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## TECHNICAL MEMORANDUM

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**TO:** JAMES GIOTTONINI, PE *EXECUTIVE DIRECTOR, SJAFCA*  
**FROM:** SETH WURZEL, MBA & MARK HENDRIE, CPA *CAPITOL PFG*  
**SUBJECT:** **SJAFCA SMITH CANAL CLOSURE STRUCTURE DESIGN PROJECT  
PRELIMINARY EIP FINANCIAL PLAN AND STATEMENT OF FINANCIAL  
CAPABILITY**  
**DATE:** FEBRUARY 8, 2011

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## 1. INTRODUCTION

### 1.1 Overview and Criteria

Capitol Public Finance Group, LLC (Capitol PFG) has been requested by the San Joaquin Area Flood Control Agency (SJAFCA) to prepare a document on behalf of its Smith Canal Closure Structure Design Project (Design Project) Early Implementation Program Grant Application that satisfies Criterion 7 of the EIP Guidelines. The Applicant is to prepare a Financial Plan and Statement of Financial Capability that meets the following Criteria:

- The Local Agency has a sound financial plan to fund its cost share for the Project;
- The Local Agency can meet its financial obligations under the Operation, Maintenance, Repair, Replacement & Rehabilitation (OMRR&R) agreement for the Project because it has a sound financial plan to fund its obligations to perform operations and maintenance for the Project and a sound financial strategy to fund its obligation to repair, replace and rehabilitate the Project;
- That the Local Agency has a sound financial strategy and plan to operate and maintain the flood facilities in the Area; and
- The Local Agency has a realistic Area Plan and supporting Financial Plan.

For SJAFCA, the Project for which this Financial Plan is being prepared is a Design Project. Therefore, as noted in the amended EIP Guidelines (January 2011)<sup>1</sup>, SJAFCA is only required to submit a preliminary Financial Plan. The Guidelines are clear on what components of the Financial Plan and Statement of Financial Capability need only be

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<sup>1</sup> Section IV.C.1 – A Design Project should submit a preliminary Financial Plan. Design projects do not require a OMRR&R agreement, therefore, as part of preliminary Financial Plan, discussion of the Operations and Maintenance of the future completed project is only at a high level at this point in time.

included in a preliminary Plan, however, SJAFCA should keep in mind that prior to signing a Funding Agreement for the construction of the closure structure project, all of the components of a final Financial Plan are required to be complete.

With respect to an Area Plan for addressing 200-Year flood control, SJAFCA has prepared the "Central Stockton Area Plan" which consists of two projects. The first project is the Smith Canal Closure Structure, the second project is currently being evaluated and is still not completely defined. SJAFCA has partnered with United States Army Corps of Engineers (USACE) on a feasibility study that will address various alternatives for providing the required levels of flood control throughout the Area. As noted with the Area Plan, these projects might consist of one of the following alternatives;

- Flow Diversion from Mormon Slough to Lower Mormon Channel;
- New Hogan Dam & Reservoir Reoperation and/or enlargement; or,
- Levee Raising along the Stockton Diverting Canal and the Lower Calaveras River.

At this point in time, a broader speculative discussion of how the various alternatives might be funded is appropriate; however a detailed Financial Plan in Support of Area Plan Project #2 cannot be completed due to the uncertainties associated with the most appropriate alternative for a second project within the Central Stockton Area Plan.

## **1.2 Financial Plan Contents**

This preliminary Financial Plan and Statement of Financial Capability contains the following information:

### **Financial Plan**

A plan demonstrating that the Applicant has the financial resources to adequately fund their portion of the cost-share of the Design Project and a reasonable contingency of at least 10% (maybe required to demonstrate 15% by the Department).

### **Statement of Financial Capability**

- Evidence of the Applicant's authority to use identified sources of funds;
- Information on the Applicant's ability to obtain necessary additional funds (if any);
- A recent (within three years) credit analysis that demonstrates the Applicant is credit worthy if the Applicant is relying on its full faith and credit to obtain remaining funds (as in the use of general obligation bonds, appropriations or repayment agreement).

