

Meeting Date: May 1, 2012  
Agenda Item: # 5

### Mission Statement

To provide our growing dynamic community excellent municipal services to make Fernley a great place to live, work, and play.

Together, we enhance the desirability, safety, friendliness, aesthetics and quality of life in our city.

## CITY OF FERNLEY CITY COUNCIL MEETING STAFF REPORT

REPORT TO: Mayor & City Council

REPORT THRU: Fred Turnier, Interim City Manager

REVIEWED

PT by  
SM.

REPORT FROM: Shari L. Whalen, P.E., City Engineer

AGENDA ITEM: DISCUSSION AND POSSIBLE DIRECTION TO STAFF REGARDING WATER BOND FEE OPTIONS, METHODS TO MINIMIZE IMPACT TO COMMUNITY, AND POSSIBLE COMBINATION OF WATER BOND OPTIONS

ACTION REQUESTED:  Consent  Ordinance  Resolution  Motion  Receive/File

### POLICY ISSUE

Should the City of Fernley collect a Water Bond Debt Fee to recover the entire \$4.72 million annual water bond debt service or only the structural deficit (shortfall) plus a factor of safety?

If the City of Fernley collects only the structural deficit (shortfall) plus a factor of safety, how much should the factor of safety be?

Should the City of Fernley cap the maximum monthly fee?

Should the City of Fernley try to modify the existing water rates as part of the bond debt fee discussion?

Should the City of Fernley consider combining options such as refinancing along with the bond debt fee?

### RECOMMENDED ACTION BY CITY COUNCIL

Direct staff to move forward with developing a Water Bond Debt Fee to recover the entire annual water bond debt payment

Or

Direct Staff to move forward with developing a Water Bond Debt Fee to recover the structural deficit (shortfall) plus a factor of safety in the amount as determined by City Council

Or

Direct Staff to move forward with developing a Water Bond Debt Fee to recover the entire annual water bond debt payment resulting from refinancing

Or

Direct Staff to move forward with developing a Water Bond Debt Fee to recover the structural deficit (shortfall) plus a factor of safety in the amount as determined by City Council that would result from refinancing.

### POLICY ALTERNATIVE(S)

- Direct staff to move forward with developing a fee with a different collection structure and/or collection methodology

**STRATEGIC PLAN RELEVANCE:**

Economic Vitality:	Yes
Accountable/Efficient Gov't:	Yes
Enhance Gov't Partnerships:	Yes
Quality of Life:	Yes

**STRATEGIC PLAN SYNOPSIS:**

Strategic Goal 3:  
Preserve and maintain quality of life and enhance maintenance and reconstruction of City infrastructure with emphasis on sustainability.

**POLICY REFERENCE**

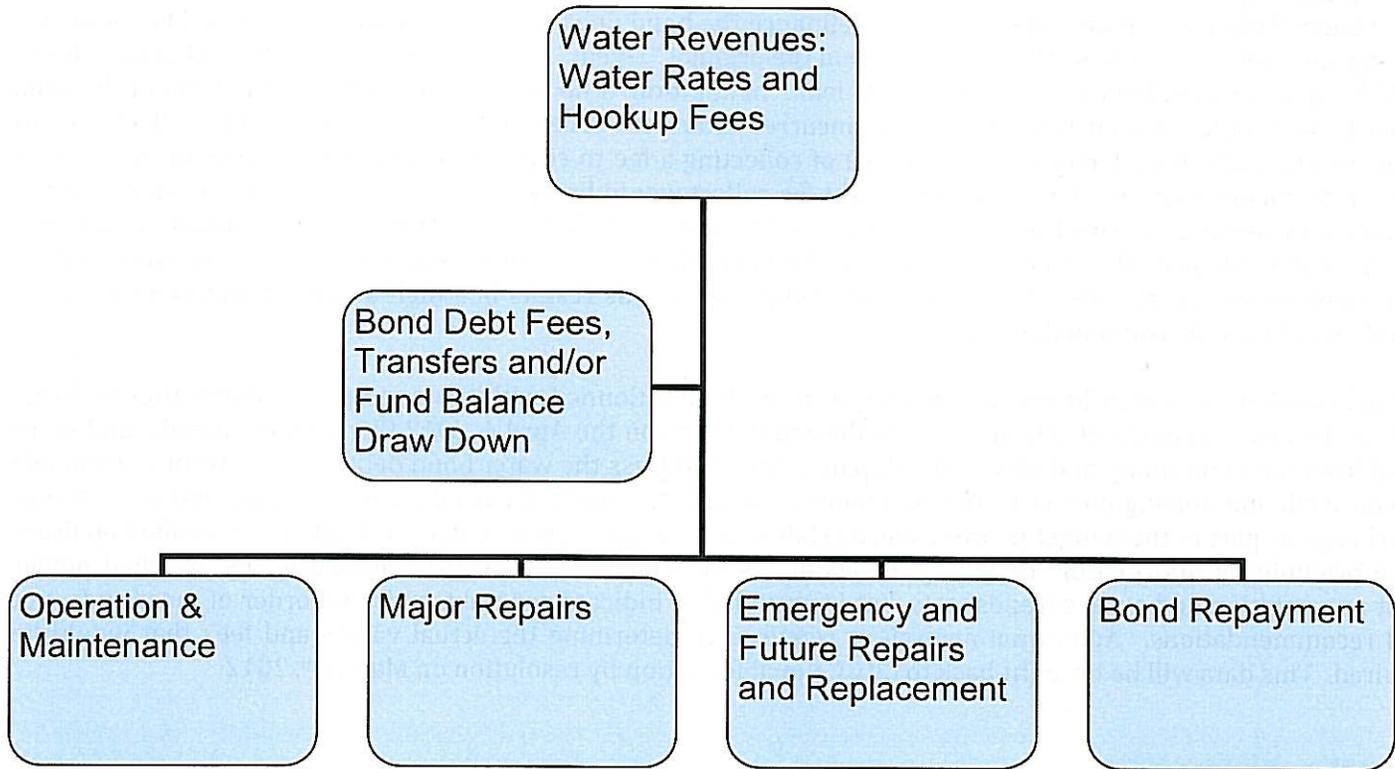
<i>Nevada Statutes:</i>	NRS 266.261 and 266.285, NRS 268.730, 268.732 and 268.738
<i>Fernley Municipal Code:</i>	N/A
<i>Policies &amp; Procedure Manual:</i>	N/A
<i>Community Assessment:</i>	N/A
<i>Other:</i>	N/A

