SWEETWATER SPRINGS WATER DISTRICT

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

FROM: Steve Mack, General Manager

Meeting Date : October 6, 2016

SUBJECT: DISCUSSION/ACTION REGARDING PROGRESS WITH A POSSIBLE LOAN/BOND WITH USDA AND EXAMINING/REDUCING EXISTING DISTRICT DEBT

RECOMMENDED ACTION: Receive a presentation by the General Manager on the progress with the loan/bond from the U.S. Department of Agriculture Rural Development (USDA) to fund the 2017 CIP and the progress with examining other District debt with the purpose of keeping the District's debt at manageable levels and being able to construct needed capital improvement projects, and provide direction to staff, including direction on whether to move forward in refinancing the Private Placement Loan and, if yes, which proposal to accept.

FISCAL IMPACT: none

DISCUSSION:

2017 CIP:

The District has been seeking funding through USDA for the FY17 CIP which is replacement of approximately 6,800 ft of existing main and 75 services on Old River Rd at Morningside east to the eastern section of Foothill Drive and include Orchard Rd and Foothill Drive and River Rd on river side of the road.

The District has received notice that a loan for $2,579,000 for 40 years at 2.25% interest rate had been approved by USDA. The District has responded in a timely fashion to accept the loan letter of conditions. The District now has a year (from the date of the letter of conditions) to start construction and five years to use the funds.

At the August Board meeting the Board also gave direction to staff to look at the alternative of splitting up the FY17 CIP into segments to see if and how this project could be constructed without borrowing funds. Staff has received this information which states that the project can be split into 3 phases. Attachment 1 shows a map of the phases and a cost summary. Doing the project in this manner would cost approximately $100,000 more, without taking into consideration the unknown differences in having three projects bid at 3 different times versus one larger project bid once.

The one major point made by this examination is that phase 1 - the Engineer estimates that the segment from Rio Nido to Foothill Drive can be constructed for approximately $802,000 which makes it fall within the District's single project amount for self-funding.

This is the most critical segment to staff and we would recommend that if the project is split into 3 segments that this phase gets constructed first and as soon as possible.

District Debt:

Taking on the USDA loan would add approximately $100,000 to District annual debt payments which are currently in the $1 million range. Below is a summary of District debt from the FY17 Budget Report:

- General Obligation (GO) Bonds – Approximately $1.6 million remain in the USDA bonds that were approved to purchase the District and make needed capital improvements, and refinanced in part in 2013 and 2014. Paid off in 2054. Annual payment - $64,284, interest rate - 2.38%.
- Cap One Bond – The District refinanced the first 20 years of the GO Bonds in September 2013. Paid off in 2033, the FY17 payment is $566,508. Remaining principal is $6,941,000, interest rate - 3.60%.
- State Loans - two loans for approximately $3 million which were approved in 1995-96 for needed improvements. Paid off in 2021-22. Annual payment - $170,168.50. Remaining principal is $980,092.94, interest rate 2.95%.
- Private Placement Loan. $3 million loan acquired in 2008 for needed capital improvements. Paid off in 2028. Annual payment - $234,012. Remaining principal is $2,186,930.86, interest rate 4.75%.

At the September meeting we discussed options for adjusting the numbers above. We have paid off the smaller State Loan and thus have eliminated the annual payment for that loan.

Refinancing the Private Placement Loan: Brandis Tallman is moving forward with refinancing the Private Placement Loan. Brandis Tallman put out a request for refinancing proposals and received responses on September and we discussed the responses in a phone call on September 28. Attachment 2 is a summary of the responses with additional analyses provided by Brandis Tallman. In summary, we have received responses better than originally estimated by Brandis Tallman. The maximum annual savings is approximately $16,000 and the maximum total savings to the District is $165,000. Observations:

- JP Morgan Chase No Call gives the most savings to the District. It has some provisions we may not like or may not be willing to agree to - no call, breakage fees, interest rate risk (it may be different next week), higher coverage rates.

- Muni Fin Corp is the current holder (for City National Bank) of the private placement loan. Their proposal just puts off the refinancing for two years at current interest rates. We discussed doing it this way last month but in our discussion we would have needed interest rates to stay at current levels. This does the same thing but removes the risk that interest rates move upwards. This would be the easiest approach - it doesn't require a new loan; they just give us an amendment to the current loan.

- JP Morgan Chase Callable and BB&T Govt. Fin have similar savings for the District, callable at par (Muni Fin Corp is callable at 102%), the savings start immediately. BB&T Govt. Fin has fewer conditions and the rate is locked now.

