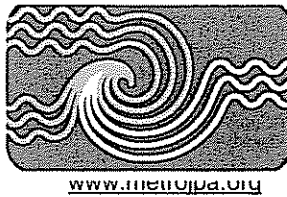




Metro Wastewater JPA Protocol No. 1

Debt Service Coverage and Operations Reserve Calculations



April 19, 2010

Rod Greek
Public Utilities Deputy Director
City of San Diego, Metropolitan Wastewater
9192 Topaz Way
San Diego, CA 92123

Re: Administrative Protocol on Allocation of Operating Reserves and Debt Service Coverage to Participating Agencies

Dear Mr. Greek:

This letter is intended to memorialize the attached Administrative Protocol on Allocation of Operating Reserves and Debt Service Coverage to Participating Agencies ("Protocol") negotiated between the City of San Diego and Metro TAC/ Metro JPA/ Metro Commission, on behalf of the Participating Agencies under the Regional Wastewater Disposal Agreement. Your signature will indicate acceptance of the Protocol on behalf of the City.

By countersigning this letter, the City of San Diego and Metro TAC/ Metro JPA/ Metro Commission acknowledge and agree to the terms and conditions contained in the attached Protocol.

Sincerely,


for the Metro TAC/ Metro JPA/ Metro Commission

Enclosure


The Protocol is accepted by the City of San Diego pursuant to the terms and conditions set forth in the attachment hereto:

Date: 4/19/10


Rod Greek, Public Utilities Deputy Director

The Protocol is accepted by Metro TAC/ Metro JPA/ Metro Commission on behalf of the Participating Agencies pursuant to the terms and conditions set forth in the attachment hereto:

Date: 5/6/10



The Joint Powers Authority Proactively Addressing Regional Wastewater Issues

Administrative Protocol on Allocation of Operating Reserves and Debt Service Coverage to Participating Agencies

BACKGROUND:

In early 2008 the MetroTAC formed a working group in response to the City of San Diego's request for \$20 million in funding in FYE 2009 from the Participating Agencies ("PAs") for operating reserves and debt service coverage. The working group continued to meet with City of San Diego staff regarding the establishment of a mutually agreed upon protocol through early February 2010. A summary of the City of San Diego's 2008 proposal and the negotiated 2010 protocol is included as Attachment A.

At its regular meeting of February 17, 2010, the MetroTAC approved the following recommendations to move to the Finance Committee of the Metro Wastewater JPA and thereafter to the Metro Commission/ Metro Wastewater JPA for discussion and action:

- Proceed with PAs funding a 1.2 debt service ratio coverage
- Proceed with PAs funding a 45 day operating reserves
- The PAs will fund no other reserves
- FY07 and FY08 refund monies will be used to fund the operating reserves
- Interest accrual on operating reserves and undesignated accounts will start with FY10 (beginning on July 1, 2009)

The Finance Committee of the Metro Wastewater JPA, at its February 24, 2010 meeting, took action to recommend approval of the above, by the Metro Commission/ Metro Wastewater JPA. At its March 4, 2010 meeting, the Metro Commission/ Metro Wastewater JPA, comprised of representatives of the PAs, approved the components of the negotiated policy, with the understanding that any such policy would serve as an administrative protocol regarding the allocation of debt service coverage to the PAs and funding of operating reserves by the PAs.

PROTOCOL REGARDING PA FUNDING OF OPERATING RESERVES:

Background:

Operating reserves are established to provide funding for unforeseen events that might occur during the course of the fiscal year such as unforeseen major maintenance or capital projects. The PAs performed a survey of other regional wholesale agencies and determined that agencies such as the San Diego County Water Authority maintain a 45 day operating reserves. Although the City of San Diego's current policy is to increase operating reserves for its retail customers from 45 to 70 days, the City realizes that if a major maintenance incident should occur it can immediately request payment from the PAs per the Regional Wastewater Disposal Agreement. The City of San Diego's retail customer's rates cannot be immediately increased due to Proposition 218 requirements for noticing and public hearings.

Protocol:

Attachment B is a summary of the funding strategy showing each PAs 2007 and 2008 refunds based on recent City Metro Wastewater Exhibit E audits. The refunds will be used to fund the PAs 45 day operating reserves contribution. In the majority of cases most PAs will see a refund even after they have

fully funded their portion of the operating reserves. PAs that do not have adequate refunds will be billed for their portion of the reserve in the next quarterly 2010 billing. The operating reserves for each fiscal year will be established based on 45 days of operating revenues as determined by the following formula:

$$\frac{\text{Fiscal Year Estimated Operating Expenses (not including CIP and debt service)}}{365 \text{ days} \times 45 \text{ days}}$$

The number of days included in the calculation cannot be changed without prior consent of the PAs.

