Napa Sanitation District

Board of Directors Presentation

Wednesday, April 6, 2016

KNN public finance

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A Limited Liability Company

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Debt Financing Background

Overview of District Revenue Bonds

- The District is authorized to issue revenue bonds under the Constitution and laws of the State of California, including the County Sanitation District Act of the State.
- The District's revenue bonds are secured by the District's net revenues, i.e. gross revenues net of O&M expenses.
- District bonds include a rate covenant of 1.25x and an additional bonds test of 1.25x.
- Credit considerations include: (i) debt service coverage, which is the amount by which annual net revenues exceed maximum annual debt service; and (ii) liquidity, which is the number of days of operating cash on hand at a particular time (iii) economic fundamentals, which will measure the strength of the District's service area's economy (i.e. median household effective buying income, unemployment rate, diversity of economy, annual utility burden to households within the District).
- The District's revenue bonds are currently rated "AA-" and are viewed favorably by the investor community.

Napa Sanitation District Financing History

Issue	Description/Purpose	Par Amount	Method of Sale	Fixed / Variable Rate
1998A COPS	Financed the Soscol Water Recycling Plant.	$34,520,000		Fixed Rate
WateReuse Adjustable Rate Bonds	Provided a source of funds for certain municipalities, local water and sanitation agency projects in the State of California.	$11,165,000	Negotiated	Variable Rate
2009A COPs	Refunded the WateReuse COPs which were supported by a "toxic" Depfa liquidity facility and FSA insurance. Refunding reduced rates by replacing the Depfa liquidity facility with the Wells Fargo LOC.	$9,120,000	Negotiated	Variable Rate
2009B COPs	Refunded the 1998A COPs and generated in excess of $3 million present value savings.	$26,675,000	Competitive	Fixed Rate
2012A COPs	Refunded in full the 2009A COPs, which eliminated all adjustable rate debt.	$37,845,000	Competitive	Fixed Rate

Method of Sale

Competitve

Pros	Cons
- Creates competition among underwriters that can result in bids that outperform the market.	- Less flexibility with regard to: * Market Timing- subject to rates on day of sale. * Deal Structure.
- Promotes good public policy practices and accountability. * Quantifiable basis for selection, ensuring complete objectivity. * Pricing transparency.	- Less opportunity for pre-marketing for challenging credits/deal structures.
- Works well for highly rated credits and desired bond structures, including sewer revenue bonds.	

