SWEETWATER SPRINGS WATER DISTRICT

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

FROM: Steve Mack, General Manager

Meeting Date: May 3, 2012

SUBJECT: DISCUSSION/ACTION RE DISTRICT LOANS AND BONDS

RECOMMENDED ACTION: Receive a presentation on District loans and bonds

FISCAL IMPACT: none

DISCUSSION:

The Board has requested information on paying off District loans and bonds. Table 1 shows a summary of pertinent information on the District's existing loans and bonds. As can be seen from the table, the District has 5 separate loans and bonds with an approximate current (end of FY11) balance of $14 million and an annual payment of $1,091,000. In researching the terms of these loans and bonds, it appears that all can be paid off early with no penalty with the exception of the Private Placement Loan.

Table 1. District Loans/Bonds Table

	Year Started	Term	Year Paid Off	Starting Amount	Current Balance (Approx, 7/11)	Annual Payment	Interest Rate
USDA Bonds, 1992	1992	40	2032	$ 8,000,000	$ 5,996,000	$ 467,000	5.00%
USDA Bonds, 2003	2003	40	2043	$ 4,000,000	$ 3,716,000	$ 220,000	4.50%
CDWR Loan 1	1996	25	2021	$ 434,945	$ 203,000	$ 23,550	2.955%
CDWR Loan 2	1997	25	2022	$ 2,578,555	$ 1,368,000	$ 146,618	2.955%
Private Placement Loan	2008	20	2028	$ 3,000,000	$ 2,760,000	$ 234,012	4.75%
Totals				**$ 18,013,500**	**$ 14,043,000**	**$ 1,091,180**	

USDA – United Stated Department of Agriculture
CDWR – California Department of Water Resources

With respect to the Private Placement Loan, there are two options regarding prepayment: paying all the installment payments at any time which would be

approximately $3.8 million currently, or optional prepayment starting with the 20th payment (approximately 7 years from now; there are two payments per year) to prepay all remaining principal plus a 2% prepayment premium. Neither are attractive approaches at this time.

Paying off any of the loans or bonds at this time, with the exception of the CDWR Loan 1, would either exceed or severely deplete the amount of available District reserves. Paying off CDWR Loan 1 would not achieve much of a payment reduction and would take money away from needed capital projects.

One question this discussion raises is if our loans are paid off (or retired) to such a degree that revenue from the Capital Debt Reduction Charge (CDRC) is greater than annual debt payments, will the CDRC need to be lowered to balance CDRC revenue with debt expense? Even if the District does not pay off its loans early, this issue will need to be addressed in 2022 when the two CDWR loans are retired.

In a somewhat related subject, I have investigated 2010 Census income information and, to the extent I understand this concept, the District customer base remains in the "Disadvantaged" category (the District median income is approximately $41,206 compared to the Statewide $46,842 level). Being a disadvantaged community could mean loan forgiveness on new loans (grants, in part or in whole). The challenge would be qualifying for loans for our kinds of projects. Distribution system repairs have not been not high on the priority listing for State loans.