None of these proposals affect the term of the PPL - it's paid off in 2028 with all proposals. Nicki Tallman of Brandis Tallman will be at the Board meeting next week to discuss this so we can make a decision on which to choose (including no one) at the meeting.

Moving Forward: If we take on the USDA it makes sense to pay off the second, bigger State loan in 2018 (next year after we have the USDA loan in hand). The total hit to the Budget would be approximately $557,000, plus $146,739 in a reserve account that is not included in District Reserves. Paying off this second State Loan reduces annual debt payments by $146,739 which is more than the USDA annual payment would be ($100,040).

The District is in a good position whereby we have to make a decision where either direction is a good one. Tables 1 and 2 show the financial results of these two options through Fiscal Year 2024. The two options:

Get the USDA Loan (Table 1) - this approach would have the District get the USDA loan this year, start construction late Spring, early Summer this year, pay off the second State Loan. District debt payments would go to approximately $968,000 annually (currently $1,035,961) and would be at that amount until the Private Placement Loan (annual loan payment is $234,012 now before refinancing) is paid off in 2028.

Self Finance the 2017 CIP (Table 2) - Don't get the USDA loan, construct the 2017 CIP in segments doing the 1st segment this summer and the other two after skipping FY19, don't pay off the second State Loan but it's done in 2022. This does not reduce the annual debt payment (other than by the first State Loan with is paid off now) in the near future and does not get nearly as much CIP done in the planning period, but the District has substantially reduced annual debt payments (by the amount of the USDA loan payment that we are not getting in this scenario) when the second State loan is gone in 2022. This would be an added boost for self funding capital projects in these outer years.

It is important to note that with both of these scenarios we are speculating on what future management of the District, both staff and elected, may want to do.

Staff has discussed these two approaches and can see positives with going either way:

USDA Loan:

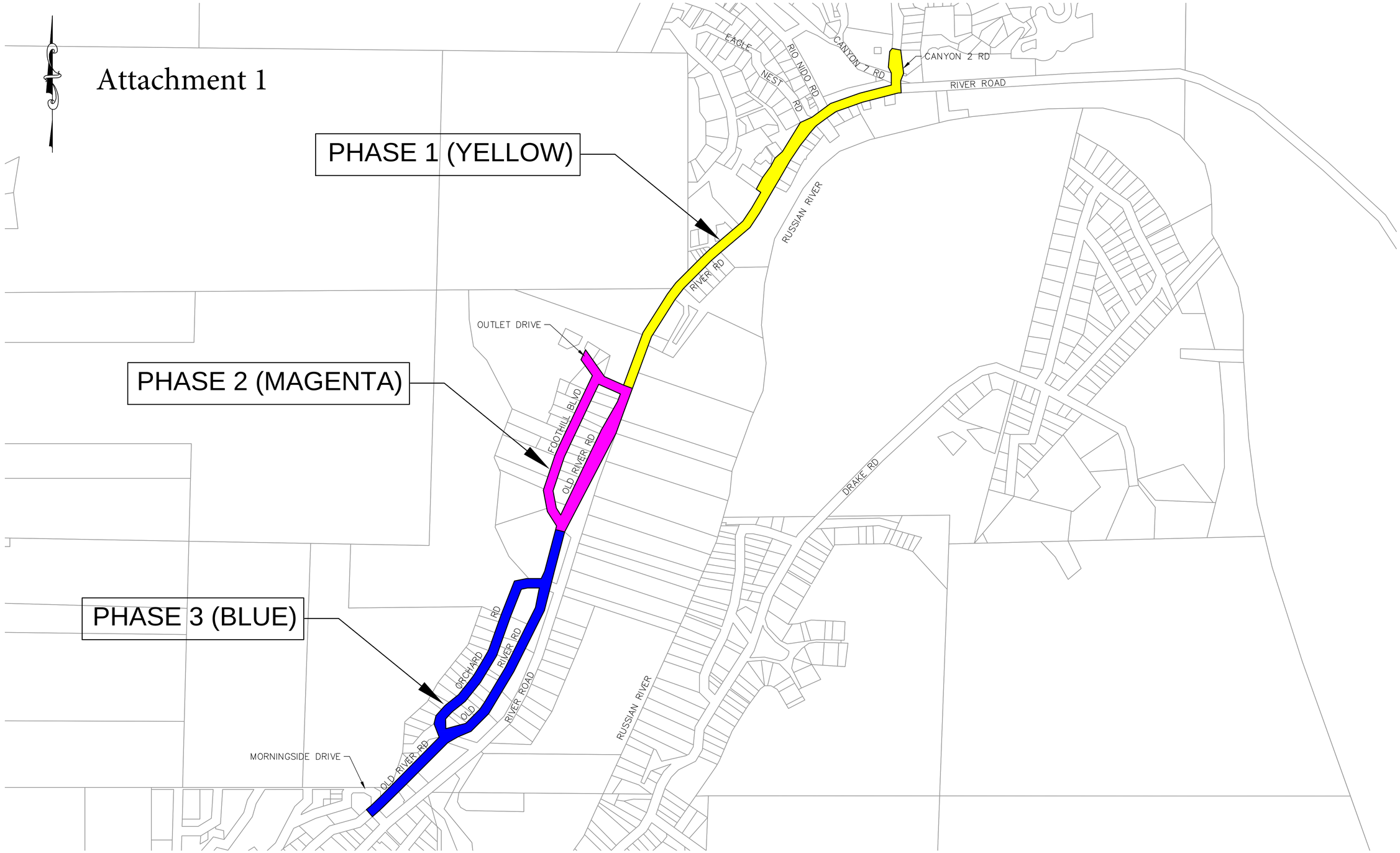
- Construct more capital projects in the near term.
- Get the 2017 CIP done relatively quickly. We may want to do this project in two segments regardless because of its size, but it would be completed within two years.
- Debt payments are reduced some in the near term.

