

INFRASTRUCTURE STATE REVOLVING FUND PROGRAM STAFF REPORT

Summary Terms

Applicant:	City of Waterford (City)
Project name:	Hickman Consolidation (Project)
Applicant eligibility category:	Public Development Facilities
Project eligibility category:	Water Treatment and Distribution
Project location:	Waterford and Hickman
Financing amount:	Up to \$1,500,000
Financing term:	20 years
Interest rate:	All-in interest rate of 4.52% (inclusive of 0.15% servicing fee). An environmental subsidy has been applied to the rate.
Fees:	\$25,000 origination fee. To be paid by the borrower
Source of repayment:	Water Enterprise Fund net revenues.
Security:	A pledge of net revenues and all legally available resources of the City's Water Enterprise Fund (Fund)
Applicant credit rating:	None
ISRF funding source(s):	Equity Funds- Bond Anticipation Loan to be reimbursed by the next ISRF Bond proceeds.
Applicant ISRF financing exposure:	This is the first ISRF loan application from the City
IBank referral source	IBank (ISRF Intake Form)

Executive Summary

The City of Waterford, with a population of around 9,300, is the 8th largest city in Stanislaus County, in the Central Valley. Known as the "Gateway to Recreation", Waterford plays host to thousands of travelers on their way to such outdoor attractions as the Gold Country and Yosemite National Park. The local economy is grounded in agriculture, including almonds, peaches, apples, walnuts, and corn, as well as ranching in the surrounding areas. Waterford's median household income is 76% of the State figure.

Project Description and Benefits

The neighboring community of Hickman, which sits across the Tuolumne River from Waterford, has about 750 residents. The Waterford water enterprise serves both communities. The water pipeline in the bridge over the Tuolumne River is already in place. The requested ISRF loan will fund the Hickman Consolidation Project, which will complete the remaining portion to fully connect the two isolated water systems. It is essential to ensure that residents of Hickman have access to clean drinking water. Since acquiring the combined systems from the City of Modesto in 2015, Waterford has been attempting to address system deficiencies. The two wells in Hickman are aging and do not provide sufficient water to the community, and are inadequate for emergency needs. Waterford has determined that the most cost-effective and efficient solution is to interconnect the Hickman and Waterford systems. The Project includes constructing a 5,500-foot connector pipeline from the intersection of F Street and Yosemite Avenue in Waterford, south to the intersection of Lake Road and Hickman Road in Hickman, to connect the two communities.

The chart below shows the Sources and Uses for the Project:

Project Uses	Project Sources		
	IBank	City of Waterford	Total
Construction Costs	\$1,025,520		\$1,025,520
Staking and Construction Management	\$102,552		\$102,552
Contingencies	\$102,552		\$102,552
Origination Fee		\$25,000	\$25,000
Additional Contingencies for unexpected costs	\$269,376		\$269,376
Total	\$1,500,000	\$25,000	\$1,525,000

The financing request is for 100% of the Project, and the borrower will pay the origination fee. The City has included a 10% construction contingency in the project budget. In addition, the City also included an additional contingency of \$269,376 for any unexpected costs beyond the existing engineer's project cost estimation, bringing the total preliminary contingencies to around 36%. Upon receipt of all construction bid documents, the City will refine the amount needed to ensure the application of the loan funds is more precise; however given the large contingencies the City does not expect to exceed \$1.5M for the Project.

Project and Public Benefits

The Project has numerous public health benefits, primarily by extending a modern, clean, and reliable source of drinking water for the community of Hickman. The project will also enhance water capacity for emergency responses to fire and other disasters. It will also create an estimated 15 construction jobs and, in the long term, enhance the economic viability and desirability of the two communities.

Financial and Repayment Analysis

As detailed in this report, the City's Water Enterprise Fund has only one external loan obligation, from Umpqua Bank. Additionally, the Fund is currently paying interest-only on an internal loan from the general fund and another internal loan from the Waterford Public Financing Authority, but has agreed to subordinate these loans. The Umpqua loan allows for parity debt with subject to a minimum 1.25x Debt Service Coverage Ratio (DSCR) requirement. The City has amended the two internal loan agreements, confirming they are subordinate to any future debt, including the requested ISRF loan. The agreements also allow the Fund to defer principal payments until sufficient revenue is available. Based on both historical performance and financial projections (each over five-year periods), Waterford is able to comfortably meet a minimum DSCR of 1.20x (including the internal loans). Please refer to the cash analysis tables below for detailed information.

The Fund experienced stable operating revenue in the range of \$2.4M per year from fiscal year (FY) 2020 to FY 2024, following rate increases initiated in FY 2016. The number of users grew from 2,643 to 2,775 over the past five years. However, operating expenses grew at a faster pace during the period, causing net operating income to decrease from \$973,908 in FY 2020 to \$352,407 in FY 2024. To address rising operating expenses, new capital investments, and ongoing system maintenance needs, the City plans to implement a new five-year rate increase by January 2026. Subject to this new rate increase, DSCR is expected to range from 2.39X in FY26 to 2.63x in FY29.

Developers are also currently pursuing a master-planned development in Waterford, which could eventually add up to 2,000 new homes within the next decade. While this project is currently at a very

early stage, if it proceeds the City would consider operating and capital needs, and corresponding rate adjustments, at the appropriate time.

Historical Cash Flow Analysis						
For Fiscal Year Ending (FYE) June 30		2020	2021	2022	2023	2024
Operating Income(Loss)		\$973,708	\$857,677	\$662,185	\$491,298	\$352,407
Transaction Specific Adjustments						
+	Depreciation	\$206,674	\$262,589	\$262,490	\$267,146	\$322,715
	Interest revenue	\$34,258	\$409	-\$33,602	\$16,696	\$42,972
	Transfer out	\$0	-\$7,500	-\$7,501	-\$7,500	-\$7,500
Total of all Adjustments		\$240,932	\$255,498	\$221,387	\$276,342	\$358,187
Cash Available for Debt Service		\$1,214,640	\$1,113,175	\$883,572	\$767,640	\$710,594
Debt Service Calculation						
Total Existing MADS Debt Service		\$292,336	\$292,336	\$292,336	\$292,336	\$292,336
Proposed IBank MADS ⁽¹⁾		\$115,210	\$115,210	\$115,210	\$115,210	\$115,210
Total Obligations MADS		\$407,546	\$407,546	\$407,546	\$407,546	\$407,546
Debt Service Coverage Ratio ⁽²⁾		2.98	2.73	2.17	1.88	1.74
⁽¹⁾ Calculated as \$1,500,000 at an all-in rate of 4.52% (including a 0.15% annual servicing fee) for a term of 20 years						
⁽²⁾ Existing Parity Debt Minimum Required DSCR 1.20						

