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DEPARTMENT OF
PUBLIC WORKS

CITY OF SACRAMENTO
CALIFORNIA

CITY HALL
ROOM 207
915 I STREET
SACRAMENTO, CA
95814-2673

OFFICE OF THE DIRECTOR

916-449-5283

January 31, 1989

Budget and Finance/
Transportation and Community Development Committee

Honorable Members In Session:

SUBJECT: Report Regarding Financing Plans for Expansion of the Regional
Wastewater Treatment Plant

SUMMARY

At the request of Mayor Anne Rudin, representatives of the Sacramento County Regional Sanitation District will attend the January 31, 1989 joint committee meeting to present a report regarding District connection fees, service charges, and current plans for financing the treatment plant expansion. The attached letter to the Mayor and report on plant expansion financing prepared by County staff is provided for your information.

RECOMMENDATION

This report is submitted for Committee information only.

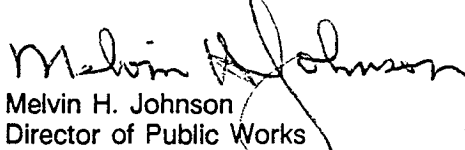
POLICY CONSIDERATIONS

This is only an informational item. There are no policy considerations at this time.

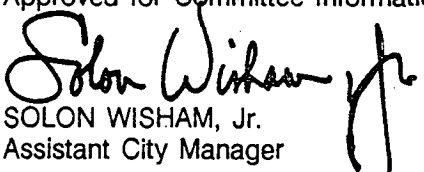
MBE/WBE EFFORTS

No impact.

Respectfully submitted,


Melvin H. Johnson
Director of Public Works

Approved for Committee Information:


SOLON WISHAM, Jr.
Assistant City Manager

January 31, 1989
ALL DISTRICTS

CONTACT PERSON

Melvin H. Johnson, Director of Public Works, 449-5283

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COUNTY OF SACRAMENTO

DEPARTMENT OF PUBLIC WORKS

COUNTY ADMINISTRATION BUILDING • ROOM 304 • 827 SEVENTH STREET
SACRAMENTO, CALIFORNIA 95814 TELEPHONE: (916) 440-6581

November 18, 1988

The Honorable Anne Rudin
City of Sacramento
City Hall
915 I Street
Sacramento, CA 95814-2673

Dear Mayor Rudin:

On August 9 of this year, Mr. Mel Johnson requested that we prepare a report regarding financing alternatives for expansion of the Regional Treatment Plant. Perhaps coincidentally, on that same date my staff presented the attached "Capital Improvement Program Update" report to the Board of Directors of the Sacramento Regional County Sanitation District, of which you are a member. Section I of that report discussed the financing plan as envisioned at that time.

The financing method which was presented, and which we are still pursuing, is to sell between \$60 and \$70 million of tax-exempt Certificates of Participation through an existing governmental non-profit corporation. This will provide partial financing for the plant expansion project, estimated to cost approximately \$78 million. The balance of the financing is available from funds already on hand.

While the basic financing plan remains unchanged, further developments in the financing process have emerged which, we believe, have significantly improved the likelihood of a financing which will be even more beneficial to District ratepayers than had been envisioned last summer. The attached "Regional Plant Expansion Financing Update" report details the financing plan as presently envisioned.

It should be pointed out that the Capital Improvement Program Update also discusses financing alternatives for the balance of the District's capital program. Among the items discussed are financing options for a second plant expansion, now estimated to be undertaken in 1996, with a completion date in the year 2000. Those alternatives anticipated the need for additional revenue of \$237 million during the 1990's. Several plans to generate those revenues were presented to the SRCSD Board of Directors. The Board chose to delay a decision on financing alternatives until initial planning studies for a second plant expansion are completed.

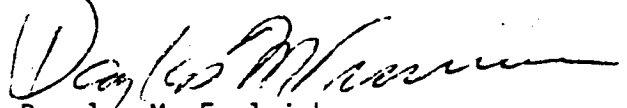
The Honorable Anne Rudin
November 18, 1988
Page 2

Having reflected on Capital Improvement Program financing for several months, District staff now is thinking in terms of several smaller contracts over a period of 15-20 years to provide additional treatment capacity at the Regional Plant, instead of a single large contract. This approach will enable us to spread out our financing requirements over a longer period of time, and also to be more responsive to the types of capacity expansion projects which will be required as our community continues to grow.

The exact timing and cost of such smaller contracts will be determined through development of a master plan over the next several years. Upon completion of the master plan, a detailed financing plan can be developed and the exact sources of funding determined. The available sources of funding are increases in connection fees and future debt issues. Pending development of the master plan and more precise cash flow projections, it appears that these smaller contracts could be financed with tax-exempt debt issues of approximately \$50 million, offered at 5-year intervals. We now estimate that the first of those will be in 1995, thus requiring an additional service charge "capital" component in 1994, in order to comply with required bond covenants. Until that time, only annual operations and maintenance increments are expected in the Regional service charge structure.

