JOINT MEETING OF THE
INTEGRATED RESOURCE PLANNING ADVISORY COMMITTEE
AND FINANCIAL SUBCOMMITTEE
MEETING SUMMARY

December 5, 2012, 4:00 p.m.

Colorado River Conference Rooms, Southern Nevada Water Authority
100 City Parkway, Seventh Floor, Las Vegas, Nevada

IRPAC Members Present	Tom Burns	Bob Kasner
	Kirk Clausen	Jennifer Lewis
	Thalia Dondero	Bobbi Miracle
	Bob Ferraro	Phil Ralston
	Mike Forman	John Restrepo
	Joyce Haldeman	Danny Thompson
	Warren Hardy	Virginia Valentine
	Katherine Jacobi	
IRPAC Members Absent	Garry Goett	Scot Rutledge
	Carol Jefferies	David Scherer
	Otto Merida	D. Taylor
Financial Subcommittee Present	Jay King	Launce Rake
	Brian McAnallen	Gay Shoaff
	Jarmilla McMillan-Arnold	Joe Woody
	Terry Murphy	
Staff Present:	John Entsminger	Zane Marshall
	Phil Speight	Julie Wilcox
	Ron Zegers	Andy Belanger
	Ken Albright	Katie Horn
	Kevin Fisher	
Others Present:	Guy Hobbs	Brian Thomas

PUBLIC COMMENT

Referring to the materials provided for this meeting, Ed Uehling asked if the $92.9 million infrastructure charge referenced in the presentation was the original infrastructure charge or the revised one. He then asked if it was customary to list bond proceeds in an organization's operational budget. Finally, Mr. Uehling noted that wages comprise 14 percent of the SNWA's budget and 14 percent of the City of Henderson's. Mr. Uehling questioned why the wages of the wholesaler were comparable to a retailer's, like Henderson.

SUMMARY OF ACTIVITIES

The Southern Nevada Water Authority's (SNWA's) Integrated Resource Planning Advisory Committee (IRPAC) and member agency financial subcommittee (Financial Subcommittee) met on Wednesday, December 5, 2012. The meeting began at approximately 4:07 p.m.

Approve the November 14, 2012 meeting summary. There being no comments or questions, the meeting summary was approved by the committee.

Facilitator, Dave Ebersold, noted that the committee has made several requests for information at previous meetings. In response, the following information was provided:

- Commercial bills of various meter types from LVVWD[1] and the City of Henderson. The City of North Las Vegas will be providing copies of commercial bills at a later date.
- The Infrastructure Surcharge Business Impact Statement.
- Information pertaining to revenue generated by late fees.
- Information pertaining to non-residential customers.
- Information pertaining to LVVWD non-single family residential customer accounts.

Review and finalize rate attributes. Mr. Ebersold explained that the committee needed to develop and weight rate structure attributes to:

- Provide a "common language" to support discussion.
- Illustrate the complementary and competing aspects of certain attributes.
- Allow for the clear communication of stakeholders' interests and values.
- Facilitate the evaluation of various rate alternatives and their impacts.

At the October 24, 2012 meeting, the committee developed a list of rate structure attributes. Using committee comments and input, Mr. Ebersold developed draft definitions for each attribute. The committee discussed the draft definitions and came to a consensus on the final attribute list.

<u>Legal</u> - Warren Hardy stated that the definition should not limit the committee from making recommendations that might require future legislation or regulatory changes. The committee agreed upon the following definition:

> ***Legal - A threshold requirement. Any rate structure must be fully compliant with all applicable laws and regulations. Does not preclude committee recommendations for future legislation or changes.***

Mr. Hardy added that the committee has missed deadlines relative to the 2012 Legislative Session. However, if there are minor tweaks that are not controversial, there might be opportunities to propose amendments to bills.

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[1]Summary of LVVWD bills provided: Large casino/hotel - $65,135.83; Manufacturer - $462.89; Big Box/Grocery - $37.31; and Office Building $461.48. Customers with fire lines are those bills that reflect a rebate or credit in the summary of charges.