The operating reserves will be maintained by the City of San Diego and interest will accrue on a monthly basis based on actual interest rates on the City's investments. This interest revenue will be added to the PAs undesignated fund balance for that fiscal year. As part of each year's Exhibit E audit the actual required operating reserves and interest earned on it will be determined and audited by the City of San Diego's external auditors and PA representatives. A summary of the operating reserves balance and interest earned for each PA will be included as a footnote or attachment to the City Metro Wastewater Exhibit E Audit.

PROTOCOL REGARDING ALLOCATION OF DEBT SERVICE COVERAGE TO PAs

Background:

A 1.2 debt service coverage ratio is a requirement for all of the outstanding Metro parity debt. A cash flow prepared by the City of San Diego shows (Attachment C) that if the PAs are billed at the current level (\$65 million annually to cover the PAs portion of operations, pay-go capital, and debt service expense) for the next three to five years that this requirement can be achieved without additional contributions by the PAs. This provides the PAs a stable projected annual Metro contribution for the next three to five years.

Protocol:

The PAs will maintain through annual contributions and use of PA undesignated fund balance a positive cash flow not to exceed 1.2 times the PA share of the required annual debt service on Metro Debt. The debt service coverage ratio of 1.2 cannot be changed without prior consent of the PAs.

The undesignated fund balance will be maintained by the City of San Diego and interest will accrue on a monthly basis based on actual interest rates on the City's investments. This interest revenue will be added to the PAs undesignated fund balance for that fiscal year.

As part of each year's Exhibit E audit the actual required reserve coverage and interest earned on the undesignated fund balance will be determined and audited by the City of San Diego's external auditors and PA representatives. A summary of the debt service coverage requirement and portion of interest earned on the undesignated fund balance for each PA will be included as a footnote or attachment to the City Metro Wastewater Exhibit E Audit.

If the cash flow in any year does not provide the required 1.2 debt service coverage the PAs will be billed the additional required revenue including interest.

Draft

FY 2009, and prospective years, Participating Agency funding process for the allocation of the MWWD Debt Service Coverage requirement:

Year 1

On October 1, 2008

1. Obtain the FY 2009 total MWWD debt service amount including SRF debt from the Administrative Services, Budget Section.
2. Calculate the debt service coverage dollar amount greater than 100%. The target debt service coverage percentage of 1.56 is the average debt service coverage ratio found in the current rate case model. The formula is: ([Current Debt Service Amount], $\$94,306,351 * .56 = \$52,811,557$).
3. Allocate the total debt service coverage amount between the Municipal and Metropolitan Systems using their respective debt service percentages of 77.91% for the Metropolitan System and 22.09% for the Municipal System.
4. Obtain final FY 2009 projected flow-based billing percentages for the Participating Agencies from Admin Services, Agency Contracts Section, (Peggy Merino).
5. Allocate the Metropolitan System portion of the debt service coverage amount to the City of San Diego and the 15 Participating Agencies using final FY 2009 projected flow-based billing percentages.
6. Update the Participating Agency Debt Coverage Payment Schedule.

On October 4, 2008

1. Forward the Participating Agency Debt Coverage Payment Schedule to the Admin Services, Agency Contracts Section, (Peggy Merino).

On November 1, 2008

1. Admin Services, Agency Contracts Section, (Peggy Merino) sends FY 2009 second quarter invoices to include as a second item, the debt service coverage amounts. The due date is December 1, 2008. (no interest will be applied to these accounts due to the mid year payment approach)

On December 1, 2008

1. Recognize the Participating Agencies debt service coverage payments as new revenues and update the Participating Agency Debt Coverage Payment Schedule.
2. Inform Admin Services, Agency Contracts Section, (Peggy Merino) to reduce the Participating Agencies FY 2010 CIP expense allocation by the FY 2009 Participating Agencies debt service coverage payments.
3. Obtain the preliminary FY 2010 projected flow-based percentages for the Participating Agencies from Admin Services, Agency Contracts Section, (Peggy Merino).
4. Calculate a preliminary FY 2010 debt service coverage schedule and forward to the Admin Services, Agency Contracts Section, (Peggy Merino)

On January 1, 2009

1. Admin Services, Agency Contracts Section, (Peggy Merino), informs the Participating Agencies of the FY 2010 projected debt service coverage amounts for budgeting purposes.

On July 1, 2009

1. Apply the FY 2009 Participating Agencies debt service coverage payments towards the cash requirement for the FY 2010 Metro based CIP Project budget. Any residual amounts will be applied to the O&M budget.