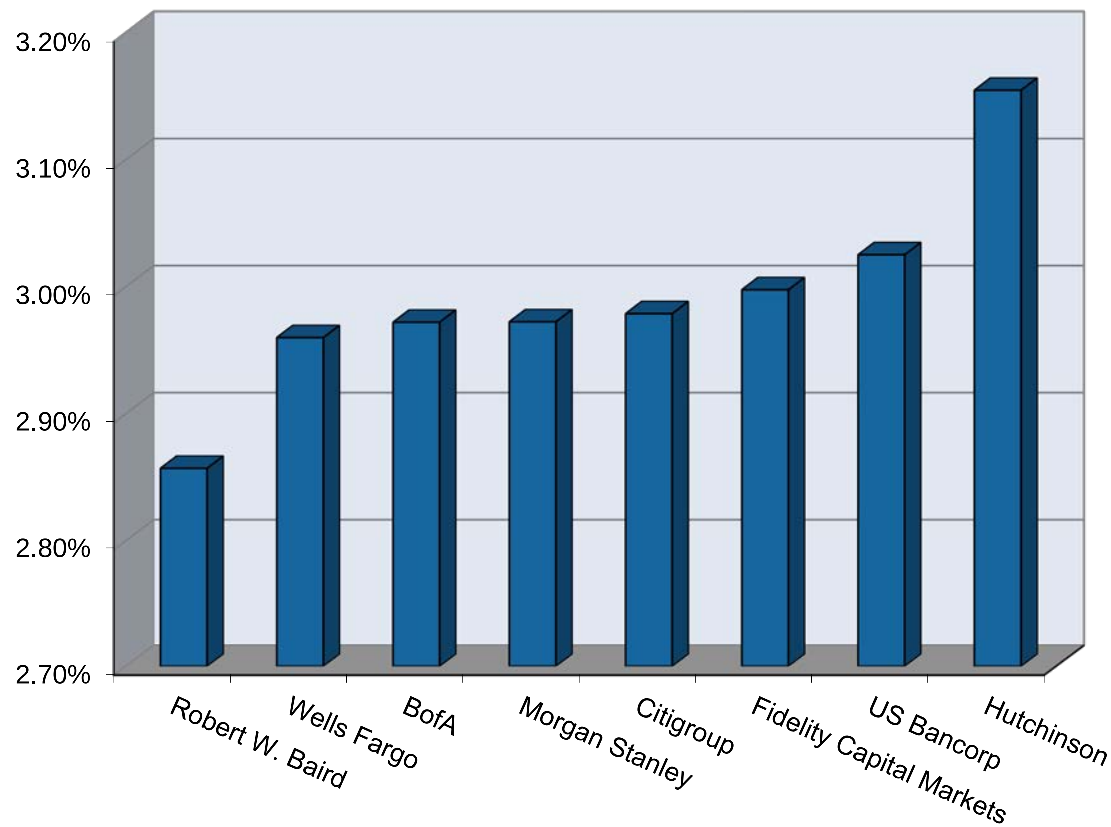
Negotiated

Pros	Cons
- Greater flexibility with regard to timing. * Some ability to 'wait out' difficult markets.	- Less clear pricing justification. * May not result in the best pricing on a given day.
- Some ability to tailor structure to specific investor preferences.	- Issuer must select underwriting team. * Often a time-consuming process.
- More opportunity for pre- marketing efforts, if needed.	- Underwriters generally unwilling to underwrite large unsold balances.

Competitive Sales Results for Series 2012A COPs

Par Amount: $37,845,000
Dated Date: December 20, 2012

Rating: S&P: "AA-"
Final Maturity: August 1, 2032



Browns Valley Road Sewer Interceptor Project Financing Plan

Financing Needs

- The Browns Valley Road Sewer Interceptor project is designed to divert flow from sewer lines that are over capacity in downtown Napa.
  - The existing pipes are in danger of overflowing when there are high flow events such as large storms.
- The total estimated cost of the project is approximately $18 million, which will be funded by the proceeds of a new debt issuance.
- The construction of the project is estimated to begin in May 2017 and last for 2-years.
  - The project should be completed before the City of Napa completes road paving of the area.
- Additional financing expected to be needed in FY 2021-22 for approximate project costs of $23 million for the Second Digester and Aeration Basin Project.

Bond Structuring Options

- Wastewater Revenue Bonds

  Scenario 1: 20-year level debt service

  Scenario 2: 20-year wrapped debt service

- Clean Water State Revolving Fund (CWSRF)

