

MEMORANDUM



Department of Public Utilities

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DATE: 10 April 2018

TO: J. Alarid

THROUGH:

FROM: J. Richardson

CC: T. Glasco, B. Westervelt, J. Kephart

RE: WWTP Financing Scenarios & Rate Adjustment Impacts

20-Year Forecast Models for Various Scenarios

Revenue – Expenses – Cash Balance (RECB) Graphs

Final Recommendation

Refinance the LA WWTP remaining debt for a period of 12 Years – Payoff Date 2030.

Finance the WR WWTP new debt for a period of 25 Years – Payoff Date 2045.

Summary of RECB Graphs

1. The scenarios graphed match the scenarios outlined in the Agenda Document. There are four sets of graphs – One for each variation of LA WWTP Refinancing (LA ReFi). For each LA ReFi variation set – there are three scenarios: Financing the WR WWTP (WR Finan) for 20 and 25 and 30 year terms. There are four sets of three graphs for a total of 12 graphs.
2. Both the short range (10-Year) and long range (20-Year) CIP plans were held constant for all scenarios. WWTP CIP projects that were assumed to be financed through bond or loan financing have been accounted for and displayed separately in the forecast model.
3. Expenses for all scenarios were held constant; except for Debt Service. Debt Service amounts varied for each scenario based on the data received from NMED depending on the financing scenarios.
4. As derived from the Agenda Document Memo difference with all refinancing data submitted by NMED – two possible LA WWTP refinancing scenario sets were not considered feasible and thus were not developed as RECB graphs: 1) LA ReFi at the lower interest rate of 2.38% for only 9 years (until FY2027), and 2) LA ReFi at 2.38% for 25 years (until FY2043).
5. All Rate Adjustments between FY19 & FY28 were held constant to match the Rate Adjustments in the FY19 Budget 10-Year Forecast; except as noted on the RECB graph.

Some exceptions where the rate adjustments differed from the FY19 budget were when the cash balance started to become significantly more than the financial policy recommendation.

6. A preliminary baseline forecast model was completed using interest/term formulas had been developed prior to receiving the data from NMED. This early baseline model used the FY19 Budget Rate Adjustments between FY19 & FY28 and included various rate adjustments between FY29 & FY38 - a 10% rate decrease in FY30 and also some inflationary rate increases or 0% rate adjustments. All Rate Adjustments between FY29 and FY38 were held constant to match this early baseline forecast model; with some exceptions. To be consistent, all exception Rate Adjustments occur in FY30 to again reflect the financial policy goal of meeting the recommended cash balance without becoming too large. The scenario which comes closest to the preliminary baseline forecast model appears to be the "12 Year LA ReFi & 25 Year WR Finan" scenario (with only a 9% Rate decrease in FY30 as opposed to an estimated FY30 rate Decrease of 10% with an acceptable cash balance graph.
7. The overall approach was done to maintain consistency between scenarios as much as possible – while not varying too much from meeting the financial cash balance goal or accumulating too much in the cash balance fund.

Recommendations Based on the RECB Graphs and Rate Adjustments

8. Because the refinancing of the LA WWTP debt saves DPU considerable money owed compared to not refinancing – none of the No LA ReFi scenarios are recommended.
9. The RECB Graph for the scenario "17 Year LA ReFi (FY2035) & 25 Year WR Finan (2045)" appears to be outstanding. It has the earliest date to reach the financial policy cash balance recommendation, the calculated cash balance flow is virtually coincident with the recommended cash balance flow, and there are very early rate decreases that replace rate increases. However, refinancing the LA WWTP through FY2035 would mean that we would be paying debt service on a plant where there are two significant additional CIP projects scheduled during this debt repayment period (16 year upgrades and 26 year upgrades). Because of the length of this refinancing debt repayment period – none of the 17 Year LA ReFi scenarios are recommended.
10. The middle two scenario sets each had two scenarios worthy of serious consideration. The top four of these are rank listed below along with the reasoning behind their selection:
 - a. "12 Year LA ReFi (2033) & 25 Year WR Finan (2045)". The LA WWTP debt refinancing period ends in 2030 three years prior to the scheduled 26-year upgrade project. A downward Rate Adjustment occurs in FY2030. The financial policy recommended cash balance is met in FY2027.
 - b. "15 Year LA ReFi (2033) & 25 Year WR Finan (2045)". The LA WWTP debt refinancing period ends in 2033 which is the year when the next major 26-year upgrade CIP project is scheduled – leaving no break between owing debt service for the LA WWTP on two separate CIP projects. A downward Rate Adjustment is available fairly early (FY2027), identical to scenario c, however the later FY2030

- Rate Adjustment available in scenario a does not occur. The financial policy recommended cash balance is the earliest of any scenario by one year (FY2025).
- c. “12 Year LA Refi (2030) & 30 Year WR Finan (2050)”. The LA WWTP debt refinancing period ends in 2030 three years prior to the scheduled 26-year upgrade project. A downward Rate Adjustment is available fairly early (FY2027) with an additional smaller FY2030 downward Rate Adjustment. The financial policy recommended cash balance is met one year earlier than scenario a (FY2026).
 - d. “15 Year LA ReFi (2033) & 20 Year WR Finan (2040)”. The LA WWTP debt refinancing period ends in 2033 which is the year when the next major 26-year upgrade CIP project is scheduled – leaving no break between owing debt service for the LA WWTP on two separate CIP projects. A downward later in FY2030 decreases from the baseline of 10% to 3% and no early Rate Adjustment downward is available. The financial policy recommended cash balance is met the same year as in scenario a (FY2027).
11. The prioritized criteria used to select the above recommended scenarios is listed below.
- a. Time frame of LA ReFi debt service repayment versus scheduled CIP projects proposed with bond or loan financing.
 - b. Time frame of WR Finan debt service repayment versus scheduled CIP projects proposed with bond or loan financing.
 - c. Date of earliest downward Rate Adjustment.
 - d. Consistency of rates (no whipsawing from one year adjustment up to the next year down or vice versa).
 - e. Date of financial policy cash balance met.
 - f. Smoothness of the calculated cash balance curve and coincidence with the recommended cash balance curve.
12. Attached is the full set of 12 RECB graphs with a full prioritization; 1 (highest recommendation) thru 12 (lowest recommendation).

