with a 'gravity' sewer option (Project), which costs less than a complete rebuild of the existing infrastructure. A gravity sewer main is a

conduit utilizing the energy resulting from a difference in elevation to remove unwanted water. (A basic scope of work description appears below.) This option will cost much less to build and maintain than a full replacement of the Pump Station and force main. The District estimates annual savings will be \$266,500, by eliminating the costs of repairs, utilities, and maintenance, while making the District's sewage collection system much safer. The Project will create 43 temporary construction jobs and will retain 4 permanent jobs. Once completed the useful life of the new Sewer Pump Station Bypass will be approximately 50 to 100 years.

The Project entails installing approximately 3,300 linear feet of 15-inch diameter PVC bypass sewer main alongside the Sunset Beach Greenbelt (Linear Park) between N. Pacific Ave and Warner Ave (See Exhibit 5). The main components of this project will be as follows:

1-Bypass Sewer costs, General construction, and Demolition \$4.4M

2-Earthworks (Trenching, hauling & Shoring) \$1.34M

3-Roadway Paving (Sawcut paving, Removal & installation) \$160K

4-Dewatering \$990K

5-Mechanical \$1.72M

6-Manhole modifications \$450K

In the last two years, the District has completed the contract documents (construction plans, specifications, and bid documents) and obtained all necessary constructions permits, including permits from the California Coastal Commission, Caltrans, the Regional Water Quality Control Board, and the City of Huntington Beach. The construction will take place early spring 2024 and be complete by Memorial Day, 2025. This time period was chosen to reduce the effect construction will have on beach users.

### **Loan security and source of repayment**

The Loan will be secured by a pledge of the District's net revenues and all other legally available resources, and will be repaid from these amounts. An overview of the strength of the District's system and finances appears below, in order to provide a sense of the reliability of this pledge.

### **System Overview**

Sunset Beach Sanitary District is an independent entity which provides sanitation services for the Sunset Beach area. The District provides sewage and trash collection and disposal services for Sunset Beach and Surfside Colony (located within the neighboring Seal Beach). As of June 30, 2023, the District served 987 residential sewage units, 234 commercial sewage units, 12 sewer cleaning units (for restaurants), and 1,010 trash units.

Most of the District's sewage collection facilities were originally built in 1935, when the District began operations. Included in those facilities is the Pump Station, which has continuously operated since that date. The District is in a low-lying area, surrounded by the ocean on its westerly side, and by harbors and coastal waterways on its easterly side.

The District has annual revenues of approximately \$1.5M and currently has 9 employees.

Asset description

The capital assets of the District are composed of capacity rights purchased by the District in sewer treatment and transmission facilities owned by others, as well as capital assets owned by the District. The District owns no major assets other than sewer lines, pump stations, equipment, and a utility warehouse for storage purposes. The FY 2022 balance sheet shows total capital assets of \$4.5M and total assets of \$7.1M. In FY22, the remaining useful life of the District’s net fixed assets (when divided by annual depreciation expense) was about 27 years.

The District has no other future Capital Improvement plans. The Broadway Pump Station project is the only project the District has plans to complete in the next several years.

Rate and customer information

The following table displays the Number of Users by Category and reflects stability in the User base. The District is largely 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 nature of the District, and provides a stable anchor to its User base.

<b>NUMBER OF USERS BY CATEGORY</b>					
For Fiscal Year Ending (FYE) June 30	2018	2019	2020	2021	2022
Residential	982	982	980	980	987
Commercial	229	229	229	229	234
Other	5	5	5	5	5
<b>Total</b>	<b>1,216</b>	<b>1,216</b>	<b>1,214</b>	<b>1,214</b>	<b>1,226</b>
% change	N/A	0.0%	-0.2%	0.0%	1.0%

Source: Financing Application Addendum

The total service fee for residential or commercial unit is currently \$440 per year (\$240 for trash pick-up and \$200 for sewer transport and treatment). The proposed increase approved 11/8/2023 would bring the annual service fee to \$600 (\$300 for trash pick-up and \$300 for sewer transport and treatment).

The table below displays Current System Usage and Revenue as of June 30, 2023. Residential customers represent approximately 84.3% of the Total Gross Annual Revenues.

<b>CURRENT SYSTEM USAGE &amp; REVENUE</b>				
	Annual Usage (CCF) <sup>(1)</sup>	% Annual Usage	Gross Annual Revenue	% Gross Annual Revenue
Residential	999	75.4%	\$432,600	84.3%
Commercial	286	21.6%	\$72,550	14.1%
Other	40	3.0%	\$8,000	1.6%
<b>Total</b>	<b>1,325</b>	<b>100.0%</b>	<b>\$513,150</b>	<b>100.0%</b>

Source: Financing Application

<sup>(1)</sup> Hundred cubic feet

The following table displays the Top 10 System Users and reflects that the District 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 Ten Largest System Users as of June 30, 2023				
	User	% System Use	% System Revenues	Customer Class (Residential/ Commercial/ Industrial/Other)
1	Travelodge	2.36%	1.22%	Commercial
2	Captain Jack's Restaurant	2.26%	1.26%	Commercial
3	Ocean Surf Inn	1.70%	0.88%	Commercial
4	Harbour Inn	1.40%	0.72%	Commercial
5	Taco Surf Restaurant	1.04%	0.63%	Commercial
6	Harbour House Restaurant	0.83%	0.52%	Commercial
7	Oceanside Inn/ Sunset Pizza & Pasta	0.79%	0.50%	Commercial
8	Stop N Wash Car Wash	0.75%	0.39%	Commercial
9	Jack-in-the-Box	0.70%	0.45%	Commercial
10	Roman Cucina Restaurant	0.66%	0.43%	Commercial
<b>Total</b>		<b>12.5%</b>	<b>7.0%</b>	

The District has not had rate increases in the recent past. For the recent increase, a rate analysis was completed, Prop. 218 Notices were mailed, and meeting held. The 36% increase will take effect July 1, 2024.