Finally, while not required as part of the preliminary Financial Plan, but to be considered as part of the final Financial Plan and deemed appropriate by Capitol PFG to discuss at this point in time, is a discussion of how the projected revenues are certain and sufficient to cover the stream of costs of the Design Project through time.

### **Financial Plan for OMRR&R Expenses**

Applicants are also required to prepare a Financial Plan for OMRR&R expenses; however, Design Projects are not required to enter into an OMRR&R agreement. It is

however, appropriate at this time to provide a high level discussion of how SJAFCA plans to address Operations and Maintenance expenses in the future once the Project is implemented. More detail of this component of the preliminary Financial Plan package will be provided in the future prior to the execution of a Funding Agreement for the full construction of the project.

### **Financial Plan to Support Area Plan and Statement of Financial Capability to Support Area Plan**

Various alternatives for providing 200-Year flood control throughout the Central Stockton Area are currently being developed in conjunction with the USACE Feasibility Study. As a result of uncertainties regarding the various alternatives for a second area project, it is not currently possible to prepare a detailed Financial Plan to support an Area Plan. At a high level, it can be assumed that the basic components of funding in support of the Second Area Plan Project would include a combination of Federal, State and Local sources coming in various forms including direct funding and credits. The Local Sources would come from property owner supported funding mechanisms such as a second local benefit assessment district, or property tax district and the appropriations of general fund sources toward the design and development of whatever the ultimate project consisted of.

Because of the uncertainties in the scope and timing of a second area plan project, no further detailed discussion can be provided at this time regarding the Financial Plan in support of the Area Plan.

## **2. FINANCIAL PLAN FOR LOCAL COST SHARE OF THE DESIGN PROJECT**

In July 2010, SJAFCA engaged Capitol PFG to determine the feasibility of conducting a Proposition 218 compliant Benefit Assessment District formation to fund the Local Share of costs of the Smith Canal Closure Structure Project and its ongoing operations and maintenance. As part of that engagement, Capitol PFG prepared its "October 19, 2010 Final Technical Memorandum: Smith Canal Closure Project Proposed Benefit Assessment District Preliminary Assessment Rate Analysis" (October 19, 2010 Final Technical Memorandum). That document included a preliminary financing plan for the design and construction of the Project and an assumption regarding the ongoing annual operations and maintenance costs. This information was used to determine the annual costs of the Project which ultimately determined the preliminary assessment rates.

The premise for funding the Smith Canal Closure Structure Project, as outlined in the October 19, 2010 Final Technical Memorandum, is as follows. A new benefit assessment district imposing an assessment on approximately 7,800 parcels benefitting from the flood protection provided by the structure would be formed. This new assessment district would impose property assessments that would provide sufficient funding for the following;

- The design and permitting of the project (through pay-as-you-go assessments);
  - The construction of the project (through the issuance of various assessment bonds);
- and,

- In perpetuity, the ongoing Operations and Maintenance of the facility.

Upfront costs incurred and advanced funded by SJAFCA, Reclamation District 1614 and Reclamation District 828 prior to imposition of the assessment covering the costs of preliminary studies and the formation of the assessment district would also be funded by the assessments through a reimbursements process once the project was completed.

## 2.1 Costs and Sources of Funding

### Design Project Costs and Contingencies

The costs of the Project are based upon the "Opinion of Probable Construction Cost – 30% Design" draft estimate prepared by HDR and PBI with later adjustments made by SJAFCA Staff & PBI as part of the EIP Design Grant Application process. The total estimated Project cost is \$30,000,000 of which \$5,125,000 is estimated to be incurred during the design and permitting phase. The total Project costs are shown in **Table 1**. The entire design and permitting process is expected to take approximately 3 years and be complete by the end of 2013. Construction is expected to commence in 2014.

The engineer estimates assumed final design costs for the project to be approximately 10% of the construction costs. In determining the construction costs of the Project, SJAFCA has budgeted a 30% contingency. Because the estimates for Design include the 30% construction contingency, the budgeted design costs also include a 30% contingency. The Assessment District Funding mechanism has been designed around these cost estimates including contingencies.

