

# Heber Public Utility District

**MEETING DATE:** March 20, 2014

**FROM:**

Prepared by: Graciela López

**SUBJECT:** Adopt Resolution 2014-3 Eliminating the Debt Associated with a 2000 USDA Certificates of Participation in Support of Improving Wastewater Fund Debt and Interest Obligation.

**ISSUE:**

Shall the Heber Public Utility Board of Directors adopt Resolution 2014-3 eliminating the debt associated with the 2000 USDA Certificates of Participation, thus improving the Wastewater Fund debt and interest obligations?

**GENERAL MANAGER RECOMMENDATION:**

Adopt Resolution 2014-3 to eliminate the debt associated with the 2000 USDA Certificates of Participation in the estimated amount of \$834,731.

**FISCAL IMPACT:**

Paying off the 2000 USDA Certificates of Participation (COP) will save the annual 4.5% interest payment. Over the term of the loan that amount is \$593,291. The current annual interest payment is \$37,282.

| <b>WASTEWATER FUND PROJECTED CASH AVAILABILITY FY 13-14</b> |                  |
|---|------------------|
| <b>BANK BALANCE as of Dec. 31, 2013</b>                     | 1,995,653        |
| <b>(-) RESERVES AND DEPOSITS:</b>                           |                  |
| O& M  | (127,705)        |
| Repair & Replace  | (155,595)        |
| Debt Service Reserve  | (277,266)        |
| Deposits  | (32,992)         |
| <b>AVAILABLE CASH as of Dec. 31, 2013:</b>                  | <b>1,402,095</b> |
| <b>RECEIVABLES: 50% of FY</b>                               |                  |
| From UB - Jan-June 2014                                     | 599,550          |
| Note Receivable Payment:                                    | 6,481            |
| DUE FROM Water 1/10   | 24,882           |
|   | <b>630,913</b>   |
| <b>PAYABLES: 50% of FY</b>                                  |                  |
| O&M Expenses Jan-June 2014                                  | 496,550.00       |
| DEBT SERVICE- Principal (SRF & 2000 USDA COPS)              | 161,900          |
| DEBT SERVICE-Interest (SRF & 2000 USDA COPS)                | 65,300           |
|   | <b>723,750</b>   |
| <b>PROJECTED cash available as of June 30, 2014:</b>        | <b>1,309,258</b> |
| <b>USDA COPS PAY OFF as of June 1st , 2014:</b>             | <b>834,731</b>   |
| <b>PROJECTED Cash after Pay Off = 6 mos O&amp;M:</b>        | <b>474,527</b>   |
| <b>INTEREST SAVINGS OVER TERM OF LOAN:</b>                  | <b>593,291</b>   |

**DISCUSSION:**

The objective to pay off this long term debt is to save interest expended from the wastewater fund. Currently there are sufficient funds to pay the long term debt and ensure funding for the continued and ongoing operation and maintenance expenses of the Wastewater System.

The pay off the principal balance of the 2000 USDA Certificates of Participation, will save HPUD's interest expenses in the amount of \$593,291.25 calculated for the life of the loan at an annual interest rate of 4.5%, and/or 26 years of debt payments for an average of \$55,000 annually. The interest and principal payment for the 2000 COP debt is a 5.54% of FY2013-14 Budgeted O&M Expenses for the Wastewater Fund.

The following objectives are met:

- There is sufficient funds to pay the debt.
- After payment of the debt in full, there will be sufficient funds in reserves to ensure the continued operation and maintenance of the wastewater fund.
- There is sufficient cash flow and net revenues to meet existing debt coverage ratios as required by our new long term debt with State Revolving Fund.
- The prepayment of the 2000 USDA Certificates of Participation is allowed without penalty for fees.

**CONCLUSION:**

It is fiscally responsible for HPUD to pay off high interest long term loans and save rate payer's money whenever possible. As there are sufficient funds to pay off the debt, maintain reserves to ensure continued operations and maintenance of the wastewater system, and to meet debt coverage requirements, staff recommends adoption of Resolution 2014-3 eliminating the debt associated with the 2000 USDA Certificates of Participation.

**ALTERNATIVES:**

- a) Do not adopt Resolution 2014-3 and do not authorize the pay off the USDA 2000 COPS Debt. This action will result in the continued payment of 4.5% interest on long term debt. The funds in the bank earn very low interest revenues for the same amount of money.
- b) Provide different direction to staff.

Respectfully Submitted,

Laura Fischer, General Manager

Attachments: Resolution 2014-3

**RESOLUTION NO. 2014-3**

**A RESOLUTION OF THE HEBER PUBLIC UTILITY DISTRICT AUTHORIZING PREPAYMENT AND ELIMINATION OF DEBT ASSOCIATED WITH A 2000 UNITED STATES DEPARTMENT OF AGRICULTURE CERTIFICATE OF PARTICIPATION IN SUPPORT OF IMPROVING THE WASTEWATER FUND BY REDUCING INTEREST AND PRINCIPAL PAYMENTS.**

**WHEREAS**, the Heber Public Utility District desires to improve the wastewater fund and eliminate debt service principal and interest payments; and

**WHEREAS**, the Heber Public Utility District under Board Resolution 2000-001 dedicated the net revenues of the Wastewater Fund to the payment of the 2000 United States Department of Agriculture Rural Utilities Service Certificate of Participation; and

**WHEREAS**, the prepayment of the 2000 Certificate of Participation is an option allowed under the Installment Sale and Repurchase Agreement according to Article III Section 311; and

**WHEREAS**, the Heber Public Utility District Wastewater Fund Balance is sufficient to prepay \$834,731 which represents the estimated balance of the outstanding 2000 Certificate of Participation debt; and

**WHEREAS**, after prepayment of the 2000 Certificate of Participation the Heber Public Utility District Wastewater Fund will have a sufficient balance to fund six (6) months of the FY 2013-14 operations and maintenance budget; and

**WHEREAS**, the Heber Public Utility District Wastewater Fund pays an annual interest rate of 4.5% on the 2000 Certificate of Participation; and

**WHEREAS**, the Heber Public Utility District Wastewater Fund earns an annual interest rate of less than 1% which is significantly lower than the interest rate of the 2000 Certificate of Participation; and

**WHEREAS**, the Heber Public Utility District Wastewater Fund will save \$593,291 in interest payments over the remaining term of the 2000 Certificate of Participation; and

**NOW, THEREFORE, BE IT FURTHER RESOLVED**, that the Heber Public Utility District Board of Directors hereby directs management to prepay the 2000 United States Department of Agriculture Certificate of Participation on or before June 1, 2014.

STATE OF CALIFORNIA )  
COUNTY OF IMPERIAL )  
HEBER PUBLIC UTILITY DISTRICT)

AYES: \_\_\_\_\_

NOES: \_\_\_\_\_

ABSENT: \_\_\_\_\_

PASSED AND ADOPTED at a regular meeting of the Board of Directors of the Heber Public Utility District held on the 20<sup>th</sup> day of March 2014.

\_\_\_\_\_  
Margarita K. Lizarraga, Board President

ATTEST:

I, Rafaela Sanchez, Secretary to the Clerk of the Board of the Heber Public Utility District, County of Imperial, State of California, DO HEREBY CERTIFY that the foregoing resolution was dully passed, approved and adopted by the Board of Directors of the Heber Public Utility District at its regularly scheduled meeting held on the 20<sup>th</sup> day of March 2014.

By \_\_\_\_\_  
Rafaela Sanchez, Clerk of the Board