The chart below shows that the percentage of MHI of the user charge is low at .4%. This is well below the best practice maximum of 2% of MHI. This gives the District greater financial flexibility.

HISTORICAL AND CURRENT AVERAGE MONTHLY USER CHARGE PER RESIDENTIAL UNIT					
For Fiscal Year Ending (FYE) June 30	2018	2019	2020	2021	2022
Residential	\$36.67	\$36.67	\$36.67	\$36.67	\$36.67
% change	N/A	0.0%	0.0%	0.0%	0.0%
% of MHI (2022 at \$111,122)	0.4%	0.4%	0.4%	0.4%	0.4%

Source: Financing Application Addendum

The following table displays the District's Average Monthly System User Charge compared to nearby systems as of June 30, 2023.

CURRENT AVERAGE MONTHLY SYSTEM USER CHARGE COMPARED TO NEARBY SYSTEMS				Percentage of Average Monthly Charge
System Name	Distance in Miles	Location	Average Monthly Residential Rate	
<b>The Sunset Beach Sanitary District of Orange County</b>	<b>N/A</b>		<b>\$36.67</b>	<b>89.2%</b>
Huntington Beach	6.3	Orange County	\$40.80	99.2%
Seal Beach	6.9	Orange County	\$53.85	130.9%
Fountain Valley	6.2	Orange County	\$37.58	91.4%
Midway City	7.5	Orange County	\$38.20	92.9%
Costa Mesa	7.2	Orange County	\$39.69	96.5%
<b>Average Monthly Charge</b>			<b>\$41.13</b>	

Source: Financing Application Addendum

The District's current average monthly residential rate is 11% less than the average rates of nearby systems. The Service area is substantially built out. However, there are a small number of parcels which could be re-developed into small hotels and commercial offices or multi-unit residential properties.

The District's current cost of service is among the lowest in the area. With the rate increases the projected District average monthly residential rate will go from \$36.67 to \$50 which would be 15% higher than the average of nearby systems, and not as high as the Seal Beach rate of almost \$54 per month. However, properties within the District do not pay the \$358 (\$371 in 2024-2025) service fee levied by the Orange County Sanitation District (OCSD). In addition, properties within the District do not pay the trash and sewage charges collected on water bills by the Cities, which average more than \$450 per home per year. The proposed total service fee of \$600 for a residential unit within the District is more than 25% less when compared to fees paid by property owners outside the District (approximately \$821), for the same services. Furthermore, the District collects garbage twice a week, while City agencies collect garbage only once per week.

### **Credit Analysis:**

Borrower financial statements, as presented in the Annual Basic Financial Statements, are presented for fiscal years 2018 through 2022 in Exhibits 1 and 2. Since the District is engaged in a single governmental activity and has no component units or fiduciary activities, Government-Wide financial statements are presented. These statements follow the accrual basis of accounting, similar to a private-sector business.

A key indicators ratio table is presented in Exhibit 3. The Economy indicators presented are for the City of Huntington Beach and the labor market information used to calculate some of the ratios is data for Orange County and Sunset Beach.

The District although small, shows over the years reviewed that they have the ability to manage their finances in a conservative manner. They have shown a steady increase in assets and maintained their expenditures, with increasing revenues each year. The key indicators also show strong economic indicators, and a stable number of system users.

### **Balance Sheet (Exhibit 1)**

The Fund has maintained Cash and Investment accounts of at least \$1.5M since FY 2018, and an average of over \$2.5M from FY 2020 to FY 2022. Days Cash on Hand as of June 30, 2022, were 1,059, which shows they have more than sufficient cash for approximately 2.9 years.

As shown in the Key Indicators table in Exhibit 3, the Current Ratio has been very strong, averaging over 10x over the 5-year period, including 11.9x in FY 2022. This has been achieved by keeping liabilities very low, averaging only about \$224K. In addition, with no long-term debt during the period, the Leverage Ratio (Total Liabilities ÷ Net Position) has remained very low, including just 0.4x in FY 2022, indicating the District has had more than enough assets to cover its liabilities.

Over the five-year period the Total Net Position grew 33.2%, from \$5.2M to \$6.9M.



The District has a Cash Reserve Policy in place which requires the District to provide adequate funding to meet the Districts Emergency Reserve and Capital Improvement Reserve funds. The District uses a very conservative approach to budgeting for these funds.

Total 2023-2024 Budgeted Reserves are summarized as follows:

Emergency reserve fund	\$ 621,244
Capital Improvement-Broadway PS Sewer Reserve Fund	<u>\$ 2,060,833</u>
	\$ 2,702,077

These are separate Funds from the General Fund.