Self Finance:

- Do the critical segment next summer.
- Easier on field staff (less construction project oversight)
- Debt payments are reduced in the longer term.

We need to move forward on this with either approach because we want to put this project, whatever size, out to bid in January to get the most favorable bids. With the USDA loan approach haste is more essential because getting the funding approved will take some time and extra steps. First on the list will be getting bond counsel selected and approved to start the process. We have gotten a start on this because we have asked Brandis Tallman to identify bond counsel with USDA bond experience for their refinancing. We'll get a test run through that experience.

As stated above, staff has an open mind about these two approaches and Board Members may have ideas about other approaches as well. We look forward to the discussion.



PHASING KEY MAP

NOT TO SCALE

SHEET 1 OF 1

Coastland Civil Engineering, Inc.
1400 Neotomas Avenue, Santa Rosa, CA 95405
707.571.8005 707.571.8037 Fax

SWEETWATER SPRINGS WATER DISTRICT

2017 CAPITAL IMPROVEMENT PROJECT
PROPOSED PHASE MAP

ORIGINAL PLOT DATE:
FOR REDUCED PLANS, THE ORIGINAL SCALE IS IN INCHES 0 1 2 3
Images: Xrefs:
Path: F:\Civil 3D Projects\183178\Dwg\183178_phase.dwg Layout Name: Sht 1 Plot Date: Sep 01, 2016 at 09:49

Sweetwater Springs Water District

Preliminary Engineer's Estimate
for
2017 Capital Improvement Project - Comparison of Costs
September 1, 2016

	Construction	CM/Inspection	Total Costs
Overall Project Budget	$2,072,022	$ 157,462	$2,229,484
Phase 1 Project Budget	$711,070	$91,124	$802,194
Phase 2 Project Budget	$609,191	$61,988	$671,179
Phase 3 Project Budget	$780,874	$76,228	$857,102
Total Phase 1-3	**$2,101,135**	**$229,340**	**$2,330,475**
		Difference by doing in phases	**$100,991**

Attachment 2. Sweetwater Springs Water District
Summary of Proposals Received for 2016 Refunding Installment Sale Agreement
September 29, 2016

