SWEETWATER SPRINGS WATER DISTRICT

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

FROM: Steve Mack, General Manager

Meeting Date: December 6, 2012

Subject: DISCUSSION/ACTION RE REVIEW OF 2014 - 2019 CAPITAL IMPROVEMENT PROGRAM/USDA FUNDING PROGRESS

RECOMMENDED ACTION: Receive a report on the progress of and recommendations on the USDA funding investigation and the implications for the District's Capital Improvement Program (CIP) and provide direction on the USDA funding and the 2014-2019 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.

Recently we have been in discussions with United States Department of Agriculture (USDA) regarding getting financing with loan forgiveness for funding our CIP. We have submitted a pre-application, were notified that the District is eligible for funding and had a application meeting on November 15 to discuss the prospects for funding and what we needed to do to complete an application. During the meeting the USDA staff informed us that the District would not be eligible for loan forgiveness because our financial condition was too good – we have too much in our reserves.

With that information staff recommends that we do not pursue USDA funding at this time. The main attraction of the USDA funding was the possibility of loan forgiveness. The USDA funding has an attractive interest rate – 2.65% currently – but the costs of completing the loan process, which would include an engineer's report done to USDA specifications and bond counsel to complete the Certificate of Participation (the vehicle for getting the funds from USDA, similar to a general obligation bond) process, would bring costs up to a level that are not particularly attractive. There's no real benefit to the District in pursuing this.

Staff recommends continuing with the CIP approved in July 2012 (see Table 1) which will deplete District reserves as shown in Table 2. When District reserves reach the condition shown for FY 2017, we may want to consider approaching USDA for funding at that time.

We originally approached USDA with the idea of refinancing our debt with them. We were informed early on that USDA does not refinance their debt and we were thinking of swapping lower interest debt for the older higher interest debt on our own (which is effectively the same thing). However, the costs of doing the transaction does not make this attractive to us. We haven't fully investigated these costs but know that they are substantial – approximately 15-20% of the total transaction amount and savings to the District, if any, would be minimal.

The decision to not continue the application process with USDA will have some immediate implications. The District is under contract with Coastland Engineering to design the Old Monte Rio Road and Hidden Valley Road elements of our CIP with the idea that the USDA funding would support construction of both elements and could happen next summer. With the design of Hidden Valley Road not needed until May 2014, we can tell Coastland to stop that portion of their work. We will likely get a revised or amended contract for the 2015 CIP for Hidden Valley Road and Guernewood Lane next fall (October 2013 or so).

Reviewing the approved CIP, as discussed above, the 2014 CIP design is underway. In looking at the rest of the approved CIP, staff have no reasons to change the recommendations if USDA funding is not pursued. The total estimated cost of the 5 years of projects is approximately $4.4 million. The total wish list of projects is approximately $7.3 million, a gap of almost $3 million. As shown in Table 2, which is the multi-year projection of available funding for capital projects, the District nears the Policy Reserve levels in the 4th year of this program (FY 2017) but recovers by skipping a year. As mentioned above this may be an appropriate time to request additional funding from USDA. At the end of the planning period, funds are available for additional capital programs. The CIP will be continually monitored, of course, and if more funding is available in the future the completion schedule can be accelerated.

Table 1. Sweetwater Springs Water District 2014-2019 CIP Projects by Year Estimated Cost Include Design and Construction Management

Year	Projects	Estimated Cost	Cost per service	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	$18,720	Needed for flows, fire protection, customer water quality, leaks
	2014 Total	$936,000		
2015				
	Hidden Valley Rd (GV) – Replace 3,900 lf of existing main and appurtenances on Hidden Valley Rd, 67 Services.	$656,000	$9,791	Needed for flows, fire protection, customer water quality, leaks; need to figure out project
	Guernewood Lane (GV) - – Replace 1,800 lf of existing main and appurtenances and abandon 200 lf of redundant 4 – inch main along Hwy 116, 20 Services.	$318,000	$15,900	Has been pushed down from past priority lists; needed.
	2015 Total	$974,000		
3rd Year				
	Canyon 1 (Rio Nido) Replace approximately 3,900 ft of existing mainline and 75 services along Canyon 1 Rd., Memory Ln., Memory Park Rd.	$890,000	$13,284	needed project; moving this up.
	3rd Year (2016?) Total	$890,000		
4th Year				
	Park Ave. (GV) replace approximately 2900 lf of main line on Park Ave. and McLane, 37 services. Loop two deadend lines.	$688,000	$18,595	pushed down, but needed
	Cherry St. (GV) replace approximately 440 lf of main line, 13 services.	$126,000	$9,692	do with Park Ave.
	4rd (2017?) Year Total	$814,000		
5th Year				
	Wright Drive main pressure zone. – (GV) Replace approximately 1,120 ft of existing mainline and 18 associated services along Wright Dr. and Wright Ln.	$275,000	$15,278	

