

## Debt



*Construction of the secondary effluent equalization basin in 2014*



*Completed secondary effluent equalization basin*

## Debt

The Napa Sanitation District issues long term debt for the construction of significant capital assets. Debt service is the annual or semi-annual payments NapaSan makes to repay the principal and interest on its debt.

### *Debt Policy*

As a matter of policy, NapaSan has a preference to use pay-as-you-go financing for its capital projects and only uses debt financing for improvements that it cannot readily finance from current revenues. Exceptions can be made on a case-by-case basis for no-interest and extremely-low-interest loan programs to pay for capital projects.

Debt can only be used for major, non-recurring capital items, and the debt repayment timeline cannot exceed the expected useful life of the asset being financed.

Debt can only be issued when it has been shown that NapaSan has the ability to pay all of its current obligations from current revenues and still have available 125% of the expected debt service amount to pay the debt service.

NapaSan's complete debt policy can be found in Appendix D, Section 5.

### *Current Debt Obligations*

**2003 SRF** – In 2003, NapaSan entered into a 20-year loan with the State of California's State Water Resource Control Board Revolving Fund (SRF). The proceeds from this loan, \$901,376, were used for replacement of pipes in the collection system. The interest rate on this loan is 2.5%, with annual debt service of \$60,247. (See Debt Service Table 1.) Outstanding principal on this debt obligation is \$331,845 as of July 1, 2017.

**2008 SRF** – In 2008, NapaSan entered into a 20-year loan with the State Water Resources Control Board. This loan, which came in two phases, was for a total of \$1,559,673 and was used to replace aging infrastructure in the collection system. This is a zero-percent interest loan; however, the annual debt service payment of \$93,581 includes a 16.667% state match and is recorded as imputed interest. (See Debt Service Tables 2 and 3.) Outstanding principal on this debt obligation is \$998,009 as of July 1, 2017.

**Series 2009B** – These 20-year Certificates of Participation were sold as a fixed-rate bond through competitive bid, and has a true interest cost of about 3.6%. The \$26,675,000 in proceeds was used to refinance the 1998 COPs, saving NapaSan over \$250,000 annually in debt service payments. Annual debt service for this bond is \$1,961,254. (See Debt Service Table 4.) Outstanding principal on this debt obligation is \$18,825,000 as of July 1, 2017.

**Series 2012A** – These 20-year Certificates of Participation were delivered and executed to provide funds to repay the outstanding Adjustable Rate Refunding Revenue Certificates of Participation, Series 2009A and to finance \$33 million in new capital projects. Annual debt service for this bond is \$2,658,875. (See Debt Service Table 5.) Outstanding principal on this debt obligation is \$32,555,000 as of July 1, 2017.

### *Debt Covenants*

A debt covenant is a requirement imposed on NapaSan by a debt holder. These requirements range from requirements to pay the principal and interest payments on particular days of the year, to preparing and filing audited financial statements, to very specific financial performance requirements.

There is one significant debt covenant that has a financial impact to NapaSan. This covenant applies to all of NapaSan's debt, and is a debt service coverage requirement. Debt service coverage is the ratio of net revenues (revenues minus operating expenses) to annual debt service requirements. NapaSan is required by the bond covenant to maintain a debt service coverage ratio of at least 1.25. For FY 2017/18, the District's coverage ratio is budgeted to be 3.48.

**Debt Capacity & Debt Limitations**

Debt Capacity is the difference between the amount of debt NapaSan has outstanding (sold and authorized) and the maximum amount of debt NapaSan can incur within its legal, public policy and financial limitations.

NapaSan does not issue general obligation debt, and as such, there is no legal limitation on the amount of debt it can issue. NapaSan is limited by the debt policies that it sets for itself (described above and in Appendix D) and by financial limitations. Financial limitations include two factors:

- 1) willingness of the bond market to loan NapaSan money, and 2) limitations on future debt placed on NapaSan by current debt.