### State Cost Share Assumptions

**Table 1** also shows the assumed ultimate cost sharing of the Project. Based upon DWR's "Guidelines for Establishing Local Agency Cost-Sharing Formulas for Flood Programs and Projects," circulated by DWR on January 6, 2011, SJAFCA has estimated the State Cost share of the ultimate Project to be 58%. This is based upon a 50% base cost share, plus 5% for State Facilities (I-5) and 3% for the Disadvantaged Communities Objective. This cost share assumption is subject to further review; however, this Financial Plan is based upon this cost sharing assumption.

As noted within the EIP Guidelines, Design Projects will be funded up to a maximum 50%, but SJAFCA can assume that it can receive State cost sharing (through a crediting mechanism) for the additional 8% of the design costs later, if the Project's construction moves forward with State funding through the EIP Program.

### Overall Sources and Uses for Design Project

**Table 2** shows the identified sources of funding for the Design Project. These sources include State EIP Funding, Local Assessment Revenues collected on a pay-as-you-go basis during the time period when the Project is under Design and SJAFCA Internal funding consisting primarily of unbudgeted reserves.

**Table 1**  
 SJAFCFA Smith Canal Closure Structure Financial Plan  
 Cost Estimate & Cost Share

Item	Total	Local 42%	State [1] 58.0%
<b>Years 1-3 Costs</b>			
Program Management (50% of Total)	\$ 709,000	\$ 297,780	\$ 411,220
Engineering Design	\$ 2,250,000	\$ 945,000	\$ 1,305,000
Independent Review	\$ 300,000	\$ 126,000	\$ 174,000
Environmental Review & Permitting	\$ 1,375,000	\$ 577,500	\$ 797,500
Real Estate Planning & Acquisition (30% of Total)	\$ 141,000	\$ 59,220	\$ 81,780
Public Outreach (50% of Total)	\$ 50,000	\$ 21,000	\$ 29,000
Financing [2] (50% of Total)	\$ 300,000	\$ 300,000	\$ 0
<b>Total Years 1-3 Need</b>	<b>\$ 5,125,000</b>	<b>\$ 2,326,500</b>	<b>\$ 2,798,500</b>
<b>Years 4-5 Costs</b>			
Construction (Less General Requirements)	\$ 14,914,000	\$ 6,263,880	\$ 8,650,120
General Requirements	\$ 2,240,000	\$ 940,800	\$ 1,299,200
Contingency (30%)	\$ 4,476,000	\$ 1,879,920	\$ 2,596,080
Program Management (50% of Total)	\$ 191,000	\$ 80,220	\$ 110,780
Real Estate Planning & Acquisition (70% of Total)	\$ 329,000	\$ 138,180	\$ 190,820
Public Outreach (50% of Total)	\$ 50,000	\$ 21,000	\$ 29,000
Construction Management	\$ 1,750,000	\$ 735,000	\$ 1,015,000
Financing [2] (50% of Total)	\$ 300,000	\$ 300,000	\$ 0
Environmental Mitigation	\$ 625,000	\$ 262,500	\$ 362,500
<b>Total Years 4-5 Need</b>	<b>\$ 24,875,000</b>	<b>\$ 10,621,500</b>	<b>\$ 14,253,500</b>
<b>Total</b>	<b>\$ 30,000,000</b>	<b>\$ 12,948,000</b>	<b>\$ 17,052,000</b>

Source: PBI Design Costs for EIP Application

[1] State Cost sharing is assumed to be 50% plus 5% for one State Facility (1-5) and 3% for Disadvantaged Community Objective.

[2] Assumes 100% of the financing cost (\$600,000) would not eligible for State Cost Sharing.