**SUMMARY**

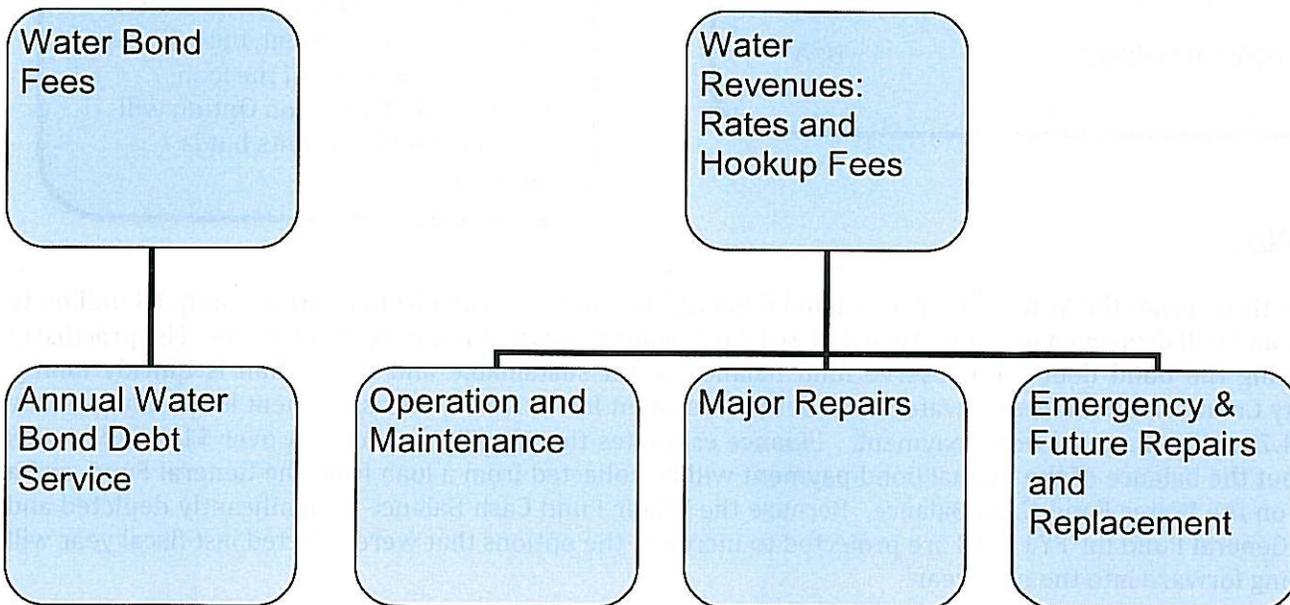
On April 4, 2012, City Council directed staff to move forward with developing a water bond debt fee not to exceed \$44.00 for the existing water utility customers and any residential or commercial lot with committed will-serves in order to recover the entire annual water bond debt service, and directed staff to assess possible modification to the existing water rate structure to reflect the annual operating and capital expenditures, reserve fund balance requirements, and annual depreciation. Although several of the discussion items outlined in the Agenda Report for Agenda Item 10 on April 4th, including the AWWA meter-based multiplier concept and the process of collecting the proposed fee on the Lyon County Property Tax Statements seem to be well understood and generally acceptable at this time, staff has heard the community and City leaders express concern and questions regarding the following:

- What is the impact of collecting only the Shortfall, instead of the entire Annual Bond Payment?
- What are possible ways that the fee could be reduced?
- How can we limit the impact to customers with large diameter meters?
- What would be the reason and benefit of modifying monthly water rates during the investigation and analysis of a bond fee?

In order to ensure that there is clear understanding of the many options and impact of each, Staff is bringing this item back for additional discussion and direction. Of primary concern is the fundamentally different approach of collection the \$4.7 million annual water bond payment as opposed to collecting the variable annual shortfall, which is estimated to be approximately \$2.86 million in FY12/13, but could change through the budget process and into the next Fiscal Year. The following charts illustrate the different revenue and expenditure philosophies:



**EXISTING REVENUE AND EXPENDITURE STRUCTURE**



**PROPOSED REVENUE AND EXPENDITURE STRUCTURE (APPROVED 4/4/12)**

The secondary question is that of combining refinancing and bond fee options to further reduce the proposed fee. If City Council elected to both collect a fee and refinance the bond debt, the result would be an overall lower fee for existing and future customers. However, based on the original "7-year" refinancing proposal, the cost of this choice could be up to \$15 million over the term of the loan. In addition, if no growth occurred over the term of the loan, higher bond debt fees for customers would be incurred after year seven. If City Council elected to collect a fee to cover the shortfall plus a factor of safety in lieu of collecting a fee to cover the entire debt service, in conjunction with a refinancing scenario, the annual bond debt fee collect would be even lower. Spreadsheets to expand on the possible fees associated with the two combined scenarios are attached to provide additional detail, including a "menu" of possible growth scenarios. Of course, the percentage of growth the our community may experience in the coming years is very difficult to accurately predict and so this results in a high degree of uncertainty for the overall benefits of the combined option.

The information presented herein is intended to provide City Council with the conceptual information to direct staff on the desired course of action based on the action taken on the April 4, 2012 City Council Agenda, and input heard from the Community and City leadership in order to address the water bond debt in a long term, sustainable fashion while minimizing impact to the community. Specific numbers, financial estimates, rates and percentages will change as part of the budget process, and as staff is able to refine specific data through more detailed analysis. Some preliminary information, including fee estimates by scenario, has been presented in the attached power point presentation and excel spreadsheets, but is provided to indicate general trends and order of magnitude, not final recommendations. Additional analysis is required to determine the actual values and fees that would be required. This data will be brought back to City Council for action by resolution on May 16<sup>th</sup>, 2012.