PROJECTED CASH FLOW							
For Fiscal Year Ending (FYE) June 30		2024	2025	2026	2027	2028	2029
Operating Income(Loss)		\$352,407	\$323,100	\$564,648	\$490,685	\$607,330	\$665,546
Transaction Specific Adjustments							
+	Depreciation	\$322,715	\$330,000	\$375,000	\$375,000	\$375,000	\$375,000
-	Transfer out	-\$7,500	-\$7,500	-\$7,500	-\$7,500	-\$7,500	-\$7,500
+	Interest revenue	\$42,972	\$43,000	\$40,000	\$40,000	\$40,000	\$40,000
Total of all Adjustments		\$358,187	\$365,500	\$407,500	\$407,500	\$407,500	\$407,500
	Cash Available for Debt Service	\$710,594	\$688,600	\$972,148	\$898,185	\$1,014,830	\$1,073,046
Debt Service Calculation							
	Total Existing MADS Debt Service	\$292,336	\$292,336	\$292,336	\$292,336	\$292,336	\$292,336
	Proposed IBank MADS ⁽¹⁾	\$115,210	\$115,210	\$115,210	\$115,210	\$115,210	\$115,210
	Total Obligations MADS	\$407,546	\$407,546	\$407,546	\$407,546	\$407,546	\$407,546
	Debt Service Coverage Ratio ⁽²⁾	1.74	1.69	2.39	2.20	2.49	2.63
⁽¹⁾ Calculated as \$1,500,000 at an all-in rate of 4.52% (including a 0.15% annual servicing fee) for a term of 20 years							
⁽²⁾ Existing Parity Debt Minimum Required DSCR 1.20							

Risks and mitigants

Risk: The City is not prohibited from incurring additional debt under the Water Enterprise Fund during the life of the Loan.

Mitigants:

- The City will be prohibited from issuing future debt senior to the IBank financing.
- 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 City 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.
- The City has approved the subordination of Internal loans to the ISRF loan.
- The City is in the process of completing a water rate study, with the aim of implementing a rate increase in January 2026 (subject to successful completion of the Prop. 218 process).

Compliance with IBank Criteria, Priorities, and Guidelines

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

Staff Recommendation

Staff recommend that the Credit Risk Committee invite the City of Waterford to apply for the ISRF Program Financing in an amount not to exceed \$1,500,000 for the Hickman Consolidation Project.

IBank Staff:	Betty Bian and Lina Moeller
Date of Staff Report:	September 17, 2025
Date of IBank Board Meeting:	September 24, 2025
Resolution Number:	25-13

Borrower background

The City of Waterford is located in California’s Central Valley, approximately 13 miles east of Modesto, in Stanislaus County. The City has a population of around 9,300, and it occupies a land area of approximately 1,100 acres. It was chartered in 1969 as a municipal corporation and operates under a Council-City Manager form of government. Policymaking and legislative authority are vested in a five-member governing council consisting of the Mayor and four Council Members. The Council is elected on a non-partisan basis. Council Members serve four-year staggered terms, with two Council Members elected every two years. The Mayor is elected and serves a two-year term. Waterford’s total municipal revenues in FY24 were over \$14M, and the City employs a staff of 18.

As described in further detail below, Waterford’s water enterprise fund also serves neighboring Hickman, a ranching and agricultural community of approximately 750 residents, which sits across the Tuolumne River from Waterford.

This is Waterford’s first loan request to the ISRF program.

Local Economy

Waterford is situated in the agricultural heart of California’s Central Valley. Several crops are grown locally, including almonds, peaches, apples, walnuts, and corn. However, its convenient proximity to cities such as Modesto, Turlock, and Stockton, combined with its small-town charm and relatively low housing costs, has also made it a popular location for young families to move to, and has enhanced its status as a bedroom community. Local companies in Waterford include Frazier Nut Farms, Waterford Irrigation, and Rural Communities Housing Development Corporation. In addition to school employment, agriculture, gas stations, restaurants, and professional services are the main economic and employment drivers in the City. (Please see Exhibit 5 for a map of the City.)

Top Ten Employers			
Rank	Employer	Number of Employees	Percentage of Total Labor Force
1	Waterford Unified School	246	5.86%
2	Fraizer Nut Farms	164	3.90%
3	Pioneer Market	50	1.19%
4	McDonalds	41	0.98%
5	Waterford Irrigation	32	0.76%
6	Blueberry Bluff Blueberries	30	0.71%
7	Roberts Ferry Nut Company	30	0.71%
8	Taco Bell	30	0.71%
9	Waterford Child	28	0.67%
10	Burger King	25	0.60%
Total		676	
City of Waterford Labor Force		4200	
City of Waterford Unemployment Rate		5.30%	
Source: Financing Application Addendum			

Waterford's 'Gateway to Recreation' motto reflects its status as a hub for outdoor activities, including boating, fishing, waterskiing, and camping. Bordered by the Tuolumne River, the City is a key gateway to the area's lakes, of which there are seven within a twenty-mile radius, as well as Yosemite National Park, and other natural amenities.

Waterford's median household income is only 76% of the State figure. The City currently generates the lowest sales tax revenue in Stanislaus County, even though it is not the smallest town, mostly due to the absence of attractive local shopping destinations. In response, the City has recently completed an award-winning downtown renovation project, with the aim of drawing new restaurants, antique shops, and other stores that will increase the vibrancy of the downtown. Community events like Heritage Days, Trunk or Treat, the Christmas Parade, and a spring Farmers Market with live music attract thousands of visitors to downtown. New tenants will stand to gain from this influx of attendees.

Project background

Project description

The City of Waterford is requesting a \$1.5M ISRF loan to finance the Hickman Consolidation Project (Project). As outlined below, the City of Modesto owned and operated the water systems in Waterford and Hickman for approximately 20 years before selling them to Waterford for \$2.6 million in July 2015. The two water systems rely entirely on groundwater, consisting of eight wells located in Waterford and two in Hickman, with a capacity to accommodate approximately 2,445 connections. (Currently, there are about 2,260 connections in Waterford and 185 in Hickman.) The wells range in age from 19 to 80 years. Additionally, the city also operates the River Pointe water system, a new residential development that serves around 330 customers.

