



CITY OF SACRAMENTO  
CALIFORNIA

OFFICE OF THE  
CITY MANAGER

January 30, 1980

CITY HALL  
915 I STREET - 95814  
(916) 449-5704

City Council  
Sacramento, California

Honorable Members in Session:

SUBJECT: Sewer Fund Analysis

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FEB 13 1980

OFFICE OF THE  
CITY CLERK

SUMMARY

This report responds to a request from the City Council to analyze the City's Sewer Fund. It sets forth the current financial status of the fund and analyzes the various options for the use of the large reserve. It addresses the request from Sacramento County to renegotiate the agreement between the City and the Sacramento Regional County Sanitation District. In accordance with this agreement the City loaned the District the principal amount of \$3,053,607.57 to be repaid July 1, 1980. This amount does not include \$6,892.63 which is referred to in Section 30 of the Agreement and for which a modification is pending. Finally, the report recommends that:

1. The City not redeem the outstanding sewer bonds.
2. The City not reduce the existing sewer rates.
3. The City staff be directed to accelerate the existing sewer Capital Improvement Program without creating the need for a sewer rate increase prematurely.
4. The City staff be directed to include in the 1980-81 Preliminary Capital Improvement Program recommendations regarding funding substitutions where sewer funds could be used for projects currently financed from other sources.
5. The City not renegotiate the agreement between the City and the Sacramento County Sanitation District pertaining to the above mentioned loan.

BACKGROUND

During the last budget cycle, the City Council instructed the City staff to review and analyze the large restricted reserve in the Sewer fund. Subsequent to the audit, we completed the review and have made our analysis.

The remainder of this report addresses itself to the current financial status of the Sewer Fund, the various options for the use of the reserve, the question of whether or not the City should require repayment of the loan from the Regional Sanitation District, and makes recommendations regarding these matters.

#### CURRENT FINANCIAL STATUS - SEWER FUND

The City's Financial Statement for the Fiscal Year ending June 30, 1979 shows the following "Statement of Earnings" for the Sewer Fund:

Total Operating Revenue	\$4,785,278
Less Operating Expenses Including Depreciation Expense	<u>(5,352,775)</u>
Loss from Operations	<u>\$ (567,497)</u>
Add Non-Operating Revenues & Expenses (Primarily Interest Income of \$703,713)	<u>804,157</u>
Net Earnings	<u><u>\$ 236,660</u></u>

It is obvious from reading the above summary that the Sewer Fund is operating at a loss (\$321,710 before depreciation and \$567,497 after depreciation). As a matter of fact, if it were not for the interest earned on the large reserve fund of \$703,713, a rate increase would be required now in order to balance the budget. Additional detail regarding this matter is provided in the next section of this report. Therefore, it can be said that the current large reserve is now being used to postpone an obviously inevitable rate increase for this activity. The portion of the City's Financial Statement, as it pertains to the Sewer Fund, has been attached as Exhibit I of this report.

In reviewing the financial status of the Sewer Fund, we were advised that no additional Federal funds are due and owing to the City. Therefore, it is believed that the above mentioned financial statement accurately represents the financial status of the fund.

In view of the financial statement and in light of the fact that the large reserve in the Sewer Fund is generating interest income which, in turn, is delaying an inevitable large rate increase, the argument can be made that the rate delay is the best and most appropriate use of the reserve at this time. However, various options were reviewed during the course of the staff analysis.

#### OPTIONS FOR USE OF FUND BALANCE

The following three (3) options for the use of the Sewer Fund's large reserve were analyzed:

1. Pay-off the existing bond indebtedness.
2. Reduce existing sewer rates.
3. Accelerate the sewer related Capital Improvement Program and review the feasibility of substituting this funding source for specific projects thereby releasing other funds for alternative uses.

## Pay-off Existing Bonds

The large reserve in the City's Sewer Fund obviously raises the question as to whether or not the City should consider redeeming the outstanding sewer bonds in order to release existing and future sewer revenues from bond restrictions. This, of course, would mean that these funds could be used for any reasonable City purpose.

As an aside, it is interesting to note that if this were done the sewer funds in excess of costs related to the sewer activity would become "proceeds from taxes" under Proposition 4 and would be subject to the Initiative's limitation to the extent that the limitation becomes a real expenditure control.

The first question that comes to mind when analyzing whether or not the City should pay-off the bonds is whether or not the City can pay-off the bonds.

In this regard the City's Financial Statement shows the following:

### Funds Available:

Cash	\$6,807,247
Net Accounts Receivable <sup>(1)</sup>	<u>605,870</u>
Total	\$7,413,117

### Bonds:

Outstanding	\$6,790,000
Call Premium	<u>186,725</u>
Total <sup>(2)</sup>	<u>\$6,976,725</u>
Net Operating Cash	<u>\$ 436,392</u>

(1) This amount does not include \$3,083,607.57 which is due and payable to the City on July 1, 1980 from the Regional Sanitation District. This matter is discussed later in this report.

(2) This total cost of preparing the bonds does not include the interest expense which would be pro-rated to the date of call depending upon when the bonds are actually called.