First, the amount of debt NapaSan can issue is limited by whether there are financial and other institutions and other buyers in the market willing to purchase the bonds that NapaSan wants to issue. In tight capital markets, or if the financial health of NapaSan is in question, the amount of debt NapaSan can issue under favorable terms can be limited.

Second, the debt coverage ratio imposed by existing debt holders also applies to any future debt NapaSan may want to issue. By forecasting operating revenues and expenditures and applying the 1.25 debt coverage ratio, a debt capacity can be calculated.

Currently, NapaSan has the capacity to issue approximately \$120 million in additional debt (3.5% TIC, 20 year term), assuming that there was a buyer for that debt in the bond market, NapaSan could pay the debt service, and other financial policies are maintained.

<b>Debt Coverage Ratio Calculation</b>		
	<b>Estimated FY 16/17</b>	<b>Proposed FY 17/18</b>
Revenue		
Sewer Service Charges	\$22,525,000	\$26,152,000
Capacity Charges	\$3,804,000	\$3,630,000
Recycled Water	758,000	913,000
Interest	109,000	174,000
Rents & Leases	719,000	722,000
Other Revenue (excl. sale of property and grant revenue)	428,500	455,100
<b>Operating Expenses</b>	<b>(\$14,405,050)</b>	<b>(\$15,424,300)</b>
<b>Net Revenue</b>	<b>\$13,938,450</b>	<b>\$16,621,800</b>
Parity Debt Service		
2003 SRF	\$60,300	\$60,250
2008 SRF	93,650	93,650
2009B COP	1,956,800	1,958,250
2012A COP	2,657,200	2,658,200
<b>Total Debt Service (excl. debt administration expenses)</b>	<b>\$4,767,950</b>	<b>\$4,770,350</b>
<b>Parity Debt Coverage Ratio (net revenue ÷ total debt service)</b> (must be greater than 1.25)	<b>2.92</b>	<b>3.48</b>

**Future Debt Issues**

The Ten-Year Capital Improvement Plan and the Ten-Year Financial Plan includes financing the Browns Valley Road and West Napa Pump Station Improvements and Recycled Water Reservoir Lining projects. It is projected that the Clean Water State Revolving Fund (SRF) loan proceeds will be received as reimbursements during the same year the expenses are incurred, starting in FY 2017/18, with debt service payments not beginning until after the completion of construction.

The plan assumes that NapaSan will sell Certificates of Participation in FY 2021/22 for the purpose of constructing the second digester and expansion of the aeration basins. The plan also assumes that significant expansions of the recycled water system starting in FY 2022/23 will be financed using Federal loans established for that purpose.

**Napa Sanitation District  
Debt Service**

---

Table 1  
Napa Sanitation District  
2003 SWRCB Revolving Fund Loan

2.5%, 20 year term  
\$901,376

Fiscal Year Jul 1	Annual Interest	Principal Payment	Ending Principal	Total Payment
2016/17	9,563	50,683	331,845	<b>60,247</b>
2017/18	8,296	51,950	279,895	<b>60,247</b>
2018/19	6,997	53,249	226,646	<b>60,247</b>
2019/20	5,666	54,580	172,065	<b>60,247</b>
2020/21	4,302	55,945	116,121	<b>60,247</b>
2021/22	2,903	57,343	58,777	<b>60,247</b>
2022/23	1,469	58,777	-	<b>60,247</b>
2023/24	-	-	-	-
2024/25	-	-	-	-
2025/26	-	-	-	-
2026/27	-	-	-	-
2027/28	-	-	-	-
2028/29	-	-	-	-
2029/30	-	-	-	-
2030/31	-	-	-	-
2031/32	-	-	-	-
2032/33	-	-	-	-

---

Source: District Documents

---

**Napa Sanitation District  
Debt Service**

---

Table 2  
 Napa Sanitation District  
 2008 SWRCB Revolving Fund Loan  
 E. Spring St. Sewer Rehabilitation Phase I