The Project is essential for ensuring that the residents of Hickman have access to clean drinking water. Since acquiring the system in 2015, the City of Waterford has been working to address documented capacity deficiencies in Hickman. While Hickman's two wells together could produce approximately 600 gallons per minute (gpm), the largest producing well is currently out of service, which reduces the total

supply to approximately 200 gpm. This amount is insufficient to meet the community's average daily water usage, particularly during peak demand days. Furthermore, Hickman lacks any emergency or supplementary water source; the system is also unable to meet its fire protection needs. Recently, water quality issues due to debris in Hickman's water lines have also emerged, as reported in the local press.

To resolve these issues, the City has collaborated with engineers to determine the most cost-effective and efficient solution: interconnecting the Hickman system with that of Waterford. The plan includes constructing a 5,500 linear foot connector pipeline from the intersection of F Street and Yosemite Avenue in Waterford, south to the intersection of Lake Road and Hickman Road in Hickman. This project is vital not only for providing Hickman residents with adequate clean water but also for enhancing community safety.

The City had previously submitted a grant application to the California State Water Resources Control Board (SWRCB) under the Drinking Water State Revolving Fund. However, this grant has remained unfunded in the state budget since 2020. In July 2025, SWRCB informed the City that it considered Waterford's water system to be not-at-risk, and only water systems classified as at-risk are eligible for grants in the current fiscal year. Given the recent water quality issues, the City believes it is no longer feasible to wait for state funding while the Hickman system continues to deteriorate. Therefore, it has decided to move forward with the ISRF loan request to fund the essential components of the consolidation project. The City confirmed that the project components funded by the ISRF loan would no longer form part of the Water Boards grant award.

In July 2022, the City paid \$931,458 to Stanislaus County for an initial project phase, which laid the pipeline over the bridge. The remaining portion of the Project involves extending the pipeline to the Hickman system. The main components of the project budget include pipeline construction, paving, and miscellaneous items. The hard cost budget includes contingencies totaling 10% (\$102,552), on top of which the City has an additional contingency of \$269,376 for unexpected bid costs, bringing total contingencies to 36%. The total project timeline is estimated at six months. The City is planning to solicit bids upon approval of the ISRF loan. Upon receipt of all construction bid documents, the City will refine the amount needed to ensure the application of ISRF loan funds is more precise; however, given the large contingencies, the City does not expect to exceed \$1.5M for the Project.

Project benefits

The Project will provide significant benefits to public health. It aims to establish a clean and reliable source of drinking water for the community of Hickman, reducing dependence on the two existing wells, which were constructed in 1963 and 1994. Additionally, this initiative will improve water capacity for emergency responses to fires and other disasters. The project will also create an estimated 15 construction jobs and will ultimately enhance the viability and appeal of the Hickman community.

Loan security and source of repayment

The proposed ISRF financing will be secured by a pledge of the City's Water Enterprise Fund's net revenues and all other legally available resources and will be repaid from these amounts. An overview of the strength of the Fund's system and finances appears below to provide a sense of the reliability of this pledge.

System Overview

While Waterford has administered its current water system since 2015, the City's original water distribution system was established in 1913 by the Waterford Land and Development Company. It was later acquired by the Del Este Water Company in 1938 and eventually purchased by the City of Modesto in 1995. The current system provides water treatment and supply through approximately 32 miles of distribution piping, eight wells, and a water treatment facility. It operates and maintains three service areas: River Pointe, Waterford, and Hickman. The oldest part of the system, in central Waterford, has approximately 2,260 service connections and serves both residential and commercial customers. The Hickman service area includes approximately 185 service connections, primarily residential, but also has about 11 commercial connections, including a public elementary school. River Pointe is a new residential development within Waterford, which was connected to the system in 2021, and includes around 330 residential customers. Customers pay uniform water rates across the system.

From FY 2020 to FY 2024, the water system's net fixed assets grew from \$7.5M to \$10.6M. As noted in the key indicators table, the estimated remaining useful life of the system fixed assets exceeds 30 years, which is generally considered healthy. However, some fixed assets within the system are very old and have surpassed their useful life, including pipes and wells, and there are structural deficiencies that must be addressed. In 2016, the City completed a comprehensive water master plan that outlined deficiencies within the water system and provided a roadmap to address these issues. This plan details a schedule of capital improvements required for all three water systems over the next 25 years. Besides the Hickman Consolidation Project, the City also needs to replace its aging wells and update pipes in the downtown area.

Rate and customer information:

The City's water fund serves approximately 2,775 customers. Among these, there are 2,540 residential customers, who contribute 73% of the total fund revenue. Additionally, there are 101 commercial customers, accounting for 10% of the total revenue. The remaining customers fall into other categories. Over the past five years, the number of users has slightly increased.

Furthermore, there is growing interest in constructing new residential developments in the outlying Lake Pointe district in Waterford, which could eventually result in an additional 2,000 new homes once fully developed. If development proceeds, it is expected to occur in several phases over the next 10 years. It could nearly double the size of the current water system (while also requiring other significant infrastructure investments). According to the City, nearly 85% of the necessary Lake Pointe infrastructure investments would be funded through the developers' impact fees, while the remaining 15% would be covered by the City. The City's Water Fund would likely seek additional financing to support this new development plan. If the expansion proceeds, it would inevitably lead to an increase in operating costs, though these may be incremental initially due to the newness of the system; at the same time, the expansion would result in growth in ratepayer revenues.

The following table displays the top ten users, reflecting that they account for 19% of system revenues, well within the ISRF Criteria limit of 50%.

TOP 10 SYSTEM USERS AS OF JULY 8, 2025				
	User	% System Use	% System Revenues	Customer Class (Residential/ Commercial/ Industrial/Other)
1	Waterford School Reinway	3%	5.0%	Other
2	Space In The Shade	1%	3.0%	Commercial
3	Sunrise Vista Apartments	1%	2.0%	Residential
4	Waterford Garden Apartments	1%	2.0%	Residential
5	Hickman School	1%	2.0%	Other
6	Waterford Sch Reinway LS	<1%	1.0%	Other
7	Waterford Sch Bentley	<1%	1.0%	Other
8	Waterford School LS	<1%	1.0%	Other
9	TCK Partners LLC	<1%	1.0%	Residential
10	Waterford Sch 319 Rein.	<1%	1.0%	Other
	Total	<12%	19.0%	
Source: Financing Application Addendum				

The City initiated a series of water rate increases in 2016, which included a 5-year rate adjustment.