  Scenario 3: 20-year level debt service

- All scenarios assume no debt service is paid during construction

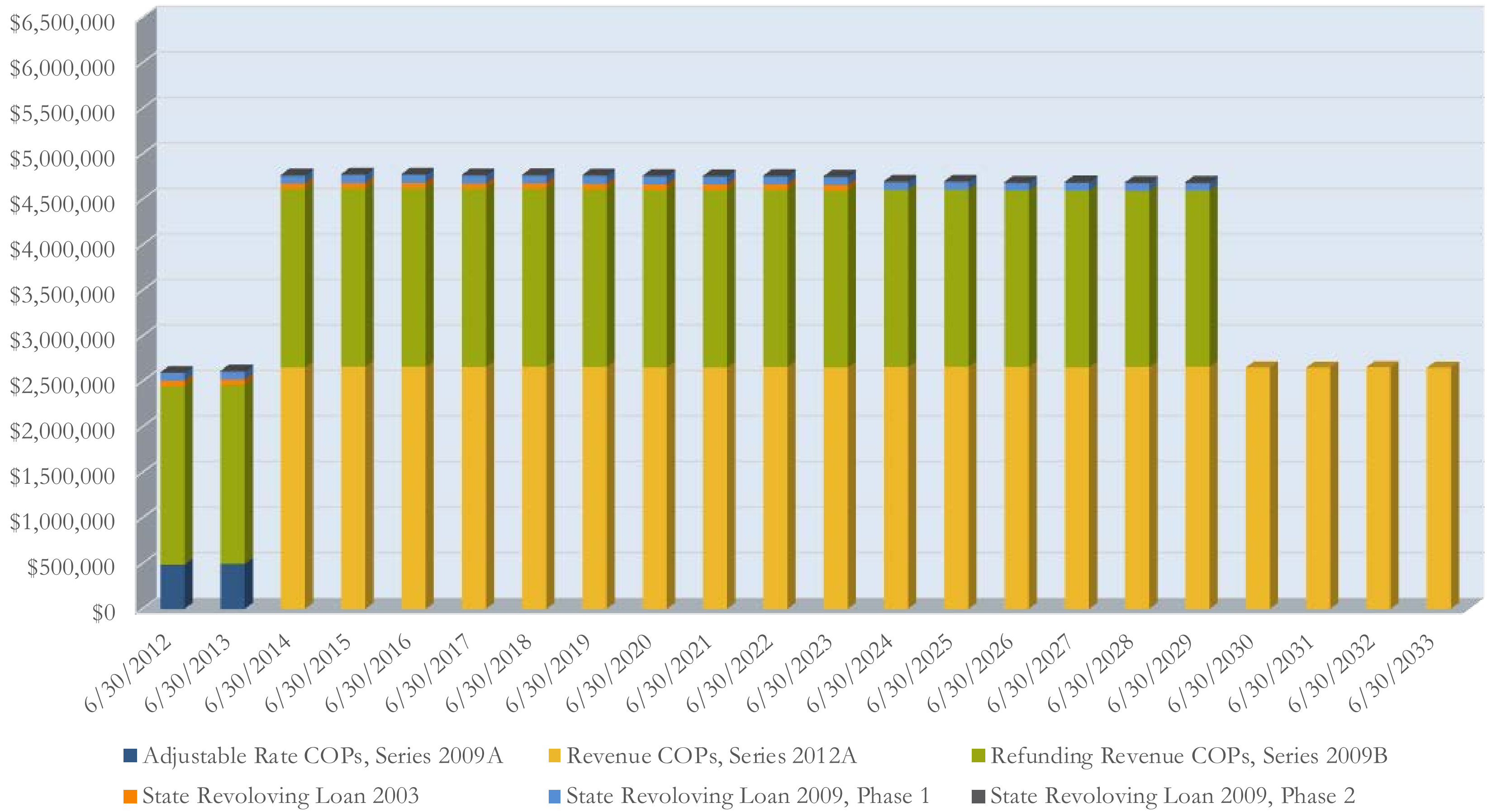
Pros v. Cons

CWSRF	Public Sale
<u>Cost</u> - Lower interest rates - American Iron and Steel requirements- additional project costs - Lower cost of issuance - Debt service reserve fund required	<u>Cost</u> - Higher interest rates - No restrictions on construction materials - Higher cost of issuance - No debt service reserve fund (potentially)
<u>Structure</u> - Level debt service only - Deferral of principal and interest during construction	<u>Structure</u> - Flexiblity in creating debt service structure -Deferral of principal and interest with use of cap-i
<u>Administrative Burden</u> - Significant: CWSRF Reporting Requirements	<u>Administrative Burden</u> - Annual Arbitrage Calculations

