Public Comment received via email on 05/06/2019

PUBLIC COMMENT: CVWD Approves $5M Bond – MY CONCERNS (from Marilyn Tyler)

On April 28 the CVWD Board approved a $5million bond, to be issued on or after June 3, 2020 (CVWD has the right to cancel up until the day of issuance?).

MY CONCERN: CVWD may be unnecessarily taking on ADDITIONAL DEBT (requiring annual debt payment of approx. $93,165 per year) DURING A PANDEMIC, when the revenue flow for both CVWD and the Crescenta Valley community may be greatly reduced. The combination of the two factors (reduced revenue flow and increased debt) may lead CVWD to again attempt to impose a rate increase on the suffering Crescenta Valley community.

EVERYTHING WILL DEPEND ON HOW CVWD CHOOSES TO SPEND THE $5MILLION. Prior to the pandemic, bonds were seen as one way to fund replacement of aging water and sewer infrastructure. But during a pandemic, aging infrastructure may not be the highest priority for the $5million---the economic downturn/recession/depression may result in more immediate and pressing financial concerns, so CVWD must remain flexible.

If CVWD attempts to proceed blindly with "business as usual" and chooses to spend the entire $5million on aging infrastructure, then a reduced revenue flow into CVWD coupled with the additional debt burden of $93,165 per year may cause CVWD to try to shift the increased financial burden onto the community in the form of a rate increase---unfairly burdening an already beleaguered community.

HOW WE GOT HERE

During the pandemic and resulting economic downturn, CVWD could have chosen to go in the opposite direction and REDUCE debt rather than increase it. CVWD is currently paying for existing bonds from 2007 at the debt service rate of approx. $540,000 per year. CVWD could have refinanced this debt, reducing the debt service from $540,000 to $500,000 per year, and thus SAVING $40,000 per year. The existing debt would be paid off in 2036.

Or, if the existing debt had been refinanced and extended over thirty years (to 2050) then the annual debt service could have been reduced from $540,000 to $368,000 per year, thus SAVING $172,000 per year.

Instead, CVWD has chosen to refinance the existing debt and extend the term to thirty years (to 2050) to match a new money component totaling $5million, resulting in a new debt service of $540,000 + $93,165 = $633,165 per year, INCREASING CVWD's debt service by $93,165 per year. This is the $5million bond compromise reached by the CVWD Board, given the pressure from some Board members to go with an even higher bond amount (maximum $20million). Board member Sharon Raghavachary expressed an intense urgency, stressing that it was "now or never" to approve a new bond, but I do not understand the urgency. Perhaps the Board member was concerned that the current low interest rates would go up, but that seems highly unlikely in the current economic downturn/recession/depression.

Other Board members gave more weight to the community, the pandemic and the resulting economic uncertainty. CVWD Board member Kerry Erickson expressed concern that the Crescenta Valley community may not be aware of the financial burden which a large bond amount would impose (e.g., the debt service for a $20million bond would be $1,428,453 per year, ALMOST $1.5 MILLION DOLLARS!!!, while the annual budget for CVWD for this year is only $12,977,632 with most of it, $9,972,842, going to operating expenses, which does not cover CIP, infrastructure or debt service.) Sharing another perspective, CVWD Board member James Bodnar pointed out that the covid19 pandemic has created significant economic uncertainty and surprising opportunity, so CVWD should move forward slowly with eyes open to the new economic environment.

The CVWD Board took their responsibilities seriously and only arrived at the compromise solution of a $5million bond after much discussion. Now everything will depend on how the CVWD Board chooses to spend the $5million.

SOURCES:

1. "CVWD Market Update and Bonding Capacity" dated Feb. 11, 2020 briefing presented to CVWD by UFI.
2. CVWD Staff Report "Long-Term Infrastructure Reliability and Funding Roadmap - Bond Financing" and attached chart "CVWD Bond Refinancing and New Money Issuance Analysis" dated April 28, 2020 prepared by James Lee (in CVWD Board Agenda Packet for 4/28/2020).