Income Statement (Exhibit 2)

The District is primarily funded by property tax revenue from a share of the County of Orange property tax basic levy, as well as the service fees charged for each residential and commercial unit which is collected on the annual tax bill.

Total revenues grew by 9.2% over the five years reviewed. Sanitation fees, Property taxes and Special Assessments are the main revenue drivers for the District. Property taxes are generally over 60% of revenues while fees are about 35%. The District is entitled to a portion of the property taxes per AB8. The District’s Operating Margin has been very strong, averaging 29.9% over the 5 years reviewed, indicating that it has consistently generated strong surpluses to cover the proposed debt service.

The District has demonstrated the ability to manage expenses and keep costs consistently low.

Fund Balances as a percentage of Revenues have steadily increased year over year in the period from a low of 97% in FY 2018 to 159% in FY 2022, reflecting the consistent track record of surpluses.

The District has not had any debt service in more than 10 years. Without the current loan request, DSCR would be more than sufficient. Projections show that after the new rate increases take effect the District will have sufficient debt service coverage above 1.20X.

Repayment Analysis/ Projections (Exhibit 4)

**Historical Cash Flows**

CASH FLOW					
For Fiscal Year Ending (FYE) June 30	2018	2019	2020	2021	2022
Net Change in Fund Balance	\$449,296	\$394,914	\$395,985	\$468,880	\$466,147
<b>Transaction Specific Adjustments</b>					
+ Depreciation	138,875	150,240	154,276	136,741	170,208
<b>Total of all Adjustments</b>	<b>138,875</b>	<b>150,240</b>	<b>154,276</b>	<b>136,741</b>	<b>170,208</b>
<b>Cash Available for Debt Service</b>	<b>\$588,171</b>	<b>\$545,154</b>	<b>\$550,261</b>	<b>\$605,621</b>	<b>\$636,355</b>
<b>Debt Service Calculation</b>					
<b>Total Existing MADS Debt Service</b>	0	0	0	0	0
<b>Proposed IBank MADS <sup>(1)</sup></b>	<b>539,432</b>	<b>539,432</b>	<b>539,432</b>	<b>539,432</b>	<b>539,432</b>
<b>Total Obligations MADS</b>	<b>\$539,432</b>	<b>\$539,432</b>	<b>\$539,432</b>	<b>\$539,432</b>	<b>\$539,432</b>
<b>Debt Service Coverage Ratio</b>	<b>1.09</b>	<b>1.01</b>	<b>1.02</b>	<b>1.12</b>	<b>1.18</b>
<small><sup>(1)</sup> Calculated as \$8,500,000 at an all-in rate of 4.78% (including a 015% annual servicing fee) for a term of 30 years</small>					

The District historically has operated with a surplus and expenditures have been adequately covered by Fund revenues. However when the debt service for the proposed loan is considered the ISRF program guideline coverage of 1.20x is not met historically (minimum DSCR of 1.01x in FY 2019).

## Projected Cash Flows

<b>PROJECTED CASH FLOW</b>						
For Fiscal Year Ending (FYE) June 30		2022	2023	2024	2025	2026
<b>Net Income (Loss)</b>		\$466,147	\$483,000	\$680,400	\$672,300	\$684,200
<b>Transaction Specific Adjustments</b>						
+	Depreciation	170,208				
<b>Total of all Adjustments</b>		170,208	0	0	0	0
<b>Cash Available for Debt Service</b>		<b>\$636,355</b>	<b>\$483,000</b>	<b>\$680,400</b>	<b>\$672,300</b>	<b>\$684,200</b>
<b>Debt Service Calculation</b>						
<b>Total Existing MADS Debt Service</b>		0	0	0	0	0
<b>Proposed IBank MADS <sup>(1)</sup></b>		539,432	539,432	539,432	539,432	539,432
<b>Total Obligations MADS</b>		<b>\$539,432</b>	<b>\$539,432</b>	<b>\$539,432</b>	<b>\$539,432</b>	<b>\$539,432</b>
<b>Debt Service Coverage Ratio</b>		<b>1.18</b>	<b>0.90</b>	<b>1.26</b>	<b>1.25</b>	<b>1.27</b>

(1) Calculated at \$8,500,000 at an all-in rate of 4.78% (including a 0.15% annual servicing fee) for a term of 30 years.

However, in anticipation of the subject Project, in November of 2023 the District completed its Prop 218 process and approved a rate increase that will take effect on July 1<sup>st</sup>, 2024. With this increase the Fund is projected to generate consistent operating surpluses going forward with the minimum projected DSCR of 1.25x in FY 2025. The District also has the ability to increase rates in the future if deemed necessary.

The District provided projections and assumptions for the projections through FY 2026. The assumptions include consideration of rate increases, staff changes and related savings, impact of SB1383, waivers given by the District Council, Property tax and interest revenue estimations etc.

Please refer Exhibit 4 for the projections and detail on the projection assumptions.