**Table 2**  
 SJAFCA Smith Canal Closure Structure Financial Plan  
 Design Project Sources & Uses Statement

Item	Total
<b>Design Phase Uses</b>	
Program Management (50% of Total)	\$ 709,000
Engineering Design	\$ 2,250,000
Independent Review	\$ 300,000
Environmental Review & Permitting	\$ 1,375,000
Real Estate Planning & Acquisition (30% of Total)	\$ 141,000
Public Outreach (50% of Total)	\$ 50,000
Financing	\$ 300,000
<b>Total Design Phase Uses</b>	<b>\$ 5,125,000</b>
<b>Design Phase Sources</b>	
State EIP Funding [1]	\$ 2,798,500
Local Assessment Revenue [2]	\$ 1,116,000
SJAFCA Internal Funding [3]	\$ 1,210,500
<b>Total Design Phase Sources</b>	<b>\$ 5,125,000</b>

Source: HDR & PBI 30% Design Costs & SJAFCA

[1] Represents total amount of funding made available for EIP Design Grant.

[2] Represents 1st Year Collection, net of provision for delinquencies.

[3] Represents net amount needed to cover projected uses.

## Local Sources Discussion

### *Local Assessment Revenue*

SJAFCA Currently Plans to move forward with the formation of the new assessment district and conclude a Proposition 218 compliant land owner election by September 2011. The preliminary financing plan for the new assessment district would have the annual levies of assessment set at \$1,240,000 annually commencing in FY 2012/13 (after SJAFCA's current assessment sunsets in FY 2011/12).

Capitol PFG determined the annual assessment need for the assessment district by developing a rough cash flow model analyzing the local share funding need of the project assuming a five year project implementation schedule. The cash flow analysis assumed the design and permitting of the Project takes place over three years and the construction of the project occurs in the following two years. The cash flow analysis prepared for preliminary financing plan is shown in **Table 3**.

When determining the annual need for the assessment district shown in **Table 3**, the local cost share is assumed to be the net cash flow need after State funding. This takes into consideration the timing of state funding including any retention held on the State share of expenses. The timing of State advance funding is based upon the current EIP advance funding provisions and Capitol PFG's experience working with the State on EIP Projects.

Assessment revenue will be collected while the project is being designed and constructed and will be used to directly fund design and construction expenses on a pay-as-you-go basis. SJAFCA is able to self finance any remaining cash flow short falls while the project is being designed in years 1 through 3 by utilizing cash reserves (discussed further in the following section). In year 4, SJAFCA plans to execute a short term cash flow borrowing, a two year note in the amount of \$10,100,000, at the start of construction to aid in funding the local share of construction and the cash flow needs of the project. SJAFCA will make current interest payments on this borrowing and repay it after two years from a combination of the following;

- Assessment proceeds collected during the two years;
- Remaining State share reimbursements due at the end of construction (retention payments), and;
- The proceeds from a long term permanent financing in the amount of \$9,000,000.

At the end of construction, the end of year 5, SJAFCA would execute this long term borrowing which would be paid off over 30 years from annual assessment collections. Through the long term borrowing, SJAFCA would also be able to repay itself and other contributing entities for the self financing of the all preliminary studies and the design expenditures incurred through year 3.

Capitol PFG used the cash flow analysis to derive a conservative bond financing program consisting of the one short term borrowing to fund the net annual construction costs after State funding followed by the permanent take-out financing. **Table 4** summarizes the key components of this structure and presents the associated annual need of the assessment district. Given the financing structure, Capitol PFG estimates that the annual capital assessment need would be \$990,000. This level of assessment provides