It was determined from the above figures that the City could in fact pay off the outstanding bonds.

The next question addressed was whether or not the City should pay off the bonds. The arguments against paying off the bonds were as follows:

1. Since the sewer operation is losing \$321,710 per year before depreciation, the activity is supported from interest income from investments of the reserve funds. In the event that the bonds were redeemed, an immediate rate increase would become necessary.
2. There is no financial benefit to paying off bonds with only a 5% interest cost when we are earning approximately 12% on the investments that have been purchased with cash from the reserve funds. At the present interest rate level of 12.6% the sewer operation would lose over \$850,000 annually.
3. If the outstanding bonds were paid off, there would be insufficient funds left to finance the Capital Improvement Program. The only funds that would remain would be the loan repayment from the County (\$3,053,607.57 excluding \$6,892.63 per Section 30 of the interagency Agreement) and the amount remaining in the Sewer Fund after the repayment (\$436,392 excluding any interest expense which would be pro-rated to the date of call).
4. The City's financial Advisor has recommended against paying off the bonds. The letter from Blythe Eastman Dillon and Company dated November 1, 1979 has been attached as Exhibit 2.
5. The City Attorney has advised that in the event that the bonds were paid off in advance, the Regional Sanitation District would no longer be obligated to continue making principal and interest payments totalling \$10.8 million. In this regard, the City would simply be reducing an outstanding obligation of the District with little immediate benefit to the City. We have attached the City Attorney's opinion regarding this matter dated January 7, 1980 as Exhibit 3.

The arguments for paying off the bonds were as follows:

1. All revenues derived from the sewer operation would become unrestricted and available for other City purposes. As mentioned above, however, the funds in excess of sewer related costs would become "Proceeds from Taxes" under the provisions of Proposition 4 and would therefore be limited and controlled. They could, however, be used for City purposes other than sewer related activities.
2. The total amount of the reserves would be reduced thereby reducing the pressure for an unjustified rate decrease.

The staff has concluded that the reasons against paying off the bonds far outweigh the reasons for pre-payment and therefore recommend against paying off the sewer bonds.

## Reduce Existing Sewer Rates

During our discussion regarding whether or not paying off the sewer bonds would be prudent, the Water and Sewer Division analyzed several different options. These options analyzed the impact of paying-off of the bonds, the impact upon the operating expenses and the Capital Improvement Program of the sewer operation, and the impact upon future rate increases.

The general conclusion of these first revenue and expense analyzes was that the pre-payment of the bonds would reduce the amount of available funds for Capital Improvements and reserves generating interest. This would in turn reduce the Capital Improvement Program to virtually zero or require an immediate large rate increase or a combination of both. The net dollar effect of paying off the bonds would be that there would be an annual loss equal to the difference in interest between what is being paid on the bonds and what is received on invested funds which is now \$397,370 per year.

When the staff came to the conclusion that the pre-payment of the City's existing sewer bonds would not be prudent for all of the reasons mentioned above, we asked the Water and Sewer Division Manager to analyze the feasibility of reducing the sewer rates without paying off the bonds. The results of this analysis was that all of the alternatives create essentially the same future rate patterns except the one in which the City would grant as an immediate large rate reduction (30%). This, as one might conclude, results in much larger rate increases later on. This analysis is included in a memorandum from the Water and Sewer Division Manager dated January 24, 1980 and is attached as Exhibit 4 of this report.

Special mention should be made of Alternative No. 1 which was analyzed by the Water and Sewer Division Manager in his memorandum. This alternative contemplates no prepayment of the sewer bonds and no rate decrease. As a result of the analysis this alternative produces no rate increase until 1981-82 and retains an acceptable Capital Improvement Program for the next three (3) years.

At this point, we concluded that a rate decrease would simply accelerate the need for a rate increase in future years as well as decrease available funds to sustain a reasonable Capital Improvement Program in future years. For these reasons we oppose a rate decrease for the sewer operation at this time.

## Accelerate the Sewer Related Capital Improvement Program and Review Substitution of Funds

Having reviewed the feasibility and desirability of redeeming the sewer bonds and reducing the existing sewer rates, the staff turned its attention to the possibility of accelerating the sewer related Capital Improvement Program.

As a practical matter we did not want to use up available funds in such a manner as to create the need for an immediate rate increase or propose projects which simply couldn't be done in a reasonable time period.

We have attached the memorandum from the Water and Sewer Division Manager regarding this matter as Exhibit 5 of this report. The conclusion of this evaluation is that projects listed in the report constitute a reasonable program over the next five years and is consistent with maintaining the rates at their current level for at least one year and not redeeming the bonds at this time.

#### REGIONAL SANITATION DISTRICT EXTENSION REQUEST

On July 12, 1979 the County on behalf of the Regional County Sanitation District requested an extension of their agreement with the City which required repayment of the District's debt to the City (\$3,053,607.57 excluding \$6,892.63 per Section 30 of the Interagency Agreement) by July 1, 1980. The City staff responded that until such time as an analysis was complete the District would be wise to plan to make the repayment in accordance with the Agreement. We also indicated that when the analysis was complete we would be making a recommendation to the City Council regarding this matter.