**FINANCIAL INFORMATION**

**FISCAL IMPACT:**

- |                              |     |
|------------------------------|-----|
| 1. Is There A Fiscal Impact? | Yes |
| 2. Is it Currently Budgeted? | No  |
| 3. Which General Ledger?     | N/A |

**FISCAL SYNOPSIS:**

The Bond Debt Option is sustainable, but includes a significant community impact,  
 The Refinancing Option would lower the short term payment, but will cost More over the term of the loan,  
 The Growth/Expansion Option will bring economic benefits but is uncertain.

**BACKGROUND**

Over the last three years the Water Enterprise Fund Cash Balance has dwindled from approximately \$8 million to \$2.5 million, and will drop even lower in August of 2012 when another water bond payment is due. The practice of partially paying the bond debt with reserve fund balance is not sustainable and this option is quickly failing. Although City Council implemented a water bond debt assessment for FY11/12, the assessment level only partially offset the \$4.72 million annual bond payment. Finance estimates that the City will collect over \$1.4 million this fiscal year, but the balance of the annual bond payment will be collected from a loan from the General Fund, and a draw down on the Water Fund Cash Balance. Because the Water Fund Cash Balance is significantly depleted and costs in the General Fund for FY12/13 are projected to increase, the options that were selected last fiscal year will not work going forward into the next year.

As operating and capital budgets have been cut to bare minimums, Staff has been tasked with identifying possible long term solutions for the water bond dilemma. Based on our analysis, it appears that the most streamlined and straightforward approach would be to separate the collection of funds to pay the annual water bond payment from the collection of water rates used to pay for collection, treatment, and distribution of water to customers. This approach would allow us to discuss and address the cost of the water improvements required for water system

expansion and compliance (bond debt issues) separately and distinctly from the cost of delivering water to utility customers and day to day management of the water system and finances (water rate issues).

The recommended methodology for a Water Bond Debt Fee intended to pay the annual \$4.72 million water bond payment is as follows:

- 1) Collect the entire \$4.72 million through a Water Bond Debt Fee
- 2) Collect the Water Bond Debt Fee on the annual property tax statement to alleviate administrative implementation and fee collection workload for City Staff and to mitigate the monthly impact to customers
- 3) Collect the Water Bond Debt based on the recommended American Water Works Association (AWWA) meter capacity multiplier

City Council directed staff to move forward with the recommended methodology on April 4, 2012.

### **PRIOR COUNCIL ACTION/REVIEW**

**April 20, 2011**, DISCUSSION AND POSSIBLE DIRECTION TO STAFF REGARDING A TEMPORARY BOND DEBT ASSESSMENT FOR UTILITY WATER USERS AND OTHER MATTERS PROPERLY RELATED THERETO.

**May 17, 2011**, Resolution Number #2011-002, DISCUSSION AND POSSIBLE APPROVAL OF RESOLUTION #2011-002 FOR A RESIDENTIAL TEMPORARY BOND DEBT ASSESSMENT.

**June 01, 2011**, , DISCUSSION AND POSSIBLE APPROVAL OF BUSINESS IMPACT STATEMENT AS IT RELATED TO THE ADDITION OF A RESIDENTIAL AND COMMERCIAL TEMPORARY ASSESSMENT FOR WATER BOND DEBT SERVICE.

**June 15, 2011**, Resolution Number #2011-003, DISCUSSION AND POSSIBLE APPROVAL OF RESOLUTION #2011-003 FOR FLAT RATE FEE ASSESSMENT FOR COMMERCIAL USERS.

**January 4, 2012** – City Council Budget Workshop, PRESENTATION ON WATER BOND DEBT OPTIONS

**April 4, 2011** – DISCUSSION AND POSSIBLE DIRECTION TO STAFF TO MOVE FORWARD WITH DEVELOPING A WATER BOND DEBT FEE BASED ON THE METER CAPACITY MULTIPLIER TO BE COLLECTED FROM EXISTING WATER UTILITY CUSTOMERS AND ANY RESIDENTIAL OR COMMERCIAL LOT WITH COMMITTED WATER WILL-SERVES IN ORDER TO RECOVER THE ENTIRE ANNUAL WATER BOND DEBT SERVICE, AND DIRECT STAFF TO ASSESS POSSIBLE MODIFICATIONS TO THE EXISTING WATER RATE STRUCTURE TO REFLECT THE ANNUAL OPERATING AND CAPITAL EXPENDITURES, RESERVE FUND BALANCE REQUIREMENTS, AND ANNUAL DEPRECIATION.

### **ATTACHMENTS:**

FY12/13 Water Bond Fee Scenarios to Cover Shortfall plus Factor of Safety

Fernley Water Bond Debt Analysis – Base Fee for Entire Bond Debt with Refinancing and Growth

Fernley Water Bond Debt Analysis – Base Fee for Shortfall plus Factor of Safety with Refinancing and Growth

PowerPoint Presentation

**FY12/13 ESTIMATED BUDGET SHORTFALL  
WATER BOND FEE SCENARIOS TO COVER SHORTFALL PLUS FACTOR OF SAFETY**

**NOTE - THE ESTIMATED CHANGE TO FUND BALANCE WILL VARY FROM YEAR TO YEAR DEPENDING ON ACTUAL COSTS. THESE SCENARIOS ARE BASED ON CURRENT PROJECTIONS FOR FY12/13**

Meter Size	Accounts	Rate	Monthly Revenue	FY2012/2013 Budget Summary	
3/4"	6890	\$ 25.00	\$ 172,250.00	Operating Expenses	\$ 2.97 million
1	132	\$ 43.42	\$ 5,731.44	Major Repairs (Capital)	\$ 0.24 million
1 1/2"	57	\$ 86.58	\$ 4,935.06	Yearly Bond Payment	\$ 4.72 million
2	138	\$ 138.58	\$ 19,124.04	Total Anticipated Expenses	\$ 7.93 million
3	3	\$ 260.00	\$ 780.00		
4	17	\$ 433.42	\$ 7,368.14		
6	2	\$ 867.10	\$ 1,734.20		
will-serve/inactive*	890	\$ 26.00	\$ 23,140.00	Projected Water Income	\$ 5.07 million
				Structural Deficit (Shortfall)	\$ (2.86) million
				Total Fee Revenue	\$ 2.82 million
				Savings Account Change (Fund Balance)	\$ (0.04) million
			Total Monthly Revenue		
			\$ 235,062.88		
			Total Annual Revenue		
			\$ 2,820,754.56		