Provide Enough Money - This attribute's name was changed to "Sufficiency or Adequacy." John Restrepo asked if a minimum for reserves needed to be established. John Entsminger, SNWA Senior Deputy General Manager, explained that reserve levels are a policy decision made by the SNWA Board of Directors based on the advice of financial advisors. Mr. Restrepo asked if there are minimum standards used by water agencies. Guy Hobbs, Hobbs, Ong & Associates, said that, in general, reserves are established at one year of principal and interest. The committee agreed upon the following definition:

Sufficiency or Adequacy - A threshold requirement. Any rate structure must provide adequate revenues to cover costs and appropriate levels of reserves. (A minimum of the average of the highest years of principal and interest on outstanding debt).

Financeable - Bob Kasner stated that the SNWA's current rate structure formula is volatile and unreliable, which should be taken into consideration. Mr. Restrepo noted that "favorable" is a vague word. He suggested that the committee list an actual rating or range in the definition. Mr. Hobbs said rating agencies determine ratings and it is out of the SNWA's control. Therefore, it should not be included in the definition. The committee agreed upon the following definition:

Financeable - Relates to credit quality. Generates a reliable revenue stream and maintains adequate reserves for favorable bond ratings.

Equitable - "Equitable" and "Fair" were combined into a single attribute. Kirk Clausen asked if the water industry had guidelines when it comes to concepts such as "affordability at the household level" or "rate stabilization." Brian Thomas, Public Financial Management, advised that the attributes under discussion (sufficient revenues, equitable, understandable, transparent) are common throughout the industry. Joyce Haldeman asked how fairness comes into play relative to a public entity that does not generate a profit, such as the Clark County School District. Mr. Hobbs suggested that Ms. Haldeman's question would be better answered when the committee discusses rate setting and rate alternatives. Terry Murphy asked if "fair" can even be defined. Mr. Hardy stated that he prefers rates to be based on usage instead of ability to pay. Mr. Ebersold suggested the committee consider "Horizontal Equity" and "Vertical Equity." The committee agreed upon the following definition:

Equitable and Fair -

Horizontal: each customer in the same class being charged on the same basis.

Vertical: rate differentiation among customer classes based on differences in cost of service and/or service level requirements.

Scalable - The committee agreed to delete this attribute.

Stable - Mike Forman said the need to include "stable" as a rate structure attribute ties in to the decline in revenues from connection charges. The committee agreed upon the following definition:

> ***Stable - Relates to the degree of volatility. "Stable" implies that lower volatility is more desirable than higher volatility.***

Address Economic Environment At Any Point In Time - Mr. Ebersold asked if this attribute should be combined with stability. Mr. Clausen said it relates to flexibility. Mr. Kasner noted that property taxes were the most stable revenue and they dropped by 50 percent. For that reason, "flexibility" should mean the rate structure contains a mechanism for adjustment, if needed. The committee agreed that this definition should call for "adequate" revenues to be maintained. Mr. Clausen asked if the committee should consider the attributes from the user's perspective or the SNWA's. Mr. Hobbs suggested that certain attributes (predictability, stability, ease of administration) are more important to the SNWA while other attributes (equity) will be paramount to individual users. He stated that the committee will need to decide if it is viewing the attributes from a dual perspective or from the individual perspectives of either the SNWA or its customers. Tom Burns suggested the committee should view the attributes from an arbitrator's perspective to find a rate that doesn't overly burden one side or the other. The committee agreed upon the following definition:

> ***Address Economic Environment At Any Point In Time, Maintain Flexibility - Relates to the ability to maintain adequate revenues (neither too low nor too high) under changing economic conditions.***

Take Into Account Economic Region's Primary Economic Drivers - The committee agreed to delete this attribute.

Encourage Economic Development Consistent with Water Supply - Launce Rake stated that a progressive rate structure inherently encourages development consistent with low water use and conservation. Mr. Entsminger agreed that a tier structure implicitly encourages low-volume businesses because higher volume businesses pay a higher water rate. Danny Thompson voiced concern that this attribute could cause an administrative issue by setting too many different rates. Phil Ralston added that "economic incentive" is a concept that must be dealt with on a case-by-case basis. It cannot be laid over the top of any given rate structure. Ms. Murphy stated that she felt the current tier-structure already achieves the goal of this attribute. The committee agreed to delete this attribute.