This correspondence has been included as Exhibit 6 of this report.

The City Treasurer has indicated that if the Agreement were to be extended it should be renegotiated in order to increase the interest rate from its current 7% to a rate equivalent to that which would represent the highest yielding authorized investment that could have been bought if the extensions were not granted which is approximately 11%. However, it is our opinion that the City would benefit more in terms of cash flow, future rate adjustments, and timely implementation of the sewer related Capital Improvement Program if the funds were in the City Treasury.

Therefore, the staff is recommending that the City Council notify the Regional Sanitation District that it will require the loan repayment by July 1, 1980 in accordance with the existing Agreement between the District and the City.

#### CONCLUSIONS

This report has addressed itself to the large reserve in the City's Sewer Fund. It analyzed the current financial status of the fund, the various options for use of the reserve funds, and addressed itself to the Regional Sanitation District's request to defer payment on a loan between the City and the District.

Generally, the conclusions of this analysis support the existing rate structure including the bonded debt and the enforcement of the current agreement with the Regional Sanitation District. This is with the understanding that the Capital Improvement Program should be reviewed and implemented in a timely fashion consistent with the desire to postpone a rate increase as long as possible and release other sources of funding where possible.

RECOMMENDATIONS

It is recommended that:

1. The outstanding Sewer Bonds not be redeemed.
2. The existing sewer rates not be reduced.
3. The sewer related Capital Improvement Program be accelerated to the extent possible without creating the need for a sewer rate increase prematurely.
4. The staff include in the 1980-81 Preliminary Capital Improvement Program recommendations regarding funding substitutions where sewer funds could be used for projects currently financed from other sources.
5. The City not renegotiate the Agreement between the City and the Sacramento Regional County Sanitation District pertaining to the repayment of the loan due to the City July 1, 1980 (\$3,053,607.57 excluding \$6,892.63 per Section 30 of the Interagency Agreement).

Respectfully submitted,

*William H. Edgar*

William H. Edgar  
Assistant City Manager

Recommendation Approved:

*Walter J. Stipe*

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Walter J. Stipe  
City Manager

February 5, 1980

EXHIBIT 1

SEWER FUND  
BALANCE SHEET  
JUNE 30, 1979

	<u>Sewer Fund</u>
<b>ASSETS</b>	
Current assets:	
Cash and investments with Treasurer	\$ 939,007
Accounts receivable	1,081,862
Allowance for doubtful accounts	(22,772)
Accrued interest on investments	37,466
Inventory	92,802
Prepaid expenses	
Total current assets	<u>2,128,365</u>
Cash and investments restricted in accordance with bond resolutions:	
With Treasurer	6,618,203
With fiscal agent	
Total restricted cash	<u>6,618,203</u>
Due from other governments:	
Accounts receivable - sale of assets	6,040,037
Notes receivable - deferred payments	<u>3,147,932</u>
Total due from other governments	<u>9,187,969</u>
Property, plant and equipment:	
Land	
Transmission and distribution systems	17,195,196
Buildings and plants	141,682
Machinery and equipment	179,538
Construction in progress	225,267
Less - Accumulated depreciation	<u>(3,850,738)</u>
Total property, plant and equipment	<u>13,890,945</u>
<b>TOTAL ASSETS</b>	<b><u>\$31,825,482</u></b>

<b>LIABILITIES AND FUND EQUITY</b>	
Current liabilities:	
Accounts payable and accrued expenses	\$ 367,696
Due to other governments	145,762
Current portion of lease obligation payable	
Current portion of loan from Risk Management	
Due to other funds	
Rent advance	
Total current liabilities	<u>513,458</u>
Current portion of long-term debt and interest payable from restricted assets:	
Accrued interest	162,171
Revenue bonds payable	<u>210,000</u>
	<u>372,171</u>
Long-term debt:	
Revenue bonds payable	6,790,000
Lease obligation payable	
Loan from Risk Management	
Due to other funds	
Total liabilities	<u>7,675,629</u>
Fund equity:	
Contributions:	
City of Sacramento	17,303,955
Federal government	
Community Center Authority	
Total contributions	<u>17,303,955</u>
Retained earnings:	
Reserves for cash and investments:	
With fiscal agents	749,963
Revenue bond reserve	5,143,737
Revenue bond surplus	352,332
Construction	
Total reserves	<u>6,246,032</u>
Reserved and appropriated for salary increases	<u>418,000</u>
Total reserves	<u>6,664,032</u>
Unreserved (deficit)	<u>181,866</u>
Total retained earnings (deficit)	<u>6,845,898</u>
Total fund equity	<u>24,149,853</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b><u>\$31,825,482</u></b>

