

Jim Palenick

From: Jim Palenick [jpalenick@dallasnc.net]
Sent: Friday, May 24, 2013 10:59 AM
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Cc: 'mstroupe@dallasnc.net'; 'Bill Trudnak'; 'Steve Lambert'; 'Gary Buckner'; 'dhuffman@dallasnc.net'; 'dallasplanning@dallasnc.net'; 'A Martin'; 'J. Thomas Hunn'
Subject: Town Manager's Weekly report (#31)
Attachments: ~\$enda Request, Water System Financing.dotx.docx; lateral replacement assistance program.docx

Mayor & Board of Aldermen:

Please accept the following as the **Town Manager's Report for the Week-ended Friday, May 24, 2013.**

- At our Budget Work Session last evening, we engaged in much discussion regarding the Financing of the Water-main replacement project and how it was necessitating rate increases, and more specifically, how we first-presented what the magnitude and timing of those rate increases would be. To aid in this matter, I have attached the detailed financing presentation and analysis that I first-provided the Board in March, 2012; which was then adopted in April, and became the cornerstone on which we moved the project and the financing forward. When you read the report, you will see that, over a year ago I had made clear the need to increase rates by an estimated additional 10-12%, even before the amount financed went from \$3Million to \$3.6Million. I had said within a "4-6"year period. So, now a year into that period and \$600,000 more in financed debt, my recommendation of 3 or 4 years of modest, 3-to-3 and 1/2% increases is totally consistent.
- At the scheduled, June 11th Board Meeting, we will be in position, and I will recommend, that we approve the Amendments to both the Purchase Power Agreement and the Settlement Agreement, with Duke Energy, following completion of the Duke/Progress Merger. We will actually need these to be in place to take full advantage of the Hold-harmless provisions negotiated in the Merger and extended to Wholesale customers, as well as to receive our true-up funds in the manner estimated and expected. We will also be looking to Approve the final FY2014 Budget at the June Meeting as well.
- We have now finalized the details of the "Home-owner Financial Assistance Program" for replacing obsolete, galvanized-iron water service laterals, as well as the list of pre-approved plumbing contractors who can eligibly do the work, and provided all such information on a 2-page handout (copy attached) to provide both residents and contractors. The program is now in effect for those who have had the water-main serving their home replaced and energized. There will be \$70,000 total available for the program for those in Phases I, II, and III; and \$50,000 total for those in the CDBG Phase. At the Maximum pay-out of \$300 each, this would cover 233 replacements in I, II, and III; and 166 in the CDBG area.
- Remember, The next Budget Work Session will be held Tuesday, May 28th beginning at 6:00 p.m. (NO DINNER). It will be geared to discussion and questions, no further presentation is scheduled.
- Allow me to wish everyone a safe and happy Memorial Day weekend. Enjoy family, outdoors, leisure and whatever pursuits bring you joy. And, remember to honor and celebrate our Military Veterans for their commitment and sacrifice.

Thank You,

Jim Palenick
Interim Town Manager

TOWN OF DALLAS, NORTH CAROLINA
AGENDA
March 13th, 2012
REQUEST FOR BOARD ACTION

ITEM: 9C

PAGE: 35

ORIGINATED BY: James M. Palenick, Interim Town Manager

SUBJECT: Report on Possible, Long-Term Debt Financing for Water Distribution System Improvements:

SUMMARY AND BACKGROUND OF SUBJECT MATTER:

Project Description:

The Project entails a 4-Phased approach to a near-complete replacement and upgrade of the Water distribution Main system throughout the older core area of the Town of Dallas, primarily East of US 321. New PVC Lines would be installed to replace the aging, corroded, and under-sized lines currently in place. The new lines would improve fire-flows as well as water-quality and range in size from 2" diameter, to 12" diameter. Based on the Phases contemplated (see Map), the Phase I improvements would replace 17,380 linear feet of underground lines; Phase II would replace 31,400 linear feet; Phase III, 20,935 linear feet; and, Phase IV would complete 22,613 linear feet. In Total, the project would construct 92,328 linear feet (17.48 miles) along with all the associated fittings, connections, and hydrants. No new or additional Storage is contemplated.

