

What if you don't need \$5,000,000; what if rate payers want to pay less interest?

Introduction

Without understanding the Water Enterprise financials, you can't really decide if it is a good idea to borrow \$5,000,000. What if you don't need \$5,000,000? To borrow \$5,000,000 only because the lender requires it **would be a more irresponsible financial decision than borrowing \$5 million dollars for wireless water meters.**

The staff report is proposing just that. Borrow \$5,000,000 from the highest cost lender without data supporting need or justifying the choice the higher cost.

The city does have data. Raftelis did a rate study in 2024 that identified the need to finance \$3.8MM of the anticipated CIP projects. Borrowing more at the highest interest rate will cost \$4.0MM over the life of the loan.

Is \$4.0 MM over the life of the loan worth the benefits to staff of more flexible terms and easier applications procedures?

Where are the financial numbers to support the recommendation?

Without understanding the Water Enterprise financials, you cannot really decide if it is good idea to borrow \$5,000,000. What if you don't need \$5,000,000? To borrow \$5,000,000, if you don't need it, increases the borrowing cost to rate payers. This is irresponsible financial management of Water Enterprise.

The city does offer a qualitative rationale for choosing WIFIA



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City of Sebastopol – Water Project Funding Recommended

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- Water System Funding Recommendations:
 - Pursue WIFIA Funding For CIP Water Project Priorities
 - Account for in updated utility rates.
 - Develop projects into design phase.
 - Take advantage of WIFIA funding term flexibility to reduce future rate impacts.



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City of Sebastopol – Water Funding Option Review

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- Basis For Water System Funding Recommendations (lowest is best):

Water Funding Sources	DWSRF	IBank	WIFIA
Timeliness	3	1	1/2
Interest Rates	1	1/2	1/2
CEQA Requirements	3	1	1/2
Funding Admin. Costs	3	1/2	1/2
Reimbursement flexibility/timing	3	1/2	1/2
Funding Agreement Flexibility	3	2	1 ★
SCORING	16	8.5	8.5

Timing = DWSRF timeliness is poor requiring 2 years for funding approval and agreement execution.

Interest Rates = DWSRF is lowest however costs can increase while waiting for approvals.

CEQA = DWSRF requires additional CEQA submittals (CEQA Plus).

Funding Admin. Costs = DWSRF has significantly higher admin. costs due to program inefficiencies.

Reimbursements = DWSRF quarterly with paper check; others monthly or bi-monthly with funds wired to account.

Criteria 1: Timing Delays

Delays in getting a lower interest DWSRF loan are cited as decision criteria. DWSRF gets the highest (worst) score (3) for timeliness.

DWSRF is well known for taking up to a year to issue a loan. Much of that is attributed to city's not getting all of the requirements in place and submitted according to the required timelines.

The good news is the city has been working on this now since it was identified in the 2024 rate study...right?.

The State Water Board's annual funding process indicates that if the City completes the Well 4 design, environmental work and DWSRF application

by December 31, 2026, it is reasonable to target a DWSRF financing agreement by approximately June/July 2027. That timing is not guaranteed, but it is consistent with the State Water Board's annual funding process.

How to deal with the longer lead time for DWSRF loans.

One consideration for financing is to seek a bridge loan. Bridge loans are commonly used when you are constructing a new home. Typically, the lender charges only interest and money can be loaned as needed over time to reduce borrowing costs. According to the DWSRF website they do permit bridge loans.

The cost of a bridge loan could be \$200-300,000 depending on how long it is necessary. This allows you to save rate payers up to \$4MM on higher interest costs from other lenders while you wait for DWSRF loan approval and issuance.

Criteria 2: Interest Costs

DWSRF is scored “1” for interest (rate), presumably that is good. WIFIA gets a 1/2 - (I guess that is almost as good?).