SEWER FUND  
STATEMENT OF EARNINGS AND  
CHANGES IN RETAINED EARNINGS  
YEAR ENDED JUNE 30, 1979

	Sewer Fund
Operating revenues:	
User fees and charges	\$2,619,059
Lien collections	48,693
Recovery of operating and maintenance expense from Sacramento Regional Sanitation District	2,114,436
Concessions and rents	3,090
Transient occupancy tax	
Total operating revenues	<u>4,785,278</u>
Operating expenses:	
Employee services	2,152,392
Services and supplies	<u>2,954,596</u>
Total operating expenses	<u>5,106,988</u>
Earnings (loss) from operations before depreciation	(321,710)
Depreciation expense	<u>(245,787)</u>
Earnings (loss) from operations	<u>(567,497)</u>
Nonoperating revenue (expenses)	
Interest income	703,713
Revenue from other agencies	324,343
Miscellaneous	100,444
Interest expense	<u>(324,343)</u>
Total nonoperating revenue (expense)	<u>804,157</u>
Net earnings (loss)	<u>236,660</u>
Retained earnings (loss), July 1	6,609,238
Prior period adjustment	
Retained earnings, restated July 1	6,609,238
Add - Equity transfers from Parking Authority	
Less - Equity transfers to Fleet Management	
Retained earnings (loss), June 30	<u>\$6,845,898</u>

SEWER FUND  
STATEMENT OF CHANGES IN FINANCIAL POSITION  
YEAR ENDED JUNE 30, 1979

	Sewer Fund
Sources of working capital:	
Operations:	
Net earnings (loss)	\$ 236,660
Items not requiring working capital - depreciation	<u>245,787</u>
Working capital provided by operations	482,447
Increase in long-term liabilities	
Contributions from General Fund assets & other funds	288,570
Decrease in amount due from other agencies	410,363
Increase in amount payable from restricted assets	900
Decrease in restricted assets	
Equity transfer from Parking Authority	
Total sources of working capital	<u>1,182,280</u>
Uses of working capital:	
Increase in restricted assets	105,895
Additions to property, plant and equipment	405,725
Contributions to General Fixed Assets	10,825
Decrease in long-term liabilities	210,000
Equity transfer to Fleet Management	
Prior period adjustment	
Decrease in contribution from City	
Total uses of working capital	<u>732,445</u>
Net increase (decrease) in working capital	\$ <u>449,835</u>
Elements of net increase (decrease) in working capital	
Cash and investments	\$ 42,074
Accounts receivable	209,978
Accrued interest on investments	7,317
Inventory	(31,569)
Accounts payable and accrued expenses	(88,556)
Payable to other agencies	306,591
Current portion of long-term liabilities	<u>4,000</u>
Net increase (decrease) in working capital	<u>\$ 449,835</u>

EXHIBIT 2

BLYTH EASTMAN DILLON & Co.

EXHIBIT-2

INCORPORATED  
MEMBERS ALL PRINCIPAL STOCK EXCHANGES  
555 CALIFORNIA STREET  
SAN FRANCISCO, CALIFORNIA 94104  
415-362-8000

November 1, 1979

Mr. Thomas P. Friery  
City Treasurer  
City of Sacramento  
800 10th Street, Suite 1  
Sacramento, California 95814

Dear Tom:

Enclosed is a copy of the Sacramento Regional County Sanitation District's last official statement, marked on pages 7 and 9 to indicate assumption by the District of debt service of the City's sewer revenue bonds.

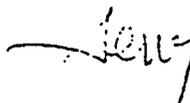
The par value of the latter outstanding at June 30, 1978 is shown on page 23 of the City's official statement dated August 15, 1968 to be \$7,205,000, the number appearing in footnote 4 on page 9 of the District's official statement. I assume, therefore, that no acceleration in retirement occurred and that \$6,790,000 probably is currently outstanding.

The City's outstanding sewer revenue bonds are subject to redemption at a price of 102 3/4% as a whole on any date prior to July 1, 1980 and at declining premiums thereafter. At least 30 days' notice of redemption must be given.

I will be interested in your letter regarding the capital improvement program and have alerted Ash Wood to the situation. The only bonds of the issue shown in the Blue List are \$25,000 4.20% of July 1, 1981 offered on a yield basis of 7.50% which equates to a dollar price of 95. Our traders tell me they never see the term bonds so the opportunity to buy bonds in the open market at discount prices is probably slim. If the decision is made definitely to retire the issue, then a tender offer by Wells Fargo is a possibility but if bondholders know you will retire at a premium any bonds not tendered, my guess is that the tender price will be close to or at the redemption price.

Please keep us informed, but our recommendation is not to retire 5% bonds when you can invest the funds at 12% in short-term Treasuries. If I am correct in the belief that you no longer are bound by the revenue bond resolution covenants regarding debt service coverage since ad valorem taxes are being used by the District for this purpose (or were in pre-Jarvis days), there is no apparent advantage in retirement of the issue.