	BB&T Govt. Fin.	BBVA Compass	Capital One	J.P.M.Chase No Call	J.P.M.Chase Callable	Muni Fin Corp. [1]	Texas Capital Bank	Umpqua Bank
Interest Rate:	1.99%	2.70%	a) 2.35% b) 2.59%	1.84%	1.97%	3.10%	3.10%	2.48%
Rate Lock Terms:	Rate is locked thru Nov. 17, 2016	30 days before closing w/ formal credit app. (approx. 2 weeks) (60-day rate lock for 5 bps premium)	a) Rate is locked thru November 24, 2016 b) Rate is locked thru September 26, 2017	Rate locked with a Rate Lock Agreement (Subject to breakage fees) [2]	Rate locked with a Rate Lock Agreement (Subject to breakage fees) [2]	Locked thru Closing	Rate is locked thru Nov. 17, 2016	2 weeks before closing
Prepymt. Provisions:	Any pymt date after Aug. 1, 2021 at par	Non-callable for the first 10 years	AID on or after August 1 2022 at par	Non-callable	Any date on or after August 2, 2021 at par	Any pymt date on or after Aug. 1, 2021 at 102%	Non-callable	Years 1-3 at 103% Years 4-6 at 102% Year 7 at 101% Par thereafter
Covenants:								
Rate Covenant	1.15%	1.25%	1.25%	1.30%	1.30%	1.15%	1.25%	1.25%
Additional Bonds Test	1.15%	1.25%	1.25%	1.25%	1.25%	1.15%	1.50%	1.25%
Net Asts:Funded Debt	N/A	N/A	N/A	N/A	N/A	N/A	N/A	<2 times
Bank Counsel [3]:	$8,500	$10,000	$0	$8,500	$8,500	$0	$5,000	$10,000
Proposal Expiration:	October 17, 2016		October 3, 2016	October 7, 2016	October 7, 2016	October 7, 2016		
Financing Results:								
Par	2,375,800			2,375,800	2,375,800	1,845,800		
All-In TIC	2.36%			2.21%	2.34%	3.32%		
Avg. FY Debt Service	222,352			220,493	222,106	218,015		
Avg. FY Savings	11,662			13,524	11,905	15,998		
Total Savings	142,334			165,009	145,343	159,622		
NPV Savings	125,896			147,279	128,732	133,219		
NPV Savings %	5.93%			6.94%	6.07%	7.22%		

[1] MFC is offering a rate reset. Payments would remain at 4.75% until 8-1-18, upon which time the rate would be reduced to 3.10% thru final maturity. No bond counsel or escrow agent is required, and the prepymt. prem. on the prior loan will be waived. No negative arbitrage would be incurred as the rate simply resets on 8-1-18, but no savings are achieved until after the rate reset occurs. The debt service and savings figures are net of the placement agent fee, which would be paid out-of-pocket by the District (not rolled into the new financing amount) upon closing.

[2] With JPMorgan Chase's rate lock, the District is subject to breakage fees once the rate is locked if the financing does not close by the expected closing date AND interest rates go down. (Fees are typically $1,500 for every decrease in basis point. A 10 basis point drop would result in breakage fees of $15,000.)

[3] Also, bond counsel, plcmt. agent, escrow/paying/COI agent, verification agent, CDIAC, and misc. fees, as well as a prepayment penalty of 2%, apply to all proposals except MFC (see [1] above).

All proposals are subject to formal credit approval. Banks that declined to submit a proposal: BofA, Bank of the West, CoBiz, Five Star Bank, Signature Bank, Western Alliance Bank and Zions Bank.