**Table 3**  
 SJAFCA Smith Canal Closure Structure Financial Plan  
 Preliminary Financing Plan Conceptual Cash Flow

Year Months	1 2011		2 2012		3 2013		4 2014		5 2015		2016	Total
	Jan-Jun	Jul-Dec	Jan-Jun	Jul-Dec	Jan-Jun	Jul-Dec	Jan-Jun	Jul-Dec	Jan-Jun	Jul-Dec	Jan-Jun	
<b>Beginning Balance</b>	\$0	\$0	\$0	\$0	\$0	\$536,391	\$41,781	\$7,423,366	\$3,750,834	\$2,595,671	\$70,578	
<b>Expenditures</b>												
Program Management	118,167	118,167	118,167	118,167	118,167	118,167	47,750	47,750	47,750	47,750		\$900,000
Engineering Design	375,000	375,000	375,000	375,000	375,000	375,000	0	0	0	0		\$2,250,000
Independent Review	50,000	50,000	50,000	50,000	50,000	50,000	0	0	0	0		\$300,000
Environmental Review & Permitting			343,750	343,750	343,750	343,750	0	0	0	0		\$1,375,000
Real Estate Planning & Acquisition	23,500	23,500	23,500	23,500	23,500	23,500	82,250	82,250	82,250	82,250		\$470,000
Public Outreach	8,333	8,333	8,333	8,333	8,333	8,333	12,500	12,500	12,500	12,500		\$100,000
Financing	50,000	50,000	50,000	50,000	50,000	50,000	75,000	75,000	75,000	75,000		\$600,000
Construction (Less General Requirement	0	0	0	0	0	0	4,474,200	4,474,200	2,982,800	2,982,800		
General Requirements	0	0	0	0	0	0	672,000	672,000	448,000	448,000		
Contingency (30%)	0	0	0	0	0	0	1,342,800	1,342,800	895,200	895,200		
Construction Management	0	0	0	0	0	0	525,000	525,000	350,000	350,000		
Environmental Mitigation	0	0	0	0	0	0	187,500	187,500	125,000	125,000		
<b>Total Project Expenditures</b>	<b>\$625,000</b>	<b>\$625,000</b>	<b>\$968,750</b>	<b>\$968,750</b>	<b>\$968,750</b>	<b>\$968,750</b>	<b>\$7,419,000</b>	<b>\$7,419,000</b>	<b>\$5,018,500</b>	<b>\$5,018,500</b>	<b>\$0</b>	<b>\$30,000,000</b>
<b>Revenues</b>												
State EIP Funding	0	390,625	566,406	435,938	389,141	389,141	3,688,515	3,872,718	2,828,501	2,619,657	1,871,360	\$17,052,000
Local Assessment Revenue [1]	0	0	0	0	1,116,000	0	1,138,320	0	1,161,086	0	1,184,308	\$4,599,715
SJAFCA Internal Funding	625,000	234,375	402,344	532,813	0	85,000	0	0	0	0	0	\$1,879,531
<b>Total Revenues</b>	<b>\$625,000</b>	<b>\$625,000</b>	<b>\$968,750</b>	<b>\$968,750</b>	<b>\$1,505,141</b>	<b>\$474,141</b>	<b>\$4,826,835</b>	<b>\$3,872,718</b>	<b>\$3,989,587</b>	<b>\$2,619,657</b>	<b>\$3,055,668</b>	<b>\$20,475,578</b>
<b>Preliminary Ending Balance</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$536,391</b>	<b>\$41,781</b>	<b>(\$2,550,384)</b>	<b>\$3,877,084</b>	<b>\$2,721,921</b>	<b>\$196,828</b>	<b>\$3,126,246</b>	
<b>Financing Proceeds</b>												
BAN/Take Out Proceeds	0	0	0	0	0	0	10,100,000	0	0	0	9,000,000	\$19,100,000
<b>Debt Costs/Repayment</b>												
SJAFCA Internal Borrowing Repayment	0	0	0	0	0	0	0	0	0	0	1,879,531	\$1,879,531
Debt Service Costs	0	0	0	0	0	0	126,250	126,250	126,250	126,250	126,250	\$631,250
BAN Repayment	0	0	0	0	0	0	0	0	0	0	10,100,000	\$10,100,000
<b>Ending Balance</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$536,391</b>	<b>\$41,781</b>	<b>\$7,423,366</b>	<b>\$3,750,834</b>	<b>\$2,595,671</b>	<b>\$70,578</b>	<b>\$20,465</b>	

[1] Assessment District Revenue is assumed to commence collection in FY 2012/2013 after the termination of SJAFCA's existing Assessment in FY 2011/12. The formation of the AD is assumed to take place prior to July, 2012.