Very truly yours,



T.E. Comerford  
Senior Vice President

Encl.  
cc: Ash Wood  
TEC/1

EXHIBIT 3



## CITY OF SACRAMENTO

CITY MANAGER'S OFFICE  
**RECEIVED**  
 JAN 8 1980

JAMES P. JACKSON  
 CITY ATTORNEY  
 THEODORE H. KOBEY, JR.  
 ASSISTANT CITY ATTORNEY  
 LELIAND J. SAVAGE  
 DAVID BENJAMIN  
 SAM JACKSON  
 WILLIAM P. CARNAZZO  
 SABINA ANN GILBERT  
 STEPHEN B. NOCITA  
 DEPUTY CITY ATTORNEYS

DEPARTMENT OF LAW  
 812 TENTH ST. SACRAMENTO, CALIF. 95814  
 SUITE 201 TELEPHONE (916) 449-5346

January 7, 1980

## MEMORANDUM

To: WILLIAM H. EDGAR, Assistant City Manager  
 From: JAMES P. JACKSON, City Attorney  
 Re: USE OF SEWER SURPLUS BOND FUNDS

At the staff meeting on November 7, 1979, regarding the above subject, two questions were asked of our office:

1. Is the statement in the last sentence of Terry Comerford's letter of November 1, 1979, to Tom Friery correct? This statement indicates that the City is no longer bound by the sewer bond covenants regarding debt services coverage since ad valorem taxes are being used by the district for this purpose.

2. If the City pays off the bonds prior to maturity, is the Regional Sanitation District obligated to continue to make principal and interest payments on said bonds?

The answer to both questions is no.

Discussion of Question No. 1: A copy of Terry Comerford's letter of November 1, 1979, to Tom Friery is attached. I was asked to determine whether the last sentence of this letter was correct. I have discussed this matter with Dick Salladin, the City's bond counsel. Dick has also discussed this subject with Terry Comerford. They have both concluded that the sentence is not correct and that the City is still bound by the covenants in the bond resolution to maintain debt service coverage. Terry's statement was apparently based upon some remarks by George Herrington prior to his retirement and prior to adoption of Proposition 13. The comments were more in the nature of practical advice than strict legal advice, and in any event his comments are not applicable since the adoption of Proposition 13.

William H. Edgar, Assistant City Manager  
January 7, 1980  
Page two

Discussion of Question No. 2: The Regional Sanitation District's obligation is to pay the principal and interest payments on the outstanding City bonds. If bonds are no longer outstanding, the Sanitation District's obligation will no longer exist.

It is still Terry's opinion that the bonds not be retired at this time. Dick Salladin also agrees that we should not redeem or discharge the bonds prior to maturity. The reason for this conclusion is that the bond interest rate is substantially less than the amount of interest which can be earned on funds at the present time.

  
JAMES P. JACKSON  
City Attorney

JPJ/pl

Attachment

cc: R. Parker  
J. Crist  
T. Friery

BLYTH EASTMAN DILLON & Co.

INCORPORATED

MEMBERS ALL PRINCIPAL STOCK EXCHANGES

555 CALIFORNIA STREET

SAN FRANCISCO, CALIFORNIA 94104

415-362-8000

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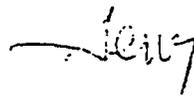
The par value of the latter outstanding at June 30, 1978 is shown on page 23 of the City's official statement dated August 15, 1968 to be \$7,205,000, the number appearing in footnote 4 on page 9 of the District's official statement. I assume, ~~therefore~~, that no acceleration in retirement occurred and that \$6,790,000 probably is currently outstanding.

The City's outstanding sewer revenue bonds are subject to redemption at a price of 102 3/4% as a whole on any date prior to July 1, 1980 and at declining premiums thereafter. At least 30 days' notice of redemption must be given.

I will be interested in your letter regarding the capital improvement program and have alerted Ash Wood to the situation. The only bonds of the issue shown in the Blue List are \$25,000 4.20% of July 1, 1981 offered on a yield basis of 7.50% which equates to a dollar price of 95. Our traders tell me they never see the term bonds so the opportunity to buy bonds in the open market at discount prices is probably slim. If the decision is made definitely to retire the issue, then a tender offer by Wells Fargo is a possibility but if bondholders know you will retire at a premium any bonds not tendered, my guess is that the tender price will be close to or at the redemption price.

Please keep us informed, but our recommendation is not to retire 5% bonds when you can invest the funds at 12% in short-term Treasuries. If I am correct in the belief that you no longer are bound by the revenue bond resolution covenants regarding debt service coverage since ad valorem taxes are being used by the District for this purpose (or were in pre-Jarvis days), there is no apparent advantage in retirement of the issue.

Very truly yours,



T.E. Comerford  
Senior Vice President

Encl.  
cc: Ash Wood  
TEC/1

EXHIBIT 4

DIVISION OF WATER AND SEWERS

MEMORANDUM

Date: 1-24-80

To: William H. Edgar, Assistant City Manager  
From: Harry G. Behrens, Manager  
Subject: Sewer Fund

CITY MANAGER'S OFFICE  
**RECEIVED**  
JAN 25 1980

I have reviewed the City Attorney's opinions regarding bond pay off and have revised the alternatives in my letter of November 19, 1979. These alternatives are presented on the attached tables and graph. The conclusions are essentially the same as in my November memo.

The only way we can put a reduction in rates into effect is by abandoning any capital improvements program. Any reduction will result in rather sharp increases in the succeeding years. Having put this year's sewer budget together, I will have to say that no rate decrease is possible without paying off the bonds. I believe the tables and graph need no explanation, however if there are any questions please let me know.

