

LAKE ARROWHEAD COMMUNITY SERVICES DISTRICT

M E M O R A N D U M

DATE: October 9, 2007

TO: BOARD OF DIRECTORS
Lake Arrowhead Community Services District

FROM: 
KATHY CORTNER, Finance Manager


KEN NELSEN, Interim General Manager

SUBJECT: ADOPTION OF RESOLUTIONS 2007-05 PROVIDING FOR TERMS OF REIMBURSEMENT OF EXPENDITURES ON THE RECYCLED WATER PHASE 1 PROJECT AND THE GRASS VALLEY WASTEWATER TREATMENT PLANT EXPANSION PROJECT FROM THE STATE WATER RESOURCES CONTROL BOARD STATE REVOLVING FUND, RESOLUTION 2007-06 MAINTAINING A WASTEWATER CAPITAL RESERVE FUND IN ACCORDANCE WITH THE STATE WATER RESOURCES CONTROL BOARD'S REQUIREMENTS OF THE STATE REVOLVING FUND LOAN PROGRAM, AND RESOLUTION 2007-07 DEDICATING SOURCES OF REVENUE TO BE USED IN THE REPAYMENT OF THE STATE WATER RESOURCES CONTROL BOARD STATE REVOLVING FUND LOAN OBTAINED FOR CONSTRUCTION OF THE RECYCLED WATER PHASE 1 PROJECT AND THE GRASS VALLEY WASTEWATER TREATMENT PLANT EXPANSION PROJECT

A. RECOMMENDATION

Adopt Resolutions 2007-05, 2007-06, and 2007-07 providing for the terms of reimbursement of expenditures, maintaining a capital reserve and dedicating sources of revenue for repayment of the State Revolving Fund (SRF) loan.

B. REASON FOR RECOMMENDATION

The adoption of these Resolutions are a requirement of the State Water Resources Control Board in order to obtain the low interest loan and/or grant.

C. BACKGROUND INFORMATION

The Federal Clean Water Act provides for the creation of a SRF Loan Program capitalized in part by Federal funds. The Federal Clean Water Act (CWA) authorizes loan funding for construction of wastewater treatment and for water recycling facilities for implementation of non-point source and storm drainage pollution control management programs. The District Recycled Water Project qualifies for this funding with the upgrade to the Grass Valley Wastewater Treatment Plant and the delivery of recycled water to District's customers.

The purpose for applying for the loan/grant is three fold. First, the current interest rate on the SRF Loan Program is 2.5%, versus the District's long term average interest earnings in LAIF is approximately 5%. By utilizing low interest loans, the District is able to leverage the cost of the debt against the potential interest earnings in excess of the cost of the debt. Second, the use of debt for large projects, such as the Recycled Water Project, allows the District to avoid large fluctuations in reserve fund balances. Avoiding large fluctuations in reserve fund balances help to stabilize customer rates and allow other projects to continue on an even schedule. Third, paying for large projects with debt allows the customers utilizing the asset to pay for it over time as the asset is being used, rather than asking past customers to pay for an asset that will be used by future customers.

Grant monies are also available and are a component of the loan application. How much the District receives in grants versus the low interest loan will not be known until the application has been processed and approved. Grant funding is only available for 25% of the water supply portion, or recycled water component. As a result, the District has applied for the following SRF funds:

Recycled Water Phase 1 Project (SRF Water Recycling Component):

Loan Request	\$ 6,750,000
Grant Request	<u>\$ 2,250,000</u>
Total Request	\$ 9,000,000

GVWWTP Expansion to 3.75 MGD (SRF Water Pollution Control Component):

Loan Request	\$ 6,000,000
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The Lake Arrowhead Country Club (LACC) improvements estimated at \$1.2 million are not eligible for SRF funds and will be paid with a combination of the EPA grant of \$431,300, the LACC (50% of the cost) and District funds for the balance of the costs.

Should the District choose not to move forward with this SRF funding option (or a higher interest rate funding alternative), the Recycled Water Phase 1 project will not be able to proceed to construction since there are not currently sufficient funds to pay for the project as well as purchased water and additional groundwater wells.