BRANDIS TALLMAN LLC

SWEETWATER SPRINGS WATER DISTRICT
OPERATING AND CAPITAL BUDGET SUMMARY PROJECTION, 2013-2022

Table 1. OPERATING AND CAPITAL BUDGET SUMMARY - 3% Increase, Get USDA Loan, State Loan paid off	Water Rate, CDRC Increase =		3%	Sales Flat					
	FY16 Actual	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
REVENUE									
OPERATING REVENUE	Reduced WS	Flat	Flat….						
Water Bill Revenue									
Capital Debt Reduction Charge	261,565	270,375	278,486	286,840	295,446	304,309	313,438	322,841	404,300
Total Water Sales	2,245,959	2,079,454	2,141,837	2,206,092	2,272,275	2,340,444	2,410,657	2,482,977	2,557,466
Total OPERATING REVENUE	**2,245,959**	**2,349,828**	**2,420,323**	**2,492,933**	**2,567,721**	**2,644,753**	**2,724,095**	**2,805,818**	**2,961,766**
Total NON-OPERATING REVENUE	**126,559**	**114,846**	**110,788**	**112,702**	**114,655**	**116,647**	**118,679**	**120,751**	**122,865**
Total Income	2,372,518	2,464,674	2,531,111	2,605,635	2,682,376	2,761,399	2,842,774	2,926,569	3,084,631
EXPENSES					**New GM**				
Total Salary	**882,336**	**932,100**	**950,742**	**969,757**	**1,019,152**	**1,039,535**	**1,060,326**	**1,081,532**	**1,103,163**
Total Benefits	**281,186**	**287,815**	**296,449**	**305,343**	**314,503**	**323,938**	**333,656**	**343,666**	**353,976**
SALARY & BENEFITS	**1,163,522**	**1,219,915**	**1,247,191**	**1,275,100**	**1,333,655**	**1,363,473**	**1,393,982**	**1,425,198**	**1,457,139**
SERVICES & SUPPLIES **increase =**									
SERVICES & SUPPLIES	**440,732**	**527,910**	**533,189**	**538,521**	**543,906**	**549,345**	**554,839**	**560,387**	**565,991**
TOTAL OPERATING EXPENSES	1,604,254	1,747,825	1,780,380	1,813,621	1,877,561	1,912,818	1,948,821	1,985,585	2,023,130
OPERATING SURPLUS/DEFICIT	**$768,264**	**$716,850**	**$750,731**	**$792,015**	**$804,815**	**$848,581**	**$893,953**	**$940,984**	**$1,061,501**
FIXED ASSET EXPENDITURES	**62,633**	**67,000**	**40,000**	**11,000**	**40,000**	**11,000**	**40,000**	**11,000**	**40,000**
Tfers to CIRF for CDR Revenue	261,565	270,375	278,486	286,840	295,446	304,309	313,438	322,841	404,300
Tfers to CIRF	320,000	330,000	390,000	450,000	420,000	490,000	500,000	560,000	570,000
Total TRANSFERS TO OTHER FUNDS	621,565	640,375	708,486	776,840	755,446	834,309	853,438	922,841	1,014,300
SURPLUS/DEFICIT	**84,066**	**9,475**	**2,245**	**4,174**	**9,369**	**3,272**	**515**	**7,142**	**7,201**
Capital Budget									
REVENUE/SOURCES OF FUNDS		2,579,000	USDA Loan						
Net Operating Revenues**	404,066	339,475	392,245	454,174	429,369	493,272	500,515	567,142	577,201
Assessments	775,481	775,481	775,481	775,481	775,481	775,481	775,481	775,481	775,481
Capital Debt Reduction Charge***	261,565	270,375	278,486	286,840	295,446	304,309	313,438	322,841	404,300
Capital Interest	8,367	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Transfers From CIRF/Reserves	772,515	-	290,000	490,000		430,000		280,000	245,000
TOTAL REVENUE	2,221,994	3,974,331	1,746,212	2,016,496	1,510,296	2,013,062	1,599,434	1,955,465	2,011,982
EXPENSES									
Total Debt Payments	**1,035,961**	**1,099,017**	**1,114,550**	**967,930**	**967,930**	**967,930**	**967,930**	**967,930**	**967,930**
	CIP 2016	CIP 2017	tate Loan Pay	MR Filter	2020 CIP	CIP 2021		CIP 2023	CIP 2024
Annual CIP	**1,149,979**	2,379,000	**586,480**	**200,000**	**914,000**	**675,000**		**941,300**	**1,000,000**
In-House Construction Projects, etc.	36,042	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000
TOTAL EXPENSES	2,221,982	3,518,017	1,741,030	1,207,930	1,921,930	1,682,930	1,007,930	1,949,230	2,007,930
SURPLUS/DEFICIT	**12**	**456,314**	**5,182**	**808,566**	**-411,634**	**330,132**	**591,504**	**6,235**	**4,052**
FUND AND LOAN BALANCES (EOY)									
Ending Funds ab District Policy (DP)	**1,070,574**	**1,526,888**	**1,242,069**	**1,560,635**	**1,149,001**	**1,049,133**	**1,640,638**	**1,366,872**	**1,125,924**
Funds ab DP and Debt Payments	**34,613**	**427,871**	**127,519**	**592,705**	**181,071**	**81,203**	**672,708**	**398,942**	**157,994**
NET CAPITAL FUNDING****	**413,518**	**296,314**	**341,662**	**558,566**	**542,366**	**615,132**	**631,504**	**707,535**	**799,052**