## Staff Recommendation

Staff recommends approval of Resolution No. 24-04 authorizing ISRF Program financing to The Sunset Beach Sanitary District of Orange County (District) for the Broadway Pump Station Bypass Sewer Project, subject to the following key terms and conditions:

1. **Applicant/Borrower:** The Sunset Beach Sanitary District of Orange County (District) (Borrower)
2. **Project Name:** Broadway Pump Station Bypass Sewer Project (Project)
3. **Amount of ISRF Program financing:** \$8,500,000 (Tax-exempt Financing)
4. **Maturity:** Not to exceed 30 years. Financing may not be prepaid during the first 10 years.
5. **Repayment/Security:** The Financing will be secured by a senior lien on net system revenues (Net Revenues) from the District's General Fund (Fund) and all legally available amounts in the Fund.
6. **Interest Rate:** All-in **4.78%** (which includes annual servicing fee described in item 8 below). The rate will be locked as outlined in item 9 below.
7. **Fees:** Borrower to pay the origination fee of 1.00% [\$85,000] of the Financing amount upon close of Financing, and an annual servicing fee of [0.15%] of the outstanding balance.
8. **Rate Lock:** The interest rate in item 6 will be locked for a period of 90 calendar days after IBank Board (Board) approval of the ISRF financing (the Rate Lock Period). After the Rate Lock Period, and up until IBank's Financing commitment expires (as described in item 10 below), the interest rate may be reset at the discretion of IBank's Credit Committee.
9. **Limited Time:** Subject to the Board's approval of the Financing resolution, IBank's Financing commitment expires 180 calendar days from the date of its adoption. If the Borrower and IBank have not executed a financing agreement (Financing Agreement) before the commitment expires, there can be no assurances that IBank will be able to grant the Financing to the Borrower or consider extending the commitment period.
10. **Not an Unconditional Commitment:** If the IBank Board (Board) approves the resolution authorizing the Financing request, the resolution shall not be construed as an unconditional commitment to finance the Project, but rather is conditioned upon entry by IBank and the Borrower into an ISRF Program financing agreement (or agreements), in form and substance satisfactory to IBank.
10. **ISRF Program Financing Agreement Covenants and Conditions:** The Financing Agreement shall include, among other things, the following covenants:
  - a. The Fund has no debt secured by senior lien on Net Revenues, and the Borrower will be prohibited from issuing future debt senior to the Financing.
  - b. 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 parity debt and the Financing, and the proposed parity debt, payable from the Fund.
  - c. Subordinate debt will be allowed if Net Revenues are at least 1.00 time the sum of the MADS on all outstanding debt payable from the Fund.
  - d. The Borrower will be required to maintain rates and charges in an amount sufficient to ensure in each fiscal year that Net Revenues produce a minimum 1.20 times aggregate annual debt service coverage ratio for the Financing and all parity debt, and a minimum 1.00 time annual debt service coverage ratio when including subordinate debt.
  - e. The Borrower 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 debt service coverage ratios fall below required levels.
  - f. Upon implementing rates and charges, the Borrower 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 Borrower to covenant to notify IBank immediately upon the filing of any legal challenge to its rates or charges.

- g. The Borrower will comply with the requirements of the ISRF Program Criteria and all applicable laws, regulations, and permitting requirements associated with public works projects.
- h. The Borrower shall meet standard insurance requirements with respect to the enterprise system, general liability insurance, worker's compensation, and builder's risk insurance.
- i. The Borrower to provide to IBank annually, within 180 days of the end of each of the Borrower's fiscal years, 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 reasonably request from time to time.

