EAST BAY MUNICIPAL UTILITY DISTRICT

Statewide Community Infrastructure Program (SCIP)

Finance/Administration Committee

November 22, 2016

SCIP Purpose, History, and Recommendation

- Program allows developers to finance connection fees through bond issuance
- EBMUD joined program in 2007 via Board Resolution, but has only used it once
- Staff recommended withdrawing from the program after working with current developer
  - Withdrawal from the program would require a simple letter indicating the District will no longer participate

Overview of SCIP

EBMUD

SCIP
Statewide Community Infrastructure Program

CSCDA
CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY

- Developed by California Statewide Communities Development Authority (CSCDA)
  - CSCDA issues bonds on behalf of developer
  - Bond proceeds used to pay eligible capacity charges
  - Bonds repaid by assessments on homeowners
  - The program allows developers to finance eligible fees with tax-exempt debt

SCIP Usage To Date

- SCIP financing mechanism has only been used once to finance EBMUD fees
  - In 2007 the program financed $295,000 of fees related to a housing development in Hercules
- There is one current SCIP project in process with the District
  - Developer will finance about $1.3 million of the $2.8 million EBMUD capacity charges pertaining to development of Muir Pointe in Hercules

Program Impacts

- SCIP financing structure’s beneficiary is the developer
- Modestly lowers cost of housing development
- Shifts cost from developer to homeowner
  - Homeowners pay annual assessments to repay principal and interest on the bonds
  - Assessments are included on property tax bill but generally are not tax deductible

District Challenges

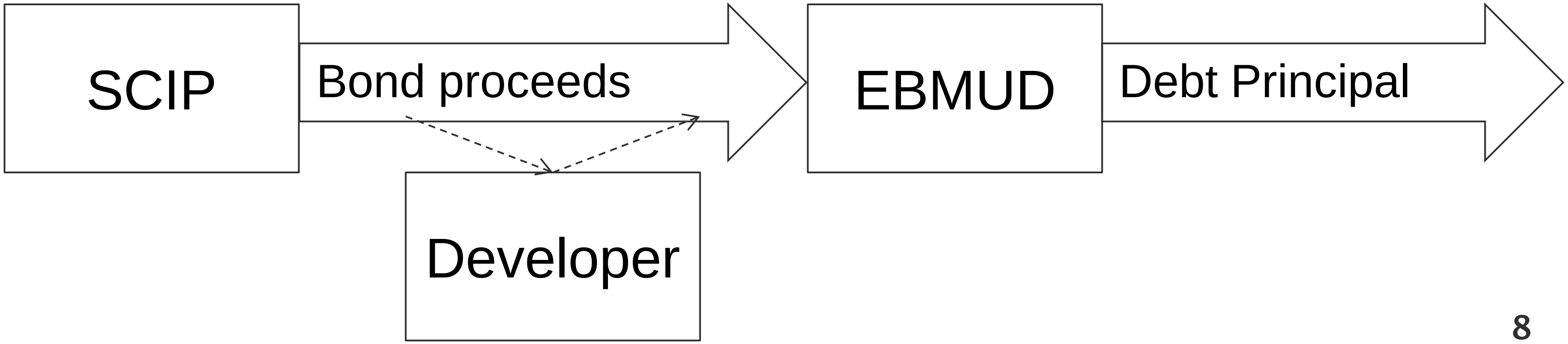
- Program complexity
- Infrequent use
- Loss of flexibility
- Cost of staff time
- Reputational risk

District SCIP Process

- Process for financing District fees with SCIP:
  - Developer applies to SCIP
  - District provides baseline up-front connection fees to developer
  - CSCDA must issue bonds within 3 months of our June 1 bond payment (*not typical for SCIP*)
  - Proceeds received by District's bond trustee (*not typical for SCIP*)
  - Trustee transfers funds to pay debt service (*not typical for SCIP*)
- This process is an exception for the program, but the District requires these elements

District SCIP Process

- From a collection of fees perspective, the District is simply receiving an up front payment of SCC fees from a developer and using the revenue to pay off principal on outstanding District revenue bonds
- However, from a tax law perspective, the District is receiving bond proceeds to pay off debt



Rationale for District's Requirements

- SCC revenues are included in the District's debt service coverage calculation
  - District uses revenues collected for impact fees (water supply, buy-in, and capacity fees) to pay debt service
- Using debt proceeds (from SCIP) to pay debt service turns the payment into a debt refunding
  - If the SCIP bonds are issued more than three months before the District's debt service payment, the refunding is considered an "advanced refunding"

Rationale for District's Requirements

- If SCIP bonds are issued as advanced refunding, District could be affected in the following ways
  - Each bond series has a limit of two advanced refundings so the District's flexibility would be diminished
  - The amount of advanced refunding possibilities remaining for some bond series could be completely used up by a SCIP financing
  - The District could be left without the ability to refund bond series for savings when market conditions support such an action
  - The amount of District debt able to be advance refunded is a moving target, and must be reviewed by tax counsel

Additional Administrative Requirements

- District must track SCIP revenues separately and maintain records over the long-term
- If IRS audits the SCIP bonds, the District must be able to provide detailed records
  - The District would likely need to adopt a new policy and procedure regarding use of the program
- Must ensure the requirements were met in the future even with long periods of time between SCIP financings
  - Errors could cause false "continuing disclosure" filings for revenue bonds and problems with IRS
- The District must sign a tax certificate for each SCIP financing requiring bond and tax counsel review

District Challenges

- Given that the District can only use SCIP revenue for principal repayment, use of the program is complex and limits District flexibility
- Complexity and infrequent use could be a source of potential errors
- Assessment bonds could have weak credit characteristics and may be associated with the District
- District reputation could suffer from any negative media attention related to the development

