

TO: BOARD OF DIRECTORS
FROM: BRUCE BUEL *BBB*
DATE: SEPT. 19, 2008

AGENDA ITEM
E-2
SEPT. 24, 2008

CONSIDER OPTIONS TO PAY FOR WIP DEBT SERVICE

ITEM

Consider options to pay for Waterline Intertie Project debt service [APPROVE RECOMMENDATION OR TAKE ALTERNATE ACTION].

BACKGROUND

Staff has assumed that the District would borrow the capital cost of constructing the WIP minus available reserves (accumulated Supplemental Water Capacity Charges and Replacement Fund). Attached is a spread sheet illustrating the probable range of the borrowing and the resultant annual debt service. Prior to awarding the contracts for construction of the works, NCSD must secure the funding to cover this annual debt service. As discussed in the 2006, White Paper on Funding, NCSD could use user fees, assessments/standby charges, special taxes or CFD taxes.

User Fees can be collected from existing customers, if there is not a majority protest amongst the property owners responsible for paying for the User Fee. If the merger between Blacklake and Town has not occurred at the time of the protest proceeding, separate proceedings would be required for each division. This process does require the preparation of a rate study. Although vacant property owners can buy-in at the time of development, it is the existing customers that must be obligated to pay for the annual debt service.

Assessments can be collected from all properties within the District within a reasonable distance from existing main and Standby Charges can be collected from the remaining parcels if the majority of property owners that participate return ballots in favor of forming the assessment district. There would only be one proceeding for the entire District. This process requires the preparation of an assessment role and an Engineer's Report. This option has the virtue of spreading the annual debt service cost to all properties in the District and it is the most secure of any of the options resulting in a lower interest rate on the borrowing.

Special Taxes can be collected from all properties in the District if 2/3rds of the registered voters in the District support the Special Tax measure on the ballot. This process requires a certified election of all registered voters in the District. This option has the virtue of spreading the annual debt service cost to all properties in the District.

Although CFD funding is technically possible, the market will not support it at this time.

Staff believes that the assessment option is the most cost effective and secure. Attached is a table comparing the advantages and disadvantages of the four options.

The SWP Committee reviewed this matter at its Sept. 8, 2008 Meeting but did not forward a recommendation (Minutes reprinted in Agenda Item G).

Thus far, only budgeted staff time has been committed to this issue. If the Board agrees to pursue the formation of an assessment district, the first step would be to hire an assessment engineer to prepare a draft assessment role and to provide rough estimates of debt service

retirement. This initial expenditure would cost less than \$10,000, but it would allow the Board to see how collection of the assessment/standby charge on all properties within the District would affect the monthly cost to the customers/owners of developed land. The full cost of the assessment engineering would probably run about \$80,000 including the publication of the draft assessment engineer's report; transmittal of ballots to each property; resolution of assessment protests, tabulation of the ballots and interaction with the Bond Team during the processing of the bonds. This later work would require separate Board approval.

RECOMMENDATION

Staff recommends that the Board tentatively select assessment funding as the mechanism to fund the project's capital debt service and authorize staff to retain an assessment engineer on a time and materials basis for a not to exceed expenditure limit of \$10,000 to prepare the initial report.

ATTACHMENTS

- WIP FUNDING SPREADSHEET
- COMPARISON OF FUNDING OPTIONS

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SUPPLEMENTAL WATER PROJECT COST ESTIMATES				8/12/2008
PROJECT	assumption	FAVORABLE	assumption	UNFAVORABLE
CAPITAL				
TOTAL CAPITAL COST		\$18,000,000		\$20,000,000
RESERVES		\$8,000,000		\$6,000,000
NET CAPITAL COST (Total - Reserves)		\$10,000,000		\$14,000,000
NET DEBT SERVICE/MONTH	Int @ 5%	\$72,396	Int @ 6%	\$109,839
OTHERS SHARE DEBT SERVICE/Mo	At 33%	\$24,132	At 20%	\$21,968
CAPACITY FEE SHARE DS/Mo	At 33%	\$24,132	At 20%	\$21,968
NCSD CUSTOMER SHARE DS/Mo		\$24,132		\$65,903
NET CAP COST/MO/CUSTOMER	4,500 Meters	\$5.36	4,300 Meters	\$15.33
OPERATIONS & MAINTENANCE				
O&M COST/MO	At 2,000 AFY	\$225,000	At 2,500 AFY	\$279,500
OTHERS SHARE O&M COST/MO	At 33%	\$75,000	At 20%	\$55,900
CAPACITY FEE SHARE COST/MO	At 33%	\$75,000	At 20%	\$55,900
NCSD CUSTOMER SHARE COST/MO		\$75,000		\$167,700
NET O&M COST/MO/CUSTOMER	4,500 Meters	\$16.67	4,300 Meters	\$39.00
CAPITAL & O&M				
NET TOTAL COST/MO/CUSTOMER	4,500 Meters	\$22.03	4,300 Meters	\$54.33

COMPARISON OF WIP DEBT SERVICE FUNDING OPTIONS

OPTION	USER FEES	ASSESSMENTS	SPECIAL TAXES	COMMUNITY FAC DIST
ADVANTAGES	Protest Format Low Cost to Set Up	Low Cost per Developed Lot Majority of Ballots Returned Separates Cap from O&M \$ Low Interest Rate on Bond	Low Cost per Developed Lot Low Interest Rate on Bond Cost spread flexible	Max Cost to Raw Land
DISADVANTAGES	Majority Protest Potential Higher Cost per Dev Lots Lumps Cap & O&M Costs	Most Expensive to Set Up Positive Vote Required Benefits must Equal Costs	Voter based election 2/3rds majority required	No market support