RATE INCREASES OVER THE PAST FIVE YEARS		
Date Adopted	Date Effective	Percent of Increase
11-17-2016	01/01/2017	46%
11-17-2016	07-01-2017	16%
11-17-2016	07/01/2018	5%
11-17-2016	07-01/2019 & 2020	1%
11-17-2016	07/01/2021	2%

There have been no rate increases since 2021. The City has begun a new rate study process and expects to implement a new 5-year rate increase plan by January 2026. (In 2016, it took approximately 6 months from the initiation of the rate study to the final adoption of the new rates.) The study will address specific capital needs arising from anticipated growth stated above, as well as the current maintenance and upkeep of the existing water system.

The rate study will include two components: 1) A Capital Facility Fee charged to developers for new improvements required by new development, such as Lake Pointe; and 2) A monthly rate charged to all customers (existing and new) to cover operations and maintenance, and some capital expenditures on existing assets (such as the Hickman project). If Lake Pointe proceeds, it would be many years from now, and the City reports that they would not move forward unless funding/financing can be secured without compromising existing O&M and debt service needs. (At least with respect to water infrastructure, the City would also be constrained by the additional debt covenants attached to the ISRF loan.)

Subject to the findings of the rate study, and the successful completion of the Prop. 218 process, the City anticipates that the average monthly water user charge for residential units will rise from the current \$58.99 to \$76.30 by FY 2029. The City forecasts a 15% increase in revenue from the new rates in FY 2026, followed by a 4% annual increase through FY 2029. The table below compares the City's current rates with the current rates of other cities in the region. The anticipated rates would still be within a reasonable range based on local comparisons.

CURRENT AVERAGE MONTHLY SYSTEM USER CHARGE COMPARED TO NEARBY SYSTEMS			
System Name	Distance in Miles	Location	Average Monthly Residential Rate
City of Waterford	N/A		\$67.84
City of Turlock (Range from \$78 to \$88)		15 Miles	\$83.00
City of Modesto(Range from \$67 to \$84)		15 Miles	\$75.50
City of Sacramento		88 Miles	\$78.00
City of Fresno		93 Miles	\$70.00
Source: Financing Application Addendum	Average Monthly Charge		\$74.87

The City's current average monthly residential water rate is just 0.97% of the 2023 median household income (MHI). With the expected increase in water rates, this percentage will rise to 1.11%. Even with this adjustment, the rate remains well below the best practice maximum of 2% of MHI. This provides the City with greater financial flexibility for adjusting rates in the future.

Credit Analysis:

The City's Water Enterprise Fund's audited financial statements are presented for fiscal years 2020 through 2024 in Exhibits 1 and 2. Financials are presented on an accrual basis. A key indicator ratio table is presented in Exhibit 3.

Overall, following the series of rate increases from 2016 to 2021, the Fund has maintained stable operating revenue; however, though it has remained positive, net operating income has narrowed due to increased operating expenses, driven by fixed costs such as personnel expense and maintenance and supplies. The City believes that its anticipated rate increase in early 2026 will lead to improved financial results.

Comparative Balance Sheet Analysis (Exhibit 1):

- The Fund has maintained strong liquidity over the past five years. Cash balances increased from \$1.01 million in FY 2020 to \$1.87 million in FY 2024. During this same period, the Days Cash on Hand improved from 254 days to 332 days, and the Current Ratio strengthened from 1.38x to 2.05x.

- Total assets increased by 45.8% over five years, reflected primarily in a \$3.08 million rise in capital assets and a \$0.86 million increase in cash.
- Based on unaudited figures provided by the Fund, at the end of FY25 approximately 30% of accounts receivable for the combined water/wastewater systems were over 60 days overdue. Some of this build-up was due to complications arising from the transition to new meter-reading software. The City is working with delinquent customers to bring their bills current, and expects to return to the regular billing schedule in the upcoming fiscal year. That said, receivables have remained low, averaging under \$155K in recent years, and have had minimal impact on the City's liquidity.
- As mentioned, the Fund currently has one external loan and two internal loans. The Leverage Ratio (total liabilities to net position) remained very low throughout the period, decreasing from 0.60x in FY 2020 to 0.30x in FY 2024.
- The Fund currently has one external loan obligation with Umpqua Bank; it is paid as agreed, with an outstanding balance of \$1.19 million that will be fully repaid by FY 2030. This loan was used to purchase the water system from the City of Modesto. The Umpqua loan allows for parity debt, subject to a minimum 1.25x DSCR requirement.
- One internal loan is from the City's General Fund (outstanding balance of \$368,489) and another loan of \$46,593 is from the Waterford Public Financing Authority (WPFA). Both loans were to cover the deficits incurred in the River Point Water system through fiscal year 2016. On September 4, 2025, the City approved the amendment of the two internal loan agreements, confirming they are subordinate to any external debt, including the requested ISRF loan. The agreement also allows the Fund to defer principal payments until sufficient revenue is available.
- The Fund has continuously invested in capital improvement projects over the past five years. The net investment in capital assets rose by 73.79% from FY 2020 to FY 2024. These investments have been enabled by the steady increase in net position increased from \$5.3M to \$9.8M during the same period.

Comparative Income Statement Analysis (Exhibit 2):

- The Fund has maintained a stable operating revenue of approximately \$2.4 million over the past five years. This stability follows a significant increase in water rates in 2016, revenue growth from which has been partially offset by customer efforts to conserve water.
- On the other hand, operating expenses have risen by 41% from FY 2020 to FY 2024. This increase can be attributed to several factors, mainly due to a steady increase in fixed costs such as personal expenses, professional fees, and materials and expenses. The City belongs to two regional groundwater sustainability agencies, whose service costs have been rising. Professional fees have also increased due to the engagement of an outside water consultant. Materials and supplies also jumped due to the replacement of water meters across the system.