**Table 4**  
 SJAFCA Smith Canal Closure Structure Financial Plan  
 Financing Details

Item	Amount
<u>Key Components of Financing Plan</u>	
BAN for Construction Years 4 & 5 (Proceed Amount) [1]	\$ 10,100,000
Take-Out Financing End of Year 3 (Proceed Amount) [1]	\$ 9,000,000
Maximum Annual Debt Service [2]	\$ 900,000
<u>Annual Cost of Assessment District</u>	
Estimated Annual Capital Assessments Proceeds [3]	\$ 990,000
Budgeted O&M Expenses	\$ 250,000
<b>Total Annual Assessment District Costs</b>	<b>\$ 1,240,000</b>

Source: SJAFCA , Capitol PFG 10/19/10 Final Technical Memorandum

[1] Bond Anticipation Note. The cash flow need is based upon the State Funding provided given current EIP funding agreement procedures and processes. As part of the short term financing, SJAFCA would need to borrow not only the local cost share but a portion of the State Cost share for cash flow purposes which would be ultimately funded at the closeout of the project with retention funding.

[2] Based upon debt service associated with Take-Out Financing.

[3] Represents the needed annual assessments for capital funding with 10% debt service coverage

revenue to cover annual interest payments made on the short term borrowings and provides a needed 10% debt service coverage for the permanent take-out financing. As part of determining the annual need for the assessment district, Capitol PFG included \$250,000 per year for ongoing Operations and Maintenance. Capitol PFG assumed that the full annual need amount, \$1,240,000, would be levied while the Project is being designed and constructed and collections would be used to directly fund the improvement program on a pay-as-you-go basis.<sup>2</sup>

#### *SJAFCA Internal Funding*

During the design phase of the project, SJAFCA will cover current expenses by utilizing cash reserves it has accumulated from prior fiscal years from other funding sources. SJAFCA's adopted FY 2010/11 budget,<sup>3</sup> projects an estimated fund balance of \$13,532,255 on June 30, 2011. During the design phase of the project, Capitol PFG estimates that SJAFCA will only need to fund approximately \$1.9 million from its reserves. SJAFCA would appropriate these funds for this project through its annual budgeting process starting in FY 2011/12. Ultimately SJAFCA plans to replenish these reserves through reimbursements from the proposed new assessment district when the Smith Canal Project is complete. The reimbursements would come from the permanent financing planned for when the Project is completed in 2016.

### **3. STATEMENT OF FINANCIAL CAPABILITY FOR LOCAL COST SHARE OF THE DESIGN PROJECT**

#### **Evidence of Applicant's Authority to Use Funds**

The two identified sources of Local Funding for the Project are the proposed assessment district revenues and SJAFCA Internal Funding from capital fund reserves.

#### *Assessment District Revenues*

As SJAFCA moves forward with attempting to form a new Benefit Assessment District compliant with requirements of Proposition 218, it will be required to take several distinct actions that will ultimately determine whether the new revenue source can be made available. The first action will be to direct the preparation of an Engineer's Report<sup>4</sup> and a boundary map that will identify the services and facilities to be provided, the benefits received by the services and the allocation of the costs of the services in proportion to the benefits received by each identified benefiting parcel. The next steps would be to adopt a resolution of intention to form the assessment district that preliminarily approves the Engineer's Report, sets a date and time for a public hearing, and directs the mailing of a public hearing notice along with a ballot allowing the property owners the opportunity to protest the formation. Finally, SJAFCA would conduct the public hearing and tabulate the ballots received. If a majority protest does not exist, then SJAFCA can move forward with approving the Engineer's Report and forming the assessment district. By following this

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<sup>2</sup> In order to add a level of conservatism to the financing plan, the cash flow analysis assumes that only 90% of the levied assessments (\$1,240,000) are initially collected on an annual basis (\$1,116,000) due to delinquencies / uncollectible assessments. The cash flow increases this amount slightly as delinquent assessments are collected.