Encourage Conservation - The committee agreed upon the following definition:

> ***Encourage Conservation - Relates to the rate structure's effectiveness at encouraging the conservation of water, especially outdoor conservation.***

Simple to Administer - The committee agreed upon the following definition:

> ***Simple to Administer - Relates to the ability to administer and enforce in a low-cost manner.***

Able to Project or Budget - This attribute's name was changed to "Predictable." The committee agreed upon the following definition:

> ***Predictable - Relates to the ability of both the customer and utility to reasonably forecast the costs and revenues, respectively, from individual rate components and the total rate.***

Responsible - The committee agreed to delete this attribute.

Transparent - The committee agreed that the customers (individual and commercial) need to be able to understand and calculate the charges comprising the total bill. Brian McAnallen added that the agencies need to communicate and explain these charges better. Mr. Forman suggested that the concept of "transparency" be discussed as an actionable item when the committee discusses the rate structure. This attribute's name was changed to "Understandable." The committee agreed upon the following definition:

> ***Understandable - Relates to the ability of the customer (person or business) to readily calculate the individual charges comprising the total bill.***

In discussing "transparency," the committee agreed that its first recommendation is that the process of developing a rate must be transparent. Ms. Murphy suggested, and the committee agreed upon, the following recommendation language: "Rates are developed through a transparent and inclusive community process."

Competitive Relative to Environment - Mr. Thompson stated that the cost of delivering water varies by region. He noted that this attribute might be desirable, but he does not feel it is doable. Mr. Ralston said that one class of user should not benefit to the competitive detriment of another class. Mr. Forman felt that Mr. Ralston's concern was covered by the Equitable and Fair attribute. Ms. Murphy stated that this attribute encourages a competitive rate structure, but she did not feel that water rates should be based on attracting specific industries. Mr. Hardy asked if, simply put, the committee was trying to say that water rates should not be excessive. Mr. Kasner suggested the attribute be removed. He stated that if a business was a heavy water user and decided to move to the driest desert in the United States, they would have to pay for water and their rate would not be "competitive." The committee agreed to delete this attribute.

Each committee member was given a copy of the attributes list and, using a scale of one to 10, was asked to assign a level of importance or weight to each attribute (1 = "low importance;" 10 = "high importance"). If a committee member disagreed with an attribute, they were advised to weight it at a zero. Committee members were also asked to circle the five attributes they feel the list must contain. The attribute lists were collected, and Mr. Ebersold said he would present the information at the next IRPAC meeting.

Next, Mr. Ebersold reminded the committee that they had been provided a calendar of meeting dates for 2013. Mr. Hardy pointed out that a number of committee members would be impacted by the upcoming legislative session. Katie Horn explained that during months of the session, facility tours might be conducted in lieu of meetings.

Receive a presentation on SNWA debt, finances and bond financing. Mr. Hobbs advised that in addition to SNWA finances and bonding, this presentation would provide an introduction to the rate modeling process. Mr. Hobbs explained that it was fundamental to understand the SNWA's expenditure structure is largely driven by fixed obligations (debt service).

Mr. Hobbs described the SNWA's budgeted revenue mix for fiscal year 2013:

- Wholesale Delivery Charge
- Connection Charges
- Infrastructure Charge
- Commodity Charge
- Reliability Surcharge
- Sales Tax
- Other

Mr. Ralston asked if the bonding market considers "sales tax" a fixed or variable charge. Mr. Hobbs replied that he does not know if the bonding market considers it one way or the other. He added that the market looks at it as a good credit quality, because it is a traditional revenue source that the credit market is used to seeing.

