

TO: City Council

FROM: James L. App, City Manager

SUBJECT: Nacimiento Water Project – Design Phase Funding

DATE: December 7, 2004

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

Facts:

1. Before project construction 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 possible adjustments to the cost 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. Project participants indicated both the capacity and willingness to pay cash for design phase costs on a pay-as-you-go basis with the expectation that these costs could be reimbursed from the proceeds of future construction financing bonds, if desired.
6. Additionally, some agencies may find it advantageous to fund design phase costs with an interim revenue anticipation bond. Thus, the finance group is developing an option for short-term revenue anticipation financing as a design phase funding alternative.
7. The final design phase funding method decision need not be made until late spring when financial advisors return with details relating to the short-term revenue anticipation bond option. However, interim funding for design phase costs on a pay-as-you-go basis (over the next 6-9 months) will likely be from participating agency's cash reserves.

Analysis &
Conclusion:

The Nacimiento Water Commission has taken action to allow participants to “pay as you go”; the Board of Supervisors must affirm this option (County staff expects the Board will agree). Consequently, Paso Robles will 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 financing 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 design phase 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:

Cash payments from the Water Operations Fund for design phase costs as shown in the cash flow projection attached for costs incurred over the next 6-9 months.

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.

Options:

- a. Authorize interim (next 6-9 months) payments from Water Operations Fund for design phase costs as presented in the cash flow projection (attached), and development of an interim financing (bond) option.
- b. Amend, modify, or reject the above option.

**Naciminto Water Project
Design Phase Funding Requirements
Projected Cash Flow**

Revised 10-14-04

Activity	Est. Cost ²	Projected Cash Flow ¹												Remaining after 3rd quarter '06	Totals by Participant	
		2004				2005				2006						
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			Q3
Project management, legal, and administration	\$620,000 per yr	\$155,000	\$155,000	\$155,000	\$155,000	\$155,000	\$155,000	\$155,000	\$155,000	\$155,000	\$155,000	\$155,000	\$155,000	\$155,000	N/A	
Design contracts (A and B), env. Permitting contract, geotechnical report, mapping, and right-of-way coordination contracts	\$5,050,000 LS			\$685,357	\$685,357	\$1,361,667	\$1,361,667	\$685,357	\$685,357	\$685,357	\$685,357	\$685,357	\$685,357	\$685,357	\$252,500	5% remaining for design phase services
Design contracts (D, E, F, G)	\$8,600,000 LS				\$1,361,667	\$1,361,667	\$1,361,667	\$1,361,667	\$1,361,667	\$1,361,667	\$1,361,667	\$1,361,667	\$1,361,667	\$1,361,667	\$430,000	5% remaining for design phase services
Initial construction management contract	\$2,000,000 LS					\$500,000	\$500,000	\$333,333	\$333,333	\$333,333	\$333,333	\$333,333	\$333,333	\$333,333	\$666,667	extend CM into construction phase
Right-of-way purchases	\$2,000,000 LS							\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$0	
Totals =	\$18,890,000 LS	\$155,000	\$155,000	\$840,357	\$2,202,024	\$2,702,024	\$3,035,357	\$1,349,167								
	Paso's share >>>	\$64,382	\$64,382	\$349,059	\$914,655	\$1,122,340	\$1,260,796	\$1,260,796	\$1,260,796	\$1,260,796	\$1,260,796	\$1,260,796	\$1,260,796	\$1,260,796	\$560,403	
	AMWC's share >>>	\$32,190	\$32,190	\$174,525	\$457,316	\$561,156	\$630,383	\$630,383	\$630,383	\$630,383	\$630,383	\$630,383	\$630,383	\$630,383	\$280,195	
	SLO City's share >>>	\$54,403	\$54,403	\$294,957	\$772,888	\$948,383	\$1,065,380	\$1,065,380	\$1,065,380	\$1,065,380	\$1,065,380	\$1,065,380	\$1,065,380	\$1,065,380	\$473,544	
	TCSD's share >>>	\$4,024	\$4,024	\$21,816	\$57,165	\$70,145	\$78,798	\$78,798	\$78,798	\$78,798	\$78,798	\$78,798	\$78,798	\$78,798	\$35,024	
																\$18,890,000
																\$7,846,339
																\$3,923,075
																\$6,630,201
																\$490,384

¹ Estimated quarter in which payments would be due to consultants.

² Estimated activity cost per D. Hardan and C. Halley, 9-14-04.

³ Estimated agency cost based on Delivery Entitlement Share per Article 16.C.5 of the participation agreements.

It is understood that once construction of the Project is approved, actual costs will be distributed per unit costs as stipulated in the agreements.