<sup>3</sup> Available online on SJAFCA's website here: [http://www.sjafca.com/pdf/ProjectedBudget\\_FY11.pdf](http://www.sjafca.com/pdf/ProjectedBudget_FY11.pdf)

<sup>4</sup> SJAFCA took this action at its January 26<sup>th</sup> Board meeting.

process, SJAFCA would create a funding mechanism that would allow it to be used as a matching source of funding to the State share for the Smith Canal Project. SJAFCA expects to complete this process by September 2011.

#### *SJAFCA Internal Funding*

SJAFCA's current reserves have come from various sources including the annual collection of assessments from an existing benefit assessment district (SJAFCA's CIP Assessment District) approved in 1990's, the collection of fees on new development and ongoing reimbursements from the Federal Government for SJAFCA's Federal Project authorized under the Water Resources Development Act (WRDA) '96. In 2003, the SJAFCA Board approved Resolution 2003-22 directing the use of the surplus funds from SJAFCA's CIP Assessment District and the Fee program to be used to fund ongoing projects that provide further flood control benefits. That resolution also directed that all Federal Reimbursements be reimbursed to property owners within the area that originally advanced funds for the project, which was later Federally authorized for reimbursement. Several rounds of reimbursements took place. However, in 2006, the Board changed its policy direction regarding the use of the federal reimbursement funds after receiving a letter from the Federal Emergency Management Agency (FEMA) dated April 17, 2006 indicating flood protection deficiencies and impending mapping. Through the Board's budgeting process, it determined that keeping these reserves to be use for flood protection projects was appropriate and since 2006, the Board budgeted these reimbursements to further flood control. The Smith Canal Project fits within the description of furthering flood control and, by Board Policy direction, SJAFCA's unbudgeted reserves can be used to further this project.

#### **Information on Applicant's Ability to Obtain Additional Funds**

While SJAFCA maintains that the above financial plan for the Design Project, consisting of utilizing current Assessment District collections and Capital Reserves, are more than sufficient to complete the Design Project, (note that SJAFCA's current Capital Reserves are expected to exceed \$10,000,000 at year ending June 30, 2011) if SJAFCA needed additional funds for the project, it would need to seek that funding from one of the following identified sources;

- It's member Agencies, the City of Stockton or San Joaquin County
- It's partners in the Smith Canal Project, Reclamation Districts 1614 or 828
- The beneficiaries of the project through an additional supplemental assessment

All of these sources of funding would require legislative action on the part of the contributing entity to generate funding.

#### **Credit Analysis**

SJAFCA does not intend to use General Obligation Bonds to generate a new funding source to cover the local share of the project. For the Design Project, no type of borrowing is contemplated.

Ultimately, for the construction of the project, all borrowing contemplated by SJAFCA would be land secured financing used to capitalize the approved assessments to finance project costs. In terms of the credit worthiness associated with the land secured financing,

the major factors that would affect SJAFCA's ability to borrow against the assessments would be as follows;

- The value of the property securing the payment of the assessment through the imposed governmental lien: Is this value in sufficient excess of the amount borrowed including other overlapping debt on the property?

SJAFCA proposes to impose an Assessment on approximately 7,800 parcels with a combined Assessed Value of \$1,020,000,000. The preliminary financing plan proposes to bond at most for approximately \$10,100,000. This would assume a total value to total lien ratio of approximately 100:1. Land secured financing is typically limited to a minimum value to lien ratios of 4:1. The minimum value to lien ratio for the lowest assessed valued properties is approximately 15:1. This proposed assessment is well covered primarily due to the fact that property is mostly fully developed residential housing.

- Debt service Coverage: Is there sufficient available revenue to cover the cost of the debt service even when not all of the revenue is collected?

Any debt issuance will be structured to provide a minimum debt service coverage ratio of 1.1x in any given year. There are various ways when structuring the debt to ensure this is the case.

- The diversity of the revenue stream. Is there sufficient diversity within property ownership to ensure that no one property owner's lack of assessment payment can affect the agency's ability to make its debt service payments?

As previously noted, the property to be assessed consists primarily of developed single family residential housing. The maximum assessment on any one landowner will be approximately \$14,000. This only represents 1.13% of the total assessments. This is a very well diversified landowner base representing a strong municipal credit.