Meter Size	Accounts	Rate	Monthly Revenue	FY2012/2013 Budget Summary	
3/4"	6890	\$ 26.00	\$ 179,140.00	Operating Expenses	\$ 2.97 million
1	132	\$ 43.42	\$ 5,731.44	Major Repairs (Capital)	\$ 0.24 million
1 1/2"	57	\$ 86.58	\$ 4,935.06	Yearly Bond Payment	\$ 4.72 million
2	138	\$ 138.58	\$ 19,124.04	Total Anticipated Expenses	\$ 7.93 million
3	3	\$ 260.00	\$ 780.00		
4	17	\$ 433.42	\$ 7,368.14		
6	2	\$ 867.10	\$ 1,734.20		
will-serve/inactive*	890	\$ 26.00	\$ 23,140.00	Projected Water Income	\$ 5.07 million
				Structural Deficit (Shortfall)	\$ (2.86) million
				Total Fee Revenue	\$ 2.90 million
				Savings Account Change (Fund Balance)	\$ 0.04 million
			Total Monthly Revenue		
			\$ 241,952.88		
			Total Annual Revenue		
			\$ 2,903,434.56		

Meter Size	Accounts	Rate	Monthly Revenue	FY2012/2013 Budget Summary	
3/4"	6890	\$ 27.00	\$ 186,030.00	Operating Expenses	\$ 2.97 million
1	132	\$ 45.09	\$ 5,951.88	Major Repairs (Capital)	\$ 0.24 million
1 1/2"	57	\$ 89.91	\$ 5,124.87	Yearly Bond Payment	\$ 4.72 million
2	138	\$ 143.91	\$ 19,859.58	Total Anticipated Expenses	\$ 7.93 million
3	3	\$ 270.00	\$ 810.00		
4	17	\$ 450.09	\$ 7,651.53		
6	2	\$ 900.45	\$ 1,800.90		
will-serve/inactive*	890	\$ 27.00	\$ 24,030.00	Projected Water Income	\$ 5.07 million
				Structural Deficit (Shortfall)	\$ (2.86) million
			\$ 251,258.76	Total Fee Revenue	\$ 3.02 million
			\$ 3,015,105.12	Savings Account Change (Fund Balance)	\$ 0.16 million

Meter Size	Accounts	Rate	Monthly Revenue	FY2012/2013 Budget Summary	
3/4"	6890	\$ 28.00	\$ 192,920.00	Operating Expenses	\$ 2.97 million
1	132	\$ 46.76	\$ 6,172.32	Major Repairs (Capital)	\$ 0.24 million
1 1/2"	57	\$ 93.24	\$ 5,314.68	Yearly Bond Payment	\$ 4.72 million
2	138	\$ 149.24	\$ 20,595.12	Total Anticipated Expenses	\$ 7.93 million
3	3	\$ 280.00	\$ 840.00		
4	17	\$ 466.76	\$ 7,934.92		
6	2	\$ 933.80	\$ 1,867.60		
will-serve/inactive*	890	\$ 28.00	\$ 24,920.00	Projected Water Income	\$ 5.07 million
				Structural Deficit (Shortfall)	\$ (2.86) million
			\$ 260,564.64	Total Fee Revenue	\$ 3.13 million
			\$ 3,126,775.68	Savings Account Change (Fund Balance)	\$ 0.27 million

Meter Size	Accounts	Rate	Monthly Revenue	FY2012/2013 Budget Summary	
3/4"	6890	\$ 29.00	\$ 199,810.00	Operating Expenses	\$ 2.97 million
1	132	\$ 48.43	\$ 6,392.76	Major Repairs (Capital)	\$ 0.24 million
1 1/2"	57	\$ 96.57	\$ 5,504.49	Yearly Bond Payment	\$ 4.72 million
2	138	\$ 154.57	\$ 21,330.66	Total Anticipated Expenses	\$ 7.93 million
3	3	\$ 290.00	\$ 870.00		
4	17	\$ 483.43	\$ 8,218.31		
6	2	\$ 967.15	\$ 1,934.30		
will-serve/inactive*	890	\$ 29.00	\$ 25,810.00	Projected Water Income	\$ 5.07 million
				Structural Deficit (Shortfall)	\$ (2.86) million
			\$ 269,870.52	Total Fee Revenue	\$ 3.24 million
			\$ 3,238,446.24	Savings Account Change (Fund Balance)	\$ 0.38 million

Meter Size	Accounts	Rate	Monthly Revenue	FY2012/2013 Budget Summary	
3/4"	6890	\$ 30.00	\$ 206,700.00	Operating Expenses	\$ 2.97 million
1	132	\$ 50.10	\$ 6,613.20	Major Repairs (Capital)	\$ 0.24 million
1 1/2"	57	\$ 99.90	\$ 5,694.30	Yearly Bond Payment	\$ 4.72 million
2	138	\$ 159.90	\$ 22,066.20	Total Anticipated Expenses	\$ 7.93 million
3	3	\$ 300.00	\$ 900.00		
4	17	\$ 500.10	\$ 8,501.70		
6	2	\$ 1,000.50	\$ 2,001.00		
will-serve/inactive*	890	\$ 30.00	\$ 26,700.00	Projected Water Income	\$ 5.07 million
				Structural Deficit (Shortfall)	\$ (2.86) million
			\$ 279,176.40	Total Fee Revenue	\$ 3.35 million
			\$ 3,350,116.80	Savings Account Change (Fund Balance)	\$ 0.49 million