---

vz  
attachments

\$1000's

SEWER OPERATIONS ALTERNATIVES

80-81    81-82    82-83    83-84    84-85    85-86    86-87

ALTERNATIVE (1) Status Quo on bonds; \$3,000,000  
Capital Improvements Program over 3 years

Expenses

Operation and Maintenance	3550	3870	4180	4510	4870	5260	5680
Debt Service x 1.3	690	690	690	690	690	690	690
Total Income Requirement	<u>4240</u>	<u>4560</u>	<u>4870</u>	<u>5200</u>	<u>5560</u>	<u>5950</u>	<u>6370</u>

Income

Service Charges	2900	2900	3320	3720	4150	4480	4860
County Debt Service Payment	530	530	530	530	530	530	530
Interest on Investments	800	710	620	530	550	560	570
Total Income	<u>4230</u>	<u>4140</u>	<u>4470</u>	<u>4780</u>	<u>5230</u>	<u>5570</u>	<u>5960</u>
Net Income	-10	-420	-400	-420	-330	-380	-410
Rate Change, %	0	+14.5	+12.0	+11.3	+8.0	+8.4	+8.4

ALTERNATIVE (2) Pay off bonds; \$3,000,000  
C.I.P. over 3 years

Expenses

Operation & Maintenance	3550	3870	4180	4510	4870	5260	5680
Debt Service	0	0	0	0	0	0	0
Total Income Requirement	<u>3550</u>	<u>3870</u>	<u>4180</u>	<u>4510</u>	<u>4870</u>	<u>5260</u>	<u>5680</u>

Income

Service Charges	2900	3330	3740	4180	4510	4870	5260
Interest on Investments	220	130	40	0	0	0	0
Total Income	<u>3120</u>	<u>3460</u>	<u>3780</u>	<u>4180</u>	<u>4510</u>	<u>4870</u>	<u>5260</u>
Net Income	-430	-410	-400	-330	-360	-390	-420
Rate Change, %	+14.8	+12.3	+10.7	+7.9	+8.0	+8.0	+8.0

\$1000's

SEWER OPERATIONS ALTERNATIVES (contd)

80-81 81-82 82-83 83-84 84-85 85-86 86-87

ALTERNATIVE (3) Pay off bonds; \$3,000,000 from County used for one large rate reduction; no C.I.P.

Expenses

Operation & Maintenance	3550	3870	4180	4510	4870	5260	5680
Debt Service	<u>0</u>						
Total Income Requirement	3550	3870	4180	4510	4870	5260	5680

Income

Service Charges	2900	2030	2820	3550	4510	4870	5260
Interest on Investments	160	60	0	0	0	0	0
Transfer from Surplus	<u>1360</u>	<u>1000</u>	<u>640</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Income	4420	3090	3460	3550	4510	4870	5260
Net Income	870	-780	-720	-960	-360	-390	-420
Rate Change, %	-30	+39	+26	+27	+8	+8	+8

ALTERNATIVE (4) Pay off bonds; \$3,000,000 from County used for moderate rate reduction; no C.I.P.

Expenses

Operation & Maintenance	3550	3870	4180	4510	4870	5260	5680
Debt Service	<u>0</u>						
Total Income Requirement	3550	3870	4180	4510	4870	5260	5680

Income

Service Charges	2900	2610	3210	3660	4030	4430	4940
Interest on Investments	200	160	120	80	40	20	0
Transfer from Surplus	<u>750</u>	<u>500</u>	<u>400</u>	<u>400</u>	<u>400</u>	<u>300</u>	<u>250</u>
Total Income	3850	3270	3730	4140	4470	4750	5190
Net Income	300	-600	-450	-370	-400	-510	-490
Rate Change, %	-10	+23	+14	+10	+10	+12	+10

ALTERNATIVES:

- (1) Status Quo on Bonds; \$3,000,000 C.I.P. over 3 years.
- (2) Call Bonds; \$3,000,000 C.I.P. over 3 years.
- (3) Call Bonds, use \$3,000,000 for big rate decrease; no C.I.P.
- (4) Call Bonds, use \$3,000,000 for 10% rate decrease; no C.I.P.