20 year term  
 \$1,376,804

Fiscal Year Jul 1	Imputed Interest	Principal Payment	Ending Principal	Total Payment
2016/17	17,645	64,964	880,873	<b>82,609</b>
2017/18	16,433	66,176	814,697	<b>82,609</b>
2018/19	15,198	67,410	747,287	<b>82,609</b>
2019/20	13,941	68,668	678,619	<b>82,609</b>
2020/21	12,660	69,949	608,670	<b>82,609</b>
2021/22	11,355	71,254	537,417	<b>82,609</b>
2022/23	10,026	72,583	464,834	<b>82,609</b>
2023/24	8,672	73,937	390,897	<b>82,609</b>
2024/25	7,292	75,316	315,580	<b>82,609</b>
2025/26	5,887	76,721	238,859	<b>82,609</b>
2026/27	4,456	78,153	160,706	<b>82,609</b>
2027/28	2,998	79,611	81,096	<b>82,609</b>
2028/29	1,513	81,096	-	<b>82,609</b>
2029/30	-	-	-	-
2030/31	-	-	-	-
2031/32	-	-	-	-
2032/33	-	-	-	-

---

Source: District Documents

---

**Napa Sanitation District  
Debt Service**

---

Table 3  
 Napa Sanitation District  
 2008 SWRCB Revolving Fund Loan  
 E. Spring St. Sewer Rehabilitation Phase II

20 year term  
 \$182,869

Fiscal Year Jul 1	Imputed Interest	Principal Payment	Ending Principal	Total Payment
2016/17	2,323	8,650	117,136	<b>10,972</b>
2017/18	2,163	8,809	108,327	<b>10,972</b>
2018/19	2,000	8,972	99,355	<b>10,972</b>
2019/20	1,835	9,138	90,217	<b>10,972</b>
2020/21	1,666	9,306	80,911	<b>10,972</b>
2021/22	1,494	9,478	71,433	<b>10,972</b>
2022/23	1,319	9,653	61,780	<b>10,972</b>
2023/24	1,141	9,831	51,948	<b>10,972</b>
2024/25	959	10,013	41,935	<b>10,972</b>
2025/26	774	10,198	31,737	<b>10,972</b>
2026/27	586	10,386	21,351	<b>10,972</b>
2027/28	394	10,578	10,773	<b>10,972</b>
2028/29	199	10,773	-	<b>10,972</b>
2029/30	-	-	-	-
2030/31	-	-	-	-
2031/32	-	-	-	-
2032/33	-	-	-	-

---

Source: District Documents

---

**Napa Sanitation District  
Debt Service**

---

Table 4

Napa Sanitation District  
Refunding Revenue Certificates of Participation, Series 2009B  
(1998 Refunding Project)

3% to 4% Range, 3.6% True Interest Cost (TIC), 20 year term  
\$26,675,000

Fiscal Year Jul 1	Annual Interest	Principal Payment	Ending Principal	Total Payment
2016/17	691,779	1,265,000	18,825,000	<b>1,956,779</b>
2017/18	653,229	1,305,000	17,520,000	<b>1,958,229</b>
2018/19	613,554	1,340,000	16,180,000	<b>1,953,554</b>
2019/20	572,064	1,380,000	14,800,000	<b>1,952,064</b>
2020/21	527,518	1,425,000	13,375,000	<b>1,952,518</b>
2021/22	479,371	1,470,000	11,905,000	<b>1,949,371</b>
2022/23	427,781	1,520,000	10,385,000	<b>1,947,781</b>
2023/24	372,634	1,575,000	8,810,000	<b>1,947,634</b>
2024/25	313,431	1,635,000	7,175,000	<b>1,948,431</b>
2025/26	251,087	1,690,000	5,485,000	<b>1,941,087</b>
2026/27	184,200	1,760,000	3,725,000	<b>1,944,200</b>
2027/28	112,500	1,825,000	1,900,000	<b>1,937,500</b>
2028/29	38,000	1,900,000	-	<b>1,938,000</b>
2029/30	-	-	-	-
2030/31	-	-	-	-
2031/32	-	-	-	-
2032/33	-	-	-	-