I hope this material satisfies the Council's need for information on this topic. If you desire, I would be pleased to have members of my staff appear before the council, or one of its committees, to answer questions and to keep the Council updated on the status of the present financing, and the development of the master plan.

Very truly yours,



Douglas M. Fraleigh
District Engineer

DMF/JWN:cc

Attachment

cc: W. C. Wanderer, Jr.
F. I. Hodgkins
J. Dark

REGIONAL PLANT EXPANSION FINANCING UPDATE

November 18, 1988

County of Sacramento
Department of Public Works
Water Quality Division

REGIONAL PLANT EXPANSION FINANCING UPDATE

November 18, 1988

I. Financing Plan

The Phase I expansion of the Sacramento Regional County Sanitation District is estimated to cost \$78.1 million, including contract, force account, consultant, and contingency costs. Those costs will be financed through a combination of tax-exempt debt and funds already on hand.

On July 9, 1987, the Regional Sanitation District placed into effect a "capital surcharge" on the District's rate structure. The surcharge was initially established at \$1.50 per month per single family residence, with corresponding increases for other customer classes. The purpose of the surcharge is to provide debt service for the Certificates of Participation (COP) issue to be sold to partially finance the treatment plant expansion. In order to achieve the highest possible rating for the issue, the District's financial advisor recommended, and the Board of Directors agreed, that the surcharge should be placed into effect well in advance of the issue sale.

Since its inception, approximately \$7 million has been generated through the surcharge and placed into a reserve specifically for the plant expansion financing. These funds will be used to reduce the amount of the COP financing.

The debt structure presently planned will result in level debt service, with an estimated 16 year term (see Section III, below). This structure will result in the lowest "True Interest Cost" available at the time of the sale, within the financing constraints of the existing capital surcharge. Numerous other financing plans were considered, and while some offered more long-term flexibility than the selected alternative, none had lower overall costs.

II. Reserve Fund

To protect certificate investors, a "reserve fund" typically sized at one year's maximum annual debt service is normally required. The issue structure now planned would require debt service of \$6.8 million per year. The reserve fund guarantees principal and interest payments to investors should unforeseen short-term difficulties interrupt normal revenue streams. The fund can be financed through available funds (for example, from the \$7.0 already on hand), through the COP issue itself, or by an insurance "surety" which would pay the reserve amount if necessary. One bond insurance firm has expressed a willingness to insure the reserve fund for this issue; a second is also expressing strong interest. If the premium for such insurance is lower than

the present value of debt service payments required to finance a COP-financed reserve, or of interest foregone through the use of available funds, then the District will choose to insure the reserve fund. Should that occur, as is presently indicated, the COP issue will be approximately \$4 million less than otherwise required.

III. Issue Term

When the capital surcharge was established in 1987, the COP sale was still more than one year away. Accurate estimates of tax-exempt interest rates so far into the future are virtually impossible. Therefore, the surcharge was set to finance a debt issue of approximately \$63 million, over 30 years, at a rate of 10.25 percent per annum. Since that time, tax-exempt markets have improved to the point where current interest costs are approximately 7.6 percent per year. While rates are not yet secured for the District's COP sale, now planned for early December, it is apparent that they will not approach the 10.25 percent planning level. As indicated in Section I of the District's "Capital Improvement Program Update", dated July 26, 1988, lower interest rates, together with the expected ability to fully finance the project with COP proceeds and funds on hand, makes it possible to reduce the term of the upcoming issue from the planned 30 years. With the present financing plan, an issue term of only 16 years is estimated. The actual term is dependent upon interest rates at the time of the debt sale and the construction bid for the plant expansion project. It is expected that the District's intent to repay its obligation over a relatively short period will be well received by the New York rating agencies and result in an excellent rating and resultant lower interest costs.

IV. Issue Size

As discussed above, the issue of a funded reserve, or an insurance surety, is still open. However, if the fund is insured, the issue size is now estimated to be \$63.015 million, virtually the same as planned at the time the capital surcharge was implemented. A significant item in the sizing question is still unknown, however. The construction bids for the Regional Plant expansion are due on December 2. The Engineer's Estimate for the project is \$62.95 million. Should the low bid be significantly different from the Engineer's Estimate, the issue size will be changed to accommodate that difference. In any case, the issue size and term will be adjusted to yield a maximum annual debt service no higher than \$6.8 million, an amount which can be financed with the existing capital surcharge.

