



Public Contribution Proposal for A.12-04-019

- MPWMD issues Certificates of Participation (COPs) in the public market
- Proceeds are delivered to Cal-Am to be used for construction of desalination facility, and that amount is removed from the undepreciated rate base and is not subject to a return earned by Cal-Am
- District does not take ownership of facility, but revenues required from ratepayers are reduced
- COPs are tax-exempt, but deemed “private activity” under federal tax law
- Repayment is secured by the District’s water enterprise Net Revenues
- Net Revenues are Gross Revenues minus District water enterprise operating expenses
- Gross Revenues include a Surcharge collected on the Cal-Am bill (similar to the old User Fee), the District’s Water Supply Charge, certain permit fees, interest earnings, and amounts in a Rate Stabilization Fund. The Surcharge is set to equal 100% of debt service in each future year. Cal-Am agrees that it does not book the surcharge as a debt.
- The District will covenant to maintain Net Revenues in an amount equal to 125% of debt service required in each year – the Coverage Requirement. District will pledge to enact a Prop 218 process in the future to maintain the Coverage Requirement, should Cal-Am falter and the Surcharge is inadequate.
- District will also borrow and maintain a debt service reserve fund equal to one year’s debt service

The amount of public contribution is subject to ongoing discussion. The \$100 million example is shown in greater detail on the next page. Estimated savings to the ratepayer are as follows:

Public Contribution Amount In 2016	Total Ratepayer Savings Over Life of Project	Net Present Value of Ratepayer Savings in 2016 Dollars
\$100 million	\$124.5 million	\$79.2 million
\$50 million	\$62.2 million	\$39.6 million

Assumptions used in the analysis:

Traditional Cal-Am Financing

47% debt / 53% equity
 5.00% debt interest rate
 9.99% post-tax equity rate of return
 40.75% Effective Tax Rate
 35% Federal tax rate
 8.84% California tax rate
 1.05% Ad Valorem Tax Rate
 0.2643% Uncollectibles
 40 year depreciable life (2.50% factor)
 25 year tax depreciable life (4.00% factor)

District Public Financing

3.50% interest cost
 30 year term
 Debt service reserve fund equal to one annual debt payment
 Issuance costs equal to 1% of proceeds plus reserve

Analysis does not assume use of State Revolving Fund loans instead of corporate debt, which would reduce the benefits of a public contribution, but such benefits would remain substantial.

