



Agenda Date: 2/1/2017
Agenda Placement: 8F

Napa Sanitation District Board Agenda Letter

TO: Honorable Board of Directors
FROM: Jeff Tucker - Director of Administrative Services/CFO
NS-Administration
REPORT BY: Jeff Tucker, Director of Administrative Services/CFO - 707-258-6000
SUBJECT: Recieve Report on NapaSan Bond Rating Upgrade by S&P Global

RECOMMENDATION

Receive report from Standard & Poor's Global, upgrading NapaSan's rating on the 2012 Certificates of Participation from "AA-" to "AA."

EXECUTIVE SUMMARY

On a recurring basis, Standard & Poor's Global (S&P) reevaluates its ratings on outstanding bond issues. In late January, S&P completed its review of NapaSan's 2012 Certificates of Participation (\$37,845,000) that were issued to refinance the Series 2009A variable rate bonds and pay for the expansion of the recycled water system, replacement of the influent pump station, and installation of the aerators on the oxidation pond.

S&P has upgraded the rating for these bonds from "AA-/Stable" to "AA/Stable." When financial metrics and other data were applied against the S&P criteria, the results indicated a rating of either AA or AA-. The higher AA rating was selected "based on our assessment of the district's extremely strong projected debt service coverage (DSC) through fiscal 2021, with further support for the rating derived from the district's pre-approved rate increases and detailed long-term planning."

S&P made several findings about NapaSan in the attached report regarding both "Enterprise Risk" and "Financial Risk":

Enterprise Risk

- | Industry Risk Score of "1 or very low" on a 6-point scale, with 1 being the best, evaluating NapaSan within the context of the local economy.
- | NapaSan's rates were viewed as "relatively affordable" based on Napa's strong Median Household

Effective Buying Income (MHHEBI) rate and low county poverty rates, even with the proposed increases over the next several years.

- | Management Assessment Score of "2" on a 6-point scale, with 1 being the best, citing the adequate capacity in the plant, the lack of regulatory fines or violations, the succession plans in place for key staff members, the frequent review and updating of rates, and the engagement of consultants to perform in-depth rate analyses.

Financial Risk

- | Financial Management Assessment score of "1" on a 6-point scale, with "1" being the strongest, based on regular financial reporting to the board, the maintenance of long-range financial planning, the funding of the 15% operating reserve, adoption of formal debt management policies, and easily obtained financial information in the budget and on the website.
- | Financial performance is strong, with "extremely strong" debt service coverage now and projected.
- | NapaSan's liquidity position is consistently very strong, even with 10-year projections of capital projects financed with cash on hand.
- | NapaSan's debt-to-capitalization ratio is low, with a projection to remain low, helped by pre-approved rate increases.

The upgrade in the rating has no immediate financial impact to NapaSan, but a higher S&P rating will result in lower borrowing costs the next time NapaSan finances capital projects through bond issuance, or if NapaSan refinances any existing debt at a future date.

FISCAL IMPACT

Is there a Fiscal Impact? No

ENVIRONMENTAL IMPACT

ENVIRONMENTAL DETERMINATION: The proposed action is not a project as defined by 14 California Code of Regulations 15378 (State CEQA Guidelines) and therefore CEQA is not applicable.

BACKGROUND AND DISCUSSION

None.

SUPPORTING DOCUMENTS

- A . Presentation
- B . Bond Rating Rationale (S&P Report)

Napa Sanitation District: Approve

Reviewed By: Jeff Tucker