Year 2 (Prospective Years)

On October 1, 2009

1. Obtain the Fiscal Year 2010 total MWWD debt service amount including SRF debt from the Administrative Services, Budget Section.
2. Calculate the debt service coverage dollar amount greater than 100%. The target debt service coverage percentage of 1.56 is the average debt service coverage ratio found in the current rate case model. The formula is: ([Current Debt Service Amount],
 $\$xxx,xxx,xxx * .56 = \xxx,xxx,xxx)
3. Allocate the total debt service coverage amount between the Municipal and Metropolitan Systems using their respective debt service coverage percentages of xx.xx% for the Municipal System and xx.xx% for the Metropolitan System.
4. Obtain the final FY 2010 projected flow-based percentages for the Participating Agencies from Admin Services, Agency Contracts Section, (Peggy Merino).
5. Allocate the Metropolitan System portion of the debt service coverage amount to the City of San Diego and the 15 Participating Agencies using the preliminary FY 2010 projected flow-based percentages.
6. Update the Participating Agency Debt Coverage Payment Schedule.

On October 4, 2009

1. Forward the Participating Agency Debt Coverage Payment Schedule to the Admin Services, Agency Contracts Section, (Peggy Merino) for invoicing purposes.

On November 1, 2009

1. Admin Services, Agency Contracts Section, (Peggy Merino) sends FY 2009 second quarter invoices to include as a second item, the debt service coverage amounts. The due date is December 1, 2009. (no interest will be applied to these accounts due to the mid year payment approach)

On December 1, 2009

1. Recognize the Participating Agencies debt service coverage payments as new revenues and update the Participating Agency Debt Coverage Payment Schedule.
2. Inform Admin Services, Agency Contracts Section, (Peggy Merino) to reduce the Participating Agencies FY 2011 CIP expense allocation by the FY 2010 Participating Agencies debt service coverage payments.
3. Obtain the preliminary FY 2011 projected flow-based percentages for the Participating Agencies from Admin Services, Agency Contracts Section, (Peggy Merino).
4. Calculate a preliminary FY 2011 debt service coverage schedule and forward to the Admin Services, Agency Contracts Section, (Peggy Merino)

On January 1, 2010

1. Admin Services, Agency Contracts Section, (Peggy Merino), informs the Participating Agencies of the FY 2011 projected debt service coverage amounts for budgeting purposes.

On July 1, 2010

1. Apply the FY 2010 Participating Agencies debt service coverage payments towards the cash requirement for the FY 2011 Metro based CIP Project budget. Any residual amounts will be applied to the O&M budget.

Draft

Schedule of Participating Agency Contributions to Operations Reserve and Debt Service Coverage Cash flow FY 2007-2011

HOW TO READ CASH FLOW SPREADSHEET:

Blue font = data inputted directly into spreadsheet

Green font = data imported from another spreadsheet in workbook

Black font = Calculation; see legend to determine calculation

Line #	Cash flow Component	Legend	Foot-note #	FY07	FY08	FY09	FY10	FY11	PROJECTED	FY13	FY14	FY15
1	Current Projected Revenue Stream	Input		\$54,007,596	\$63,231,038	\$57,249,960	\$64,487,408	\$65,000,000	\$65,000,000	\$65,000,000	\$65,000,000	\$65,000,000
2	Annual Refund After Exhibit E Audit	Input					(8,209,431)	(1,500,000)	(3,000,000)	(2,500,000)	(2,100,000)	(1,800,000)
3	Transfer (to)/from Operating Reserve	Line 21 - Prior Year	(1)				(4,281,432)	(43,814)	(43,814)	(43,814)	(44,112)	(44,553)
4	Undesignated Fund Balance Interest	Line 17 X Interest Rate	(2)				79,990	258,156	225,608	113,282	62,579	58,899
5	Operating Reserve Interest	Calculated Off-Line					164,514	166,159	167,821	169,499	171,194	172,906
6	Gross PA System Revenue	Sum(Line1:Line5)		\$54,007,596	\$63,231,038	\$57,249,960	\$63,881,500	\$63,881,500	\$62,350,187	\$62,739,106	\$63,089,661	\$63,387,252
7	Less:											
8	PA Estimated Total Operating Expenses	Prior year X 1.01	(3)	\$32,304,298	\$37,150,042	\$34,727,170	\$34,727,170	\$35,074,442	\$35,425,186	\$35,779,438	\$36,137,232	\$36,498,605
9	Net PA System Revenue	Line 6 - Line 8		\$21,703,298	\$26,080,996	\$22,522,790	\$17,513,879	\$28,807,059	\$26,925,001	\$26,959,668	\$26,952,429	\$26,888,647
11	PA Annual Debt Service Payment	Calculated Off-Line		\$20,373,393	\$19,850,051	\$20,441,069	\$24,049,989	\$24,043,880	\$22,479,099	\$22,478,266	\$22,478,075	\$22,478,730
12	CIP Pay Go - 20% of Projected CIP	Input	(4)	(4,417,502)	(512,512)	-	1,318,048	5,610,210	7,369,218	5,800,940	4,570,129	4,655,009
13	Total CIP and Debt Service	Line 12 + 13		15,955,891	19,337,539	20,441,069	25,368,037	29,654,090	29,848,257	28,279,206	27,048,204	27,133,739
14	Net Income after CIP and Debt Service	Line 10 - 14		\$5,747,407	\$6,743,457	\$2,081,721	(\$7,854,157)	(\$847,032)	(\$2,923,257)	(\$1,319,537)	(\$95,775)	(\$245,092)
15	PA Undesignated Fund Balance	Line 16 + Prior Year		\$5,747,407	\$12,490,864	\$14,572,585	\$6,718,428	\$5,871,396	\$2,948,139	\$1,628,602	\$1,532,827	\$1,287,735
16	Calculated Debt Service Ratio	Line 10/Line 12	(5)				0.73	1.20	1.20	1.20	1.20	1.20
17	Operating Reserve (45 days)	(Line 8/365 days) X 45 days					\$4,281,432	\$4,324,246	\$4,367,489	\$4,411,164	\$4,455,275	\$4,499,828