#### **Cash Flow Considerations**

With respect to the Design Project, as previously noted, SJAFCA will use its current reserves to provide the needed cash flow to cover current expenses. SJAFCA projects at the end of FY 2010/11, to have more than \$13,000,000 in reserve funds to fund Agency Operations and its Capital Projects. SJAFCA's typical Operating Budget is approximately \$1.4 million and it had annual revenues of approximately \$400,000 in FY 10/11. SJAFCA's surplus will allow it to fund the agency operations, the local and State share of the Smith Canal Project until an assessment district financing takes place.

## **4. FINANCIAL PLAN FOR OMRR&R**

### **Overview of Operations Maintenance Needs**

SJAFCA, RD 1614 and RD 828 have worked together to further the Smith Canal Project by partnering and cost sharing on various studies, preliminary design efforts and a Conditional Letter of Map Revision (CLOMR) request with FEMA. Jointly the Agencies will

work together to fund and complete the project with SJAFCA in the lead and potentially the State's assistance. The Agencies have not addressed which party will ultimately have the maintenance responsibility for the completed project, however, in order to address having adequate resources to operate and maintain the project, through the Preliminary Assessment Rate Analysis, the Agencies agreed to provision for O&M. The estimated costs to maintain the completed project is assumed to be \$250,000 per year with escalating costs pegged to an appropriate index factor.

### **OMRR&R Funding**

Ongoing operations and maintenance services are included as part of the Assessment District authorized services. SJAFCA included an initial budget of \$250,000 per year to fund the ongoing operations and maintenance of the closure structure. The Engineer's report will also identify an appropriate escalation factor to be applied to this initial budget so that the ongoing operations and maintenance can continue to be funded into the future in the event of rising costs.

## **5. FINANCIAL PLAN IN SUPPORT OF AREA PLAN**

### **Area Project 1: Smith Canal Closure Structure**

As discussed previously, the financial plan for the Smith Canal Closure Structure consists of forming a new Benefit Assessment District covering the approximately 7,800 parcels that will benefit from the flood control that it provides. The detail of how the assessment district would provide funding for the construction of the Project is outlined in the sections above. The passage of the proposed assessment district is essential in order for SJAFCA to proceed with the project. SJAFCA plans to complete the balloting process necessary for the formation by September 2011. The design of the closure structure would not commence until the assessment district is positively formed and a commitment of State funding is secured. Once the assessment district is formed, the funding for the entire construction of the project and its associated maintenance would be relatively certain, it would only be a matter of executing the plan outlined within this document.

### **Area Project 2: 200-Year Flood Protection - Flow Diversion through Mormon Slough to Lower Mormon Channel**

As part of the Central Stockton Area Plan, SJAFCA and Corps are evaluating the most feasible alternatives for providing 200-year flood protection in the Stockton metropolitan area. The alternatives being evaluated include;

- Flow Diversion from Mormon Slough to Lower Mormon Channel;
- New Hogan Dam & Reservoir Reoperation and/or enlargement; or,
- Levee Raising along the Stockton Diverting Canal and the Lower Calaveras River.

Currently, the most feasible solution might be Flow Diversion from Mormon Slough to Lower Mormon Channel. As noted within the Area Plan, a 2002 report prepared by USACE estimated the project costs at approximately \$16 million. Through cost escalation, that project is now estimated to cost approximately \$23 million. Until a more thorough analysis of the feasibility of the project is completed, including an analysis of potential financing mechanisms, a detailed Financial Plan in support of this project cannot be prepared to the

level of detail indicated in the EIP Guidelines. However, as is the case with most flood control projects, a typical mix of financing would include Local, State and Federal funding sources. The Local sources might consist of assessment or property tax funding mechanisms (land secured), development fee funding (if a measurable amount of property benefiting is undeveloped) and/or general fund appropriations from benefiting municipalities. Once the Corps feasibility study has evaluated Area Project 2 further, and SJAFCA is ready to move forward with the project, a more detailed financial plan in support of the project will be prepared.