D. FISCAL INFORMATION

The interest cost of the loan is less than the amount the District earns in its LAIF account (see Attachment 1).

E. LIST OF ATTACHMENTS

Attachment 1 – Spreadsheet Analysis of SRF Cost of Debt versus Interest Earnings on \$12 Million

Attachment 2 – Resolution 2007-05

Attachment 3 – Resolution 2007-06

Attachment 4 – Resolution 2007-07

**Analysis of SRF Loan Cost
versus
Interest Earnings on \$12 Million**

Cost of SRF Loan (Assuming no grant proceeds)

	Interest @ Current 2.5%	Principal	Balance	Payments	Water Share - \$4 million or 33%	Wastewater Share - \$ million or 67%
1	12,000,000	600,000	11,400,000	900,000	297,000	603,000
2	11,400,000	600,000	10,800,000	885,000	292,050	592,950
3	10,800,000	600,000	10,200,000	870,000	287,100	582,900
4	10,200,000	600,000	9,600,000	855,000	282,150	572,850
5	9,600,000	600,000	9,000,000	840,000	277,200	562,800
6	9,000,000	600,000	8,400,000	825,000	272,250	552,750
7	8,400,000	600,000	7,800,000	810,000	267,300	542,700
8	7,800,000	600,000	7,200,000	795,000	262,350	532,650
9	7,200,000	600,000	6,600,000	780,000	257,400	522,600
10	6,600,000	600,000	6,000,000	765,000	252,450	512,550
11	6,000,000	600,000	5,400,000	750,000	247,500	502,500
12	5,400,000	600,000	4,800,000	735,000	242,550	492,450
13	4,800,000	600,000	4,200,000	720,000	237,600	482,400
14	4,200,000	600,000	3,600,000	705,000	232,650	472,350
15	3,600,000	600,000	3,000,000	690,000	227,700	462,300
16	3,000,000	600,000	2,400,000	675,000	222,750	452,250
17	2,400,000	600,000	1,800,000	660,000	217,800	442,200
18	1,800,000	600,000	1,200,000	645,000	212,850	432,150
19	1,200,000	600,000	600,000	630,000	207,900	422,100
20	600,000	600,000	-	615,000	202,950	412,050
	3,150,000	\$ 12,000,000	\$ 15,150,000	\$ 15,150,000	\$ 4,999,500	\$ 10,150,500

Interest Earnings on \$12 million Over 20 Years

	5.0000% (1)	Running Balance (2)
1	600,000	12,600,000
2	630,000	13,230,000
3	661,500	13,891,500
4	694,575	14,586,075
5	729,304	15,315,379
6	765,769	16,081,148
7	804,057	16,885,205
8	844,260	17,729,465
9	886,473	18,615,939
10	930,797	19,546,736
11	977,337	20,524,072
12	1,026,204	21,550,276
13	1,077,514	22,627,790
14	1,131,389	23,759,179
15	1,187,959	24,947,138
16	1,247,357	26,194,495
17	1,309,725	27,504,220
18	1,375,211	28,879,431
19	1,443,972	30,323,402
20	1,516,170	31,839,572
	<u>19,839,572</u>	

(1) LAIF L-T Average Yield = 5%
(2) Assumes money is not spent on other projects and that compounding occurs.

RESOLUTION NO. 2007-05

RESOLUTION OF THE BOARD OF DIRECTORS OF THE LAKE ARROWHEAD COMMUNITY SERVICES DISTRICT PROVIDING FOR TERMS OF REIMBURSEMENT OF EXPENDITURES ON THE RECYCLED WATER PHASE 1 PROJECT AND THE GRASS VALLEY WASTEWATER TREATMENT PLANT EXPANSION PROJECT FROM THE STATE WATER RESOURCES CONTROL BOARD STATE REVOLVING FUND

WHEREAS, the Lake Arrowhead Community Services District (the "Agency") desires to finance the costs of constructing and/or reconstructing certain public facilities and improvements relating to its water and wastewater system, including certain treatment facilities, pipelines and other infrastructure (the "Project"); and

WHEREAS, the Agency intends to finance the construction and/or reconstruction of the Project or portions of the Project with moneys ("Project Funds") provided by the State of California, acting by and through the State Water Resources Control Board (the "Board"); and

