

TO: James L. App, City Manager
FROM: Jim Throop, Administrative Services Director
SUBJECT: Required Debt Coverage for Nacimiento Project
DATE: May 7, 2013

NEED: For the City Council to approve the transfer of \$1,507,780 from the Water Fund to the San Luis Obispo County Public Works to hold in trust to secure debt covenants for the Nacimiento Water Project.

FACTS:

1. The City Council approved the Nacimiento Water Project in 2004 in order to participate with 5 other county entities in bringing water to the City.
2. The debt covenants in the bond documents require that each participant maintain user rate coverage of 1.25. This means that the user rates collected for water must be equal to 125% of the required revenue to pay the debt.
3. If the rates do not cover the 125%, per the bond agreement, cash funds must be set-aside in a "Coverage Account" with the County.
4. The coverage funds will be held by the County in a special fund that will collect interest, until such a time that the City's water rates meet the 125% coverage requirement. At that point, the funds would be returned to the City, with interest, to the City's Water fund.

ANALYSIS &

CONCLUSION: The Nacimiento Water Project bond documents require each participant to have water utility rates that will cover 125% of its respective annual debt coverage. Due to the adopted rates being structured such that they increase incrementally over a five-year period, the required coverage has not been met.

The County has requested that the funds be deposited in timely manner such that the County can report to the bond holders that all requirements have been met. This requires the transfer of funds from the City's Water fund to the County's Public Works Department, who will hold the funds in a special "coverage account" until such time that the City's water meet or exceed the required debt coverage. This is currently estimated to be in FY2015. This special account will accrue interest on the City's funds that will be held by the County.

The City's adopted rate study took this covenant requirement into account. When user rates result in sufficient growth in revenue, the funds will be returned.

POLICY

REFERENCE: Nacimiento Water Project Contract

FISCAL

IMPACT: The Water fund currently holds approximately \$20 million in cash. There are sufficient funds to accommodate this deposit.

OPTIONS:

a. Adopt Resolution 13-XXX approving the transfer of \$1,507,780, from the City's Water Fund to the County's Public Work Department, who will hold the funds in a separate "Coverage Account", which will earn interest, until such a time that the City's water rates meet or exceed the Nacimiento Water Project's required rate coverage.

b. Amend, modify or reject the above option.



SAN LUIS OBISPO COUNTY
PUBLIC WORKS DEPARTMENT
 County Government Center, Rm 207
 San Luis Obispo, CA 93408
 (805) 781-5252

Invoice

DATE	INVOICE #
3/15/2013	190

BILL TO

City of El Paso de Robles
 1000 Spring Street
 Paso Robles, CA 93446

Attention: Jim Throop

P.O. NO.	TERMS	PROJECT
	Due on Receipt	

QUANTITY	DESCRIPTION	RATE	AMOUNT
	As per Article 20 and 24 of the Nacimiento Project Water Delivery Entitlement Contract.		
	Debt Coverage Amount	1,507,780.00	1,507,780.00
PLEASE RETURN WITH PAYMENT			

Deposit to Fund 2200002001-2601860. Please contact Wendy Marie Hall at 805-731-5295 for questions.

Total \$1,507,780.00

RESOLUTION NO. 13-XXX

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASO ROBLES
AUTHORIZING THE ANNUAL DEBT COVERAGE FOR
NACIMIENTO WATER PROJECT

WHEREAS, the City Council approved the Nacimiento Water Project in 2004, in order to participate with 5 other county entities in bringing water to the City; and

WHEREAS, the Nacimiento Water Project Contract has debt covenants that require each participant to maintain a rate coverage of 1.25, which means that the rates collected for water must be equal to 125% of the required revenue to pay the debt; and

WHEREAS, if the rates do not cover the required 125%, per the bond agreement, than cash funds must be set-aside in a "Coverage Account" with the San Luis Obispo County Public Works Department; and

WHEREAS, the water rate study, on which the current rates are based, had planned on a transfer to the coverage account of up to \$5 million; and

WHEREAS, the funds will be held by the County, in a special fund that will collect interest, until such a time that the City's water rates meet the 125% coverage requirement. At that point, the funds and interest earned, will be returned to the City's Water Fund.

THEREFORE BE IT HEREBY RESOLVED by the City Council of the City of El Paso de Robles that \$1,507,780 be transferred from the fund reserves of the Water Fund to the San Luis Obispo County Public Works, until such time that the City's water rates meet or exceed the coverage requirements as documented in the Nacimiento Water Project contract.

PASSED AND ADOPTED by the City Council of the City of Paso Robles this 7th day of May 2013 by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

ATTEST:

Duane Picanco, Mayor

Caryn Jackson, Deputy City Clerk