- As a result of the above changes, net operating income fell from \$973,908 in FY 2020 to \$352,407 in FY 2024, with the operating margin decreasing from 38.4% to 13.4% over the same period.
- In 2024, there was a transfer into the Fund of \$1,454,190, which represents funds from the American Rescue Plan Act (COVID Relief Funds). These funds were allocated to partially finance the Tim Bell Water/Sewer Infrastructure Project.

Repayment Analysis:

Historical performance

As noted, the Fund implemented a five-year series of rate increases starting in 2016, and has maintained stable operating revenue over the past five years. The historical cash flow analysis indicated that the Debt Service Coverage Ratio (DSCR) ranged from 1.74x to 2.98x. (It is worth noting here that MADS includes the internal debt, which will be subordinated to the ISRF loan, but does not include any future borrowing.)

Historical Cash Flow Analysis						
For Fiscal Year Ending (FYE) June 30		2020	2021	2022	2023	2024
Operating Income(Loss)		\$973,708	\$857,677	\$662,185	\$491,298	\$352,407
Transaction Specific Adjustments						
+	Depreciation	\$206,674	\$262,589	\$262,490	\$267,146	\$322,715
	Interest revenue	\$34,258	\$409	-\$33,602	\$16,696	\$42,972
	Transfer out	\$0	-\$7,500	-\$7,501	-\$7,500	-\$7,500
Total of all Adjustments		\$240,932	\$255,498	\$221,387	\$276,342	\$358,187
	Cash Available for Debt Service	\$1,214,640	\$1,113,175	\$883,572	\$767,640	\$710,594
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	Debt Service Coverage Ratio ⁽²⁾	2.98	2.73	2.17	1.88	1.74
⁽¹⁾ Calculated as \$1,500,000 at an all-in rate of 4.52% (including a 0.15% annual servicing fee) for a term of 20 years						
⁽²⁾ Existing Parity Debt Minimum Required DSCR 1.20						

The FY24 transfer-in of \$1,454,190 mentioned above is a one-time source of revenue, thus, it is not included in the cash flow analysis. Conversely, the \$7,500 transfer out to the General Fund for police services that benefit the water system is accounted for in the cash flow analysis, as it is an ongoing expense.

As noted, the Umpqua loan allows for parity debt, subject to a 1.25x DSCR covenant. As noted, on 9/4/25, the City Council approved the amendment of the two internal loan agreements, ensuring that both loans are subordinate to any external debt. This amendment also clarifies that principal payments on the two internal loans may be deferred until the Fund has sufficient revenue.

Projections

PROJECTED CASH FLOW							
For Fiscal Year Ending (FYE) June 30		2024	2025	2026	2027	2028	2029
Operating Income(Loss)		\$352,407	\$323,100	\$564,648	\$490,685	\$607,330	\$665,546
Transaction Specific Adjustments							
+	Depreciation	\$322,715	\$330,000	\$375,000	\$375,000	\$375,000	\$375,000
-	Transfer out	-\$7,500	-\$7,500	-\$7,500	-\$7,500	-\$7,500	-\$7,500
+	Interest revenue	\$42,972	\$43,000	\$40,000	\$40,000	\$40,000	\$40,000
Total of all Adjustments		\$358,187	\$365,500	\$407,500	\$407,500	\$407,500	\$407,500
Cash Available for Debt Service		\$710,594	\$688,600	\$972,148	\$898,185	\$1,014,830	\$1,073,046
Debt Service Calculation							
Total Existing MADS Debt Service		\$292,336	\$292,336	\$292,336	\$292,336	\$292,336	\$292,336
Proposed IBank MADS ⁽¹⁾		\$115,210	\$115,210	\$115,210	\$115,210	\$115,210	\$115,210
Total Obligations MADS		\$407,546	\$407,546	\$407,546	\$407,546	\$407,546	\$407,546
Debt Service Coverage Ratio ⁽²⁾		1.74	1.69	2.39	2.20	2.49	2.63
⁽¹⁾ Calculated as \$1,500,000 at an all-in rate of 4.52% (including a 0.15% annual servicing fee) for a term of 20 years							
⁽²⁾ Existing Parity Debt Minimum Required DSCR 1.20							

The projections assume that the City implements a new five-year water rate increase plan in January 2026. The projected cash flow supports the proposed ISRF loan as well as all existing debts in the upcoming years. The projected cash flow analysis indicated that the Debt Service Coverage Ratio (DSCR) ranges from 2.39x in FY26 to 2.63x in FY29.

Assumptions:

The complete projections are detailed in Exhibit #4. The main assumptions are as follows:

- Operating revenue is projected to increase by 4% in FY 2025 based on actual performance year-to-date. For FY 2026, a 15% increase is expected, based on the rate study in process. From FY 2027 to FY 2029, the city anticipates a consistent annual increase of 4%, following the same rate increase plan.
- Maintenance and operations are estimated to increase 3% from FY2025 to FY2029.
- Salaries and benefits increase 7% annually from FY 2025 to FY 2027. Then, increase 3% annually from FY 2028 to FY 2029.
- Professional fees increase 4% yearly from FY 2025 to FY 2029.
- Materials and supplies increase 3% yearly from FY 2025 to FY 2029.
- Notably, the projections do not include any additional borrowing related to the Lake Pointe development, which is still at an early stage. or any other new projects. If and when the Fund decides to engage in additional borrowing, it would need to meet the ISRF loan requirement that any new parity debt would need to meet a 1.20x DSCR minimum, based on Maximum Annual Debt Service (MADS), among other requirements.

ENTERPRISE FUND- RECOMMENDED TERMS AND CONDITIONS

Staff recommends approval of Resolution No. 25-13 authorizing ISRF Program financing to the City of Waterford for the Hickman Consolidation Project, subject to the following key terms and conditions:

1. **Applicant/Borrower:** City of Waterford (Borrower)
2. **Project Name:** Hickman Consolidation Project (Project)
3. **Amount of ISRF Program financing:** Not to exceed \$1,500,000 (Tax-exempt Financing)
4. **Maturity:** Not to exceed 20 years. The loan 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 City's Water Enterprise Fund (Fund) and all legally available amounts in the Fund.
6. **Interest Rate:** All-in 4.52% (which includes the annual service fee described in item 7 below). The rate will be locked as outlined in item 8 below.
7. **Fees:** Borrower to pay the minimum origination fee of \$25,000 upon close of Financing, and an annual servicing fee of 0.15% of the outstanding balance.
8. **Rate Lock:** The interest rate in item 7 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 a Financing Agreement (or Agreements), in form and substance satisfactory to IBank.
11. **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 times 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 times 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 to 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 provides 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 IBank may reasonably request from time to time.
- j. Such other covenants and conditions that IBank or its counsel may reasonably require.