WHEREAS, the Board may fund the Project Funds with proceeds from the sale of obligations the interest upon which is excluded from gross income for federal income tax purposes (the "Obligations"), and

WHEREAS, prior to either the issuance of the Obligations or the approval by the Board of the Project Funds the Agency desires to incur certain capital expenditures (the "Expenditures") with respect to the Project from available moneys of the Agency; and

WHEREAS, the Agency has determined that those moneys to be advanced on and after the date hereof to pay the Expenditures are available only for a temporary period and it is necessary to reimburse the Agency for the Expenditures from the proceeds of the Obligations;

NOW, THEREFORE, THE AGENCY DOES HEREBY RESOLVE, ORDER AND DETERMINE AS FOLLOWS:

SECTION 1. The Agency hereby states its intention and reasonably expects to reimburse Expenditures paid prior to the issuance of the Obligations or the approval by the Board of the Project Funds.

SECTION 2. The reasonably expected maximum principal amount of the Project Loan Funds for the Recycled Water Phase 1 Project (SRF Water Recycling Component) is approximately \$9,000,000. The reasonably expected maximum principal amount of the Project Loan Funds for the Grass Valley Wastewater Treatment Plant Expansion Project (SRF Water Pollution Control Component) is approximately \$6,000,000. {Note: The Division of Financial Assistance (DFA) may provide up to 150% of the Preliminary Loan Commitment without having to go back to the Board or Division Chief for reauthorization. Also, the amount stated here cannot be exceeded by DFA unless superceded by Resolution. }

SECTION 3. This resolution is being adopted no later than 60 days after the date on which the Agency will expend moneys for the portion of the Project costs to be reimbursed with Project Funds.

SECTION 4. Each expenditure by the Agency will be of a type properly chargeable to a capital account under general federal income tax principles.

SECTION 5. To the best of our knowledge, this Agency is not aware of the previous adoption of official intents by the Agency that have been made as a matter of course for the purpose of reimbursing expenditures and for which tax-exempt obligations have not been issued.

SECTION 6. This resolution is adopted as official intent of the Agency in order to comply with Treasury Regulation §1.150-2 and any other regulations of the Internal Revenue Service relating to the qualification for reimbursement of Project costs.

SECTION 7. All the recitals in this Resolution are true and correct and this Agency so finds, determines and represents.

ADOPTED by the Board of Directors of the Lake Arrowhead Community Services District at a regular meeting held on October 9, 2007, by the following votes:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

LAKE ARROWHEAD COMMUNITY
SERVICES DISTRICT

Lake Arrowhead Community Services District.

ATTEST:

Ken Nelsen, Interim General Manager
and Secretary of the Lake Arrowhead
Community Services District.

(SEAL)

RESOLUTION NO. 2007-06

**RESOLUTION OF THE BOARD OF DIRECTORS OF THE LAKE ARROWHEAD
COMMUNITY SERVICES DISTRICT MAINTAINING A WASTEWATER CAPITAL
RESERVE FUND IN ACCORDANCE WITH THE STATE WATER RESOURCES CONTROL
BOARD'S REQUIREMENTS OF THE STATE REVOLVING FUND LOAN PROGRAM**

WHEREAS, the Lake Arrowhead Community Services District (hereafter "District") owns and operates wastewater collection and treatment facilities; and

WHEREAS, the District has proposed the expansion and improvement of the wastewater treatment facilities; and

WHEREAS, this Board authorized the General Manager to apply for a State Revolving Fund (SRF) loan to fund all or a portion of the cost of expansion and improvement of the treatment facilities; and

WHEREAS, the SRF loan program guidelines require the preparation and submittal of a wastewater revenue program, and

WHEREAS, the wastewater revenue program must illustrate that the District will have adequate financial resources to repay the SRF loan; and

WHEREAS, the wastewater revenue program must illustrate that the District will reserve some of its financial resources for future expansion, major repair or replacement costs; and

WHEREAS, in order to qualify for a SRF loan the District must dedicate a capital reserve fund.

NOW THEREFORE, BE IT RESOLVED by the District Board of the Lake Arrowhead Community Services District that:

SECTION 1. A dedicated Wastewater Capital Reserve Fund is currently in existence.