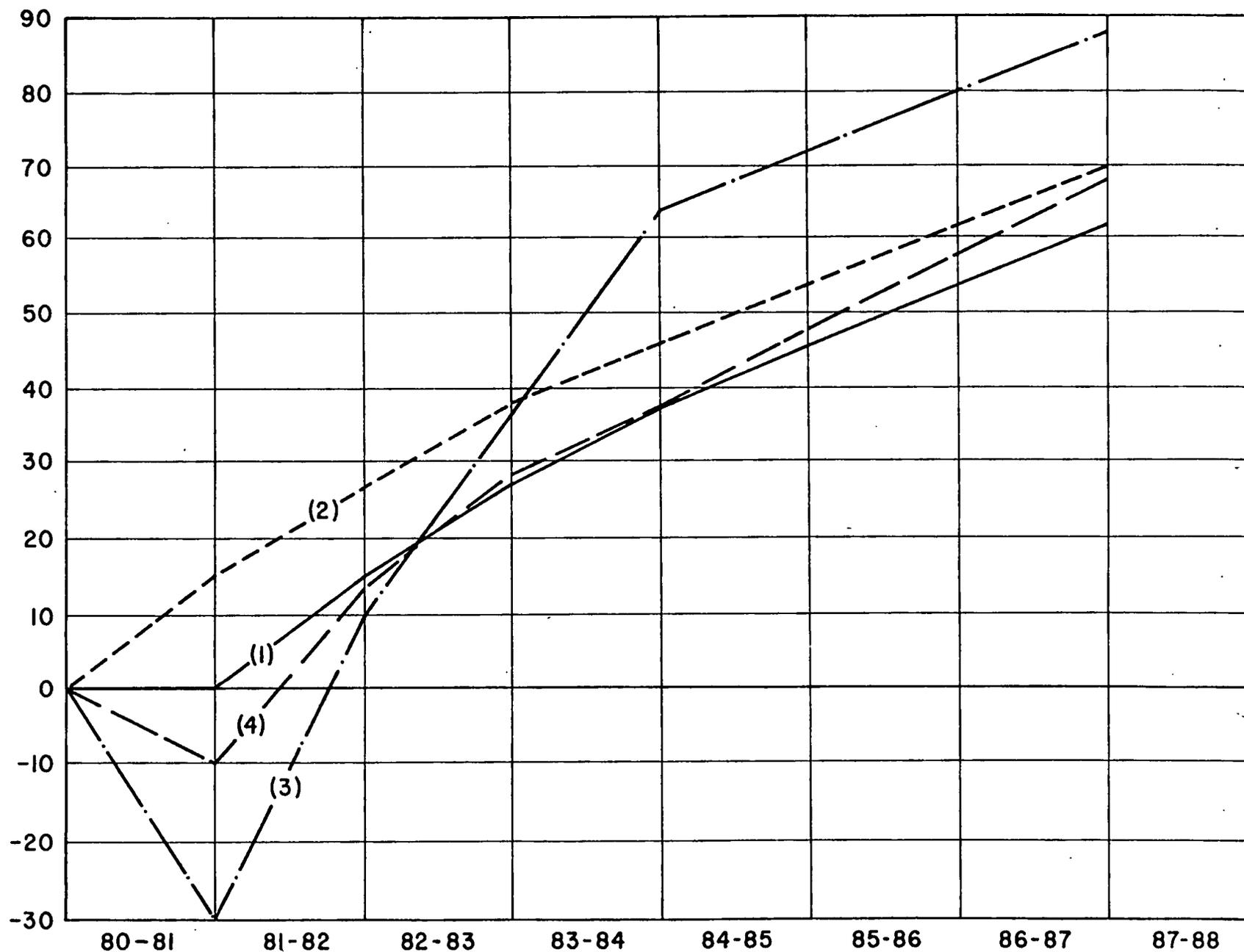


EXHIBIT 5



## DIVISION OF WATER AND SEWERS

## MEMORANDUM

Date: 1-28-80

To: J. F. Varozza, Assistant City Engineer

From: Harry G. Behrens, Manager

Subject: Capital Improvements, Sewer System

In April, 1978, we prepared a list of capital improvement projects needed in the sewer system. This list was established on information generally obtained from limited experience. Therefore, we feel a survey is needed in the near future to confirm the need for some of the projects. Two projects will advertise for bids in the near future. The bids should provide us with some good cost estimating information. With better cost data, we can evaluate the cost effectiveness or acceptable risk factor more reasonably. I believe the following schedule represents a reasonable program over the next five years.

<u>Project</u>	<u>Estimated Cost</u>
<u>1979-80</u>	
Survey & Report on Downtown Sewers	\$ 200,000
Replace Sewer, 17th St., C-S	450,000
Sutterville Relief Sewer	275,000
Replace Sewer, 9th St., I-L	112,000
Replace Sewer, s St., 5th-9th	300,000
Robla Drainage 12-1, Area 2	340,000
Sacramento Northern Bikeway Relocation	236,000
Miscel. (Contrib. to assess. dist., etc.)	<u>200,000</u>
	\$2,113,000
<u>1980-81</u>	
Replace Sewer, 9th St., I-L, Addt'l Funding	140,000
Replace Sewer, 20th St., F-N	265,000
Replace Sewer, 13th St., F-H	80,000
Replace Sewer, R St., 7th-13th	330,000
Robla Drainage, 12-3, Area 7	825,000
North Sacramento Master & Partial Const. Plans	175,000
Robla Sewer Master & Partial Const. Plans	1,100,000
Miscel. (Contrib. to assess. Dist., etc.)	<u>200,000</u>
	\$2,915,000