Meter Size	Accounts	Rate	Monthly Revenue	FY2012/2013 Budget Summary	
3/4"	6890	\$ 31.00	\$ 213,590.00	Operating Expenses	\$ 2.97 million
1	132	\$ 51.77	\$ 6,833.64	Major Repairs (Capital)	\$ 0.24 million
1 1/2"	57	\$ 103.23	\$ 5,884.11	Yearly Bond Payment	\$ 4.72 million
2	138	\$ 165.23	\$ 22,801.74	Total Anticipated Expenses	\$ 7.93 million
3	3	\$ 310.00	\$ 930.00		
4	17	\$ 516.77	\$ 8,785.09		
6	2	\$ 1,033.85	\$ 2,067.70		
will-serve/inactive*	890	\$ 31.00	\$ 27,590.00	Projected Water Income	\$ 5.07 million
				Structural Deficit (Shortfall)	\$ (2.86) million
			\$ 288,482.28	Total Fee Revenue	\$ 3.46 million
			\$ 3,461,787.36	Savings Account Change (Fund Balance)	\$ 0.60 million

Meter Size	Accounts	Rate	Monthly Revenue	FY2012/2013 Budget Summary	
3/4"	6890	\$ 32.00	\$ 220,480.00	Operating Expenses	\$ 2.97 million
1	132	\$ 53.44	\$ 7,054.08	Major Repairs (Capital)	\$ 0.24 million
1 1/2"	57	\$ 106.56	\$ 6,073.92	Yearly Bond Payment	\$ 4.72 million
2	138	\$ 170.56	\$ 23,537.28	Total Anticipated Expenses	\$ 7.93 million
3	3	\$ 320.00	\$ 960.00		
4	17	\$ 533.44	\$ 9,068.48		
6	2	\$ 1,067.20	\$ 2,134.40		
will-serve/inactive*	890	\$ 32.00	\$ 28,480.00	Projected Water Income	\$ 5.07 million
				Structural Deficit (Shortfall)	\$ (2.86) million
			\$ 297,788.16	Total Fee Revenue	\$ 3.57 million
			\$ 3,573,457.92	Savings Account Change (Fund Balance)	\$ 0.71 million

\*All Account Numbers, including Current Accounts, Will-Serve Lots and Inactive Accounts are based on our best current estimates and is subject to change.

FERNLEY WATER BOND DEBT ANALYSIS  
FIRST DRAFT - FEE WITH REFINANCING AND GROWTH (EXPANDED SERVICE AREA/GROWTH)

Year	Annual Payment	Base Bond Fee	Base Bond Fee with Growth, 1 through 3%		
			1	2	3
2013	\$ 3,115,755.00	\$ 27.90	\$ 25.36	\$ 23.25	\$ 21.46
2014	\$ 3,220,181.00	\$ 28.84	\$ 26.21	\$ 24.03	\$ 22.18
2015	\$ 3,477,578.00	\$ 31.14	\$ 28.31	\$ 25.95	\$ 23.95
2016	\$ 3,735,887.00	\$ 33.45	\$ 30.41	\$ 27.88	\$ 25.73
2017	\$ 3,972,155.00	\$ 35.57	\$ 32.34	\$ 29.64	\$ 27.36
2018	\$ 4,211,492.00	\$ 37.71	\$ 34.29	\$ 31.43	\$ 29.01
2019	\$ 4,461,616.00	\$ 39.95	\$ 36.32	\$ 33.29	\$ 30.73
2020	\$ 4,713,918.00	\$ 42.21	\$ 38.38	\$ 35.18	\$ 32.47
2021	\$ 5,250,773.00	\$ 47.02	\$ 42.75	\$ 39.18	\$ 36.17
2022	\$ 5,248,518.00	\$ 47.00	\$ 42.73	\$ 39.17	\$ 36.15
2023	\$ 5,244,885.00	\$ 46.97	\$ 42.70	\$ 39.14	\$ 36.13
2024	\$ 5,240,704.00	\$ 46.93	\$ 42.66	\$ 39.11	\$ 36.10
2025	\$ 5,252,219.00	\$ 47.03	\$ 42.76	\$ 39.19	\$ 36.18
2026	\$ 5,266,509.00	\$ 47.16	\$ 42.87	\$ 39.30	\$ 36.28
2027	\$ 5,268,090.00	\$ 47.18	\$ 42.89	\$ 39.31	\$ 36.29
2028	\$ 5,280,254.00	\$ 47.28	\$ 42.99	\$ 39.40	\$ 36.37
2029	\$ 5,286,100.00	\$ 47.34	\$ 43.03	\$ 39.45	\$ 36.41
2030	\$ 5,284,582.00	\$ 47.32	\$ 43.02	\$ 39.44	\$ 36.40
2031	\$ 5,275,837.00	\$ 47.24	\$ 42.95	\$ 39.37	\$ 36.34
2032	\$ 5,268,926.00	\$ 47.18	\$ 42.89	\$ 39.32	\$ 36.29
2033	\$ 5,254,339.00	\$ 47.05	\$ 42.77	\$ 39.21	\$ 36.19
2034	\$ 5,257,706.00	\$ 47.08	\$ 42.80	\$ 39.24	\$ 36.22
2035	\$ 5,262,368.00	\$ 47.12	\$ 42.84	\$ 39.27	\$ 36.25
2036	\$ 5,267,904.00	\$ 47.17	\$ 42.89	\$ 39.31	\$ 36.29
2037	\$ 5,269,284.00	\$ 47.19	\$ 42.90	\$ 39.32	\$ 36.30
2038	\$ 4,709,534.00	\$ 42.17	\$ 38.34	\$ 35.14	\$ 32.44
2039	\$ 3,125,500.00	\$ 27.99	\$ 25.44	\$ 23.32	\$ 21.53
2040	\$ 3,125,500.00	\$ 27.99	\$ 25.44	\$ 23.32	\$ 21.53
2041	\$ 3,123,750.00	\$ 27.97	\$ 25.43	\$ 23.31	\$ 21.52

REFINANCE W/ ENTIRE BOND PAYMENT

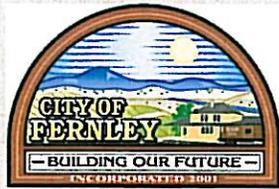
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FERNLEY WATER BOND DEBT ANALYSIS  
BASE FEE WITH REFINANCING AND GROWTH