SECTION 2. Funds shall be deposited into the Wastewater Capital Reserve Fund at an annual rate of one-half of one percent (0.5%) of the SRF loan amount for a period of ten (10) years.

SECTION 3. Interest earned on deposits in the Wastewater Capital Reserve Fund shall accrue to and remain on deposit in the Wastewater Capital Reserve Fund.

SECTION 4. Funds deposited in or accruing to the Wastewater Capital Reserve Fund shall be available for expansion, major repair, or replacement of the wastewater treatment facilities.

SECTION 5. Funds expended from the Wastewater Capital Reserve Fund shall be replaced by depositing at a minimum annual rate of ten percent (10%) of the amount expended.

SECTION 6. The District General Manager is hereby directed to prepare and submit to the State Water Resources Control Board, Division of Financial Assistance, a report on the Wastewater Capital Reserve Fund activities and fund status beginning five (5) years after the completion of construction of the project funded with the proceeds of the SRF loan. Updated reports will be prepared and submitted every five (5) years thereafter until the loan is discharged.

SECTION 7. The requirements herein shall remain in force for the live of the SRF loan contract.

ADOPTED by the Board of Directors of the Lake Arrowhead Community Services District at a regular meeting held on October 9, 2007, by the following votes:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

LAKE ARROWHEAD COMMUNITY
SERVICES DISTRICT

Lake Arrowhead Community Services District.

ATTEST:

Ken Nelsen, Interim General Manager
and Secretary of the Lake Arrowhead
Community Services District.

(SEAL)

RESOLUTION NO. 2007-07

**RESOLUTION OF THE BOARD OF DIRECTORS OF THE LAKE ARROWHEAD
COMMUNITY SERVICES DISTRICT DEDICATING SOURCES OF REVENUE TO BE USED
IN THE REPAYMENT OF THE STATE WATER RESOURCES CONTROL BOARD STATE
REVOLVING FUND LOAN OBTAINED FOR CONSTRUCTION OF THE RECYCLED
WATER PHASE 1 PROJECT AND THE GRASS VALLEY WASTEWATER TREATMENT
PLANT EXPANSION PROJECT**

WHEREAS, the Lake Arrowhead Community Services District (the "Agency") desires to finance the costs of constructing and/or reconstructing certain public facilities and improvements relating to its water and wastewater system, including certain treatment facilities, pipelines and other infrastructure (the "Project"); and

WHEREAS, the Agency intends to finance the construction and/or reconstruction of the Project or portions of the Project with moneys ("Project Funds") provided by the State of California, acting by and through the State Water Resources Control Board (the "Board"); and

WHEREAS, the Board may fund the Project Funds with proceeds from the sale of obligations the interest upon which is excluded from gross income for federal income tax purposes (the "Obligations"), and

WHEREAS, Section 603(d)1(C) of the Federal Clean Water Act Amendments require each loan recipient to establish one or more dedicated sources of revenue for repayment of the loan. A dedicated source can be a special assessment, general taxes, general obligation bonds, revenue bonds, user charges, or other sources; and

WHEREAS, Revenue will be considered dedicated when the municipality passes an ordinance or resolution committing a source of funds for repayment. The ordinance or resolution dedicating a source of funding for repayment of the loan must be adopted before issuance of the loan contract;

NOW, THEREFORE, THE AGENCY DOES HEREBY RESOLVE, ORDER AND DETERMINE AS FOLLOWS:

SECTION 1. The Agency hereby dedicates water user fees and charges to repayment of any and all State Revolving Fund loans on Project No. 43520-110.

SECTION 2. This dedicated source of revenue shall remain in effect until such loan is fully discharged unless modification or change of such dedication is approved in writing by the State Water Resources Control Board.

ADOPTED by the Board of Directors of the Lake Arrowhead Community Services District at a regular meeting held on October 9, 2007, by the following votes:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

LAKE ARROWHEAD COMMUNITY
SERVICES DISTRICT

Lake Arrowhead Community Services District.

ATTEST:

Ken Nelsen, Interim General Manager
and Secretary of the Lake Arrowhead
Community Services District.

(SEAL)