APRIL 9, 2018

ITEM 3

ATTACHMENT A

Financial Advisors, Public Finance
Serving California and Hawaii

C.M. de CRINIS & CO., INC.

M E M O R A N D U M - D r a f t f o r d i s c u s s i o n

DATE:	**April 6, 2018**
TO:	**Mario Iglesias –General Manager**
	Nipomo Community Services District
FROM:	**Curt de Crinis**
RE:	**Opterra Proposal**

It is our understanding the Opterra Energy Service has proposed $5.9 million in solar improvements to the District. The improvements include a system of solar panels and an automated metering infrastructure system that reads water meters remotely. Opterra has also presented an analysis of projected cost savings and presented financing proposals.

The District has asked that we review the Opterra Proposal including the financing proposals. Our review, as requested, will primarily address:

1. *The impact on the District's Credit Rating if it were to advance this project.*
2. *The impact on the District's future borrowing capacity.*

We are not experts in assessing solar system cost or projected savings. It is our understanding that the District has not had the project cost and savings proposals independently reviewed. Of note, I would point out that when I compare the updated Opterra analysis with the analysis from June of 2017, the overall costs are higher, projected electric savings are lower, projected water revenue increases are much higher, meter reading cost savings are higher, and therefore overall program "savings" are higher. When discussed in terms of a credit analysis, time will tell if these systems will increase water revenues to the extent projected ($5.8 million). Without these 'savings' there will be a net cost.

100 N. Brand Blvd., Suite 605, Glendale, CA 91203 Tel: (818) 385-4900 · E-mail: curt@cmdecrinis.com

Impact on the District's Credit Rating if it were to advance this project.

The District does not have an overall credit rating or ICR (issuer credit rating). The credit ratings are tied to either the water enterprise fund or the wastewater enterprise fund. The water enterprise rating is "A", and the wastewater "AA-", both last affirmed 11/3/15 by Standard & Poor's. The wastewater rating was a downgrade from "AA" due to increased operating costs. Whether the financing of the Opterra Project impacts the District's bond ratings at all depends on how future lease or installment payments are secured.

Opterra has obtained three financing proposals for the District. Whether there are more favorable bank proposals cannot be assessed without independently bidding out the financing. Two of the three financing proposals require a pledge of net revenues, presumably from the District's water enterprise. The third, from Pinnacle Public Finance, appears to be a financing lease without a net revenue pledge secured only by the equipment purchased. All three require a tax exempt opinion on the interest portion of the debt.

In our view, based on the current financial condition of the District and the high level of debt service coverage from net water system revenues, we would not expect a rating downgrade from the current "A" rating on the 2013 Revenue Certificates of Participation or the Series 2013 Water Revenue Bonds as a result of the additional $5.9 million in Opterra debt service. To the extent that there is a risk, the Pinnacle Proposal is the most favorable from a credit standpoint for the following reasons:

1. There is no net revenue pledge from the Water Enterprise.
2. The financing may be expressly subordinate to the existing Series 2012 and 2013 Water Revenue Bonds.
3. The financing hopefully can be made expressly subordinate to any future Water Revenue Bonds – provided that there will be sufficient coverage to also make the Pinnacle payments.

An additional $5.9 million in debt will always be a factor in a rating analysis, particularly with respect to overall operating cash flow, but in our view not a determining one given the District's strong debt service coverage ratio, strong liquidity position, and projected operating savings.

The sensitivity of the additional $5.9 million in Opterra debt on the District's bond rating or a possible rating upgrade to "A+" would be more pronounced if the District's operating costs and/or supplemental water costs increased significantly and/or the District's liquidity position deteriorated significantly. However, this does not seem to be a risk currently. Another factor could be if "savings" do not materialize. There is also the potential benefit of the Opterra guarantee of net savings, which would help mitigate any possible losses provided all the possible sources of "savings", such as increased revenues are identified and Opterra remains a viable entity over time.