Year	Annual Shortfall plus Factor	Base Bond Fee	Base Bond Fee with Growth, 1 through 3%		
			1	2	3
2013	\$ 1,755,755.00	\$ 15.72	\$ 14.29	\$ 13.10	\$ 12.09
2014	\$ 1,860,181.00	\$ 16.66	\$ 15.14	\$ 13.88	\$ 12.81
2015	\$ 2,117,578.00	\$ 18.96	\$ 17.24	\$ 15.80	\$ 14.59
2016	\$ 2,375,887.00	\$ 21.28	\$ 19.34	\$ 17.73	\$ 16.37
2017	\$ 2,612,155.00	\$ 23.39	\$ 21.27	\$ 19.49	\$ 17.99
2018	\$ 2,851,492.00	\$ 25.53	\$ 23.21	\$ 21.28	\$ 19.64
2019	\$ 3,101,616.00	\$ 27.77	\$ 25.25	\$ 23.15	\$ 21.37
2020	\$ 3,353,918.00	\$ 30.03	\$ 27.30	\$ 25.03	\$ 23.10
2021	\$ 3,890,773.00	\$ 34.84	\$ 31.67	\$ 29.03	\$ 26.80
2022	\$ 3,888,518.00	\$ 34.82	\$ 31.66	\$ 29.02	\$ 26.79
2023	\$ 3,884,885.00	\$ 34.79	\$ 31.63	\$ 28.99	\$ 26.76
2024	\$ 3,880,704.00	\$ 34.75	\$ 31.59	\$ 28.96	\$ 26.73
2025	\$ 3,892,219.00	\$ 34.85	\$ 31.69	\$ 29.05	\$ 26.81
2026	\$ 3,906,509.00	\$ 34.98	\$ 31.80	\$ 29.15	\$ 26.91
2027	\$ 3,908,090.00	\$ 35.00	\$ 31.82	\$ 29.16	\$ 26.92
2028	\$ 3,920,254.00	\$ 35.11	\$ 31.91	\$ 29.25	\$ 27.00
2029	\$ 3,926,100.00	\$ 35.16	\$ 31.96	\$ 29.30	\$ 27.04
2030	\$ 3,924,582.00	\$ 35.14	\$ 31.95	\$ 29.29	\$ 27.03
2031	\$ 3,915,837.00	\$ 35.07	\$ 31.88	\$ 29.22	\$ 26.97
2032	\$ 3,908,926.00	\$ 35.00	\$ 31.82	\$ 29.17	\$ 26.93
2033	\$ 3,894,339.00	\$ 34.87	\$ 31.70	\$ 29.06	\$ 26.83
2034	\$ 3,897,706.00	\$ 34.90	\$ 31.73	\$ 29.09	\$ 26.85
2035	\$ 3,902,368.00	\$ 34.95	\$ 31.77	\$ 29.12	\$ 26.88
2036	\$ 3,907,904.00	\$ 34.99	\$ 31.81	\$ 29.16	\$ 26.92
2037	\$ 3,909,284.00	\$ 35.01	\$ 31.82	\$ 29.17	\$ 26.93
2038	\$ 3,349,534.00	\$ 29.99	\$ 27.27	\$ 25.00	\$ 23.07
2039	\$ 1,765,500.00	\$ 15.81	\$ 14.37	\$ 13.17	\$ 12.16
2040	\$ 1,765,500.00	\$ 15.81	\$ 14.37	\$ 13.17	\$ 12.16
2041	\$ 1,763,750.00	\$ 15.79	\$ 14.36	\$ 13.16	\$ 12.15

REFINANCE W/ SHORTFALL & FOS

## Water Bond Fee Options, Methods to Minimize Impact to Community, and Possible Combination of Water Bond Options



City of Fernley Budget Workshop  
May 1, 2012

## Previous Action

- Presented to City Council on January 4, 2012 as part of budget workshop
- Four Options:
  - Sell the utility to a private company
  - Charge a fee to repay the loan
  - Find new customers to share the cost
  - Refinance the loan to lower the yearly payment
- Discussion and Action taken on April 4, 2012
  - Only consider three options (not selling)

## Previous Action

Discussion and Action taken on April 4, 2012

- Motion to Direct Staff to move forward with developing a water bond debt fee not to exceed \$44.00 for the existing water utility customers and any residential or commercial lot with committed will-serves in order to recover the entire annual water bond debt service, and direct staff to assess possible modification to the existing water rate structure to reflect the annual operating and capital expenditures, reserve fund balance requirements, and annual depreciation. Approved 3-2-0

## Clarification on Action

- Consider a fee that does not exceed \$44.00
- Collect the fee from customers and will-served lots
- Collect the fee to equal the entire annual bond debt
- Consider changing water rates separately from a new fee for the bond debt

## Clarification on Action

Consensus from City Council:  
“Make the fee as low as possible”

- How do we accomplish this?
  - Collect less than the annual bond payment
  - Cap the monthly fee
  - Combine options

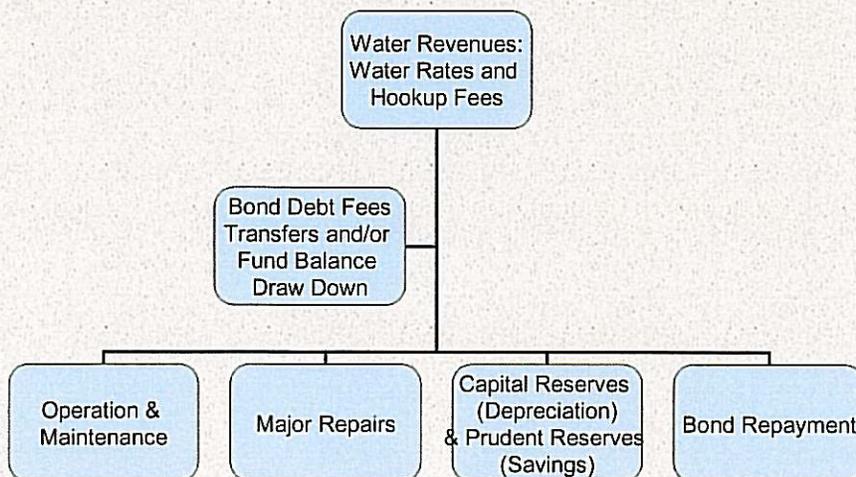
## Water Fees and Water Rates

- Fee refers to an amount collected in order to accommodate the water bond debt
  - In the past the fee was charged only to current customers on their monthly bill
  - In the future the fee could be charged to current customers, inactive accounts, and will-serve lots
- Rates refers to the amount of money collected from current/active water customers for consumption of City water