- The interest rate for DWSRF is 2.1%.
- WIFIA is more than double that rate at 5.5%.
- This difference increases expected loan costs by \$3.5 MM.
- Payments at 5.5% would be \$344,027. At 2.1% the payment is only \$226,330
- **This means you are paying \$6,000,000 for your \$3,000,000 well.**
- **Correction: sorry, rate payers are paying \$6MM.**

Criteria 3: CEQA Requirements

CEQA-plus is listed as a disadvantage of the DWSRF loan. Presumably time and cost to do studies and reports and time for review and approval. Only one problem - The staff report says specifically:

“The Well 4 CEQA document reflects the Well 4 Mitigation and Replacement Project is exempt from CEQA” with replacement on the same site with the same capacity, function, and purpose.”

CEQA is not a factor in the decision.

Criteria 4: Funding Admin Costs

If Admin cost is a real factor in the decision – consider the interest cost difference between the loans over 30 years is \$4,000,000. It would be difficult to imagine administrative costs that could match that difference.

Criteria 4/5: Flexibility?

Flexibility gets a big star and the “low score (1=best)”. The staff report explains why flexibility is compelling to the city:

“This would allow the City to complete and place multiple priority water projects into service during the five-year capitalization period before beginning debt repayment, providing the Water Enterprise additional time to build reserves and establish the revenue capacity needed to support the resulting debt service.”

The rationale for the all-important flexibility may be a false choice.

- **Assuming the city acts quickly to implement the recommended EFOC reforms, the reserves are maintained well above the 25% requirement.**
- Revenue capacity is sufficient to support the resulting debt service.
- There is no reason to defer payments. The star is misleading and should be ignored.

Delaying payments on a loan is always a poor financial decision. The lender charges interest on the loan amount even as no payments are made. The interest charge is typically added to the loan amount and the payment is recalculated. You pay interest on the interest which you in effect borrowed from the lender. **The water enterprise has no need to delay making payments on this loan for 5 years and the interest cost of that delay would be enormous.**

The staff report also discusses flexibility in the context of the larger capital program:

WIFIA also provides an opportunity to consider Well 4 within the context of the City's broader water capital program rather than treating the replacement well as an isolated project. With the 2026 Water Master Plan Update identifying approximately \$10 million in recommended water projects for implementation over the next five to ten years, establishing a financing strategy now will allow the City to consider Well 4 within that larger capital program and potentially use the same financing approach for other high-priority infrastructure.

- Assume this means they can continue to borrow more to do more projects without a great burden to apply for more money.
- Again, the issue is 5% interest over 30 years vs lower interest 2.1%. The savings is approximately \$3MM over 30 years.
- The other question is what further financing needs are there? Where is the data. The analysis here suggests \$4MM is sufficient to address the priorities in the staff

report. Adjusting rates in FY29-30 will provide additional cash for capital projects.

Why \$5,000,000 loan? – Does the water enterprise need this much money?

Probably not.

- Seems to be driven by a lender requirement unique to WIFIA
- The financial analysis below shows a \$4,000,000 loan would do the trick.
- Raftelis estimated the loan requirement at \$3,800,000 in 2024 when they did the rate study.
- A \$4,000,000 loan at 2.1% has a payment of \$181,064. This is over \$140,000 a year less than borrowing \$5MM at 5%
- Interest over the life of the \$4MM loan would be only \$1,431,920.
- **A total savings of \$3.9MM compared to the \$5,000,000 borrowed at 5%.**

What happened to the lawsuit?

That is one more detail before you launch into borrowing millions of dollars.

- Our last city attorney/city manager promised that the lawsuit settlement would pay for replacing this PCE contaminated well.
- **Does anyone on city council want to know what happened? Do you already know. Is this something discussed behind closed doors and not shared with the community?**

What happened to the grants?

- Hoping for grants is a fool's errand. Applying for grants is good practice.
- This well replacement has been on the books since 2024 and seriously moving forward since March 2016.
- What grants have been applied for? Why were they turned down?