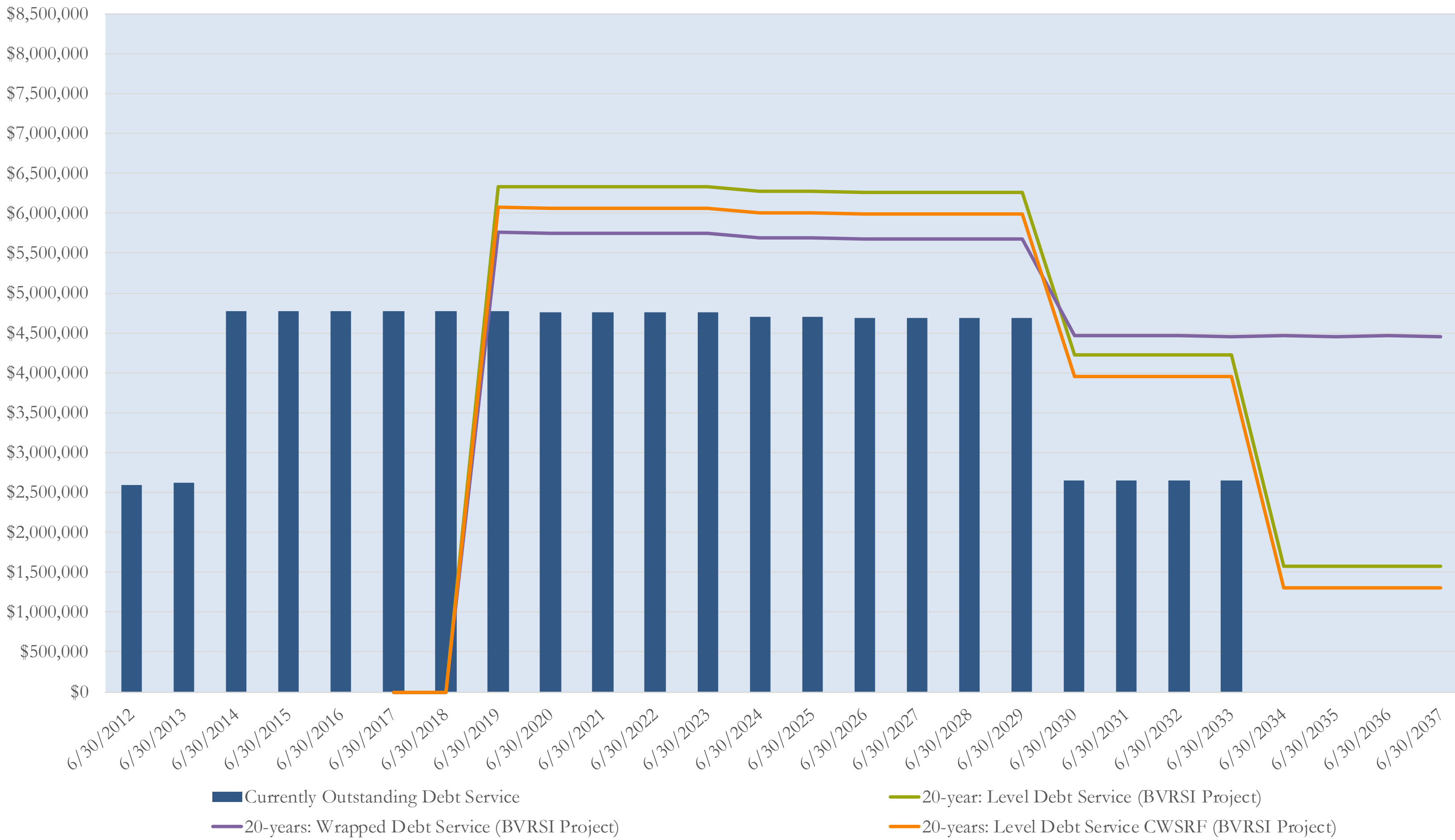
Summary of CWSRF Administrative Burdens

- Difficult and time consuming application process (approximately 6-months).
- Submission of monthly reimbursement requests to receive loan proceeds.
- Semi-annual status reports during construction.
- Highly detailed project completion report and inspection.
- Annual reporting requirements – up to 10-years after the completion of construction.

