

Town of Discovery Bay

Capital Funding Costs and Impacts on Rates



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Background

- Town is currently reviewing options to upgrade the wastewater treatment plants and to add denitrification
- Final cost is unknown and will depend on the selected engineering alternative
- Range could be \$15M to \$21M
- Last rate study completed in July 2016 and did not anticipate these improvements
- New funding source is needed. Potential debt scenarios are provided in this presentation.



Disclosures

- L&T is not recommending or advising the Town to issue new debt
- A range of financing options is provided for planning purposes
- Options are based on general bond market data and are estimates only
- If the Town proceeds with issuing debt, the Town should further evaluate its options



Current debt capacity

DISCOVERY BAY PUBLIC FINANCING AUTHORITY Wastewater Enterprise Projection of Revenues, Expenses, and Debt Service Coverage

	2018 Actuals ⁽²⁾	2019 Projected	2020 Projected	2021 Projected	2022 Projected
Gross Revenues	\$6,148,744	\$6,149,225	\$6,375,194	\$6,610,202	\$7,221,222
Maintenance and Operation Costs ⁽¹⁾	2,783,724	2,867,236	2,953,253	3,041,850	3,133,106
Net Revenues Available for Debt Service	\$3,365,020	\$3,281,989	\$3,421,941	\$3,568,352	\$4,088,116
2012 Sewer Installment Payments	\$735,276	\$735,902	\$735,399	\$735,578	\$744,157
2017 Sewer Installment Payments	359,473	358,744	361,369	358,569	355,768
Total Debt Service	\$1,094,749	\$1,094,646	\$1,096,768	\$1,094,147	\$1,099,925
Debt Service Coverage	3.07	3.00	3.12	3.26	3.72

(1) Excludes depreciation.

(2) Unaudited.

Source: The District

\$3.42M in net revenues
-\$1.10M in debt service
\$2.32M in funding for projects, deferred maintenance, reserves, OR...



Current debt capacity continued

	2020 Estimate (current debt)	2020 Max debt capacity
Net Revenues	\$3.42M	\$3.42M
Current debt service (2012 & 2017 Bonds)	\$1.10M	\$1.10M
New debt service (i.e. additional debt capacity)	NA	\$1.63M
Debt service coverage (net revenues divided by total debt)	3.12	1.25



Financing Background

- Last issued sewer debt in 2012 and 2017
- Credit rating: AA- (insured) and AA (uninsured)
- Estimated new debt service costs based on:
 - Recent similar bond sales (utility revenue bonds in California with AA ratings)
 - Competitive sale, serial bonds with level annual debt service



Debt Service Costs per \$1M

- Current sewer rate is \$82.55/month and the Town has about 6,000 customers

	10 year	20 year	30 year	40 year
Average Estimated interest rate	3.40%	3.70%	4.15%	4.60%
Annual Debt Service per \$1M in project funds	\$140,000	\$80,000	\$70,000	\$60,000
Impact on rates (\$/month)	\$1.94	\$1.11	\$0.97	\$0.83
% rate increase	2.4%	1.3%	1.2%	1.0%



Debt Service Costs per \$15M

- Current sewer rate is \$82.55/month and the Town has about 6,000 customers

	10 year	20 year	30 year	40 year
Average Estimated interest rate	3.40%	3.70%	4.15%	4.60%
Annual Debt Service per \$15M in project funds	\$2.1M	\$1.2M	\$1.05M	\$0.9M
Impact on rates (\$/month)	\$29.17	\$16.67	\$14.58	\$12.50
% rate increase	35.3%	20.2%	17.7%	15.1%



Debt Service Costs per \$21M

- Current sewer rate is \$82.55/month and the Town has about 6,000 customers

	10 year	20 year	30 year	40 year
Average Estimated interest rate	3.40%	3.70%	4.15%	4.60%
Annual Debt Service per \$21M in project funds	\$2.94M	\$1.68M	\$1.47M	\$1.26M
Impact on rates (\$/month)	\$40.83	\$23.33	\$20.42	\$17.50
% rate increase	49.5%	28.3%	24.7%	21.2%



Conclusions

- Town has an estimated \$1.6M in additional debt service capacity at current rates. Although some or all of this net revenue is likely committed to cash fund smaller projects.
- The impact of new debt on the sewer rate is estimated as
 - \$0.97/month per \$1M borrowed over 30 years
 - \$14.58/month per \$15M borrowed over 30 years
 - \$20.42/month per \$21M borrowed over 30 years



Questions