Current SCIP Financing

City/County	Hercules/Contra Costa
Project Name	Muir Pointe
Property Owner	Taylor Morrison of CA LLC, Folsom, CA
SCIP Applicant	Lewis Planned Communities, Sacramento, CA
Zoning	residential
Acreage	16.09
Total Lots	1
Planned Units	144
Prelim. Assess.	$3,650,000
Est. Assess/Unit	$1,600 p.a.
Assessed Value	$16,126,791
Value-to-Lien	4.42-to-1

Bond Structure:

SCIP financing: Assessment District #16-02

Prepay AD #2005-1

Fund Part of EBMUD Fees

- AD #2005-1 development has to be prepaid to ensure current issue has priority lien
- Costs include $768,080 estimated professional services and financing costs
- Additional annual admin. fee estimated at $63 (max total 10% of principal adjusted annually for CPI)

Recommendation

- Work with current developer applicant and accept payment of fees from bond proceeds issued by CSCDA
  - These bonds are scheduled to be issued in the Spring and proceeds would be used for June 2017 principal payment
- Subsequent to this transaction EBMUD discontinues its participation in SCIP

EAST BAY MUNICIPAL UTILITY DISTRICT

FM&O Staffing

Finance/Administration Committee

November 22, 2016

Overview

- Summary
- Use of contract services
- Staffing levels
- Fiscal impact
- Next steps

FM&O Background

EBMUD

- Fully maintained and operated (FM&O) include equipment and personnel
- FM&O services
  - Paving and concrete
  - Dump truck
  - Backhoe
  - Hydro excavation
  - Sweeping

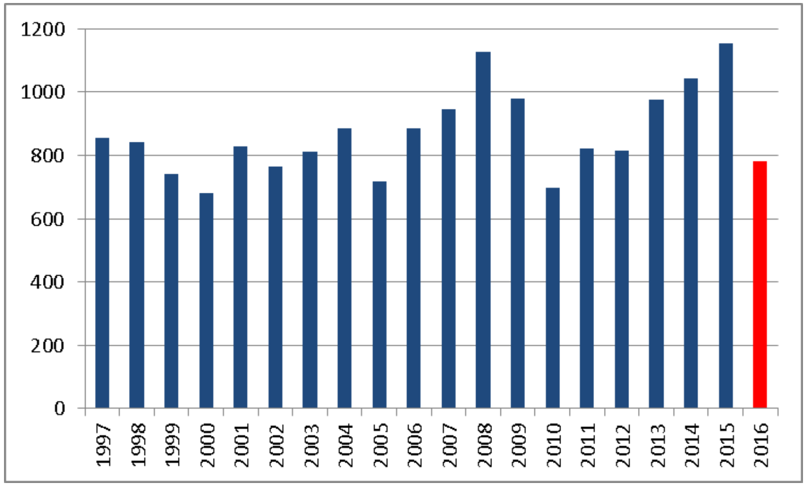
Use of Contract Services

- FM&O contracts used for
  - Peak workload demands
  - Need for specialized equipment
  - Joint paving projects with cities
  - Catch up on backlog (e.g., paving delays due to inclement weather)
  - Unplanned absences (e.g., medical, fatigue)
  - Planned absences (e.g., training, vacation)

Increased FM&O Use

- Increase in
  - Catastrophic main breaks
  - Main relocations
  - Infrastructure renewals
- Pipeline Rebuild startup
- Backlog clean-up
- Expanded participation in joint paving projects with cities/counties

Main Breaks 1997 to 2016



FM&O Contract Summary

Description	Board Approved	Duration*
Dump Trucks	$2,500,000	1 year
Paving & Concrete	$1,000,000	1 year
Backhoe	$200,000	1 year
Hydro Excavation	$100,000	1 year
Sweeping	$310,000	5 years

* Approved May 2016

OMD Staffing

- District staff performs majority of this work (72% to 99%)
- $81 million budgeted for installation and repair of pipelines, valves, and appurtenances by District forces in FY17
- Between FY12 and FY16
  - Hired 49 staff in these positions
  - Operations and maintenance hired 337 positions
- District aggressively filling vacant funded positions

Description	Filled	Vacant Funded
Heavy Equipment Operator	46	0
Heavy Transport Operator	18	1*
Truck Driver	30	0
Concrete Finisher	7	0
Paving Raker	31	0

* 1 position pending response

Proposed Staffing Plan

- FY17
  - Fill 2 unfunded positions (Concrete Finisher I/II)
  - Support base workload
- FY18/19 budget
  - Consider adding 9 to 14 positions (HTO, HEO, TDII) and equipment
  - Support base and peak workload

Recruitment Challenges

- Retirements
- Competition for hires
- Other challenges (e.g., resignations)

Communication with Local 444

- Quarterly updates
  - FM&O usage
  - Staffing and recruitment efforts
- Met on Nov 9, 2016 to discuss plan

Fiscal Impact

- Reduce contract services between $1.7 million to $2.7 million
- Reduction not fully realized until FY20 due to time to order equipment and hire staff
- One-time equipment cost of $3.5 million
- Annual labor/equipment costs: $2.8 million
  - Offset by reduction in contract use
  - $0.6 million operating
  - $2.2 million capital

Next Steps

- Fill 2 Concrete Finisher positions in FY17
- Propose in FY18/19 budget
  - 9 to 14 new positions to reduce use of contracts
  - Funding for equipment for additional staff
- During plan implementation
  - Use of FM&O service contracts on as-needed basis
  - Request funding and extension for FM&O contracts

Questions