

Agenda Report

January 25, 2016

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Department of Finance

SUBJECT: REIMBURSEMENT RESOLUTION RELATED TO THE WATER SYSTEM

RECOMMENDATION:

- A) Find that the proposed action is not a project subject to California Environmental Quality Act (CEQA) as defined in Section 21065 of CEQA and section 15378 of the State CEQA Guidelines and, as such, no environmental document pursuant to CEQA is required for the project.

- B) Adopt a resolution declaring its intention to reimburse itself from the proceeds of one or more tax-exempt financings for certain expenditures made and/or to be made in connection with the acquisition, construction and equipping of certain capital improvements.

BACKGROUND:

In November 2002, the City Council adopted the Water System Master Plan ("Master Plan") as an 18-year plan for capital improvements to the water system. The Master Plan has been the defining document for the schedule of long-term investment in the City's Water System infrastructure, focusing on the replacement of aging pipelines and water mains, seismic and efficiency upgrades to reservoirs, rehabilitation and replacement of pumping and boosting equipment,

well rehabilitation and construction of water supply improvements including the Cross Town Collector Pipeline, which was completed in Fiscal Year (“FY”) 2015.

Water capital projects are funded by two primary sources: the Capital Improvement Charge (“CIC”) portion of the water rate and proceeds from revenue bonds. Additional funds are provided by contributions from private and public development projects and revenues from the Distribution and Customer Charge. CIC revenues provide approximately 30-35% of the “pay-go” (current cash) funding for capital projects identified in the Master Plan. About 60-65% of CIC revenues provide a portion of the funding for debt service on revenue bonds. This is consistent with the CIC rate formula on which the City Council took action at the January 11, 2016 meeting. The CIC is a volumetric component of the water rate (assessed on each billing unit of water sold) and is projected to generate approximately \$10.0-10.5 million annually, subject to the actual number of billing units sold.

Water revenue bonds provide funding for investment in long-term capital assets that properly allocates a portion of the cost to future customers through debt service. The City currently has four outstanding revenue bond issues as shown in Table 1:

Year Issued	Original Principal	Remaining Principal (as of 6/1/2015)
2007 Revenue	\$21,550,000	\$17,915,000
2010A (Build America Bonds)*	\$25,425,000	\$25,425,000
2010B Revenue	\$ 4,575,000	\$ 3,385,000
2011A Refunding	\$29,700,000	\$26,355,000

*The 2010A Build America Bonds are structured so that interest-only payments are made until 2021

Smaller additional amounts of funding for capital projects is provided by contributions from developers for required improvements to the Water System, a portion of the Distribution and Customer Charge for capital assets with shorter useful lives (vehicles, meters, technology) and grants or reimbursements from outside agencies including the National Aeronautics and Space Administration (“NASA”) for improvements to the Monk Hill Water Treatment Plant.

The Water Fund currently has a debt service coverage ratio of approximately 2.15 times, indicating that available cash flow from operating and non-operating income is slightly more than twice what is required to meet debt service obligations. This ratio exceeds the minimum required by the existing bond covenants and the five-year financial projections indicate that similar coverage will continue for the period.

Future tax-exempt financings will include funding for capital projects defined within and outside of the Master Plan. Some of the projects to be funded by

proceeds of the next water revenue bond which is expected to be issued by fall 2016 include:

- a. Funds to design, permit and construct reservoir improvements, specifically a new reservoir at the current location of the Sunset reservoir. The new reservoir will serve a large portion of the northwest portion of the City of Pasadena and will ensure availability of water and reliable water storage.
- b. Continue the installation of new and replacement water mains, meters and other facilities as defined in the Master Plan. Other facilities include upgraded fire protection services and booster stations at various locations throughout the system.
- c. Construction of new groundwater and recovery wells to support groundwater aquifer and long term water storage. Funds will be used to design, permit and construct wells that will maximize injection and percolation opportunities for groundwater recharge.
- d. Construction of improvements to the Arroyo Seco Canyon area to improve capture and spreading of water runoff. The project will improve water supplies by increasing the diversion of water to existing ponds and construction of improvements to the spreading basins.

The Internal Revenue Service (IRS) has revised its regulations concerning the use of tax-exempt bonds to reimburse expenditures made by the issuer prior to the date of the financing. Under the IRS regulations, the proceeds of bonds may be allocated to a prior capital expenditure for a period of time after the expenditure is made, but only if a formal declaration of reasonable intention to reimburse the expenditure with the proceeds of a borrowing (a "declaration of official intent") has been properly made. The recommended Resolution of Declaration of Official Intent (Reimbursement Resolution) allows the Utility to reimburse itself, from future bond proceeds, for certain capital expenditures paid up to sixty days prior to adoption of the Reimbursement Resolution and the allocation of proceeds of the bonds to such reimbursement has to be made no later than the later of (a) 18 months after the date of payment of the reimbursable expenditure or (b) 18 months after the date upon which the project is placed in service or abandoned, but in no event more than three years after the date of payment of the reimbursable expenditure. This action does not commit the City to any obligation. It merely provides the flexibility to capitalize expenditures into future bond issues.

Simply stated, the Reimbursement Resolution is a tool that provides the utility the ability to reimburse itself for any current expenditure it makes on capital projects from proceeds of future tax-exempt financing. Without the Reimbursement Resolution, all current payments made on capital projects will be expensed instead of being capitalized as assets on the Water System's financial statements.

COUNCIL POLICY CONSIDERATION:

This action supports the City Council's strategic goal to maintain fiscal responsibility and stability.

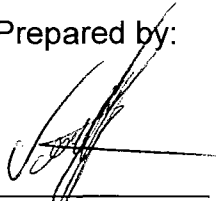
FISCAL IMPACT:

There is no fiscal impact as a result of this action and will not have any indirect or support cost requirements. The anticipated impact to other operational programs or capital projects as a result of this action will be none.


Respectfully submitted,


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