

**Metropolitan Domestic Water Improvement District
Board of Directors Meeting**

January 13, 2014

**Discussion of Financial Scenario for
CAP Recharge, Recovery and Delivery System**

Synopsis

The Board of Directors is requested to review with staff and the District Underwriter, Mark Reader of Stone and Youngberg a division of Stifel Nicolaus, a financial scenario for the District's CAP Recharge, Recovery & Delivery System.

Background

Metro Water District's CAP Recharge, Recovery & Delivery System entails recovering CAP water that has been recharged at the Avra Valley Recharge Project and delivering it through a pipeline to the District's Metro-Main distribution system. This effort involves various components including the recovery wells near the Avra Valley Recharge Project, a delivery pipeline to move the water that will need to cross the Santa Cruz River, I-10, and the Railroad, a pumping station that includes land for a possible future treatment facility, and then the last stretch of pipeline to connect with the Herb Johnson Reservoir and the Metro-Main distribution system to achieve an acceptable water quality blend.

At the December 9, 2013 meeting, HDR Engineering presented the pipeline route evaluation and overall draft project study for the District CAP Recharge, Recovery & Delivery System. This included an evaluation of alternative pipeline routes, alternative locations for a future treatment plant, an initial analysis of the existing wells proposed for recharge recovery and blending, along with cost estimates for the design, construction and inspection of the proposed alternatives. The draft executive summary includes a list of next steps that the District should consider implementing to make the CAP Recharge, Recovery & Delivery System a reality.

Issues

A critical next step is to develop a financial scenario or plan for funding the various components of the overall CAP Recharge, Recovery & Delivery System.

Mark Reader, District Underwriter, will make a presentation to the Board on how the District could finance the CAP Recharge, Recovery & Delivery System. The key factor is the year 2019 when \$1.2 million of the District's debt is retired providing debt service capacity while maintaining the required debt service coverage ratio. This will give an important cushion to reduce the impact on District

customers through water rates, keep the District financially sound, and be able to complete the District's most important capital project.

The challenge then becomes how best to time the various aspects of the Project leading up to 2019. By getting started sooner on the CAP Recharge, Recovery & Delivery System, the District is better positioning itself with its water resources management to avoid the negative impact from reducing groundwater levels as well as to take advantage of lower land, design, and construction costs. These benefits then need to be balanced with the overall financial impact of this Project. Preliminary financial projections raised concerns about how the timing of assuming debt for this Project would cause the District not to be able to meet for four to five years the required debt service coverage on senior lien obligations; thereby, potentially impacting revenue requirements.

Therefore, staff looked at how the CAP Recharge, Recovery & Delivery System could be accomplished with the least financial impact upon the District and meeting the required debt service coverage on senior lien obligations. The District can financially manage this Project by closely monitoring the timing of design and construction phases.

While getting started on design this year would be preferred, there are other issues that need to be addressed before the design process can begin. Specifically, land acquisition for the pump station/treatment site and any easements required will need to be accomplished before beginning the design. Additionally, the request for proposals process can take six to nine months due to the numerous phases that make up the project.

Assuming a three year time frame to complete the design for the entire project would allow construction to begin by FY2018-19. Depending on the number of construction phases that would be necessary to provide for staff resources to manage, the construction time table could extend for nearly five years. A more complete construction scenario will need to be developed during the design process.

Perhaps the most important assumption is funding the overall Project through a WIFA loan rather than through revenue bonds. A conventional revenue bond means the District would have to assume the full debt of the bond issuance from day one. Interest on a WIFA loan is only paid as the monies are drawn upon for the Project, which gives the District more flexibility with the debt repayment by having it spread out. Assuming interest rates will increase, WIFA has historically had lower interest rates for its loans than what one could get on a revenue bond.

Based on the financial requirements to fund the Project, the Water Resources Utilization Fee would need to be increased at least 10¢ annually for the next five years, which would equal eventually 70¢ (currently 20¢). This allows a specified revenue source to be used to generate funds to cover the majority of the debt retirement for the Project. It should be pointed out that the Water Resources Utilization Fee increase to 70¢ would provide for the interest expense on the debt for this project. Depending on the needs for operating funds and the retirement of existing debt in 2019, a determination at that time would be necessary to decide on what additional revenue may be required to meet expenses and total debt service. It should be noted that additional debt retirement of existing bonds (approximately \$1,000,000) will also occur in FY2023-24 with another \$1,800,000 the

following year.

Staff is preparing spreadsheets to present to the Board at the meeting that will allow staff to walk through the numbers with the Board for the scenario to finance the CAP Recharge, Recovery & Delivery System.

Staff Recommendation

It is recommended that the Board of Directors discuss with staff and Mark Reader the financial scenario to finance the District's CAP Recharge, Recovery & Delivery System. Based on the current cost projections, staff believes that the District is in a solid and conservative position financially to be able to make the CAP Recharge, Recovery & Delivery System a reality. The Board of Directors is encouraged to discuss with staff all aspects regarding the funding for this Project and to discuss and direct how the Board would like staff to proceed with this Project. No motion is necessary for this agenda item.

Respectfully submitted,

Mark R. Stratton, P.E.
General Manager