Outstanding District Debt Service



Outstanding Debt Service and Scenarios 1-3

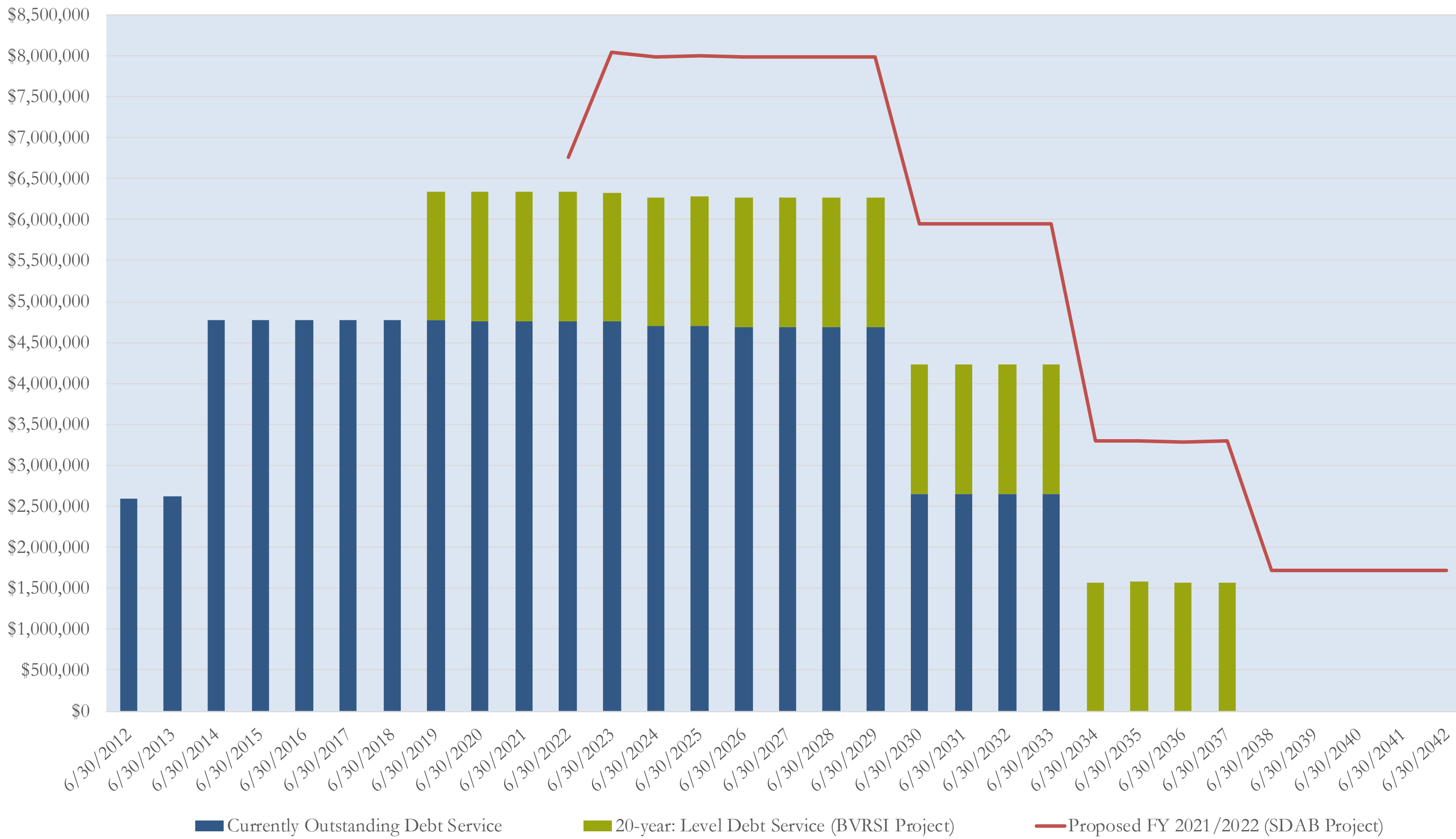


Summary of Scenarios

	Scenario 1	Scenario 2	Scenario 3
Amortization	Level Debt Service	Wrapped Around Existing Debt	Level DS-CWSRF
Project Fund	$20,000,000	$20,000,000	$20,000,000
Term	20-years	20-years	20-years
Avg. Annual Debt Service[1,5]	$1,574,118	Varies	$1,304,366
Max Annual Debt Service[1]	$1,576,750	$4,461,000	$1,306,425
Total Debt Service[1,5]	$29,908,250	$35,957,375	$24,782,956
Capitalized Interest[2]	$1,323,592	$1,402,146	-
T.I.C.[3]	3.034%	3.553%	1.696%
MADS Debt Service Coverage[4,6]	280%	309%	293%

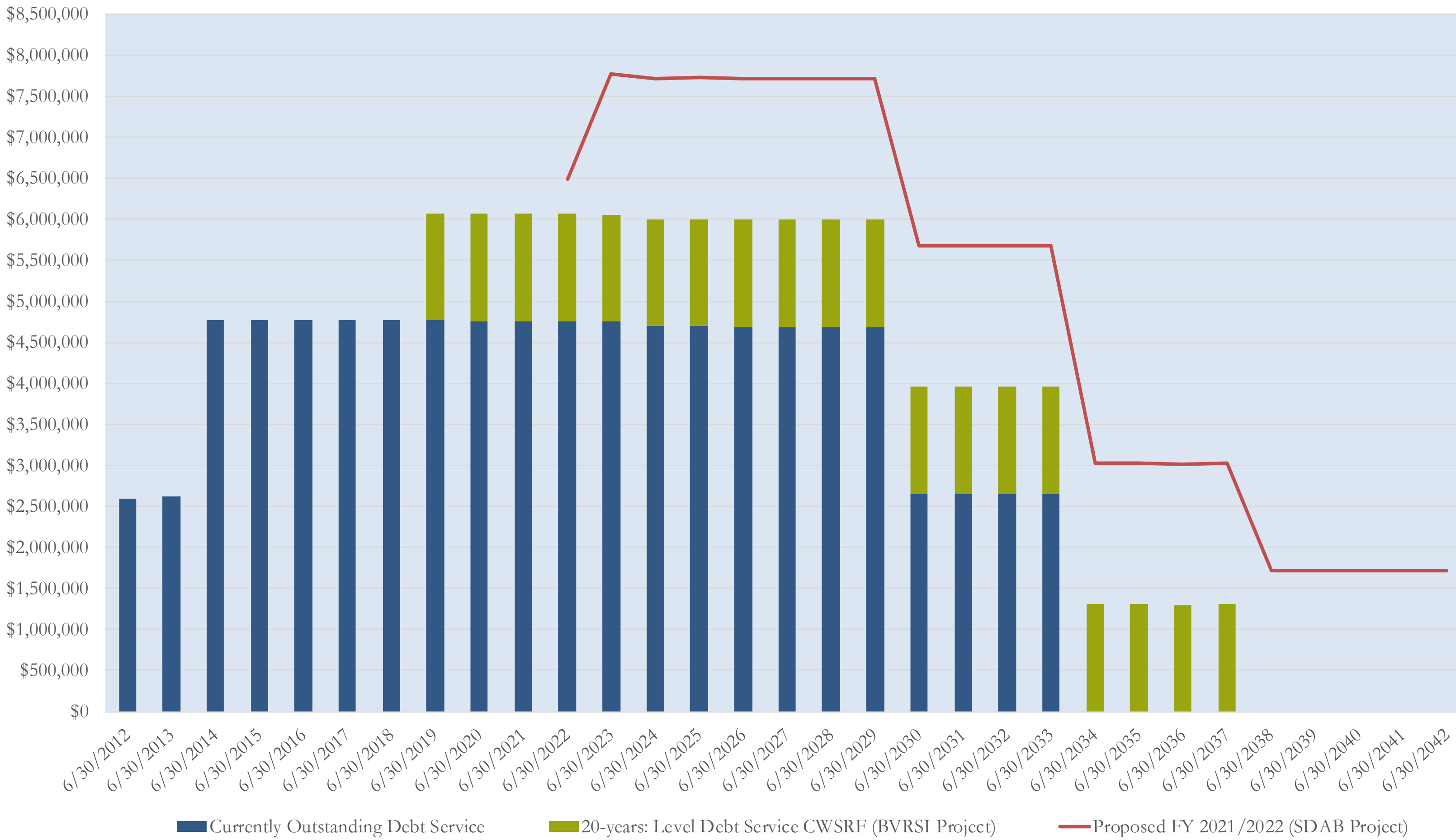
(1) Preliminary, subject to change.
(2) Gross funded. Earning 0.0%. Assumed for a total of 1.42-years.
(3) Based on current "AA-" rated Revenue scale as of 3/21/2016.
(4) MADS debt service coverage based on projected financial results provided by the District for FY 2018-19 and current outstanding debt service.
(5) Average Annual Debt Service for Scenarios 1 and 2 are net of capitalized interest.
(6) Annual debt service is net of capitalized interest for Scenarios 1 & 2.