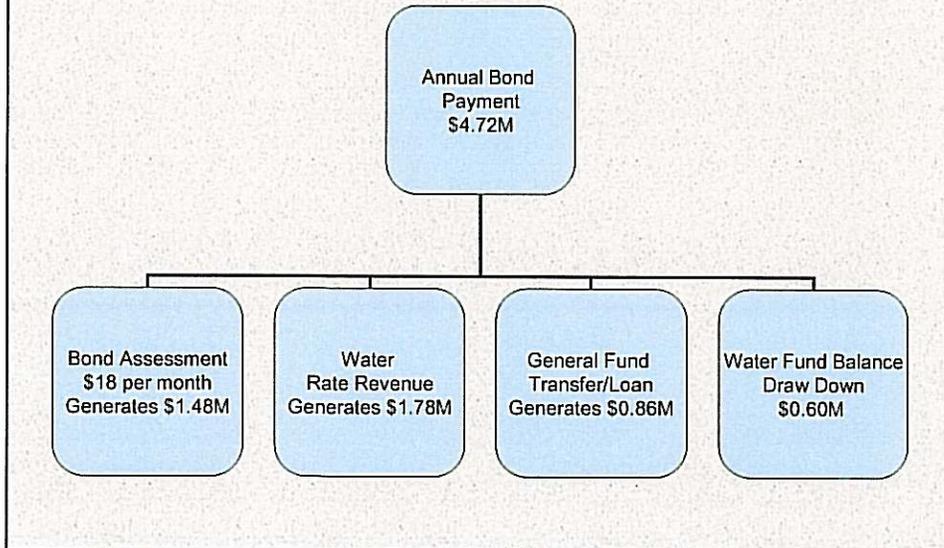
## Annual Bond Payment vs. Estimated Shortfall

- Annual Bond Payment: \$4.72 million
  - This is the same almost every year for the life of the bond term
- Estimated Shortfall FY12/13: \$2.86 million
  - This number will change every year based on the cost of major repairs and system operation, benefits, insurance, etc.
  - This number does not include rebuilding the savings account for emergencies or future repair and replacement projects

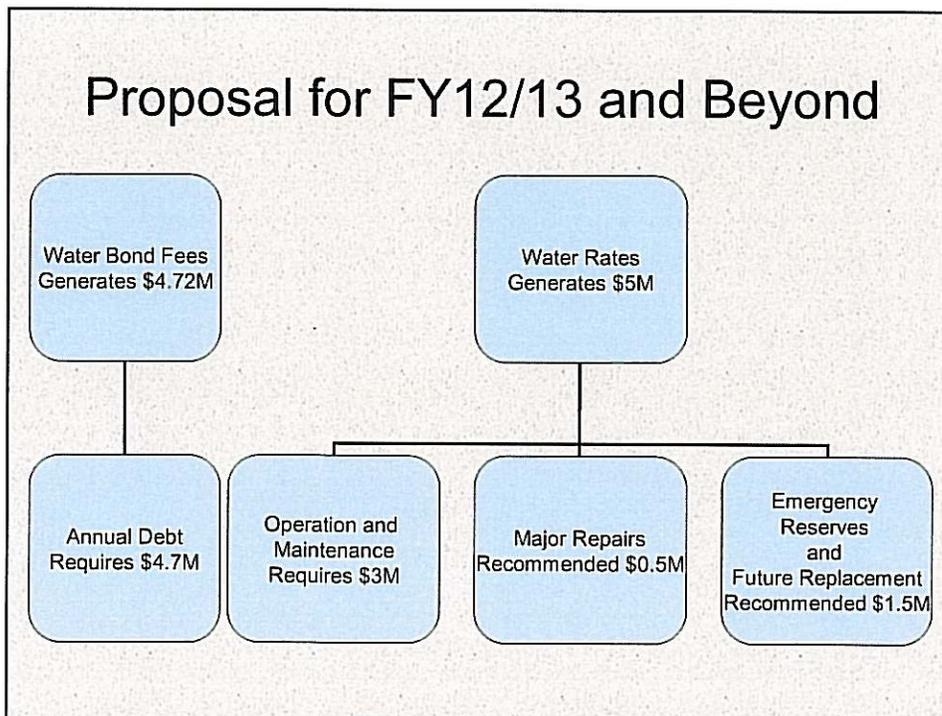
## Water Enterprise Funding Concept



## How We Are Paying the Bond Debt This Year (FY11/12)



## Proposal for FY12/13 and Beyond



## Collect Annual Payment: \$4.72M

Meter Size	Accounts	Multiplier	Rate	Monthly Revenue	Annual Revenue
3/4"	6890	1	\$ 42.27	\$ 291,220.89	\$ 3,494,650.69
1	132	1.67	\$ 70.59	\$ 9,317.38	\$ 111,808.53
1 1/2"	57	3.33	\$ 140.75	\$ 8,022.73	\$ 96,272.81
2	138	5.33	\$ 225.28	\$ 31,089.20	\$ 373,070.45
3	3	10	\$ 422.67	\$ 1,268.02	\$ 15,216.19
4	17	16.67	\$ 704.59	\$ 11,978.10	\$ 143,737.16
6	2	33.35	\$ 1,409.61	\$ 2,819.22	\$ 33,830.65
will serve & inactive	890	1	\$ 42.27	\$ 37,617.79	\$ 451,413.51