Project Time-Line:

To take advantage of the historically-low debt-financing rates and highly-competitive construction-cost environment, it is recommended that the Project be financed and constructed in a singular time frame. This approach would minimize and limit the disruption of large scale construction activities to a single year period or less, rather than four (4) separate, or continuous, years of disruption. In addition, mobilization, financing, and engineering costs would all be lessened with the economy of scale that comes with a one-time approach. At the same time, the engineering and bid "packages" could still be completed and awarded in Phases in order to assure a less-delayed construction start and better participation from interested contractors.

Following Board Approval and Authorization, it is estimated that the complete package of Design Engineering necessary to Bid all Phases of work would take a combined eight (8) months. The first Phase could likely be completed in three (3) months however, and could be bid at time of completion, with each successive phase then following suit. Surveying work could begin immediately, and the planning and preparation for the Financing could be occurring concurrently with the design engineering, so that Funds would be available at the point of the first contract bid award.

In Summary, If we assume Board action and approval at the April Board Meeting, we could expect the first package of Design engineering to be completed for Bid by July 15th; All the design work should then be concluded by November 1st. An award and construction start on Phase I could occur around October 1st, assuming the Financing proceeds along as planned and The Local Government Commission (LGC) gives approval at its September Meeting. The Overall construction could then be completed by the conclusion of Calendar year 2013, with most of the construction work actually occurring in 2013.

Project Costs:

Based on the most up-to-date and detailed Engineer estimates, which are purposefully-conservative and include a 10% "Contingency" for unexpected cost increases and/or unforeseen circumstances, the Overall Project Cost Summary is as follows:

Construction Cost: Phase I: \$635,360.00
Phase II: \$1,154,800.00
Phase III: \$801,570.00
Phase IV: \$840,486.00
TOTAL: \$3,432,216.00

Engineering Cost: (10%) \$343,221.60
Surveying Cost: \$1.25/l.ft. \$115,410.00
Bond Counsel: \$7,500.00
Financial Consultant: \$25,000.00

TOTAL: \$3,923,347.60

Project Financing:

Given that the Total Principal financing for this deal is very small, in the eyes of the Credit Markets; and that the fixed costs of issuing Revenue Bonds don't really vary whether you're issuing \$1M or \$100M; and the fact that Dallas has not been Rated by Rating Agencies for decades; The costs and complications involved in issuing publicly-or privately placed system Revenue Bonds would not be worth it. Instead, it is recommended that the Financing consist of so-called "Installment Purchase Contract" debt, Privately-placed with a Bank or other large Debt-instrument purchaser, selected by RFP and then finalized through negotiated structuring and closing using the assistance of a Financial consultant with substantial experience and relationships in the Market. In this manner, the estimated \$25,000 cost of the Consultant (paid out at closing) is more than made up for in ultimate savings achieved.

We would recommend financing between \$3M and \$3.3M in total Principal for this project, since the above-detailed cost estimates are likely conservative and the combination of identifying hydrants and meters to reuse, as well as the likelihood that construction bid costs come in below estimates, will each produce savings. To the extent that we still haven't covered all project costs, the shortfall could be paid from the Water/Sewer Fund's very healthy Fund Balance.....since this project would be accomplishing the one primary major capital concern that such Balance is designed to financially mitigate against.

For this Project, we would likely look to Structure the deal as a 20-year amortization with the first payment due in 2013 and the final payment in 2033. The Reason we might consider a 10-year term, is that the Interest rates between the two could prove as much as 165 "basis points" different (i.e. 2.45% vs 4.10%). But of course with that decision comes the knowledge of committing to pay the issue off in half the time, putting a lot more upward-pressure on Rates to support the likely \$100,000+/year payment requirement.

The Current Bond Buyer Index for AA2-rated G.O. Debt is at 3.72%. Since we would be doing an IPC, and our credit-worthiness would not match the "G.O./AA2", we could expect Rates in the 4.00 to 4.25% range assuming the Market doesn't change for the worse between now and closing. This would necessitate a yearly payment of combined interest and principal (beginning in FY2013/14) of approx. \$221,000. Conversely, to go with a 10-Year IPC, and assuming a 2.45% rate, our yearly payment would be approx. \$338,000. If we adjust our Rate structure to the modestly-altered proposal attached for FY 2012-13, we should cover the needs of the 20-year issue with only modest (probably 2 increases of 5-6% each over the succeeding 4-6 years) rate increases. For the 10-year issue, those increases would likely need to see an initial rise of 8-9%, and a follow-up 4-6% in the year or two thereafter.