Continuing, Mr. Hobbs stated that primary revenue components are comprised of:

<u>Wholesale Delivery Charge</u>

- Paid by Boulder City, Henderson, North Las Vegas and the Las Vegas Valley Water District. Nellis Air Force Base pays a modified Wholesale Delivery Charge.
- $293 per acre foot.
- Estimated 2013 sales of 407,815 acre-feet (including return-flow credits).
- Projected revenue of $117,500,000 (FY 2013 Budget).
- Used to fund expenditures not related to capital outlay for the improvement or expansion of the Southern Nevada Water System (single largest expense is energy).
- Can be used to pay debt service for repair, replacement or reconstruction.

<u>Sales Tax</u> - In today's market, one quarter of one percent is estimated to generate between $77 million and $78 million in revenue. Divided amongst the recipient entities, the SNWA is budgeted to receive $44.4 million; Las Vegas Wash is budgeted to received $3.1 million; rural Clark County areas are budgeted to receive $2.6 million; and wastewater agencies are budgeted to receive $27.4 million. Mr. Hobbs explained that sales tax is a non-traditional water revenue unique to Southern Nevada. Water agencies around the Country customarily use property taxes as an other, non-rate oriented revenue source. Mr. Restrepo asked if the property tax component is common on the East or West Coasts. Mr. Hobbs responded that it is common nationally. Continuing, Mr. Restrepo asked if cities such as Phoenix, Tucson and Salt Lake use the property tax model. Mr. Hobbs explained that at the end of the presentation he would provide a table depicting a sampling of different water agencies (as surveyed by the Metropolitan Water District of Southern California), which looked at how much of their rates were

based on fixed components, variable components and how much may be based on other revenue sources. The committee would see variations among them.

Mr. Hobbs further explained that when sales tax was enabled as a revenue source for water and wastewater use, a sunset provision of $2.3 billion or June 30, 2025 (whichever occurs first) was placed on it. At the 2011 Legislative Session, the Clark County Commission was authorized to extend the sunset should it deem it necessary to do so. Mr. Hobbs advised the committee that they would be asked to make a recommendation regarding sales tax revenue—whether it should go away in 2025 or be extended. He explained that the committee's recommendation would be helpful to the County Commission in making that decision.

Mr. Ralston asked if sales tax was an opportunity for an increment as opposed to just an extension. Mr. Hobbs said that additional increases are open for discussion. He noted that Clark County's current rate is 8.1 percent; a portion of which is temporary, but unlikely to go away. The Metropolitan Police Department has expressed interest in liberalizing the use of the quarter-cent sales tax and possibly adding another quarter-cent. Sales tax is usually the most desired revenue source since property tax is no longer predictable. With what has happened to property values and abatements put on property tax, the ability to recover former levels is impeded. Even if property values were to recover dramatically, there would still be a three percent cap on residential and eight percent cap on non-residential to contend with. Mr. Ralston asked if the SNWA has pursued property tax as a revenue source. Mr. Hobbs said the SNWA has not pursued it as an operating source of revenue, but property tax exists as a backstop for debt. The State views property tax as a domain for local government and the School District. Mr. Hobbs added that this discussion was not meant to discourage the committee from looking at alternative ways to offset the funding requirements other than rates and charges.

<u>Reliability Surcharge</u> - Surcharge on the combined bill.

<u>Commodity Charge</u> - A volumetric rate that produces revenue associated with the amount of the commodity that is actually consumed.

<u>Infrastructure Charge</u> - A fixed charge based on size and type of meter (residential, non-residential and non-residential fire). Mr. Hobbs noted that an earlier slide depicted revenue from the infrastructure charge at $93 million. The net amount of revenue generated from the $93 million in gross charges would be $78.8 million, which was reduced as a result of the credit on the fire meters.

<u>Connection Charge</u> - When growth was occurring, connection charge revenues were healthy. At its peak, the charge generated $188 million. Revenues have fallen away to less than one-tenth of that and are not expected to recover to peak levels in the near future.

<u>Other Revenue</u> - Includes fees and revenue from Groundwater Management Program, Las Vegas Wash program fees, interest income, and Southern Nevada Public Lands Management Act (SNPLMA) land sales. SNPLMA revenue is generated from the sale of public lands that can be used for capital projects. It has been a key contributor in the past, but has experienced significant declines due to lack of growth within the County.