V. Interest Cost of the Issue

The total cost of tax-exempt funds is mostly determined by interest rates in the market. Figure I shows rate movements during the past 12 months. In addition, premium costs for a reserve fund surety, and costs to the District's underwriters (led by Painewebber, Inc.) add to the "True Interest Cost". Since several of the components of the true interest cost are variable until the day of the sale, an exact cost is not known at this writing. However, present estimates are that the overall issue costs will be below 7.7 percent, including all costs, given the structure now being considered.

REVENUE BOND INDEX

Average of 25 Bonds

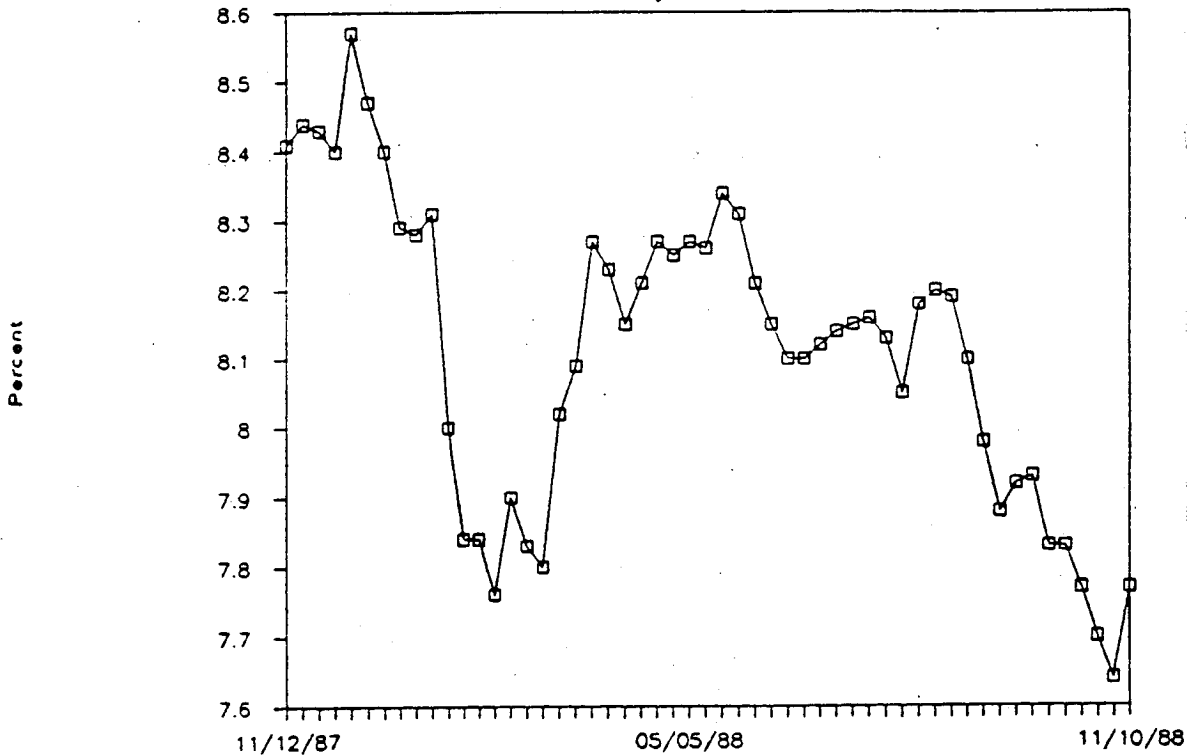


FIGURE 1

VI. Legal Documents

On October 25, 1988, the Board of Directors of the Regional Sanitation District preliminarily approved the Revenue Payment Agreement, the Trust Agreement, and the Preliminary Official Statement. These documents are the essence of the obligation of the District to its investors, and provide essential information to the people and institutions which will market the issue. The Board will preliminarily approve the Certificate Purchase Contract between the District and its underwriters on November 22, and concurrently will delegate to the District Engineer the authority to execute that contract, within certain guidelines specified in the authorizing resolution. The sale date of the issue will likely fall between December 8 and 14. The Board of Directors will formally ratify the Certificate Purchase Contract shortly after the sale, and the issue will close in early January, 1989. With COP issue proceeds in hand, the District will award the plant expansion contract on January 10, 1989.

VII. Conclusion

The Certificates of Participation issue proceedings for the Regional Plant expansion are moving smoothly toward a conclusion. Current market interest rates are among the lowest available over the past year, thus assuring the District of a favorable cost of funds. Barring discovery of last minute difficulties with the District's contract documents, or a tax-exempt market crisis which results in significantly higher interest rates, the issue should be sold before the end of 1988. The plant expansion project is expected to be completed in 1992, and will, together with existing facilities, provide treatment capacity for community wastewater flows until the year 2000.