<u>Project</u>	<u>Estimated Cost</u>
<u>1981-82</u>	
Replace Sewer, 25th St., F-S	430,000
Replace Sewer, 4th St., Capitol-R	170,000
Replace Sewer, N St., 20th-22nd	80,000
Replace Sewer, S St., 9th-13th	340,000
Replace Sewer, R St., 5th-6th	45,000
Miscellaneous	200,000
	<u>\$1,265,000</u>
<u>1982-83</u>	
Replace Sewer, N St., 17th-20th	115,000
Replace Sewer:	
33rd, C-H	76,000
39th & McKinley	16,000
N St., 17th-20th	95,000
X-Broadway Alley, 21st-28th	58,000
K-L Alley, 6th-8th	24,000
Capitol-N Alley, 17th-19th	20,000
Miscellaneous	200,000
Old City Alley Extensions	500,000
	<u>\$1,104,000</u>
<u>1983-84</u>	
Old City Gutter Drains	250,000
North Area Drainage	1,000,000
	<u>\$1,250,000</u>
<b>TOTAL</b>	<u><u>\$8,647,000</u></u>

This would use most of the Sewer Fund, including the \$3,000,000 owned by the County. Since there is a good possibility my estimates are low, some reserve should be available for estimate error or unrecognized needs.

*Harry G. Behrens*  
 Harry G. Behrens  
 Manager

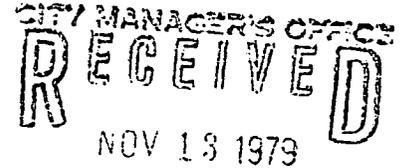
EXHIBIT 6

**COUNTY OF SACRAMENTO**

DEPARTMENT OF PUBLIC WORKS

COUNTY ADMINISTRATION BUILDING • ROOM 304 • 827 SEVENTH STREET  
SACRAMENTO, CALIFORNIA 95814

November 2, 1979

Walter J. Slipe, City Manager  
City of Sacramento  
City Hall, Room 109  
Sacramento CA 95814

SUBJECT: Sacramento Regional County Sanitation District Payment of Loan

Dear Mr. Slipe:

On July 19, 1979 I sent a letter (copy attached) to Ron Parker requesting that the loan from the City to the District continue to be deferred beyond the Interagency Agreement date of July 1, 1980. It is my understanding that you want the loan repaid in accordance with the current Agreement provisions. If this is the case, the Regional County Sanitation District is prepared to honor the agreement and transmit to the City on July 1, 1980, the principal amount due of \$3,053,607.57.

We do want to point out that the July 1, 1980 date chosen at the time the Agreement was signed was based on estimated completion of the Regional construction program in 1978. Since November 1974, the program completion date has slipped and it is now estimated to be completed not sooner than January 1982. In addition, there will be uncertainty as to total local share cost for some time after program completion due to final audits and possibly construction claims. While the District's estimated cash position at June 30, 1980, and its current estimate of funding capability indicate that the loan repayment can be made, it is possible the District may be required to request the reestablishment of the loan in whole or in part in order to meet financial requirements of this joint venture program.

Please confirm if repayment of the loan on July 1, 1980 will be required since such a repayment will need to be reflected in the 1980-81 budget. If the loan can be extended, we will need to work together on amending the Interagency Agreement.

Yours truly,

A handwritten signature in cursive script, appearing to read "D. W. McKenzie".  
D. W. McKenzie, Director  
Department of Public Works

TR:smc

cc: B. H. Richter  
Ron Parker



# COUNTY OF SACRAMENTO

DEPARTMENT OF PUBLIC WORKS

Phone: 440-6581

COUNTY ADMINISTRATION BUILDING • ROOM 304 • 827 SEVENTH STREET  
SACRAMENTO, CALIFORNIA 95814

July 19, 1979

Ron Parker, City Engineer  
City of Sacramento  
City Hall, 9th and "I" Streets  
Sacramento, CA 95814

Dear Ron:

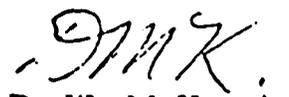
Section 56 of the Interagency Agreement with the Sacramento Regional County Sanitation District calls for the Regional District to repay all deferred debts to agencies signatory to the agreement no later than July 1, 1980. This clause was written at a time when we expected the new treatment facilities to be completed much earlier than has turned out to be possible. One result of the longer construction schedule is a corresponding stretch-out of the District's Construction Fund's need for cash to meet bills and take care of contingencies. Consequently, I think it is appropriate to ask the city's permission to extend the repayment date in the agreement.

As the schedule looks now, we probably won't be in a position to request final audit on the new treatment plant until 1982, and even later than that for the sludge disposal facilities. EPA auditors appear to take two years or longer to complete final audits, and it is anybody's guess how long it will take to resolve questioned costs. In addition, resolution of final construction and other costs could take at least as long as resolving the audit issues.

In view of the above, could we have your support in deferring repayment of Regional District's debt to the city (\$3,060,392) until major cost items are settled? The funds would continue to draw interest, of course. If you agree, could you initiate a letter from the Council amending Section 56 of the agreement to defer the currently required payment date until Regional Construction Fund costs are finalized?

If you would prefer to discuss this further, please give Don Iddins or myself a call.

Very truly yours,

  
D. W. McKenzie

DJI/ewb