	Woodland Drive – mainline replacement. (GV) Replace approximately 1,900 ft of existing mainline and 27 associated services along Woodland Dr in the main pressure zone.	$400,000	$14,815	
	Monte Rio Treatment Plant Green Sand Filter Replacement	$130,000	NA	Investigation/analysis needed on replacing this
	5th Year (2019?) Total	$805,000		
	Priority List (5 Years) Total	**$4,419,000**		
	Other Projects			
	Schoeneman pressure zone- main line replacement. (GV) Replace approximately 3,000 ft of existing mainline and 47 associated services along Highland Way, Sunset Ave, Woodland Dr, Laurel Way and Morningside Drive. (requires completion of Schoeneman Tank)	$744,300	$15,836	
	Highway 116 (MR) Replace approximately 850 ft of main line.	$280,000		Do with Main Street
	Main St (MR) Replace approximately 800 ft of mainline along Main St.	$180,000		
	Upper Summit Tank - Construct a storage tank with a nominal capacity of approximately 120,000 gallons at the District–owned site on McLane Avenue. Project to include relocation/ construction of the existing hydro-pneumatic pump station.	$490,000		Do we wait on development for these tanks? Does new development contribute?
	Natoma Tank – Replace the existing 10,000 gallon storage tank with a 30,000 storage tank. 2005 cost estimate	$190,000		
	Schoeneman Tank– Replace the existing 10,000 gallon tank with a 30,000 gallon storage tank. 2005 cost estimate	$127,000		
	Wright Drive upper pressure zone. – (GV) Replace approximately 3,280 ft of existing mainline and 47 associated services along Wright Dr, Glenda Dr, Natoma Dr. (requires completion of Natoma Tank)	$800,000	$17,021	
	Other Projects Total	$2,811,300		
	Total Projects Amount	**$7,230,300**		

