SWEETWATER SPRINGS WATER DISTRICT

TO: Board of Directors **AGENDA NO. V-B**

FROM: Steve Mack, General Manager

Meeting Date: October 4, 2012

SUBJECT: DISCUSSION/ACTION RE 2014 CAPITAL IMPROVEMENT PROGRAM

RECOMMENDED ACTION: Discuss and provide direction on the scope of engineering services for the 2014 CIP.

FISCAL IMPACT: none.

DISCUSSION:

The District has an aggressive Capital Improvement Program (CIP) with a priority aim of reducing system water losses. The CIP has had substantial assistance from the Redevelopment program but that is no longer available to assist with future projects, so we will need to use reserves, funds developed through water rate revenues or find other funding assistance sources. We have had a substantial number of projects every year since 2008.

It is time to start design of the FY 2014 CIP (Table 1) so we need to settle on the projects for FY 2014 and to select a design consultant to do the design and later provide construction management and inspection services during construction next summer. In June we revised the CIP with the intent of just doing the Old Monte Rio Road element based on the belief that the 2014 CIP would be fully funded by the District. This summer we have been in discussions with United States Department of Agriculture (USDA) regarding getting financing with loan forgiveness for funding our CIP. Since the USDA only funds one year's work at a time, staff started consideration of adding to the approved 2014 CIP by including the Hidden Valley Road project to the workplan to be funded by USDA.

Some Considerations:

USDA Funding. We have made our pre-application for USDA funding based on doing the Old Monte Rio Road and Hidden Valley Road projects as the 2014 CIP. This funding request has been sent into a USDA higher authority (I'm not familiar with the USDA hierarchy) and I've been told we will be approved or accepted to submit a full application. If funding is approved after a full application, we will receive receipt of the funds in about five months, although I believe we will learn of our acceptance well

before that time. This funding can be used for project related expenses incurred prior to receipt of funds, for example, the District could be repaid for design costs incurred prior to receipt.

The amount of loan forgiveness, if any, is not known at this time. When I started the process, I was told that 45% loan forgiveness was possible. Now I am hearing that 25% loan forgiveness is possibly the best we can hope for and there is no guarantee of that. We will learn the amount of loan forgiveness, if any, prior to accepting the loan.

Initially we inquired into USDA loans with the interest of refinancing existing USDA debt. We learned that refinancing is not possible, but we can acquire new debt and pay off old – essentially refinancing. The last USDA loan rate I heard was 2.65% and our first USDA bond has a 5% rate. Paying off the 5% debt and replacing it with 2.65% debt may look favorable, but one must realize we would be replacing bonds with a 20 year life with bonds with a 40 year life. The annual cash flow difference is approximately $20,000, but we are adding 20 years to the life of the debt. If we can get 25% loan forgiveness, the annual cash flow difference rises to $40,000; that may be a worthwhile exchange. We could also not pay off existing debt and realize an increase in annual debt payments.

2014 CIP. The Old Monte Rio Road and Hidden Valley Road projects are both needed projects for the District. The initial, sitting at the computer look appeared to show that these two projects could be done next year during the construction season. Field investigations of the Old Monte Rio Road element demonstrated that this project may be fairly complicated with difficult service connections and relocations involved. It is certainly possible that this element may cost substantially more than the $936,000 initially estimated when it was first scoped out in 2002. It may be prudent to limit next year's construction to just the Old Monte Rio Road element because of the anticipated construction difficulties. However, we won't know important information to inform this decision until the design is well underway. The Hidden Valley Road element will also have some complicated parts to it, specifically culvert crossings and the tank/pump interactions (should the pump be relocated, is the tank the correct size?) and also could be more expensive than the 2002 cost estimate. Design of this element this winter would not be wasted or go stale. If we don't construct it in FY 2014, we intend to do it in 2015.

Design Services. The past two years' CIP projects have been designed and construction management and inspections done by Coastland Engineers. We have had preliminary discussions and site visits with Coastland staff and have asked them to prepare a proposal for doing the work for both Old Monte Rio Road and Hidden Valley Road with the understanding that Hidden Valley Road may be put on hold for one year, or may not be included in this year's contract. A proposal will not be available for the October 4 meeting. Approval of a contract with Coastland would not happen until the November 1 meeting. At the October meeting we can talk about the scope of the contract – should we include design of the Hidden Valley Project in this contract?

Table 1. Sweetwater Springs Water District Proposed Fiscal Year 2014 CIP

Year	Projects	Estimated Cost	Comments
2014			
	Old Monte Rio Road (GV) – Replace 5,800 lf of existing main and appurtenances commencing at the Handy Andy Booster and proceeding westerly. 50 services	$936,000	Needed for flows, fire protection, customer water quality, leaks
	Additional Possible Project:		
	Hidden Valley Rd (GV) – Replace 3,900 lf of existing main and appurtenances on Hidden Valley Rd. 67 services	$656,000	Needed for flows, fire protection, customer water quality, leaks; need to figure out project
Total 2014		$1,592,000	