	Current Status	*Opterra Senior*	*Opterra Sub*
Underlying Rating - Senior	"A"	"A"	"A"
	2017	**2018**	**2018**
Revenues	$6,420,613	$6,741,644	$6,741,644
O&M	4,417,316	4,238,182	4,238,182
Net Revenues	2,003,297	2,503,462	2,503,462
2013 Bonds MADS	(530,862)	(530,862)	(530,862)
2013 A Bonds MADS	(227,300)	(227,300)	(227,300)
2018 Opterra MADS	-	-	(560,319)
	-	-	-
TOTAL Debt Service - Senior	(758,162)	(758,162)	(1,318,481)
Coverage%	264%	330%	190%
Coverage $	$1,245,135	$1,745,300	$1,184,981
Sub Lien - Opterra MADS		(560,319)	
Total Debt Service - ALL	(758,162)	(1,318,481)	(1,318,481)
Coverage % - All DS	264%	190%	190%
Coverage $	$1,245,135	$1,184,981	$1,184,981

1. **Assumes Revenues and O&M increase at 5%**
2. **Assume Opterra Savings reduce O&M by $400,000 annually**

The impact on the District's future borrowing capacity.

The impact on the District's future bonding capacity, assuming $400,000 in annual saving is realized by the Opterra improvements, is calculated to be approximately $3.5 million under current bond market conditions. There is also an approximately $100,000 benefit to future bond capacity in funding the Opterra Project on a subordinate basis to the existing bonds as the Pinnacle Proposals suggests might be possible. We would suggest that the Opterra project may be financeable with a bond issue at a lower interest cost given the District's bond credit rating and this option should also be reviewed.

The table below illustrates the relative impact on future bonding capacity of financing the Opterra Project on a senior basis, a subordinate basis, without Opterra Project savings and not at all.

Bond Capacity Analysis	*Opterra Senior*	*Opterra Sub*	*No Opterra Savings*	*No Opterra Project*
Underlying Rating - Senior	"A"	"A"	"A"	"A"
	2018	**2018**	**2018**	**2018**
Revenues	$6,741,644	$6,741,644	$6,741,644	$6,741,644
O&M	4,238,182	4,088,182	4,638,182	4,488,182
Net Revenues	2,503,462	2,653,462	2,103,462	2,253,462
2013 Bonds MADS	(530,862)	(530,862)	(530,862)	(530,862)
2013 A Bonds MADS	(227,300)	(227,300)	(227,300)	(227,300)
2018 Opterra MADS	(560,319)	-	-	-
2018 Max Additonal DS	(684,143)	(858,054)	(511,121)	(924,414)
TOTAL Debt Service - Senior	(2,002,624)	(1,616,216)	(1,269,283)	(1,682,576)
Coverage%	125%	164%	166%	134%
Coverage $	$500,838	$1,037,246	$834,179	$570,886
Sub Lien - Opterra MADS		(560,319)	(560,319)	-
Subordinate Lien - New DS	(175,756)	-	-	(146,473)
Total Debt Service - ALL	(2,178,379)	(2,176,535)	(1,829,602)	(1,829,048)
Coverage % - All DS	115%	122%	115%	123%
Coverage $	$325,082	$476,927	$273,860	$570,886
Bonding Capacity Senior Debt	$11,830,218	$14,837,501	$8,838,321	$15,984,990
Bonding Capacity Subordinate Debt	$2,914,081	$0	$0	$2,428,563
TOTAL Bonding Capacity	**$14,744,298**	**$14,837,501**	**$8,838,321**	**$18,413,553**

1. Assumes 5% increase in Revenues and O&M

2. Parity Bonds Test requires 125% Coverage

3. Assumes Senior Bonds TIC of 4% - "A" Rating

4. Assumes Sub Bond TIC of 4.35% - "BBB" Rating

5. Term 30 years

6. Opterra Savings Assumed at $400,000 per year

7. Assumes District will maintian min overall coverage of 115%

In summary, provided the District reasonably maintains its currently strong financial condition, financing the Opterra project, whether financed on a senior or subordinate basis, can be accomplished without adversely impacting the District's existing bond ratings. The impact on bonding capacity, under current market conditions, is about $3.5 million assuming Opterra savings are $400,000 per year. Even if Opterra savings offset 100% of the financing costs, the loss in bonding capacity (but not cash flow) appears to be $1.3 million due to debt service coverage requirements. If there are no Opterra produced savings, the impact on bond capacity is approximately $8.5 million. If interest rates rise or credit conditions deteriorate bonding capacity could be impacted and reduced.