Scenario 1 and Proposed Financing of Second Digester and Aeration Basin Project

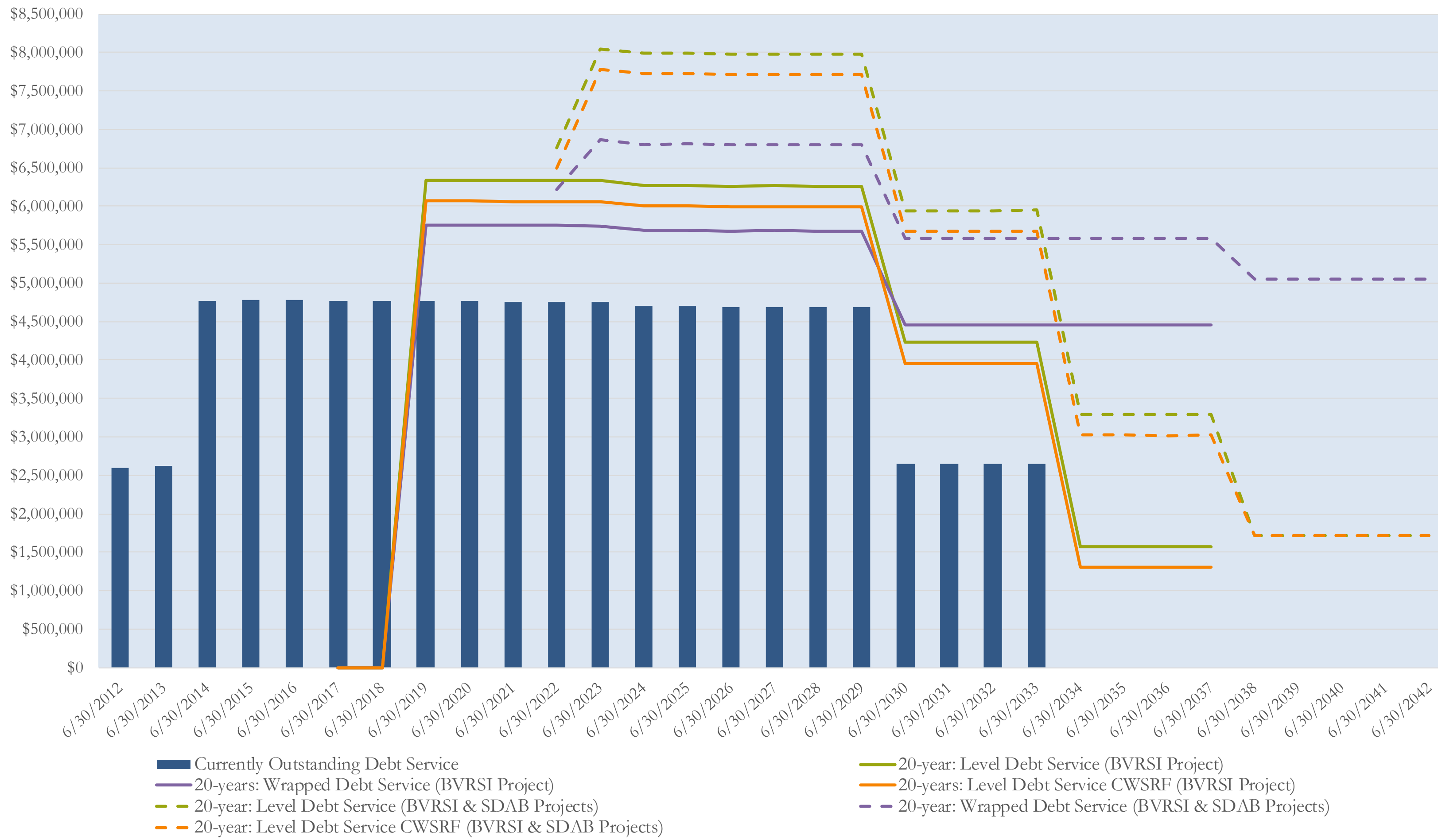


Scenario 2 and Proposed Financing of Second Digester and Aeration Basin Project

Scenario 3 and Proposed Financing of Second Digester and Aeration Basin Project



Outstanding Debt Service, Scenarios 1-3 and Proposed Financing of Second Digester and Aeration Basin Project