Mr. Hobbs then described how revenues are used. The SNWA's expenditure mix is largely fixed costs other than payroll at 14 percent and a portion of the operating expense.

- Debt Service ($149.3 million) - contractual obligation with bond holders
- Capital Expenditures ($176.5 million) - bond proceeds
- Payroll ($68.6 million)
- Operating ($62.4 million)
- Energy ($42.5 percent)

Mr. Hobbs explained that bond proceeds are not co-mingled with operating revenues. It is not legally permissible to use bond proceeds for operating costs. One of the charts showed them combined just to present a view of "resources" - not "revenues."

Mr. Hobbs then began an overview of bond issuance. He explained that the SNWA issues debt on both a taxable and tax-exempt basis (mostly tax-exempt). Mr. Hobbs noted that a recent program available to the SNWA allowed for the issuance of Build America Bonds (BABs). BABs are bonds that are otherwise taxable where the federal government pledged to pay 35 percent of the interest costs on those taxable bonds. With the federal government paying 35 percent of the interest costs, it actually made the overall debt cost to the SNWA cheaper than issuing tax-exempt debt. The BABs program has not been extended, and the SNWA is not issuing any more of those bonds.

Mr. Hobbs stated that the traditional way of issuing debt is on a tax-exempt basis—lowest yields and thus lowest cost to capital to the SNWA. These are referred to as Double Barreled General Obligation Bonds (GO). In the event of a shortfall of revenue arising from rates, Nevada law and bond covenants require the SNWA to raise its rates to make good on its debt obligations. If rate increases did not generate revenues sufficient to meet bond obligations, the SNWA is then required to levy a property tax. Responding to Mr. Ralston's earlier question about the SNWA pursuing property tax as a revenue source, Mr. Hobbs stated that it has never happened, but it remains as a backstop to the bonds, which is extremely meaningful in the credit markets because the SNWA is able to market revenue bonds as GO-backed revenue bonds. Double Barreled GO Bonds are of the highest credit quality, because there are two sources of revenue to pay debt. The market considers the general obligation as the primary source and the actual revenue from rates and charges as the secondary source.

The SNWA is not currently using any straight revenue bonds, but Mr. Hobbs explained that those are the pledge of the rates and charges without the general obligation backing. He said the SNWA does use medium-term bonds, commercial paper and other variable-rate forms of financing to complement its overall financing mix.

Mr. Kasner asked how BABs are refinanced, and if they are required to be refinanced as taxable or tax-free bonds. Mr. Thomas answered that although it has not been tested, he believes they could be refinanced with tax-exempt bonds.

Continuing, Mr. Hobbs explained that the SNWA traditionally issues mostly fixed-rate debt. The advantage of fixed-rate debt is that the SNWA's obligation was known ahead of time and would not change. Variable-rate debt is structured with interest rates that change daily or weekly. Mr. Hobbs added that the SNWA looks to have a good balance of fixed and variable-rate debt in its bond portfolio.

Variable-rate debt mitigates the risk of the steepest part of the yield curve, and it allows the SNWA to borrow at lower rates. The associated risk is that rates would be reset in time at higher rates. If that happens, the ability exists to convert the variable rates to fixed rates. All of that, however, leads to market risk, therefore, government entities like the SNWA prefer fixed-rate debt, but will do some variable exposure from time to time if the market is conducive.

Mr. Hobbs stated that the SNWA does not issue debt itself. Instead, the SNWA issues its debt through conduit issuers:

- Las Vegas Valley Water District
- Clark County Bond Bank
- State of Nevada
- State of Nevada Bond Bank

As of December 1, 2012, the SNWA's total outstanding debt is $3.5 billion.

Mr. Hobbs then showed a slide depicting the credit ratings of the conduit issuers.

Agency	Moody's	S&P
LVVWD	Aa2	AA+
SNWA	n/a	A+
Clark County	Aa1	AA+
State of Nevada	Aa2	AA

Mr. Hobbs noted that a rating of Aa1 is higher than a rating of Aa2. The highest rating is AAA and investment grade ratings are BBB and above. Therefore, the credit ratings of the conduit issuers would be considered premium investment grade.