**Exhibit 1**

THE SUNSET BEACH SANITARY DISTRICT OF ORANGE COUNTY GENERAL FUND										
For Fiscal Year Ending (FYE) June 30	2018		2019		2020		2021		2022	
Source:	Basic Financial Statements	%	Basic Financial Statements	%	Basic Financial Statements	%	Basic Financial Statements	%	Basic Financial Statements	%
<b>ASSETS AND DEFERRED OUTFLOW OF RESOURCES</b>										
<b>Current Assets</b>										
Cash and Investments	\$1,563,350	28.7%	\$2,002,168	34.3%	\$2,335,960	37.6%	\$2,730,969	41.1%	\$2,530,536	35.4%
Property taxes receivable, net	\$24,478	0.4%	\$23,026	0.4%	\$31,082	0.5%	\$29,365	0.4%	\$34,663	0.5%
Sewer fees receivable	\$8,000	0.1%	\$8,000	0.1%						
Interest receivable	\$6,098	0.1%	\$13,036	0.2%	\$7,338	0.1%	\$3,375	0.1%	\$4,044	0.1%
Prepaid items	\$33,808	0.6%	\$30,229	0.5%	\$40,892	0.7%	\$38,530	0.6%	\$25,614	0.4%
Due from Other Governments									\$2,800	0.0%
<b>Total Current Assets</b>	<b>\$1,635,734</b>	<b>30.0%</b>	<b>\$2,076,459</b>	<b>35.5%</b>	<b>\$2,415,272</b>	<b>38.9%</b>	<b>\$2,802,239</b>	<b>42.2%</b>	<b>\$2,597,657</b>	<b>36.3%</b>
<b>Capital Assets</b>										
Sewer transmission and treatment capacity	\$1,754,389	32.2%	\$1,754,389	30.0%	\$1,754,389	28.2%	\$1,754,389	26.4%	\$1,754,389	24.5%
Construction in progress	\$10,386	0.2%	\$57,297	1.0%	\$200,691	3.2%	\$337,884	5.1%	\$132,456	1.9%
Property, plant and equipment, net of depreciation	\$2,053,000	37.6%	\$1,957,454	33.5%	\$1,841,731	29.6%	\$1,749,355	26.3%	\$2,661,947	37.2%
<b>Total Capital Assets</b>	<b>3,817,775</b>	<b>70.0%</b>	<b>3,769,140</b>	<b>64.5%</b>	<b>3,796,811</b>	<b>61.1%</b>	<b>3,841,628</b>	<b>57.8%</b>	<b>4,548,792</b>	<b>63.7%</b>
<b>Total of All Assets</b>	<b>\$5,453,509</b>	<b>100.0%</b>	<b>\$5,845,599</b>	<b>100.0%</b>	<b>\$6,212,083</b>	<b>100.0%</b>	<b>\$6,643,867</b>	<b>100.0%</b>	<b>\$7,146,449</b>	<b>100.0%</b>
<b>Liabilities</b>										
Accounts payable	\$248,559	4.6%	\$245,340	4.2%	\$215,819	3.5%	\$178,487.00	2.7%	\$188,047	2.6%
Wages payable	\$2,502	0.0%	\$2,878	0.0%	\$3,506	0.1%	\$3,788.00	0.1%	\$3,948	0.1%
Due to other governmental agencies	\$653	0.0%	\$672	0.0%	\$64	0.0%	\$18.00	0.0%	\$32	0.0%
Lease Payable									\$26,701	0.4%
<b>Total Current Liabilities</b>	<b>\$251,714</b>	<b>4.6%</b>	<b>\$248,890</b>	<b>4.3%</b>	<b>\$219,389</b>	<b>3.5%</b>	<b>\$182,293</b>	<b>2.7%</b>	<b>\$218,728</b>	<b>3.1%</b>
<b>Total Liabilities</b>	<b>251,714</b>	<b>4.6%</b>	<b>248,890</b>	<b>4.3%</b>	<b>219,389</b>	<b>3.5%</b>	<b>182,293</b>	<b>2.7%</b>	<b>218,728</b>	<b>3.1%</b>
<b>Net Position:</b>										
Net investment in capital assets	\$3,817,775	70.0%	\$3,769,140	64.5%	\$3,796,811	61.1%	\$3,841,628	57.8%	\$4,522,091	63.3%
Unrestricted	\$1,384,020	25.4%	\$1,827,569	31.3%	\$2,195,883	35.3%	\$2,619,946	39.4%	\$2,405,630	33.7%
<b>Net Position</b>	<b>\$5,201,795</b>	<b>95.4%</b>	<b>\$5,596,709</b>	<b>95.7%</b>	<b>\$5,992,694</b>	<b>96.5%</b>	<b>\$6,461,574</b>	<b>97.3%</b>	<b>\$6,927,721</b>	<b>96.9%</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$5,453,509</b>	<b>100.0%</b>	<b>\$5,845,599</b>	<b>100.0%</b>	<b>\$6,212,083</b>	<b>100.0%</b>	<b>\$6,643,867</b>	<b>100.0%</b>	<b>\$7,146,449</b>	<b>100.0%</b>

