SWEETWATER SPRINGS WATER DISTRICT

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

FROM: Steve Mack, General Manager

Meeting Date: January 5, 2012

SUBJECT: DISCUSSION/ACTION RE CAPITAL DEBT REDUCTION CHARGE ANALYSIS

RECOMMENDED ACTION: Receive a presentation on the Capital Debt Reduction Charge (CDRC).

FISCAL IMPACT: none.

DISCUSSION:

Approximately 30 percent of the District's annual budget is repayment of debt – over $ one million per year. The District's Flat Charge which appears on the annual County tax bill covers the District's US Department of Agriculture loan which has an annual payment of approximately $700,000. Other District debt includes payments for two State loans totaling approximately $$170,000 and payment for the Private Placement Loan (PPL) which was acquired in September 2008 and has an annual payment of $234,014.

In 2006 The Board decided to include in the District's rates a Capital Debt Reduction Charge (CDRC) to pay for the annual State loan payments and with the acquisition of the PPL, the Board stated its intention of raising the CDRC to raise revenue to pay for that annual expense.

The initial CDRC was $8 bimonthly per account, regardless of meter size or account type. The water rate restructuring of 2009 changed the CDRC to reflect meter size and the multi-family multiplier and was increased to include repayment of approximately one quarter of the PPL with the understanding that the CDRC would increase on an annual basis as the PPL was used up. Under the 2009 water rate restructuring, the CDRC is treated exactly like the Base Rate – a fixed charge that is adjusted by meter size for commercial and public accounts and by the multifamily multiplier (.55 times the number of living units above the first unit)

In the winter following the rate restructuring, in response to Russian River Redevelopment Oversight Committee (RRROC) support for Redevelopment funding 75% of Capital Improvement Program project costs (the District initially requested 50% funding), the District promised to defer raising the CDRC. The District has received 75% funding support for CIP IV-B, Projects 1 and 2 (completed), the 2012 CIP (Monte Rio element only, Notice of Completion on

this agenda) and the 2013 CIP (in design and scheduled for construction in May/June 2012). The CDRC has not been changed during the 2 years that 75% Redevelopment funding has been received through RRROC support.

Table 1 shows the current revenue achieved by the CDRC based on the FY 2010-2011 Operating Budget Variances and a projected CDRC should it fully cover the two State loans and the PPL annual payments. Note that the annual payment numbers do not add up exactly because actual payments and projected revenue are being compared. The analysis shows that the CDRC will need to be increased $7.00 per bimonthly bill for single family residential customers (with a multiplier for larger meters and multifamily accounts) to generate the revenue needed to completely cover the annual debt payments for the State loans and the PPL.

The long-term financial planning models that have been used to show District funding of the Capital Improvement Program (CIP) have assumed a 3 step increase starting in FY 2014 (approximately 25% increases per year) of the CDRC to fully cover State Loan and PPL debt payments by FY 2016.

Table 1. Capital Debt Reduction Charge (CDRC) History and Projections

State Loan Debt Annual Expense	$ 170,300	
PPL Debt Annual Expense	$ 234,014	
Total Annual State Loan and PPL Expenses	$ 404,314	
Current CDRC (bimonthly)*		$ 9.70
Current CDRC Revenue (FY11 Actual)	$ 235,548	
Revenue Needed to Fully Cover PPL and State Loan Expenses	$ 172,009	
CDRC Increase Needed *		$ 7.00
Total CDRC*		$ 16.70
Total Projected CDRC Revenue	$ 407,557	

* Single Family Residential and 5/8" Commercial and Public accounts with a multiplier for Commercial and Public accounts with meters larger than 5/8" and for multifamily accounts.