## Collect Shortfall plus Factor

Meter Size	Accounts	Multiplier	Rate	Monthly Revenue	Annual Revenue
3/4"	6890	1	\$ 30.00	\$ 206,700.00	\$ 2,480,400.00
1	132	1.67	\$ 50.10	\$ 6,613.20	\$ 79,358.40
1 1/2"	57	3.33	\$ 99.90	\$ 5,694.30	\$ 68,331.60
2	138	5.33	\$ 159.90	\$ 22,066.20	\$ 264,794.40
3	3	10	\$ 300.00	\$ 900.00	\$ 10,800.00
4	17	16.67	\$ 500.10	\$ 8,501.70	\$ 102,020.40
6	2	33.35	\$ 1,000.50	\$ 2,001.00	\$ 24,012.00
will-serve & inactive	890	1	\$ 30.00	\$ 26,700.00	\$ 320,400.00

Total Annual Revenue \$ 3,350,116.80

\* \$30.00 fee is presented for discussion / illustration purposes

## Collect Shortfall plus Factor

FY2012/2013 Budget Summary with \$30 Fee  
(for Discussion purposes):

Operating Expenses	\$	2.97	million
Major Repairs (Capital)	\$	0.24	million
<u>Yearly Bond Payment</u>	<u>\$</u>	<u>4.72</u>	<u>million</u>
Total Anticipated Expenses	\$	7.93	million
<u>Projected Water Income</u>	<u>\$</u>	<u>5.07</u>	<u>million</u>
Structural Deficit (Shortfall)	\$	(2.86)	million
<u>Total Fee Revenue</u>	<u>\$</u>	<u>3.35</u>	<u>million</u>
Savings Account Change (Fund Balance)	\$	0.49	million

## What is the “Factor” and Why do we need it?

- The “Factor” is a factor of safety to ensure that the repayment plan for the annual bond debt is a long term and sustainable solution
- If Council elects to enact a fee that exactly covers the bond payment for FY12/13, there could still be a shortfall in this year or the future
  - If unanticipated emergency repairs are required
  - If planned capital projects can no longer be delayed
  - If water revenues are less than projected
  - If variable costs like chemicals and fuel increase
  - If benefit costs and/or insurance costs increase
- The annual budget is only our best estimate of the revenues and cost of doing business in the coming year

## Combining Options

- Three Options:
  - Bond Fee, Refinancing, and New Customers
- Bond Fee = Sustainable solution with significant community impact
- Refinancing = Lower Bond Payment in the Short Term with long term cost
- New Customers = Growth and Economic Development with uncertainty

## Combining Options

- Capitalize on Benefits of all three options by combining
  - Bond Fee is certain income
  - Refinance will lower monthly payment
  - Growth will lessen long term burden
- For purposes of discussion we've analyzed 7-year refinancing plan, with lower bond fee and some growth

## Collect Entire Annual Payment and Refinance (with Growth)

Year	Annual Payment	Base Bond Fee	Base Bond Fee with Growth, 1 through 3%		
			1%	2%	3%
2013	\$ 3,115,755.00	\$ 27.90	\$ 25.36	\$ 23.25	\$ 21.46
2014	\$ 3,220,181.00	\$ 28.84	\$ 26.21	\$ 24.03	\$ 22.18
2015	\$ 3,477,578.00	\$ 31.14	\$ 28.31	\$ 25.95	\$ 23.95
2016	\$ 3,735,887.00	\$ 33.45	\$ 30.41	\$ 27.88	\$ 25.73
2017	\$ 3,972,155.00	\$ 35.57	\$ 32.34	\$ 29.64	\$ 27.36
2018	\$ 4,211,492.00	\$ 37.71	\$ 34.29	\$ 31.43	\$ 29.01
2019	\$ 4,461,616.00	\$ 39.95	\$ 36.32	\$ 33.29	\$ 30.73
2020	\$ 4,713,918.00	\$ 42.21	\$ 38.38	\$ 35.18	\$ 32.47
2021	\$ 5,250,773.00	\$ 47.02	\$ 42.75	\$ 39.18	\$ 36.17
2022	\$ 5,248,518.00	\$ 47.00	\$ 42.73	\$ 39.17	\$ 36.15
2023	\$ 5,244,885.00	\$ 46.97	\$ 42.70	\$ 39.14	\$ 36.13

## Collect Shortfall plus Factor and Refinance (with Growth)

Year	Annual Shortfall plus Factor	Base Bond Fee	Base Bond Fee with Growth, 1 through 3%		
			1%	2%	3%
2013	\$ 1,755,755.00	\$ 15.72	\$ 14.29	\$ 13.10	\$ 12.09
2014	\$ 1,860,181.00	\$ 16.66	\$ 15.14	\$ 13.88	\$ 12.81
2015	\$ 2,117,578.00	\$ 18.96	\$ 17.24	\$ 15.80	\$ 14.59
2016	\$ 2,375,887.00	\$ 21.28	\$ 19.34	\$ 17.73	\$ 16.37
2017	\$ 2,612,155.00	\$ 23.39	\$ 21.27	\$ 19.49	\$ 17.99
2018	\$ 2,851,492.00	\$ 25.53	\$ 23.21	\$ 21.28	\$ 19.64
2019	\$ 3,101,616.00	\$ 27.77	\$ 25.25	\$ 23.15	\$ 21.37
2020	\$ 3,353,918.00	\$ 30.03	\$ 27.30	\$ 25.03	\$ 23.10
2021	\$ 3,890,773.00	\$ 34.84	\$ 31.67	\$ 29.03	\$ 26.80
2022	\$ 3,888,518.00	\$ 34.82	\$ 31.66	\$ 29.02	\$ 26.79
2023	\$ 3,884,885.00	\$ 34.79	\$ 31.63	\$ 28.99	\$ 26.76

## Direction Requested

- Should we collect the entire annual bond payment of \$4.7M **or** the estimated budget shortfall plus a factor of safety?
- If we collect the shortfall plus a factor of safety, how much would the factor of safety be?
- Should we cap the maximum monthly fee?
- Should we try to reduce monthly water rates as part of this process?
- Should we consider combining options such as refinancing and bond debt fee?