Exhibit #1

WATER ENTERPRISE FUND STATEMENT OF NET POSITION										
	For Fiscal Year Ending (FYE) June 30	2020		2021		2022		2023		2024
		Basic Financial Statements (BFS)		Basic Financial Statements (BFS)		Basic Financial Statements (BFS)		Basic Financial Statements (BFS)		=D7
	Source:		%		%		%		%	
ASSETS AND DEFERRED OUTFLOW OF RESOURCES										
Current Assets										
Cash and Investments		\$1,011,861	11.6%	\$1,252,794	11.0%	\$2,205,612	20.6%	\$1,607,906	15.7%	\$1,874,451
Receivables:										
Account Receivables		\$158,235	1.8%	\$149,675	1.7%	\$197,945	1.9%	\$122,123	1.2%	\$140,164
Total Current Assets		\$1,170,096	13.4%	\$1,402,469	12.7%	\$2,403,557	22.5%	\$1,730,029	16.9%	\$2,014,615
Noncurrent assets										
Capital assets, net		\$7,492,734	85.8%	\$7,489,254	83.6%	\$8,219,029	76.9%	\$8,368,292	81.6%	\$10,575,536
Total Capital Assets		7,492,734	85.8%	7,489,254	83.6%	8,219,029	76.9%	8,368,292	81.6%	10,575,536
Total Assets		8,662,830	99.3%	8,891,723	99.3%	10,622,586	99.4%	10,098,321	98.5%	12,590,151
DEFERRED OUTFLOWS OF RESOURCES										
Deferred outflows related to pension		65,149	0.7%	\$65,853	0.7%	60,508	0.6%	152,588	1.5%	137,677
Total Deferred Outflow of Resources		\$65,149	0.7%	\$65,853	0.7%	\$60,508	0.6%	\$152,588	1.5%	\$137,677
Total of All Assets		\$8,727,979	100.0%	\$8,957,576	100.0%	\$10,683,094	100.0%	\$10,250,909	100.0%	\$12,727,828
Liabilities										
Current Liabilities										
Accounts payable and accrued liabilities		\$548,125	6.3%	\$100,419	1.1%	\$943,261	8.9%	\$88,401	0.9%	\$656,351
Due to other funds		\$36,370	0.4%	\$36,370	0.4%	\$36,370	0.3%	\$36,370	0.4%	\$4,774
Interest payable		5,910	0.1%	5,910	0.1%	4,774	0.0%	\$4,774	0.0%	\$93,593
Deposits payable		61,177	0.7%	70,668	0.8%	82,153	0.8%	\$90,093	0.9%	
Current portion of long-term debt		192,600	2.2%	198,600	2.2%	204,800	1.9%	\$211,300	2.1%	\$217,900
Compensated absences-current portion		5,391	0.1%	14,906	0.2%	15,927	0.1%	\$15,927	0.2%	\$11,456
Total Current Liabilities		\$849,573	9.8%	\$426,873	4.8%	\$1,287,285	12.1%	\$446,865	4.4%	\$984,074
Noncurrent Liabilities										
Compensated absences		21,562	0.2%	22,359	0.3%	23,892	0.2%	12,485	0.1%	17,184
Due after one year		2,028,600	23.4%	1,830,000	20.6%	1,625,200	15.3%	1,413,900	14.0%	1,196,000
Advance from general fund		283,193	3.3%	283,193	3.2%	283,193	2.7%	283,193	2.8%	415,082
Net pension liability		212,616	2.5%	233,695	2.6%	94,845	0.9%	283,939	2.8%	310,646
Total Noncurrent Liabilities		2,545,971	29.4%	2,369,247	26.6%	2,027,130	19.1%	1,993,517	19.7%	1,938,912
Total Liabilities		3,395,544	39.2%	2,796,120	31.4%	3,314,415	31.2%	2,440,382	24.2%	2,922,986
Deferred Inflows of Resources										
Deferred inflows related to pension		20,731	0.2%	17,763	0.2%	103,609	1.0%	28,790	0.3%	21,157
Total Deferred Inflows of Resources		\$20,731	0.2%	\$17,763	0.2%	\$103,609	1.0%	\$28,790	0.3%	\$21,157
Net Position:										
Net investment in capital assets		\$5,271,534	60.9%	\$5,460,654	61.4%	6,389,029	60.1%	6,743,092	66.8%	9,161,636
Unrestricted (deficit)		\$40,170	0.5%	\$683,039	7.7%	876,041	8.2%	1,038,645	10.3%	622,049
Net Position		\$5,311,704	61.3%	\$6,143,693	69.1%	\$7,265,070	68.4%	\$7,781,737	77.1%	\$9,783,685
Total Liabilities and Fund Balance		\$8,727,979	100.0%	\$8,957,576	100.7%	\$10,683,094	100.6%	\$10,250,909	101.5%	\$12,727,828
Balance Check		\$0		\$0		\$0		\$0		\$0
Prepared by:		B. Bian		B. Bian		B. Bian		B. Bian		B. Bian