Footnotes:

- (1) average of current year ending balance + prior year ending balance times 3.2%
- (2) average monthly balance times LAIF rate (first year calculated at half year interest)
- (3) FY09 based on average of FY07 & FY08 then 1% inflation
- (4) 20% of projected Metro CIP
- (5) Minimum coverage requirement 1.2 time annual Metro debt service

FY10 Operating Reserve Calc:

PA Operating Expenses: \$4,281,432
 divided by: 365
 Equals: \$95,143
 Times: 45
 45 day Operating Reserve: \$4,281,432

FY10 Operating Reserve Interest Calc:

PA Operating Expenses: \$4,281,432
 Times ave monthly LAIF interest Rate: 0.038425 (range from 3.15% to 4.53% per month)
 FY10 Estimated interest Earned: \$164,514

FY07-FY08 Operating Reserve Rate Stabilization
Based on 2008 Flows
FINAL

Agency	EXHIBIT E AUDIT ADJUSTMENTS			2008 FLOWS & LOADS		
	FY 2007	FY 2008	TOTAL	2008 FLOWS & LOADS	OPERATING RESERVE	NET
CHULA VISTA	(\$1,837,010)	(\$2,100,751)	(\$3,937,761)	28.083%	\$1,202,374	(\$2,735,387)
CORONADO	(\$189,910)	(\$366,858)	(\$556,768)	3.356%	\$143,693	(\$413,075)
DEL MAR	(\$87,785)	(\$103,913)	(\$191,698)	1.029%	\$44,061	(\$147,637)
EL CAJON	(\$290,369)	\$66,888	(\$223,481)	15.270%	\$653,789	\$430,308
IMPERIAL BEACH	(\$132,300)	(\$130,153)	(\$262,453)	3.652%	\$156,373	(\$106,080)
LA MESA	(\$99,793)	(\$40,190)	(\$139,983)	8.842%	\$378,561	\$238,578
LAKESIDE/ALPINE	(\$293,313)	(\$243,206)	(\$536,519)	5.357%	\$229,368	(\$307,151)
LEMON GROVE	(\$147,034)	(\$195,043)	(\$342,077)	3.611%	\$154,615	(\$187,462)
NATIONAL CITY	(\$637,379)	(\$947,043)	(\$1,584,422)	7.572%	\$324,211	(\$1,260,211)
OTAY	\$123,792	(\$138,545)	(\$14,753)	0.459%	\$19,668	\$4,915
PADRE DAM	(\$789,976)	(\$1,752,218)	(\$2,542,194)	5.198%	\$222,537	(\$2,319,657)
POWAY	(\$683,251)	\$130,168	(\$553,083)	5.770%	\$247,021	(\$306,062)
SPRING VALLEY	(\$611,093)	(\$667,539)	(\$1,278,632)	10.316%	\$441,691	(\$836,941)
WINTERGARDENS	(\$71,984)	(\$56,162)	(\$128,146)	1.482%	\$63,470	(\$64,676)
TOTAL	(\$5,747,405)	(\$6,544,565)	(\$12,291,970)	100%	\$4,281,432	\$ (8,010,538.00)