



# County of Los Alamos

## Council Meeting Staff Report

August 28, 2018

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<b>Agenda No.:</b>	A.
<b>Indexes (Council Goals):</b>	BCC - N/A
<b>Presenters:</b>	Bob Westervelt
<b>Legislative File:</b>	OR0823-18c

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### Title

Incorporated County of Los Alamos Code Ordinance No. 683, An Ordinance to Authorize the Refinance and Reissuance of Amended Loan and Promissory Note Agreements with the New Mexico Environment Department to Reflect a Reduction of the Prior Loan Principal Balance, Lowered Interest Rate and Extension of the Payment Term

### Recommended Action

**I move that Council adopt Incorporated County of Los Alamos Ordinance No. 683, An Ordinance to Authorize the Refinance and Reissuance of Amended Loan and Promissory Note Agreements with the New Mexico Environment Department to Reflect a Reduction of the Prior Loan Principal Balance, Lowered Interest Rate and Extension of the Payment Term; I further move that, upon passage, the Ordinance be published in summary form.**

### Utilities Manager Recommendation

The Utilities Manager recommends that Council adopt Incorporated County of Los Alamos Ordinance No. 683

### Board, Commission or Committee Recommendation

The Board of Public Utilities recommends that Council adopt Incorporated County of Los Alamos Ordinance No. 683

### Body

In January/February 2018 the BPU and Council enacted an ordinance and resolution authorizing transfer of excess cash reserves from the Gas fund to the Wastewater fund. \$2.5 million was transferred and in February those funds were used to pay down the balance of the outstanding loan that was used for construction of the Los Alamos Wastewater Treatment Plant. Without refinancing, that action would simply serve to shorten the life of the loan, but would not do anything to lower annual payments. By refinancing, we can return the loan to its original term or extend for a slightly longer term, and by doing so reduce annual debt service requirements, improving cash flow and establishing some flexibility for future capital planning or rate actions.

In addition, in 2017 NMED adopted new, lower rates for loans of this type, and we have the opportunity to refinance the existing debt, which is at a rate of 3% annual interest & administrative fees, to a revised combined rate of 2 3/8%, providing for further cost savings to the utility and rate payors.

Over the past several months the Board has considered several refinance options, including refinancing at the lower rate for the new shorter term established by the \$2.5M paydown, extending the term back out to the original twenty-year term, or extending further to 25 or 30 years total repayment period. While total cost of the longer term is slightly higher, annual cash flow is significantly improved by extending. After considering the various alternatives, the Board elected to pursue the twenty-five-year repayment schedule for the loan. This alternative provides significant near-term funds availability which can be used to accelerate the projects schedule, reduce projected future rate increases, achieve financial targets earlier than previously had been anticipated, or any

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combination of these objectives. The Board of Public Utilities felt this alternative represented the best balance between short term improved cash flow and total long-term financing cost. This ordinance authorizes and effects that refinancing option.

Attached is a re-presentation of the Ten-Year Financial Forecast that was included with DPU's FY19/20 budget package. As shown, and discussed in "financial impact" below, for the budget we had assumed refinancing this loan back out to its original twenty-year term at the lower rate, but had not considered the five-year term extension. Debt service on this loan in the budget is \$775,982, so this proposed refinance saves \$268,578 from that budgeted amount. Total budgeted debt service includes two smaller loans that are not included in or affected by this refinancing. The attached ten-year projection reflects the changes and shows the annual and cumulative effect of this proposed refinance compared to previously budgeted numbers. Note - the ten-year projection attached includes the projected loan and debt service on a new White Rock Treatment Plant loan. The budgeted debt service figures were on that loan at \$14M, but current estimates indicate a loan of up to \$17M may be necessary. The "revised debt service" includes debt service on that loan at the revised \$17M amount. It is noteworthy that the annual savings and cumulative difference is still a significant positive amount.

#### **Alternatives**

Several alternative financial scenarios were presented and discussed by the Board at the May 2018 regular meeting. Any of those scenarios could be reconsidered as an alternative to the proposal presented here. A summary of those alternatives is attached herewith as Attachment F.

#### **Fiscal and Staff Impact/Planned Item**

The net effect of this refinance is to lower the annual payments on this loan from \$964,888.54 to \$507,403.58, an annual reduction of \$457,484.96. The total cost of financing (total of all payments) increases from \$18,272,608.89 to \$18,844,969.19, or by \$572,360.30. In addition, there is a 2% refinance fee which amounts to \$140,590.09.

As noted previously, for the FY19 budget package we had assumed refinancing this loan back out to its original twenty-year term at the lower rate, but had not considered the five-year term extension. Debt service on this loan in the budget is \$775,982, so this proposed refinance saves \$268,578 from that budgeted amount.

#### **Attachments**

- A - Incorporated County of Los Alamos Ordinance No. 683
- B - LAC Amended Refinance Loan Agreement\_1438143R
- C - LAC Amended Refinanced Promissory Note\_1438143R
- D - Original Final Promissory Note, dated February 28, 2011
- E - Revised Ten -Year Financial Forecast
- F - Summary analysis of net cash effect of refinancing alternatives considered.
- G - Publication Notice