

TO: James L. App, City Manager
FROM: Mike Compton, Director of Administrative Services
SUBJECT: Nacimiento Water Pre-construction Funding
DATE: June 21, 2005

Needs: To request that Council authorize the “pay as you go” method of paying for Nacimiento Water Pre-construction Costs.

Facts:

1. On December 7, 2004, Council was presented with the options for project participants for the nearly \$19 million in pre-construction costs (copy of staff report attached).
2. One of the options presented, was the “pay as you go” method. However, the Board of Supervisors had not yet formally authorized a contract amendment to allow this option (copy of staff report attached).
3. On May 4, 2005, the Council was presented with an amendment to the contract providing for the “pay as you go” method (copy attached) as authorized by the Board of Supervisors.
4. The financing representatives of each participating agency have met twice recently to discuss interim financing options.
5. The financing representatives have narrowed the options to “pay as you go” or the issuance of commercial paper.
6. Paso Robles, given cash on hand and projected fee revenues, has the capacity to opt for the “pay as you go” method.

Analysis
and
Conclusion:

The pre-construction costs are estimated at \$19 million. The proportional shares for participants are as follows:

Atascadero MWC	\$ 3,923,075
Paso Robles	7,846,339
San Luis Obispo	6,630,202
Templeton CSD	<u>490,384</u>

Total \$18,890,000

At the full amount, \$19 million, the estimated interest cost is about 3.5% to 3.8% depending upon the number of participants and the actual amount of commercial paper issued.

Templeton CSD has already opted to pay their portion on the “pay as you go” method. Atascadero MWC, subject to upcoming Board consideration, is considering establishing a \$1 million line of credit but anticipates drawing down no cash (issuing no commercial paper). In essence, they are opting for the “pay as you go” method. San Luis Obispo will likely opt to participate in the commercial paper option at their full amount.

Whether Council chooses the “pay as you go” or interim financing option, it is our expectation that the City would be reimbursed from the proceeds of construction bond financing. Given the interest cost that would be incurred on any short-term financing and because the City has the capacity to do so, staff recommends the “pay as you go” option. The first quarter LAIF interest apportionment rate was only 2.38%.

Fiscal
Impact:

The City currently has \$15.8 million in cash resources between Water Operations, water impact fees and Nacimiento Water impact fees from which these pre-construction costs may be paid. It is projected that the City would have \$16.5 million in cash resources at the end of fiscal year 2009 assuming that the Water Capital Improvement Projects budget including carry-over is spent at projected timelines and development continues at 250 residential units per year. This projection also includes reimbursement of Paso’s pre-construction costs from final construction bond financing.

For pre-construction costs to be reimbursed, they must have been incurred within 36 months of the issuance of bonds. It is the project manager’s expectation that ground breaking on the construction phase will easily commence prior to the end of the 36 month window.

If the project did not move forward, the funding alternative is moot. The City would need pay cash for all costs advanced regardless of whether or not the City participates in the short-term temporary financing.

Options:

- a. Approve the “pay as you go” option and authorize staff to undertake any and all activities necessary; or.
- b. Amend, modify, or reject the above option.

Nacimiento Water Project
Pre-Construction Cost Analysis

	Projected FY 2004-05	Projected FY 2005-06	Projected FY 2006-07	Projected FY 2007-08	Projected FY 2008-09
Water Impact Fees ¹	\$ 2,864,600	\$ 984,500	\$ 1,024,000	\$ 1,065,000	\$ 1,107,500
Water Operations Fund ¹	12,198,200	-	-	-	-
Nacimiento Water Impact Fees ¹	752,100	858,800	893,300	928,800	966,000
Nacimiento Water User Fees ¹	-	720,000	1,512,900	2,382,500	3,332,800
Current	15,814,900	2,563,300	3,430,200	4,376,300	5,406,300
Cummulative	15,814,900	17,411,400	10,208,100	9,563,400	10,514,700
Water CIP Budget		(1,875,000)	(850,000)	(800,000)	(4,475,000)
Water CIP Carry-Over		(5,350,000)	(700,000)	(3,655,000)	(2,500,000)
Available Cash	15,814,900	10,186,400	8,658,100	5,108,400	3,539,700
Nacimiento Water Pre-Const. Costs	(966,800)	(3,408,500)	(3,471,000)	-	-
Net Available Cash	\$ 14,848,100	\$ 6,777,900	\$ 5,187,100	5,108,400	3,539,700
Proceeds from Construction Financing				7,846,300	-
				\$ 12,954,700	\$ 16,494,400

¹ Cash Balance Forward 6/30/05

TO: James L. App, City Manager
FROM: Mike Compton, Director of Administrative Services
Brad Hagemann, Water Resources Manager
SUBJECT: Nacimiento Water Project Pre-construction Funding
DATE: April 19, 2005

NEEDS For the Council to consider approval of Memorandum of Understanding with the San Luis Obispo County Flood and Water Conservation District (District) relating to the method of payment of Nacimiento Water Project pre-construction costs.

