Sanitary District No. 5 of Marin County
Minutes of a Special Board Meeting
at Sanitary District No. 5 of Marin County Meeting Room
2001 Paradise Drive, Tiburon, California
Friday, February 4, 2011, 9:00 a.m.

CALL TO ORDER by Pres. Wiley at 9:06 a.m.

ROLL CALL:	Directors present:	Corinne W. Wiley, President Catharine Benediktsson, Vice President Roy Fedotoff, Secretary Claire McAuliffe William Teiser
	Staff present:	Robert L. Lynch, District Manager Samantha Miller, Office/Finance Manager Tony Rubio, Wastewater Facilities Manager
	Consultants present:	John Farnkopf, HF&H Consultants Sima Mostafaei, HF&H Consultants Doug Wing, Carollo Engineers
	Others present:	Paul Garbarini

PUBLIC OPEN TIME: No public comments were made.

BOARD WORKSHOP

1. Presentation of Debt Financing Options for Potential Main Plant Rehabilitation Project by John Farnkopf of HF&H Consultants

   Mr. John Farnkopf and Ms. Sima Mostafaei of HF&H Consultants gave a presentation to the Board of their financial model of the debt financing options for the potential main plant rehabilitation project. They explained that the financial model used during the Prop 218 rate increase process last fiscal year did not include all of the capital expenditures that are in the current model. Significant additional capital improvement project costs have been added to this new model as a result of the costs identified by Carollo Engineers in their Main Plant Asset Condition Assessment Study. The approximately $1.3 million needed for electrical work at the main plant is an example of these additional costs. Mr. Farnkopf and Ms. Mostafaei reviewed the adopted rates from the Prop 218 process last year, the assumptions that were involved then, and the estimated capital improvement project costs at that time.

Mr. Farnkopf and Ms. Mostafaei then reviewed the three different debt financing options (Wulff Hansen bond, Municipal Finance Corporation loan, and State Revolving Fund loan) for the potential main plant rehab project, including the associated costs, rates, and required time for each. The key assumptions of the current financial model were also discussed.

Mr. Farnkopf reviewed the difficulties associated with the State Revolving Fund (SRF) loan program, which has the lowest interest rate of the three options presented. Namely, the processing time for the SRF loan is estimated to be at least one year, it is a reimbursement program that would require the District to get short-term loans while waiting to get reimbursed by the state, the administrative overhead costs are disproportionately high (it is very expensive and time consuming), a great deal of additional reporting to the state is required, the state has a priority list that the District would be subject to, and the state can choose to approve only certain parts of the project, or insist on certain types of capital equipment to be purchased and installed.

V.P. Benediktsson suggested a fourth option to consider for debt financing the main plant rehab project: getting a Municipal Finance loan or bond issuance in the meantime while applying for a SRF loan, and then pay off the Municipal Finance loan or bond once the District gets reimbursed by the SRF.

The Board discussed the possibility of fixing the zone allocation percentages for the annual loan or bond payments to be the same over the next 20 years versus adjusting the zone allocation percentages for the loan or bond payments each year, based on the percentage of influent for each zone. The latter is the current adopted financial policy of the District.

Mr. Paul Garbarini noted that this financial model is based on a capital cost estimate that has a significant error window. He suggested that the District be more conservative in its construction cost estimates in the financial model, especially since the Belvedere zone fund balance is projected to be very low in FY 2012-2013. He is concerned about what would happen to the fund balances if there were cost overruns.

The Board agreed that an additional 15% in contingency costs for the main plant rehab project capital costs should be included in the financial model, to be more conservative.

The Board discussed whether it would be better to borrow exactly what is estimated to be necessary to cover the main plant rehab project costs versus borrowing a certain amount more than that, such as a $10 million loan. Borrowing more would give the District more flexibility; if construction costs end up to be higher than expected, the loan would be sufficient to cover the cost overruns, and if construction costs do not end up to be higher than expected, the District would have the option to pay off part of the loan early, or keep the extra funds in order to augment the District's reserves, if necessary, or possibly keep sewer rates from increasing as much.

Mr. Doug Wing of Carollo Engineers reported that approximately 2% of the construction costs for the main plant rehab project would need to be added in to the financial model as extra costs associated with the SRF. He noted that the SRF program is very onerous. The Board requested that this extra cost be included in the financial model for the SRF option.