District's Debt Service Coverage

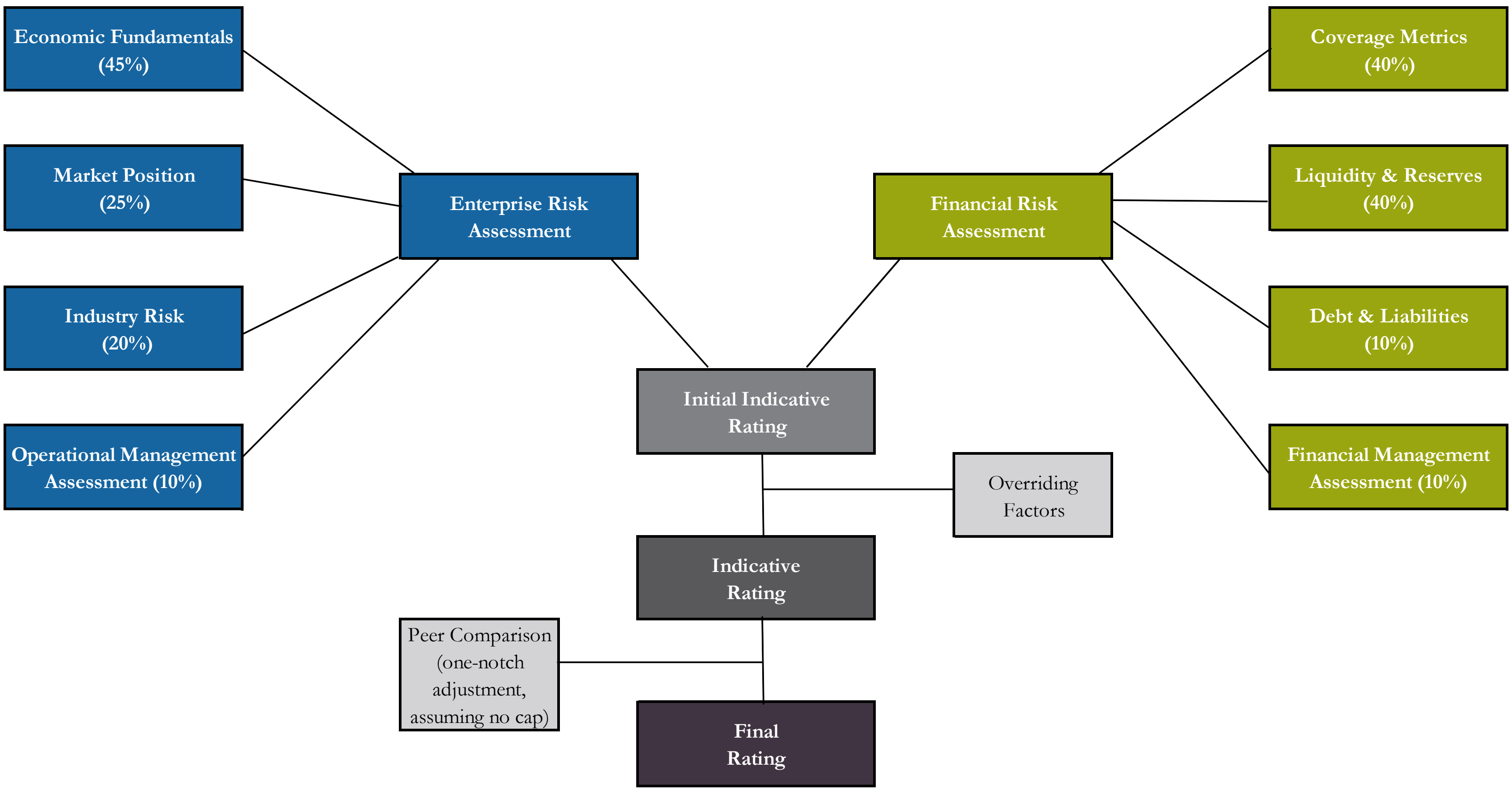
	6/30/2015	6/30/2016[1]	6/30/2019[2]
Net Revenues	$9,865,004	$10,578,000	$17,769,900
Current Outstanding Debt Service	$4,777,207	$4,776,806	$4,769,231
Debt Service Coverage	207%	221%	373%
Debt Service Coverage (excludes Capacity Fees)	174%	159%	305%
Maximum Annual Debt Service- Scenario 1 (20-year Level)			$6,337,471
Maximum Annual Debt Service- Scenario 2 (20-year Wrapped)			$5,757,555
Maximum Annual Debt Service- Scenario 3 (20-year CWSRF)			$6,073,704
MADS Debt Service Coverage- Scenario 1			280%
MADS Debt Service Coverage- Scenario 2			309%
MADS Debt Service Coverage- Scenario 3			293%

(1) Opreating revenues and expense provided by Operating and Capital Budget FY 15-16.
(2) Projected operating revenues and expenses provided by the District for FY 2018/19.

Credit Profile

S&P Rating Methodology

- The District is currently rated “AA-” by Standard & Poor's.