---

Source: 2009B Official Statement

---

**Napa Sanitation District  
Debt Service**

---

Table 5

Napa Sanitation District

Revenue Certificates of Participation, Series 2012A

2.86% True Interest Cost (TIC), 20 year term  
\$37,845,000

Fiscal Year Jul 1	Annual Interest	Principal Payment	Ending Principal	Total Payment
2016/17	1,212,175	1,445,000	32,555,000	<b>2,657,175</b>
2017/18	1,153,175	1,505,000	31,050,000	<b>2,658,175</b>
2018/19	1,091,775	1,565,000	29,485,000	<b>2,656,775</b>
2019/20	1,027,975	1,625,000	27,860,000	<b>2,652,975</b>
2020/21	961,675	1,690,000	26,170,000	<b>2,651,675</b>
2021/22	892,575	1,765,000	24,405,000	<b>2,657,575</b>
2022/23	820,675	1,830,000	22,575,000	<b>2,650,675</b>
2023/24	745,875	1,910,000	20,665,000	<b>2,655,875</b>
2024/25	667,875	1,990,000	18,675,000	<b>2,657,875</b>
2025/26	586,675	2,070,000	16,605,000	<b>2,656,675</b>
2026/27	502,275	2,150,000	14,455,000	<b>2,652,275</b>
2027/28	425,825	2,230,000	12,225,000	<b>2,655,825</b>
2028/29	357,875	2,300,000	9,925,000	<b>2,657,875</b>
2029/30	287,900	2,365,000	7,560,000	<b>2,652,900</b>
2030/31	215,900	2,435,000	5,125,000	<b>2,650,900</b>
2031/32	135,275	2,520,000	2,605,000	<b>2,655,275</b>
2032/33	45,588	2,605,000	-	<b>2,650,588</b>

---

Source: 2012A Official Statement

---

**Napa Sanitation District  
Debt Service Summary  
Tables 1 - 5**

	Table 1 2003 SRF \$901,376	Table 2 2008 SRF Phase I \$1,652,171	Table 3 2008 SRF Phase II \$219,444	Table 4 Series 2009B \$26,675,000	Table 5 Series 2012A \$37,845,000	
Fiscal Year Jul 1	Total	Total	Total	Total	Total	FY Total All Debt Service
2016/17	60,247	82,609	10,972	1,956,779	2,657,175	<b>4,767,781</b>
2017/18	60,247	82,609	10,972	1,958,229	2,658,175	<b>4,770,231</b>
2018/19	60,247	82,609	10,972	1,953,554	2,656,775	<b>4,764,156</b>
2019/20	60,247	82,609	10,972	1,952,064	2,652,975	<b>4,758,866</b>
2020/21	60,247	82,609	10,972	1,952,518	2,651,675	<b>4,758,020</b>
2021/22	60,247	82,609	10,972	1,949,371	2,657,575	<b>4,760,773</b>
2022/23	60,247	82,609	10,972	1,947,781	2,650,675	<b>4,752,283</b>
2023/24	-	82,609	10,972	1,947,634	2,655,875	<b>4,697,090</b>
2024/25	-	82,609	10,972	1,948,431	2,657,875	<b>4,699,887</b>
2025/26	-	82,609	10,972	1,941,087	2,656,675	<b>4,691,343</b>
2026/27	-	82,609	10,972	1,944,200	2,652,275	<b>4,690,056</b>
2027/28	-	82,609	10,972	1,937,500	2,655,825	<b>4,686,906</b>
2028/29	-	82,609	10,972	1,938,000	2,657,875	<b>4,689,456</b>
2029/30	-	-	-	-	2,652,900	<b>2,652,900</b>
2030/31	-	-	-	-	2,650,900	<b>2,650,900</b>
2031/32	-	-	-	-	2,655,275	<b>2,655,275</b>
2032/33	-	-	-	-	2,650,588	<b>2,650,588</b>