Scenario 1: MPWMD Contribution of \$100 million

	Public Agency Debt Calculation					Traditional Utility Financing Method				Savings From MPWMD Contribution	
	<u>Principal Due</u>	<u>Interest Due</u>	<u>Total Debt Service</u>	<u>Debt Service Reserve Used</u>	<u>Net Debt Service</u>	<u>Depreciation & Amortization</u>	<u>Total Pre-Tax Return</u>	<u>Ad Valorem Taxes</u>	<u>Total Revenue Requirement</u>	<u>Annual Savings</u>	<u>NPV of Savings</u>
2017	\$2,070,117	\$3,740,275	\$5,810,392	\$203,364	\$5,607,029	\$2,500,000	\$11,169,644	\$1,041,907	\$14,711,551	\$9,104,522	\$8,670,974
2018	2,142,571	3,667,821	5,810,392	203,364	5,607,029	2,500,000	10,846,670	1,011,780	14,358,450	8,751,421	7,937,797
2019	2,217,561	3,592,831	5,810,392	203,364	5,607,029	2,500,000	10,492,902	978,780	13,971,682	8,364,653	7,225,702
2020	2,295,176	3,515,216	5,810,392	203,364	5,607,029	2,500,000	10,138,972	945,765	13,584,737	7,977,708	6,563,280
2021	2,375,507	3,434,885	5,810,392	203,364	5,607,029	2,500,000	9,785,041	912,751	13,197,791	7,590,762	5,947,561
2022	2,458,650	3,351,742	5,810,392	203,364	5,607,029	2,500,000	9,431,109	879,736	12,810,845	7,203,816	5,375,599
2023	2,544,703	3,265,690	5,810,392	203,364	5,607,029	2,500,000	9,077,178	846,721	12,423,899	6,816,870	4,844,623
2024	2,633,767	3,176,625	5,810,392	203,364	5,607,029	2,500,000	8,723,247	813,706	12,036,953	6,429,924	4,352,026
2025	2,725,949	3,084,443	5,810,392	203,364	5,607,029	2,500,000	8,369,316	780,692	11,650,007	6,042,978	3,895,358
2026	2,821,357	2,989,035	5,810,392	203,364	5,607,029	2,500,000	8,015,384	747,677	11,263,061	5,656,032	3,472,313
2027	2,920,105	2,890,287	5,810,392	203,364	5,607,029	2,500,000	7,661,453	714,662	10,876,115	5,269,086	3,080,726
2028	3,022,309	2,788,084	5,810,392	203,364	5,607,029	2,500,000	7,307,522	681,647	10,489,169	4,882,140	2,718,558
2029	3,128,089	2,682,303	5,810,392	203,364	5,607,029	2,500,000	6,953,591	648,632	10,102,223	4,495,194	2,383,898
2030	3,237,573	2,572,820	5,810,392	203,364	5,607,029	2,500,000	6,599,660	615,618	9,715,277	4,108,248	2,074,945
2031	3,350,888	2,459,505	5,810,392	203,364	5,607,029	2,500,000	6,245,728	582,603	9,328,331	3,721,302	1,790,010
2032	3,468,169	2,342,224	5,810,392	203,364	5,607,029	2,500,000	5,891,797	549,588	8,941,385	3,334,356	1,527,507
2033	3,589,555	2,220,838	5,810,392	203,364	5,607,029	2,500,000	5,537,866	516,573	8,554,439	2,947,410	1,285,945
2034	3,715,189	2,095,203	5,810,392	203,364	5,607,029	2,500,000	5,183,935	483,559	8,167,493	2,560,464	1,063,926
2035	3,845,221	1,965,172	5,810,392	203,364	5,607,029	2,500,000	4,830,003	450,544	7,780,547	2,173,518	860,135
2036	3,979,803	1,830,589	5,810,392	203,364	5,607,029	2,500,000	4,476,072	417,529	7,393,601	1,786,572	673,340
2037	4,119,096	1,691,296	5,810,392	203,364	5,607,029	2,500,000	4,122,141	384,514	7,006,655	1,399,626	502,385
2038	4,263,265	1,547,128	5,810,392	203,364	5,607,029	2,500,000	3,768,210	351,499	6,619,709	1,012,680	346,185
2039	4,412,479	1,397,913	5,810,392	203,364	5,607,029	2,500,000	3,414,278	318,485	6,232,763	625,734	203,721
2040	4,566,916	1,243,476	5,810,392	203,364	5,607,029	2,500,000	3,060,347	285,470	5,845,817	238,788	74,041
2041	4,726,758	1,083,634	5,810,392	203,364	5,607,029	2,500,000	2,706,416	252,455	5,458,871	-148,158	-43,751
2042	4,892,194	918,198	5,810,392	203,364	5,607,029	2,500,000	2,387,069	222,666	5,109,735	-497,294	-139,859
2043	5,063,421	746,971	5,810,392	203,364	5,607,029	2,500,000	2,102,488	196,121	4,798,608	-808,421	-216,534
2044	5,240,641	569,751	5,810,392	203,364	5,607,029	2,500,000	1,818,091	169,592	4,487,682	-1,119,347	-285,538
2045	5,424,063	386,329	5,810,392	203,364	5,607,029	2,500,000	1,533,694	143,063	4,176,757	-1,430,272	-347,479
2046	5,613,906	196,487	5,810,392	5,810,392	0	2,500,000	1,249,298	116,535	3,865,833	3,865,833	894,467
2047	0	0	0	0	0	2,500,000	964,902	90,006	3,554,908	3,554,908	783,358
2048	0	0	0	0	0	2,500,000	680,505	63,478	3,243,983	3,243,983	680,802
2049	0	0	0	0	0	2,500,000	396,109	36,949	2,933,058	2,933,058	586,238
2050	0	0	0	0	0	2,255,699	126,955	11,842	2,394,497	2,394,497	455,804
2051	0	0	0	0	0	0	0	0	0	0	0
2052	0	0	0	0	0	0	0	0	0	0	0
2053	0	0	0	0	0	0	0	0	0	0	0
2054	0	0	0	0	0	0	0	0	0	0	0
2055	0	0	0	0	0	0	0	0	0	0	0
2056	0	0	0	0	0	0	0	0	0	0	0
	\$106,865,000	\$67,446,771	\$174,311,771	\$11,707,941	\$162,603,830	\$84,755,699	\$185,067,593	\$17,263,145	\$287,086,432	\$124,482,602	\$79,238,060

Assumes 3.5% interest rate, issuance costs, and reserve fund

Note: No gross-Up for Uncollectibles