District's Credit Strengths and Challenges

Credit Strengths

- Strong debt service coverage.
- Comprehensive financial policies.
- 80% of District's operating revenues are generated from sewer charges, not capacity charges.
- Sewer charges based largely on EDUs, not wastewater volume. Stable historical EDUs.
- Increased revenues from recycled water.
- Two separate cash reserve funds and strong liquidity.
- No variable rate debt.
- Long term strategic and capital planning.
- District's service area spans a large and diverse employment base, with wealthy resident customer profile.
- Diverse customer base with top 9 payors making up no more than 2.5% of District revenues[1].
- Stability of revenue collection (i.e. assessments on property tax bills).

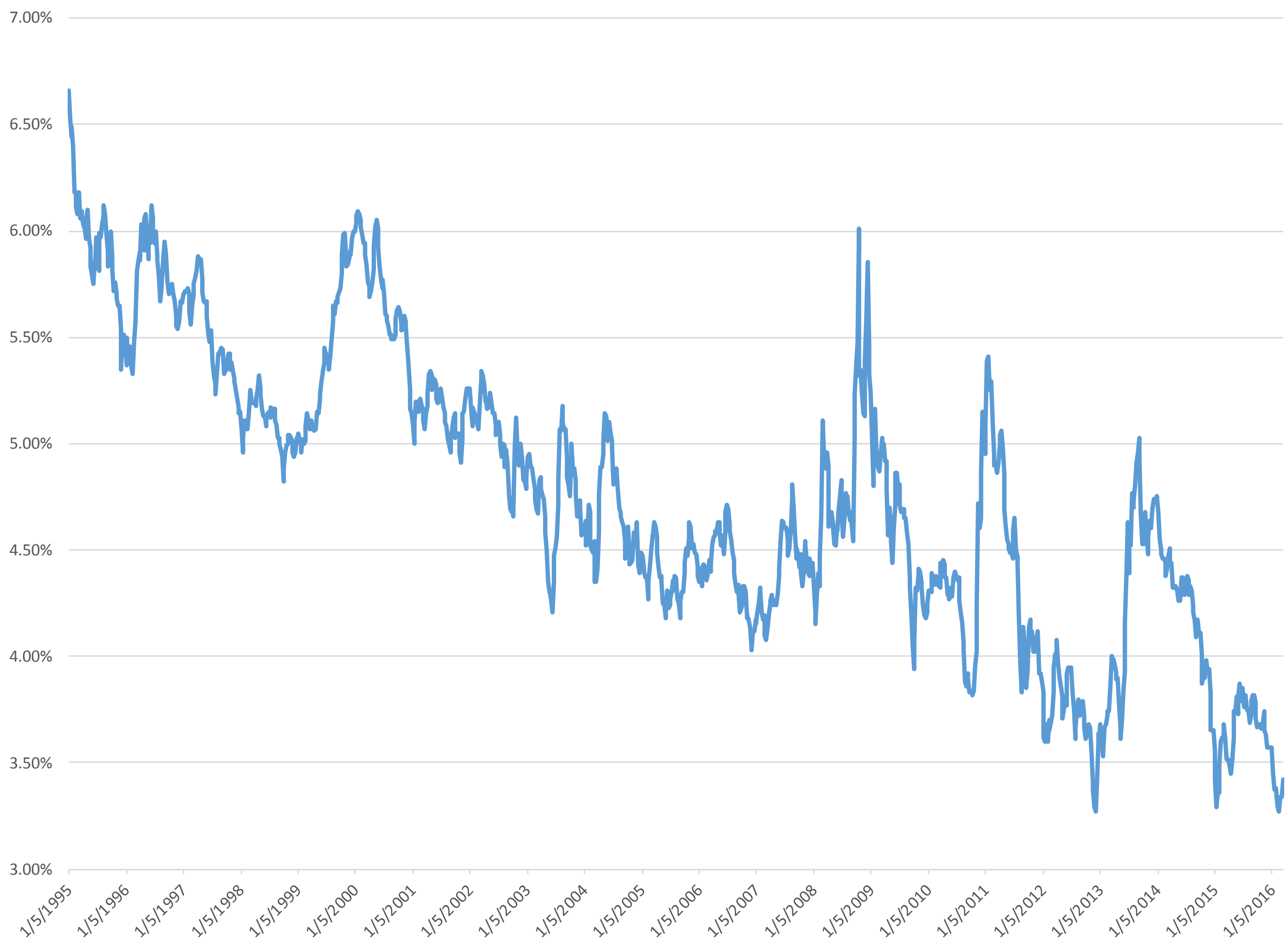
Credit Weaknesses

- Potential increases in sewer charges are subject to Proposition 218 processes.
- Increases in operating expenses tend to outpace CPI.
- Significant additional upcoming debt.
- Declining cash position in FY 14-15.

[1]Based on CAFR FY 2013-14 results

Appendix

Long-term Tax-Exempt Rates Near Historic Lows



Source: The Bond Buyer website.

The Bond Buyer 20-Bond Index consists of 20 general obligation bonds that mature in 20 years with an average rating of "Aa2" and "AA".