**Exhibit 2**

THE SUNSET BEACH SANITARY DISTRICT OF ORANGE COUNTY GENERAL FUND										
For Fiscal Year Ending (FYE) June 30	2018		2019		2020		2021		2022	
	Basic Financial Statements	%	Basic Financial Statements	%	Basic Financial Statements	%	Basic Financial Statements	%	Basic Financial Statements	%
Source:										
% Change		N/A		3%		3%		1%		1%
<b>Operation Revenue</b>										
Sanitation services fees	\$506,527	36.6%	\$503,425	35.2%	\$510,061	34.6%	\$510,281	34.2%	\$497,539	33.0%
Property taxes	\$840,651	60.8%	\$868,025	60.7%	\$911,995	61.8%	\$941,766	63.2%	\$983,786	65.2%
Penalties and costs	\$125	0.0%	\$141	0.0%	\$156	0.0%	\$223	0.0%	\$165	0.0%
Sanitation permits	\$13,180	1.0%	\$5,961	0.4%	\$9,000	0.6%	\$10,800	0.7%	\$14,657	1.0%
Interest earned	\$17,425	1.3%	\$36,749	2.6%	\$38,749	2.6%	\$18,497	1.2%	\$6,901	0.5%
Other	\$4,504	0.3%	\$16,455	1.2%	\$5,425	0.4%	\$9,273	0.6%	\$5,867	0.4%
<b>Total Revenues</b>	<b>\$1,382,412</b>	<b>100.0%</b>	<b>\$1,430,756</b>	<b>100.0%</b>	<b>\$1,475,386</b>	<b>100.0%</b>	<b>\$1,490,840</b>	<b>100.0%</b>	<b>\$1,508,915</b>	<b>100.0%</b>
<b>Expenditures</b>										
Current:										
Salaries and employee benefits	\$127,767	9.2%	\$147,654	10.3%	\$186,395	12.6%	\$197,706	13.3%	\$192,930	12.8%
Equipment and facilities, maintenance, and repair	\$83,490	6.0%	\$116,051	8.1%	\$173,449	11.8%	\$154,593	10.4%	\$119,776	7.9%
Insurance	\$9,432	0.7%	\$10,022	0.7%	\$11,091	0.8%	\$14,925	1.0%	\$12,635	0.8%
Membership	\$13,357	1.0%	\$14,223	1.0%	\$14,649	1.0%	\$9,469	0.6%	\$9,610	0.6%
Office expense	\$471	0.0%	\$76	0.0%	\$734	0.0%	\$1,477	0.1%	\$1,272	0.1%
Professional and specialized services	\$52,610	3.8%	\$60,872	4.3%	\$62,952	4.3%	\$64,317	4.3%	\$96,588	6.4%
Publication of legal notices	\$406	0.0%	\$1,263	0.1%	\$1,231	0.1%	\$1,745	0.1%	\$1,940	0.1%
Refuse disposal	\$246,000	17.8%	\$250,702	17.5%	\$256,944	17.4%	\$263,813	17.7%	\$273,128	18.1%
Rents and leases	\$12,597	0.9%	\$11,919	0.8%	\$12,516	0.8%	\$12,920	0.9%	\$1,100	0.1%
Engineering and construction	\$25,142	1.8%	\$37,211	2.6%	\$4,024	0.3%				
Telephone	\$3,578	0.3%	\$3,872	0.3%	\$3,159	0.2%	\$3,452	0.2%	\$2,774	0.2%
Transportation and travel	\$5,792	0.4%	\$5,580	0.4%	\$5,471	0.4%	\$5,471	0.4%	\$5,093	0.3%
Utilities	\$213,599	15.5%	\$226,157	15.8%	\$192,510	13.0%	\$155,331	10.4%	\$155,714	10.3%
Depreciation	\$138,875	10.0%	\$150,240	10.5%	\$154,276	10.5%	\$136,741	9.2%	\$170,208	11.3%
<b>Total Expenditures</b>	<b>\$933,116</b>	<b>67.5%</b>	<b>\$1,035,842</b>	<b>72.4%</b>	<b>\$1,079,401</b>	<b>73.2%</b>	<b>\$1,021,960</b>	<b>68.5%</b>	<b>\$1,042,768</b>	<b>69.1%</b>
<b>Net Change in Fund Balance</b>	<b>\$449,296</b>	<b>32.5%</b>	<b>\$394,914</b>	<b>27.6%</b>	<b>\$395,985</b>	<b>26.8%</b>	<b>\$468,880</b>	<b>31.5%</b>	<b>\$466,147</b>	<b>30.9%</b>
<b>Fund Balance, Beginning of Year</b>	<b>\$4,752,499</b>		<b>\$5,201,798</b>		<b>\$5,596,709</b>		<b>\$5,992,694</b>		<b>\$6,461,574</b>	
Prior Year Adjustments										
<b>Fund Balance, End of Year</b>	<b>\$5,201,798</b>		<b>\$5,596,709</b>		<b>\$5,992,694</b>		<b>\$6,461,574</b>		<b>\$6,927,721</b>	

### Exhibit 3

<b>Sunset Beach Sanitary District</b>					
<b>Key Indicators</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Economy</b>					
Median Family Income (as % of CA Median) [1]	121%	118%	124%	128%	132%
Unemployment rate (%) [2]	2.8%	2.9%	3.2%	4.8%	3.9%
Full value per capita (\$)	\$174,428	\$185,364	\$194,653	\$204,097	\$211,827
<b>System Characteristics</b>					
Net Fixed Assets (\$)	\$3,817,775	\$3,769,140	\$3,796,811	\$3,841,628	\$4,548,792
Remaining useful life of NFA (years) [3]	27.5	25.1	24.6	28.1	26.7
Number of system users	1,216	1,216	1,214	1,214	1,226
Average annual residential charge per unit (\$)	\$440	\$440	\$440	\$440	\$440
Residential charge as % of MHI	0.4%	0.4%	0.4%	0.4%	0.4%
<b>Residential charge as % of MHI</b>					
Cash Balances	\$1,563,350	\$2,002,168	\$2,335,960	\$2,730,969	\$2,530,536
Current Ratio [4]	6.50	8.34	11.01	15.37	11.88
Days Cash on Hand [5]	718	825	922	1126	1059
<b>Performance</b>					
Operating Revenue	\$1,382,412	\$1,430,756	\$1,475,386	\$1,490,840	\$1,508,915
Operating Margin [6]	32.5%	27.6%	26.8%	31.5%	31.2%
Fund Balances as % of Operating Revenue	97.0%	127.7%	148.8%	175.7%	159.2%
<b>Leverage</b>					
Fund Balances	\$1,340,902	\$1,827,569	\$2,195,883	\$2,619,946	\$2,411,467
Leverage Ratio [7]	0.05	0.05	0.04	0.04	0.04

[1] dof.ca.gov/reports/demographic-reports/american-community-survey/Economy indicators are for the City of Huntington Beach/No ACS data for Sunset Beach

[2] [www.labormarketinfo.edd.ca.gov/data-release-schedule.html](http://www.labormarketinfo.edd.ca.gov/data-release-schedule.html) / [Data is from Orange County, Sunset Beach N/A](#)