In discussing credit strengths and weaknesses, Mr. Hobbs pointed out that the LVVWD received a credit challenge notation of "low debt service coverage levels, relative to national peers and medians." Mr. Hobbs explained that this relates to the diminishment of connection charge revenue over the past few years. "Significant expenditure reductions" and "strong financial policies" were listed as credit strengths.

Mr. Ralston asked if there is any significance to the fact that the LVVWD issues bonds based on the credit rating of SNWA, and wondered if doing so effectively makes it an SNWA bond. Mr. Hobbs explained that the SNWA is contractually responsible to make payments for the debt that is issued under the LVVWD's name. It is debt on the books of the LVVWD that SNWA contractually must pay. It is really LVVWD debt, but the ultimate responsibility for paying that debt rests with SNWA. Mr. Ralston asked if the credit market considers LVVWD revenue and expenses in addition to SNWA revenue and expenses when underwriting the debt. Mr. Thomas explained that it is fully expected the SNWA would pay the debt. If they did not, the backstop credit insurance is the LVVWD's general obligation. That is why LVVWD gets the benefit of the AA credit rating. Investors are willing to take on the risk, because they have the full faith and credit of the LVVWD, as well.

Mr. Restrepo asked if the Double Barrel backstop flows to the LVVWD, as well. Mr. Hobbs said the GO back and the revenues are there. Mr. Hobbs added that a measure used in this type of bonding is called "coverage," which is the sufficiency of the revenues from rates and charges. Mr. Restrepo asked, hypothetically, if the LVVWD's rates and charges are insufficient, if it transfers to the SNWA. Mr. Hobbs answered that the LVVWD would not be in that position unless the SNWA put it in that position. The SNWA is contractually obligated to move enough money over to the LVVWD sufficient to pay the debt issued on its behalf. If the SNWA failed to do so, the LVVWD would have to then cover the debt through revenues or implementing an ad valorem tax.

Describing the spread between a BBB rating and a rating of AAA, Mr. Hobbs said at 10 years it was approximately 1.63 percent. The spread moves to 1.5 percent at 30 years. There is a narrowing of the spread between 10 and 30 years, but it is not very significant.

Mr. Hobbs then said that when a conduit issuer sells debt on the SNWA's behalf, they can use one of two sale methods: competitive sale or negotiated sale. Most sales done in Nevada are done on a competitive basis, but large bonds ($100+ million) might be better sold through a negotiated sale. Mr. Hobbs explained that when bonds are sold competitively, all of the information about the security and the issuer is put into a document called a "preliminary official statement." This is a marketing document that will be evaluated to determine risk and assign a rate. If the story is too hard to tell, then it is probably better to sell the bond through a negotiated sale. Mr. Hobbs said the objective is to use the method that gets the lowest cost to capital in the marketplace.

Mr. Ralston asked if there is a withholding from proceeds of a year's worth of debt service when bonds are sold. Mr. Hobbs said it can be put into the bond structure and pre-funded with a portion of bond proceeds. Mr. Ralston asked how much of the SNWA's total debt has existing reserves within the bond mechanism. Mr. Hobbs advised that he would provide that information to the committee at a future meeting.

Mr. Hobbs noted that the SNWA, LVVWD, Clark County and the State of Nevada are all desirable issuers in the marketplace. He added that since water is an essential commodity, water utility debt is more attractive than other alternative forms of debt. Mr. Thomas added that when the economic crisis hit in Southern Nevada, credit markets/investors demanded a lower price for bonds because of the inherent risk in hard hit economies. Since 2009-2010, the spread has come down and more favorable interest rates are available.

Mr. Rake noted that Moody's outlook is "negative" and asked how that affects the desirability of the bonds. Mr. Hobbs said, in his opinion, the negative rating is just another way for the credit rating agencies to be more precise. Mr. Thomas added that a negative outlook gives notice that the rating agencies have seen deterioration in the credit. If a recovery is determined, the negative outlook is removed. Mr. Hobbs noted that the term "credit watch" is unfavorable. Typically, this means there has been a recent issue that has cast a shadow over the credit. Mr. Clausen asked if market demand has been good. Mr. Hobbs responded that there is high demand for tax exempt bonds.