Consultants/Professionals/Agencies Recommended or Required:

Bond Counsel: Don Ubell, Parker Poe Attorneys, Charlotte
Financial Consultant: Jeremy Carter, DEC Associates, Inc., Charlotte
Design & Construction Engineers: Johnny Denton, Diamond Engineering, Dallas
State Approvals: (Financing) Local Government Commission (LGC), State Treasurer's Office, Raleigh
State Approvals: (Engineering) NC Department of Environment & Natural Resources, Raleigh

STAFF RECOMMENDATION: That the Board closely evaluate the Materials Presented and be Prepared to Make a Final Decision on the Project by no later than its' April, 2012 Board Meeting. A decision to then Approve of the Project in Total, with a one-time, long-term Debt Financing, would require approval of the Engineering contract to allow design work to commence immediately thereafter; and, approval of the Financing Plan as outlined herein for either the 10 or 20 year term; at either \$3.0 or \$3.3M (or other); and, as a privately-placed installment purchase contract. Based on those final decisions, some adjustments to the Rate Structure will be required.

DOCUMENTS ATTACHED: Details and correspondence on Engineering sequencing and cost estimates; Bond Counsel and Financial Consultant efforts and Proposals; State Treasurer guidelines for debt issuance; and a Dallas Town Rate structure analysis and proposal.

NORTH CAROLINA STATUTE OR POLICY RELATING TO:

REFERRED TO:

ATTORNEY:

BUDGET:

OTHER AFFECTED DEPARTMENTS:

COMMITTEE OR BOARD:

REFERRED FOR FURTHER ACTION TO:

DATE TO BE RETURNED & TO WHOM:

MOTION BY:

SECONDED BY:

COMMENTS:

TOWN OF DALLAS
HOME-OWNER FINANCIAL ASSISTANCE PROGRAM
FOR:
REPLACING
Obsolete, Galvanized-Iron Water Service Laterals

Throughout 2013 and 2014 the Town of Dallas will be replacing and reconstructing many of the aging, underground Water Mains within the community. In an effort to encourage and assist Home-owners to also replace the "water service laterals" connecting their home to the water meter, the Town has developed and put into place the following Program:

Program: (Home-Owners)

- To be eligible, the home must be served by, and connected to, one of the Water-mains being replaced.
- Town of Dallas will reimburse "eligible" home-owners 75% of the total cost of replacement, up to a maximum reimbursement of \$300.00.
- Town of Dallas has established a list of pre-qualified, plumbing contractors (see attached) who may be engaged by the home-owner to complete the work.
- Following completion of the work by a pre-qualified contractor, the Home-owner can request, and the Town will issue a reimbursement check to the home-owner. However, the Home-owner has ultimate responsibility for payment of invoiced expenses of the contractor.
- The Home-owner may choose, and the contractor may install, any AWWA-approved piping materials (copper, polymer), but total Town reimbursement of expenses shall not exceed the maximums detailed herein.
- The reimbursement program is only available to Home-owners for service lateral replacement at the residence you personally occupy. Properties held for investment and/or rented out shall not qualify as eligible for reimbursement.

(Plumbing Contractors)

- To acquire "Pre-qualification" status from the Town of Dallas and become eligible to participate, you must complete and return the "preferred contractor" application

form from the Town of Dallas, and meet the eligibility criteria detailed thereon for licensure and insurance requirements, and be fully current on any financial obligations to the Town.

Pre-Qualified Plumbing Contractors:

- | | |
|---|---------------------|
| 1. Cedar Hill grading Inc. | 704-922-0052 |
| 2. Dallas Electrical & Plumbing Inc. | 704-867-4404 |
| 3. Dean Mitchell Plumbing | 704-913-2695 |
| 4. Lineberger Plumbing Services | 704-922-8714 |
| 5. Major Norwood | 704-913-6797 |
| 6. Tim's Trenching | 704-913-1606 |