[3] Net fixed assets ÷ Depreciation Expense

[4] Current Assets ÷ Current Liabilities

[5] (Unrestricted Cash \* 365) ÷ Operating Expenses

[6] Operating Income as % of Operating Revenues

[7] Total Liabilities ÷ Fund Balances

**Exhibit 4**

<b>SUNSET BEACH SANITARY DISTRICT PROJECTED</b>											
For Fiscal Year Ending (FYE) June 30											
	2022		2023		2024		2025		2026		
	ACTUAL	%	Projections	%	Projections	%	Projections	%	Projections	%	
Source:				10.42%		10.92%		1.28%		1.29%	
% Change		N/A									
<b>Operation Revenue</b>											
	Sanitation services fees	\$497,539	33.0%								
#6	Property taxes	\$983,786	65.2%	\$1,120,000	66.5%	\$1,140,500	60.3%	\$1,160,500	60.6%	\$1,182,500	60.9%
	Penalties and costs	\$165	0.0%								
	Sanitation permits	\$14,657	1.0%								
#5	Interest earned	\$6,901	0.5%	\$20,000	1.2%	\$10,000	0.5%	\$10,000	0.5%	\$10,000	0.5%
	Other	\$5,867	0.4%								
	Interest - LAIF			\$8,500	0.5%	\$9,000	0.5%	\$9,500	0.5%	\$10,000	0.5%
	State Homeowner Prop. Tax Relief			\$4,500	0.3%	\$5,000	0.3%	\$5,500	0.3%	\$6,000	0.3%
	Capital Facilities Connection & Insp. Fees			\$10,000	0.6%	\$12,000	0.6%	\$15,000	0.8%	\$17,000	0.9%
#1	Special Assessments			\$515,000	30.6%	\$708,000	37.4%	\$708,000	37.0%	\$708,000	36.5%
	Trash Franchise Fees			\$6,500	0.4%	\$6,500	0.3%	\$7,000	0.4%	\$7,000	0.4%
	Misc. Revenue										
<b>Total Revenues</b>		<b>\$1,508,915</b>	<b>100.0%</b>	<b>\$1,684,500</b>	<b>100.0%</b>	<b>\$1,891,000</b>	<b>100.0%</b>	<b>\$1,915,500</b>	<b>100.0%</b>	<b>\$1,940,500</b>	<b>100.0%</b>
<b>Expenditures</b>											
Current:											
	Salaries and employee benefits	\$192,930	12.8%								
	Equipment and facilities, maintenance, and repair	\$119,776	7.9%								
	Insurance	\$12,635	0.8%								
	Membership	\$9,610	0.6%	\$11,500	0.7%	\$12,000	0.6%	\$13,000	0.7%	\$13,500	0.7%
	Office expense	\$1,272	0.1%	\$1,500	0.1%	\$1,500	0.1%	\$1,500	0.1%	\$1,500	0.1%
	Professional and specialized services	\$96,588	6.4%	\$6,500	0.4%	\$7,000	0.4%	\$7,500	0.4%	\$7,500	0.4%
	Publication of legal notices	\$1,940	0.1%	\$2,000	0.1%	\$2,000	0.1%	\$2,000	0.1%	\$2,000	0.1%
	Refuse disposal	\$273,128	18.1%								
	Facilities	\$1,100	0.1%								
	Rents and leases			\$15,000	0.9%	\$0	0.0%	\$0	0.0%	\$0	0.0%
	Engineering and construction			\$80,000	4.7%	\$80,000	4.2%	\$80,000	4.2%	\$80,000	4.1%
	Telephone	\$2,774	0.2%	\$4,500	0.3%	\$3,000	0.2%	\$3,000	0.2%	\$3,500	0.2%
	Transportation and travel	\$5,093	0.3%	\$5,500	0.3%	\$5,500	0.3%	\$5,500	0.3%	\$5,500	0.3%
	Utilities	\$155,714	10.3%	\$235,000	14.0%	\$229,500	12.1%	\$229,500	12.0%	\$230,000	11.9%
	Depreciation	\$170,208	11.3%								
	Salary - Superintendent			\$97,000	5.8%	\$101,000	5.3%	\$104,000	5.4%	\$107,000	5.5%
	Salary - Superintendent II			\$40,000	2.4%	\$42,000	2.2%	\$44,000	2.3%	\$45,000	2.3%
#2	Salary-Assistant Superintendent II			\$27,500	1.6%	\$29,000	1.5%	\$30,000	1.6%	\$32,000	1.6%
	Salary-Assistant Superintendent III			\$27,500	1.6%	\$29,000	1.5%	\$30,000	1.6%	\$32,000	1.6%
	Directors' Fees			\$10,000	0.6%	\$10,000	0.5%	\$10,000	0.5%	\$10,000	0.5%
	Retirement (Employers Soc Sec)			\$12,500	0.7%	\$13,000	0.7%	\$13,500	0.7%	\$13,500	0.7%
	State Tax (UI & ETT)			\$1,000	0.1%	\$1,500	0.1%	\$1,500	0.1%	\$1,500	0.1%
	Workers Comp - General			\$8,500	0.5%	\$9,000	0.5%	\$9,500	0.5%	\$10,000	0.5%
	Medicare (Employer's Med)			\$2,500	0.1%	\$3,100	0.2%	\$3,200	0.2%	\$3,300	0.2%
#3	Trash Pick-Up (Rainbow)			\$299,500	17.8%	\$399,000	21.1%	\$419,000	21.9%	\$419,000	21.6%
	Insurance (SDRMA)			\$17,000	1.0%	\$18,500	1.0%	\$18,500	1.0%	\$18,500	1.0%
#4	Maintenance			\$66,000	3.9%	\$31,000	1.6%	\$31,000	1.6%	\$31,000	1.6%
#4	Maintenance Bldg & Improvements			\$135,000	8.0%	\$87,500	4.6%	\$90,000	4.7%	\$92,500	4.8%
	Contracts			\$95,000	5.6%	\$95,500	5.1%	\$96,000	5.0%	\$96,500	5.0%
	Investment Admin Fees			\$1,000	0.1%	\$1,000	0.1%	\$1,000	0.1%	\$1,000	0.1%
<b>Total Expenditures</b>		<b>\$1,042,768</b>	<b>69.1%</b>	<b>\$1,201,500</b>	<b>71.3%</b>	<b>\$1,210,600</b>	<b>64.0%</b>	<b>\$1,243,200</b>	<b>64.9%</b>	<b>\$1,256,300</b>	<b>64.7%</b>
<b>Nonoperating Revenues (Expenses)</b>											
	Debt Service on \$8M-30 yr loan 4.8%			\$378,000	22.4%	\$504,000	26.7%	\$504,000	26.3%	\$504,000	26.0%
	Increase in Emergency Reserves			\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%
<b>Net Non-operating Revenues (Expenses)</b>		<b>\$0</b>	<b>0.0%</b>	<b>\$378,000</b>	<b>22.4%</b>	<b>\$504,000</b>	<b>26.7%</b>	<b>\$504,000</b>	<b>26.3%</b>	<b>\$504,000</b>	<b>26.0%</b>
<b>Net Income (Loss)</b>		<b>\$466,147</b>	<b>30.9%</b>	<b>\$105,000</b>	<b>6.2%</b>	<b>\$176,400</b>	<b>9.3%</b>	<b>\$168,300</b>	<b>8.8%</b>	<b>\$180,200</b>	<b>9.3%</b>
<b>Reserve Fund Balances:</b>											
	Fund Balance Reserved-Capital Projects - County			\$1,829,500		\$729,500		\$729,500		\$729,500	
	(Cancellation) of Reserve			-\$1,100,000							
	Increase of Reserves										
	<b>Balance</b>	<b>\$0</b>		<b>\$729,500</b>		<b>\$729,500</b>		<b>\$729,500</b>		<b>\$729,500</b>	
	Fund Balance Reserved for Emergencies- LAIF			\$461,000		\$469,000		\$478,000		\$487,500	
	Increase of Reserves			\$8,000		\$9,000		\$9,500		\$10,000	
	<b>Balance</b>	<b>\$0</b>		<b>\$469,000</b>		<b>\$478,000</b>		<b>\$487,500</b>		<b>\$497,500</b>	
<b>Total Reserve Equity</b>		<b>\$2,619,946</b>		<b>\$1,198,500</b>		<b>\$1,207,500</b>		<b>\$1,217,000</b>		<b>\$1,227,000</b>	
<b>Change in Fund Balance</b>		<b>-\$214,316</b>		<b>\$475,000</b>		<b>\$642,400</b>		<b>\$801,200</b>		<b>\$971,400</b>	
<b>Total Fund Balances - Year -End</b>		<b>\$2,405,630</b>		<b>\$1,673,500</b>		<b>\$1,849,900</b>		<b>\$2,018,200</b>		<b>\$2,198,400</b>	