Exhibit #2

CITY OF WATERFORD WATER ENTERPRISE FUND STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION										
For Fiscal Year Ending (FYE) June 30	2020		2021		2022		2023		2024	
	Basic Financial Statements (BFS)	%	Basic Financial Statements (BFS)	%	Basic Financial Statements (BFS)	%	Basic Financial Statements (BFS)	%	Preliminary Financial Draft Statement	%
Source:										
% Change		N/A		4%		-1%		-2%		-2%
Operating Revenue										
Charges for services	\$2,424,612	99.8%	\$2,492,970	98.4%	\$2,498,958	100.0%	\$2,448,147	99.6%	\$2,412,480	100.0%
Other operating revenue	\$6,000	0.2%	\$39,796	1.6%			\$9,819	0.4%		
Total Revenues	\$2,430,612	100.0%	\$2,532,766	100.0%	\$2,498,958	100.0%	\$2,457,966	100.0%	\$2,412,480	100.0%
Operating Expenses										
Salaries and benefits	622,514	25.6%	684,426	27.0%	719,864	28.8%	762,920	31.0%	710,025	29.4%
Maintenance and operations	\$433,582	17.8%	\$442,286	17.5%	\$611,854	24.5%	\$626,213	25.5%	\$605,157	25.1%
Professional fees	\$127,087	5.2%	\$192,093	7.6%	\$150,857	6.0%	\$179,666	7.3%	\$197,096	8.2%
Materials and supplies	\$67,047	2.8%	\$93,695	3.7%	\$91,708	3.7%	\$130,723	5.3%	\$225,080	9.3%
Depreciation	\$206,674	8.5%	\$262,589	10.4%	\$262,490	10.5%	\$267,146	10.9%	\$322,715	13.4%
Total direct operating expenses	\$1,456,904	59.9%	\$1,675,089	66.1%	\$1,836,773	73.5%	\$1,966,668	80.0%	\$2,060,073	85.4%
Operating Income (Loss)	\$973,708	40.1%	\$857,677	33.9%	\$662,185	26.5%	\$491,298	20.0%	\$352,407	14.6%
Nonoperating Revenues (Expenses)										
Interest revenue	\$34,258	1.4%	\$409	0.0%	(\$33,602)	-1.3%	\$16,696	0.7%	\$42,972	1.8%
Interest expense	(\$74,871)	-3.1%	(\$69,524)	-2.7%	(\$62,359)	-2.5%	(\$57,279)	-2.3%	(\$72,694)	-3.0%
Total Nonoperating revenues (expenses)	(\$40,613)	-1.7%	(\$69,115)	-2.7%	(\$95,961)	-3.8%	(\$40,583)	-1.7%	(\$29,722)	-1.2%
Net Income (Loss) Before Transfers	\$933,095	38.4%	\$788,562	31.1%	\$566,224	22.7%	\$450,715	18.3%	\$322,685	13.4%
Capital Contributions and Transfers										
Transfer in	\$185,441		\$50,927		\$562,654		\$73,452		\$1,454,190	
Transfer out			(\$7,500)		(\$7,501)		(\$7,500)		(\$7,500)	
Capital contributions									\$238,950	
Total Contributions and Transfers	\$185,441		\$43,427		\$555,153		\$65,952		\$1,685,640	
Change in Net Position	\$1,118,536		\$831,989		\$1,121,377		\$516,667		\$2,008,325	
Fund Balance, Beginning of Year	\$4,193,168		\$5,311,704		\$6,143,693		\$7,265,070		\$7,781,737	
Restatements									(\$6,377)	
Beginning of year, as restated									\$7,775,360	
Fund Balance, End of Year	\$5,311,704		\$6,143,693		\$7,265,070		\$7,781,737		\$9,783,685	
Prepared by:	B. Bian		B. Bian		B. Bian		B. Bian		B. Bian	

Exhibit #3

City of Waterford					
Key Indicators	2020	2021	2022	2023	2024
<u>Economy</u>					
Median Household Income (as % of CA Median)	76%	84%	70%	76%	N.A
Unemployment rate (%)	10.8%	8.3%	5.4%	6.3%	6.9%
Full value per capita (\$)	\$54,690	\$57,781	\$67,513	\$72,354	\$74,899
<u>System Characteristics</u>					
Net Fixed Assets (\$000)	\$7,493	\$7,489	\$8,219	\$8,368	\$10,576
Remaining useful life of NFA (years)	40	39	38	37	36
Operating Cost per millions of gallons (\$)	0.38%	0.37%	0.38%	0.43%	0.47%
Number of system users	2463	2463	2691	2721	2711
Average annual residential charge per unit (\$)	\$732	\$732	\$708	\$696	\$686
Residential charge as % of MHI	1.2%	1.0%	1.1%	1.0%	N.A
<u>Liquidity</u>					
Cash Balances (\$000)	\$1,012	\$1,253	\$2,206	\$1,608	\$1,874
Current Ratio [1]	1.38	3.29	1.87	3.87	2.05
Days Cash on Hand [2]	254	273	438	298	332
<u>Performance</u>					
Operating Revenue (\$000)	\$2,431	\$2,533	\$2,499	\$2,458	\$2,412
Operating Margin [3]	38.4%	31.1%	22.7%	18.3%	13.4%
Fund Balances as % of Operating Revenue	218.5%	242.6%	290.7%	316.6%	405.5%
<u>Leverage</u>					
Fund Balances	\$5,312	\$6,144	\$7,265	\$7,782	\$9,784
Leverage Ratio [4]	0.6	0.5	0.5	0.3	0.3
[1] <i>Current Assets ÷ Current Liabilities</i>					
[2] <i>(Cash and Investments * 365) ÷ Operating Expenses</i>					
[3] <i>Operating Income as % of Operating Revenues</i>					
[4] <i>Total Liabilities ÷ Fund Balances</i>					