Table 2. OPERATING AND CAPITAL BUDGET SUMMARY - 3% Increase, Phased 2017 CIP, No USDA Loan	Water Rate, CDRC Increase =	3%	Sales Flat						
	FY16 Actual	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
REVENUE									
OPERATING REVENUE	Reduced WS	Flat	Flat….						
Water Bill Revenue									
Capital Debt Reduction Charge	261,565	270,375	278,486	286,840	295,446	304,309	313,438	322,841	404,300
Total Water Sales	2,245,959	2,079,454	2,141,837	2,206,092	2,272,275	2,340,444	2,410,657	2,482,977	2,557,466
Total OPERATING REVENUE	**2,245,959**	**2,349,828**	**2,420,323**	**2,492,933**	**2,567,721**	**2,644,753**	**2,724,095**	**2,805,818**	**2,961,766**
Total NON-OPERATING REVENUE	**126,559**	**114,846**	**110,788**	**112,702**	**114,655**	**116,647**	**118,679**	**120,751**	**122,865**
Total Income	2,372,518	2,464,674	2,531,111	2,605,635	2,682,376	2,761,399	2,842,774	2,926,569	3,084,631
EXPENSES					**New GM**				
Total Salary	**882,336**	**932,100**	**950,742**	**969,757**	**1,019,152**	**1,039,535**	**1,060,326**	**1,081,532**	**1,103,163**
Total Benefits	**281,186**	**287,815**	**296,449**	**305,343**	**314,503**	**323,938**	**333,656**	**343,666**	**353,976**
SALARY & BENEFITS	**1,163,522**	**1,219,915**	**1,247,191**	**1,275,100**	**1,333,655**	**1,363,473**	**1,393,982**	**1,425,198**	**1,457,139**
SERVICES & SUPPLIES **increase =**									
SERVICES & SUPPLIES	**440,732**	**527,910**	**533,189**	**538,521**	**543,906**	**549,345**	**554,839**	**560,387**	**565,991**
TOTAL OPERATING EXPENSES	1,604,254	1,747,825	1,780,380	1,813,621	1,877,561	1,912,818	1,948,821	1,985,585	2,023,130
OPERATING SURPLUS/DEFICIT	**$768,264**	**$716,850**	**$750,731**	**$792,015**	**$804,815**	**$848,581**	**$893,953**	**$940,984**	**$1,061,501**
FIXED ASSET EXPENDITURES	**62,633**	**67,000**	**40,000**	**11,000**	**40,000**	**11,000**	**40,000**	**11,000**	**40,000**
Tfers to CIRF for CDR Revenue	261,565	270,375	278,486	286,840	295,446	304,309	313,438	322,841	404,300
Tfers to CIRF	320,000	330,000	390,000	450,000	420,000	490,000	500,000	560,000	570,000
Total TRANSFERS TO OTHER FUNDS	621,565	640,375	708,486	776,840	755,446	834,309	853,438	922,841	1,014,300
SURPLUS/DEFICIT	**84,066**	**9,475**	**2,245**	**4,174**	**9,369**	**3,272**	**515**	**7,142**	**7,201**
Capital Budget									
REVENUE/SOURCES OF FUNDS									
Net Operating Revenues**	404,066	339,475	392,245	454,174	429,369	493,272	500,515	567,142	577,201
Assessments	775,481	775,481	775,481	775,481	775,481	775,481	775,481	775,481	775,481
Capital Debt Reduction Charge***	261,565	270,375	278,486	286,840	295,446	304,309	313,438	322,841	404,300
Capital Interest	8,367	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Transfers From CIRF/Reserves	772,515	-	400,000		220,000	330,000		150,000	
TOTAL REVENUE	2,221,994	1,395,331	1,856,212	1,526,496	1,730,296	1,913,062	1,599,434	1,825,465	1,766,982
EXPENSES									
Total Debt Payments	**1,035,961**	**1,099,017**	**1,013,550**	**1,013,550**	**1,013,550**	**1,013,550**	**866,811**	**866,811**	**866,811**
	CIP 2016		CIP 2017-1		CIP 2017-2	CIP 2017-3		CIP 2023	CIP 2024
Annual CIP	**1,149,979**		**802,000**		**672,000**	**857,102**	**200,000**	**914,000**	**675,000**
In-House Construction Projects, etc.	36,042	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000
TOTAL EXPENSES	2,221,982	1,139,017	1,855,550	1,053,550	1,725,550	1,910,652	1,106,811	1,820,811	1,581,811
SURPLUS/DEFICIT	**12**	**256,314**	**662**	**472,946**	**4,746**	**2,410**	**492,623**	**4,654**	**185,171**
FUND AND LOAN BALANCES (EOY)									
Ending Funds ab District Policy (DP)	**1,070,574**	**1,326,888**	**927,549**	**1,400,495**	**1,185,241**	**857,651**	**1,350,275**	**1,204,928**	**1,390,099**
Funds ab DP and Debt Payments	**34,613**	**227,871**	**(86,001)**	**386,945**	**171,691**	**(155,899)**	**483,464**	**338,117**	**523,288**
NET CAPITAL FUNDING****	**413,518**	**296,314**	**442,662**	**512,946**	**496,746**	**569,512**	**732,623**	**808,654**	**900,171**