The District provided projections and assumptions for the projections through FY 2026. The assumptions include consideration of rate increases, staff changes and related savings, impact of SB1383, waivers given by the District Council, Property tax and interest revenue estimations etc.



**Assumptions:**

#1 – The District will increase its annual rates effective 7/1/2024. There are 1,010 trash units, trash rates will increase from \$240 to \$290 per month. There are 1,363 sewer units and rates will increase from \$200 to \$300 per month. The sewer cleaning fee will increase from \$475 to \$625. (This is charged to restaurants) There are 12 units. Total Assessment Fees would approximately increase to \$708,200 annually.

#2 – The position of Asst. Superintendent III will be eliminated as a result of the pump station abandonment. The annual savings will be \$27,500.

#3 – Trash Pick-up (Rainbow) amounts have been substantially increased due to the impact of SB1383. The current contract provides for a 5% annual increase through FY 2030. Rate increases to start 7/1/2024. Per District CalRecycle will give them waivers for each resident for collecting Organic waste in new containers due to size of District. This will take effect as of March 1, 2024.

#4 – Two positions in their Maintenance- Bldg. & Improvements Dept. will be eliminated. This will result in annual savings of \$65,000 as well as reducing SCE (Southern California Edison) expenses from \$10,000 to \$7,500 annually. These expenses are related to the pump station that will be abandoned.

#5 – Interest revenues will increase based on higher balances and higher rates.

#6 – Property Taxes increases are based on AB 8 which calculates the increases based on prior year assessments, plus the increased assessed value. In FY 2022-2023 the District used very conservative amounts using a minimum increase of 2%. However, the actual amounts increased by \$61K or 6%.

#7 – As of September 30, 2023, Cash reserves balances were \$1.854M, excluding Property Taxes which are collected in November and December and then again in April and May.

#8 - \$1.8M in SUOP (District's Equity) comes from Cash & Investments and Unrestricted funds.

**Exhibit 5**

HUNTINGTON BEACH  
DISTRICT BOUNDARY and PROJECT LOCATION



Source: Broadway Pump Station Bypass Sewer Report. Preliminary Design Report dated June 2022.