FACTS:

1. On December 7, 2004, pre-construction costs (Costs) funding options were presented to Council (copy of staff report attached).
2. The current Nacimiento Water Project contract requires that the Costs be paid by each participant in a lump sum amount at the beginning of the project.
3. Project participants have requested consideration to pay the Costs as expenses are incurred rather than lump sum.
4. The County is agreeable to allowing participants to make quarterly payments based upon cash flow projections for the Costs.
5. The County desires to formalize this payment option via the attached MOU (First Amendment to the Nacimiento Project Water Delivery Entitlement Contract).

**ANALYSIS
AND
CONCLUSION:**

The Nacimiento Water Commission has taken action to allow participants to pay for pre-construction costs on a "pay as you go basis" rather than paying the entire cost upfront. The Board of Supervisors has re-affirmed this option but wants it formalized via the MOU presented herein.

Instead of paying \$8 million lump sum up front, the City may pay based upon projected cash flow needs.

Ultimately, the Costs will be reimbursed to the City from the proceeds of the bond sale for the construction portion of the project. If the project were not to move forward, the City's Water Operations Fund will bear the burden of all costs incurred until that date.

**FISCAL
IMPACT:**

The City currently has cash resources of \$12.3 million in the Water Operations Fund from which these pre-construction costs may be paid. Some of this cash will be used for various capital improvement projects over the next four years. Given historical experience, it is unlikely that all of the projects will be started or completed within the time frame allotted. Additionally, cash

resources will continue to accrue over time and, as noted above, pre-construction costs advanced would be fully reimbursed from construction cost financing.

OPTIONS:

- a. That the Council:
 1. Approve the Memorandum of Understanding (First Amendment to the Nacimientto Project Water Delivery EntitlementContract) attached herewith and authorize the Mayor to execute same;
 2. Adopt Resolution 05-xx regarding Nacimientto water project financing and intent to reimbursement expenditures from construction bond proceeds; and
 3. Adopt Resolution 05-xx regarding approval of a Memorandum of Understanding relating to method of payment for pre-construction expenses.
- b. Amend, modify, or reject the above option.

Attachments (3)

- 1) December 7, 2004 City Council Staff Report
- 2) Memorandum of Understanding (First Amendment to the Nacimientto Project Water Delivery EntitlementContract)
- 3) Design Phase Projected Cash Flow
- 4) Resolution 05-xx (Reimbursement)
- 5) Resolution 05-xx (Approving MOU)

TO: James L. App, City Manager
FROM: Mike Compton, Director of Administrative Services
SUBJECT: Nacimiento Water Pre-construction Funding
DATE: December 7, 2004

Needs: To present options for funding Nacimiento Water pre-construction project costs.

Facts:

1. Before project financing bonds can be sold, certain costs must be incurred; i.e. environmental studies, project design, right-of-way acquisitions and project management.
2. Current estimates place these costs at \$19 million.
3. Paso's share is estimated at \$8 million subject to minor change relating to possible adjustments to the distribution formula.
4. The financing representatives of each participating agency met November 3rd with County project staff, project consultants and financial advisors to discuss how to fund these pre-construction costs.
5. All of the participants indicated both the capacity and willingness to pay cash for these costs with the expectation that these costs would be reimbursed, to the degree each participant may choose to do so, from the proceeds of the construction financing bonds.
6. Certain data, statistics and information must be provided by each participating agency in preparation of undertaking the construction financing. Thus, the finance group decided to move forward with this effort now and develop an option for short-term revenue anticipation financing as a temporary funding alternative.
7. Participating agencies could choose to participate or not, depending upon their own financial considerations, without impeding those that might choose to move forward with short-term revenue anticipation financing.
8. The final decision need not be made until late spring or early summer when the financial advisors return with details relating to the short-term revenue anticipation financing option.

Analysis
and
Conclusion:

The Nacimiento Water Commission has already taken action to allow participants to pay for pre-construction costs on a “pay as you go basis” rather than upfronting the entire estimated cost. However, the Board of Supervisors must re-affirm this option. County staff expects the Board will agree to allow the “pay as you go” option. For Paso, this means instead of paying \$8 million lump sum up front, we’ll be allowed to pay based upon projected cash flow needs (copy attached).

Given the “pay as you go” option, paying cash with the expectation that the City would be reimbursed from construction proceeds appears to be the most favorable means of paying for the pre-construction costs. This option would eliminate interest costs that would be incurred on any short-term financing and the City has the cash resources to do so. However, it is staff’s recommendation to defer the final decision until such time as the details of the short term financing alternative are known.

Should the Board of Supervisors not allow the “pay as you go” option, staff would definitely recommend participation in the short-term revenue anticipation financing.

Fiscal
Impact:

None at this time.

The City currently has \$12.3 million in Water Operations Fund cash resources from which these pre-construction costs may be paid. Of this amount, \$6 million is budgeted for various capital improvement projects over the next four years. Given historical experience, it is unlikely that all of the projects will be started or completed within the time frame allotted. Additionally, cash resources will continue to accrue over time and, as noted above, pre-construction costs advanced would be fully reimbursed from construction cost financing.

If the project did not move forward, the funding alternative is moot. The City would need pay cash for all costs advanced regardless of whether or not the City participates in the short-term temporary financing.

Options:

- a. Receive and file. Informational only.
- b. Amend, modify, or reject the above option.