	Table 2. OPERATING AND CAPITAL BUDGET PLANNING SUMMARY														
								Water Rate Increase =		3%	Starting in FY12; Sales reduce 4%/year				
									1.5%	2.2%	Effective Rate Increases, CIP Revised				
							11-12 (FY12) Rev BUDGET	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
1	**REVENUE**															
				4031.1. · Capital Debt Reduction			235,000	235,000	293,750	367,188	404,300	404,300	404,300	404,300	404,300	404,300
				4031.1. · Water Sales			1,770,000	1,796,550	1,823,498	1,850,851	1,891,569	1,933,184	1,975,714	2,019,180	2,063,602	2,109,001
2		Total OPERATING REVENUE					**2,005,000**	**2,031,550**	**2,117,248**	**2,218,038**	**2,295,869**	**2,337,484**	**2,380,014**	**2,423,480**	**2,467,902**	**2,513,301**
3		Total NON-OPERATING REVENUE					**137,700**	**126,010**	**126,828**	**127,654**	**128,489**	**129,332**	**130,183**	**131,043**	**131,911**	**132,789**
4	**Total Income**						2,142,700	2,157,560	2,244,076	2,345,693	2,424,358	2,466,816	2,510,197	2,554,523	2,599,813	2,646,089
5	**EXPENSES**															
6		OPERATING EXPENSES														
7					Total Salary		**835,323**	**847,296**	**861,475**	**877,720**	**894,530**	**911,680**	**929,170**	**947,010**	**965,210**	**983,770**
8					Total Benefits		**280,200**	**294,957**	**303,911**	**313,574**	**323,642**	**334,131**	**345,059**	**356,446**	**368,314**	**380,685**
9			Total SALARY & BENEFITS				**1,115,523**	**1,142,253**	**1,165,386**	**1,191,294**	**1,218,172**	**1,245,811**	**1,274,229**	**1,303,456**	**1,333,524**	**1,364,455**
10			SERVICES & SUPPLIES			increase =	1%	Except for Rent								
11			Total SERVICES & SUPPLIES				**509,390**	**514,140**	**518,937**	**523,783**	**528,676**	**534,479**	**540,353**	**546,299**	**552,317**	**558,410**
12		Total OPERATING EXPENSES					1,624,913	1,656,393	1,684,323	1,715,077	1,746,849	1,780,290	1,814,582	1,849,755	1,885,841	1,922,865
13	***OPERATING SURPLUS/DEFICIT***						**$517,787**	**$501,167**	**$559,753**	**$630,616**	**$677,510**	**$686,526**	**$695,616**	**$704,768**	**$713,972**	**$723,224**
14		Total FIXED ASSET EXPENDITURES					**15,000**	**5,000**	**26,000**	**5,000**	**26,000**	**5,000**	**26,000**	**5,000**	**26,000**	**5,000**
15		TRANSFERS TO OTHER FUNDS														
16			8620.7 · Tfers to CIRF for CDR Reven				235,000	235,000	293,750	367,188	404,300	404,300	404,300	404,300	404,300	404,300
17			8620.3 · Tfers to CIRF				220,000	220,000	200,000	210,000	200,000	230,000	220,000	250,000	240,000	270,000
18		Total TRANSFERS TO OTHER FUNDS					495,000	495,000	533,750	617,188	644,300	674,300	664,300	694,300	684,300	714,300
19	***SURPLUS/DEFICIT***						**7,787**	**1,167**	**3**	**8,429**	**7,210**	**7,226**	**5,316**	**5,468**	**3,672**	**3,924**
20	**Capital Budget**															
21	**REVENUE/SOURCES OF FUNDS**															
22		Net Operating Revenues*					227,787	221,167	200,003	218,429	207,210	237,226	225,316	255,468	243,672	273,924
23		Total Assessments					777,000	777,001	777,002	777,003	777,004	777,005	777,006	777,007	777,008	777,009
24		Capital Debt Reduction Charge**					235,000	235,000	293,750	367,188	404,300	404,300	404,300	404,300	404,300	404,300
25		Capital Interest					25,000	30,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
26		CDC Grants					751,100	974,250								
27		Transfers From CIRF/Reserves					500,000	200,000	810,000	760,000	650,000	540,000		370,000		
28	***TOTAL REVENUE***						2,515,887	2,437,418	2,090,755	2,132,619	2,048,514	1,968,531	1,416,622	1,816,775	1,434,980	1,465,233
29	**EXPENSES**															
31		Total Debt Payments					1,091,314	1,091,314	1,091,314	1,091,314	1,091,314	1,091,314	1,091,314	1,091,314	1,091,314	1,067,760
32																
33							CIP 2012	CIP 2013	CIP 2014	CIP 2015	CIP 2016	CIP 2017	CIP 2018	CIP 2019	CIP 2020	CIP 2021
34		Annual CIP					**1,355,000**	**1,299,000**	**936,000**	**974,000**	**890,000**	**814,000**		**805,000**		**??**
35		In-House Construction Projects					40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000
36	***TOTAL EXPENSES***						2,486,314	2,430,314	2,067,314	2,105,314	2,021,314	1,945,314	1,131,314	1,936,314	1,131,314	1,107,760
37	***SURPLUS/DEFICIT***						**29,573**	**7,104**	**23,441**	**27,305**	**27,200**	**23,217**	**285,308**	**-119,539**	**303,666**	**357,473**
38																
39	FUND AND LOAN BALANCES (EOY)															
42		Ending Funds ab District Policy					**3,022,842**	**2,829,946**	2,043,387	1,310,692	687,891	171,108	456,416	(33,123)	270,542	628,015

*** =Transfer to CIRF plus net operating surplus**

**** =Transfers to CDRC**