Mr. Kasner noted that there has been less issuance of bonds in Nevada, which has led to higher demand resulting in more favorable interest rates. He asked about the supply and demand for bonds nationally over the last 12 months. Mr. Thomas responded that more tax-exempt debt has been issued and demand has picked up. Demand for bonds over the last three to four months has put interest rates at an all-time low. Mr. Kasner asked about the national supply of bonds. Mr. Thomas stated bond supply is up from last year and up significantly from the prior year. Seventy-five percent of the issuance has been to refund bonds because interest rates are low. Funding for the final piece of the third intake was a $360 million deal; initial pricing went out and there was tremendous interest from the market.

Mr. Ralston asked if there will be more detail about how bonds were funded, the metrics (debt coverage or rate) and how the bonds are supported via the underwriting. Mr. Hobbs said that for every one of the bond issues, detail can be provided about the original issue, whether or not it has been refunded, the purpose, and reserves.

Moving forward, Mr. Hobbs stated that LVVWD would likely be the conduit issuer. He added that the State attaches some cost to use its bond bank making it cheaper at times to go through the LVVWD. The County is an affordable way of getting bonds issued. It has low costs associated with using its bond bank, but limits how much its bond bank is used.

Mr. Hobbs then discussed the SNWA's debt profile. Using a graphic, Mr. Hobbs described how the SNWA's current rate period goes through 2015. In 2013, 2014 and 2015, the combined debt is low but spikes in 2016. The principal increases dramatically in 2016, because the SNWA restructured outstanding principal and moved it to later years in an effort to forestall rate increases. It is assumed the committee will discuss restructuring outstanding debt to smooth out the spike. Mr. Rake asked if the principal estimates include the cost for the groundwater development project. Mr. Hobbs said it reflects actual outstanding debt. Mr. Hobbs added that his agency is constantly evaluating the SNWA's outstanding debt. If it makes sense to refinance, it will be done. In the last calendar year, two sizable refundings were done ($20-$25 million and $80 million). Between the two, the present value savings was in the ballpark of $12 million. To the extent that the SNWA can refund or refinance outstanding debt, it might have a positive effect—but will probably not bring down the debt to the same levels as 2012, 2013, 2014 and 2015.

Mr. Restrepo asked how the three-year restructuring period was determined. Mr. Hobbs replied that it was a combination of the market and internal decisions. He noted that a downside of restructuring is that a signal is sent to the credit market indicating a lack of cash flow. So when you restructure, you issue more debt and structure it differently. That debt becomes more expensive from an interest-rate perspective and principal is pushed out into the future, which makes it more expensive. It is a balancing act.

Mr. Clausen inquired as to the weighted average cost of SNWA debt today versus four years ago. Mr. Hobbs guessed it is between 4 or 4.5 percent, but promised to provide a more precise number. Mr. Clausen asked if that is 100 basis points better than four years ago. Mr. Hobbs said that will be included in the bond material that Mr. Ralston requested (showing true interest cost and net interest cost). Mr. Clausen asked how much money has been saved based on market opportunities. Mr. Hobbs explained that evaluations are done on a quarterly basis, and when opportunities arise to refinance (usually a threshold of three percent or more in present value savings), the trigger is pulled. Mr. Hobbs added that generally the market requires a 10-year call, but a shorter call (five to 10 years) could probably be structured.

Relative to the SNWA's Capital Plan, Mr. Kasner asked if anything is imminent as far as debt issuance (i.e., funding the Third Intake). Mr. Hobbs said the SNWA just completed the last piece of funding for Intake No. 3. There is a Capital Plan, but the SNWA is not working on structuring new debt issues.

Mr. Hobbs advised that he would continue his presentation at the next meeting. Mr. Ebersold thanked the committee for staying late.

PUBLIC COMMENT
There was no public comment.

ADJOURNMENT
The meeting was adjourned at 6:33 p.m.