Mr. Farnkopf and the Board discussed additional risks associated with the SRF, including the fact that the state has a lot of financial problems and there is the risk that this SRF funding might get cut. There is also the risk that the SRF may only approve to reimburse part of the project and costs.

Mr. Farnkopf explained that the Municipal Finance Corporation loan program, on the other hand, is very flexible, can provide financing quickly, and can provide portions of the loan at a time, in stages; it could even be a source of bridge financing during the project. The Municipal Finance loan would have the most flexibility, while the SRF loan would have the lowest interest rate. The bond issuance option would be the most costly, and it is less flexible than the Municipal Finance loan.

The Board agreed that the Municipal Finance loan seems to be the most optimal source of debt financing for the main plant rehab project, and a possibility to consider would be to apply for the SRF loan at the same time, in order to get reimbursed afterwards and allow the District to pay off the Municipal Finance loan early.

V.P. Benediktsson suggested approaching the District's ratepayers, explaining the necessity of the main plant rehab project, explaining that the District does not have enough reserve money to fund the project, and asking the ratepayers if they would be interested in loaning the District money to fund the project at a 4.5% interest rate. This might cut costs for the District, and it would provide an opportunity for the project to be funded completely locally. The Board directed staff to consult with District legal counsel to determine if this would be a legal option to consider.

The Board discussed the scheduling issues regarding the main plant rehab project, and the schedule of when different funding amounts would be required. Mgr. Lynch explained that the District would need to begin with a preliminary design report by Carollo Engineers, followed by the final design report, and then the bid process. Mr. Wing estimated that the preliminary design report would cost approximately $118,000 and would take approximately four months to complete. He estimated that the final design report would cost approximately 10% of the project construction costs, which has already been built into the total project cost estimate in the Main Plant Mechanical, Electrical, Structural, and Control System Rehabilitation Study by Carollo Engineers. The preliminary and final design reports would need to be completed and funded prior to the bid process, which would occur towards the end of 2011. This would mean that the

District would need to spend approximately $1,000,000 prior to the bids being awarded and the project starting in the beginning of 2012.

The Board requested Mgr. Miller to report back to the Finance Committee and the Board regarding the District's current reserve balances and how much of the District's planned/budgeted main plant capital expenditures would not be spent this fiscal year and next fiscal year if the District proceeds with the main plant rehab project. The Board would like to consider whether this planned but unspent capital money would be sufficient to cover the approximately $1,000,000 that would need to be spent by the end of 2011 for the preliminary design report, final design report, and bid document preparation, or whether the District should secure an initial $1,000,000 loan from Municipal Finance Corporation in order to cover these initial costs and leave a cushion to protect the District's reserves. The Board wants to make sure that the reserve balances for both zones do not get too low during this initial phase, before securing the main debt financing for the project.

The Board requested that staff put together a proposed schedule of the steps required for the main plant rehab project, including the financing and construction scheduling, and report back to the Board.

V.P. Benediktsson suggested that maybe the Tiburon zone would not need to fund its portion of the main plant rehab project entirely with debt financing, since it has higher reserve balances to begin with and its rates would be able to be lowered more during this project than Belvedere's, according to this financial model.

The Board discussed when their goal would be for the Tiburon zone and Belvedere zone to reach their target capital reserve balances. Dir. McAuliffe suggested that a realistic goal for the Belvedere zone would be to reach its target capital reserve balance in at least five years.

The Board agreed that, at the next Regular Board Meeting, the Board should consider whether or not to move forward with this main plant rehab project, consider looking at staged financing for the project, consider directing staff to proceed with obtaining pre-approval for debt financing for the project, and consider approving Carollo Engineers to begin the preliminary design report for the project.

ADJOURNMENT:

Motion (McAuliffe/Benediktsson) to adjourn at 10:50 a.m. to a Regular Board Meeting on February 15, 2011, at 7:00 p.m. at the Sanitary District No. 5 of Marin County Meeting Room at 2001 Paradise Drive, Tiburon, California. Passed, all present.

Approved: Attest:

Corinne W. Wiley
President, Board of Directors

Roy Fedotoff
Secretary, Board of Directors