Exhibit #4

CITY OF WATERFORD												
PROJECTED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION												
For Fiscal Year Ending (FYE) June 30	2024		2025		2026		2027		2028		2029	
Source:	Preliminary Financial Draft	%	Projections	%	Projections	%	Projections	%	Projections	%	Projections	%
% Change		N/A		0.035008		0.1304		0.0385		0.0385		0.0385
Operating Revenue												
Service charges	\$2,412,480	100.0%	\$2,500,000	100.0%	\$2,875,000	100.0%	2,990,000	100.0%	\$3,109,800	100.0%	\$3,233,984	100.0%
Interest earnings												
Other and Misc												
Total Revenues	\$2,412,480	100.0%	\$2,500,000	100.0%	\$2,875,000	100.0%	\$2,990,000	100.0%	\$3,109,800	100.0%	\$3,233,984	100.0%
Operating Expenses												
Salaries and benefits	710,025	29.4%	773,900	31.0%	828,073	28.8%	888,038	29.8%	948,081	30.5%	978,503	30.2%
Maintenance and Operations	\$805,157	25.1%	823,300	24.9%	841,999	22.3%	881,259	22.1%	881,097	21.9%	701,530	21.7%
Professional fees	\$197,098	8.2%	208,900	8.4%	217,258	7.6%	225,946	7.6%	234,984	7.6%	244,383	7.6%
Materials and supplies	\$225,080	9.3%	240,800	9.6%	248,024	8.6%	255,465	8.5%	283,129	8.5%	271,023	8.4%
Depreciation	\$322,715	13.4%	\$330,000	13.2%	\$375,000	13.0%	\$375,000	12.5%	375,000	12.1%	375,000	11.6%
Total direct operating expenses	\$2,060,073	85.4%	\$2,176,900	87.1%	\$2,310,352	80.4%	\$2,403,708	80.4%	\$2,502,270	80.5%	\$2,568,438	79.4%
Operating Income(Loss)	\$352,407	14.6%	\$323,100	12.9%	\$564,648	19.6%	\$586,292	19.6%	\$607,330	19.5%	\$665,546	20.6%
Nonoperating Revenues (Expenses)												
Interest Income	\$42,972	1.8%	43,000	1.7%	\$40,000	1.4%	\$40,000	1.3%	\$40,000	1.3%	\$40,000	1.2%
Interest Expense	(72,694)	-3.0%	(87,292)	-2.7%	(143,650)	-5.0%	(135,807)	-4.5%	(127,292)	-4.1%	(118,692)	-3.7%
Total Nonoperating revenues(expenses)	(29,722)	-1.2%	(24,292)	-1.0%	(103,650)	-3.6%	(95,807)	-3.2%	(87,292)	-2.8%	(78,692)	-2.4%
Net Income (Loss)	\$322,685	13.4%	\$298,808	12.0%	\$460,998	16.0%	\$490,685	16.4%	\$520,038	16.7%	\$586,854	18.1%
Capital Contributions and Transfers												
Transfer in ARPA Funds used for Infrastructure	\$1,454,190											
Transfer out	(7,500)		(7,500)		(7,500)		(7,500)		(7,500)		(7,500)	
Developer Contributions of Infrastructure	\$238,950											
Total Contributions and Transfers	1,685,640		(7,500)		(7,500)		(7,500)		(7,500)		(7,500)	
Fund Balance, Beginning of Year	\$7,775,380		\$9,783,685		\$10,074,993		\$10,528,491		\$11,011,676		\$11,524,214	
Total Fund Balances - Year -End	\$9,783,685		\$10,074,993		\$10,528,491		\$11,011,676		\$11,524,214		\$12,103,567	
Change in Net Position	\$2,008,325		\$291,308		\$453,498		\$483,185		\$512,538		\$579,354	
Prepared by:	Applicant		Applicant		Applicant		Applicant		Applicant		Applicant	

Exhibit #5

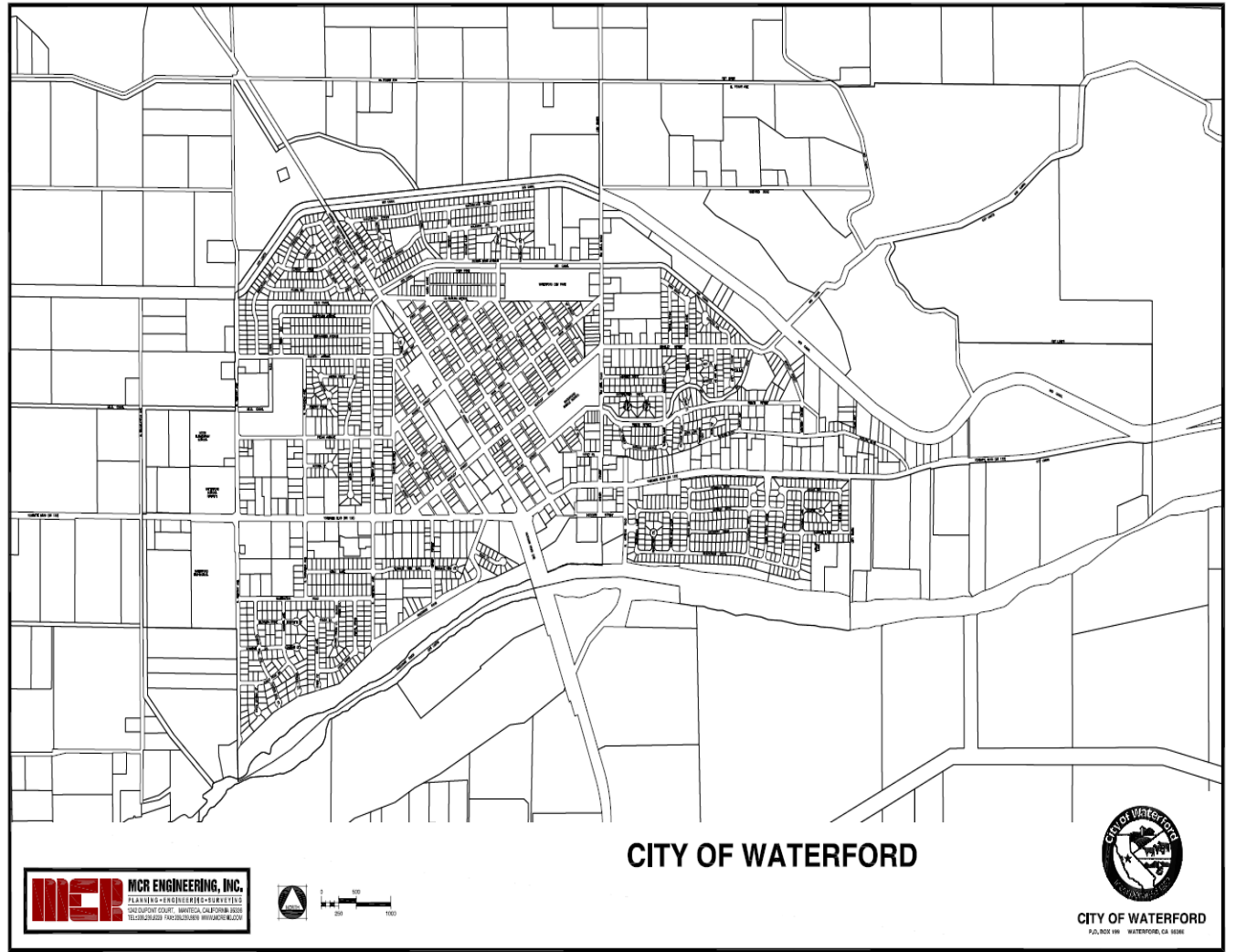


Exhibit #6

