

**SACRAMENTO COUNTY SANITATION  
DISTRICTS FINANCING AUTHORITY**  
(A Component Unit of the Sacramento  
Regional County Sanitation District)

Independent Auditors' Reports,  
Basic Financial Statements,  
and Required Supplementary Information

For the Year Ended June 30, 2018

**SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Sacramento County Sanitation Districts Financing Authority  
Sacramento, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Sacramento County Sanitation Districts Financing Authority (the Authority), a component unit of the Sacramento Regional County Sanitation District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2018, and the changes in financial position, and, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*Vavrinik, Trine, Day & Co. LLP*

Sacramento, California  
November 28, 2018

# SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FOR THE FISCAL YEAR ENDED JUNE 30, 2018

The Sacramento County Sanitation Districts Financing Authority (the Authority), a component unit of the Sacramento Regional County Sanitation District (Regional San), was created pursuant to a Joint Exercise of Powers Agreement with the District and the Sacramento Area Sewer District (SASD), in October 1993 for the purpose of facilitating the financing of acquisition and/or constructing of real and personal property in and for the Regional San and SASD. This section presents a discussion and analysis of the Authority's financial performance during the fiscal years ended June 30, 2018. Please read it in conjunction with the Authority's basic financial statements following this section.

#### FINANCIAL HIGHLIGHTS

- In April 2015, the State Water Resources Control Board approved a financing program with the Authority for the EchoWater Project in the amount of approximately \$1.4 billion for eight component projects. Interest rates on the component projects range from 1.5 to 1.7 percent. The starting dates of the projects range from March 2015 to January 2018 with completion dates from August 2016 to March 2022. Repayment for each component project will begin one year after completion of construction. As of June 30, 2018, the outstanding balance was \$467,939,083.
- In November 2015, The State Water Resources Control Board approved construction financing for the construction of a transmission pipeline providing recycled water to the southern portions of the City of Sacramento. Interest on the project is 1.0% and is to be paid back over a 20 year period once the project is complete. As of June 30, 2018, the outstanding balance is \$6,635,062.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of two components: the basic financial statements and notes to the basic financial statements.

**Basic Financial Statements** (page 7) are designed to provide readers with a broad overview of the Authority's finances.

The *Statement of Net Position* presents information on all the Authority's assets, deferred outflow of resources, and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected service charges).

The *Statement of Cash Flows* presents information about the cash receipts and cash payments of the Authority during the year. When used with related disclosures and information in the other financial statements, the information provided in these statements should help financial report users assess the Authority's ability to generate future net cash flows, its ability to meet its obligations as they come due, and its need for external financing. It also provides insight into the reasons for differences between operating income and associated cash receipts and payments; and the effects on the Authority's financial position of its cash and its noncash investing, capital, and related financing transactions during the year.

**Notes to the basic Financial Statements** (page 10) provide additional information that is essential to a full understanding of the data provided in the Authority's basic financial statements. The notes are included immediately following the basic financial statements within this report.

**SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**FINANCIAL ANALYSIS**

As previously noted, net position may serve over time as a useful indicator of the Authority's financial position. As of June 30, 2018, total assets and deferred outflows exceeded total liabilities and deferred inflows by \$32.0 million. During the fiscal year ended June 30, 2018, net position decreased by \$2.5 million.

The following table summarizes the changes between assets, deferred outflows, liabilities, and net position as of June 30, 2018, and 2017:

**Condensed Statements of Net Position  
(Amounts Expressed in Thousands)**

	<u>2018</u>	<u>% Change</u>	<u>2017</u>
<b>Assets:</b>			
Current Assets	\$ 51,641	10.6%	\$ 46,703
Noncurrent Assets	<u>1,933,452</u>	10.2%	<u>1,754,739</u>
Total assets	<u>1,985,093</u>	10.2%	<u>1,801,442</u>
Deferred Outflows	<u>33,353</u>	-7.2%	<u>35,941</u>
<b>Liabilities:</b>			
Current liabilities	51,641	10.6%	46,703
Noncurrent liabilities	<u>1,933,452</u>	10.2%	<u>1,754,739</u>
Total liabilities	<u>1,985,093</u>	10.2%	<u>1,801,442</u>
Deferred Inflows	<u>1,397</u>	-5.3%	<u>1,475</u>
<b>Net position:</b>			
Restricted net position	33,353	-7.2%	35,941
Unrestricted	<u>(1,397)</u>		<u>(1,475)</u>
Total net position	<u>\$ 31,956</u>	-7.3%	<u>\$ 34,466</u>

In fiscal year ended 2018, the total assets increased by \$183.7 million mainly due to the net change in long term receivables. Long term receivables from Regional San increased due to a \$221.9 million increase in the Authority's loan balance from the State Revolving Loan and offset by \$38.2 million in scheduled debt payments received from Regional San and SASD. Deferred outflows decreased by \$2.6 million due to the amortization of deferred charges. Deferred inflows decreased by \$78 thousand due to the amortization of deferred credits. Total liabilities increased by \$183.6 million due to a net increase in long term obligations.

# SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### FOR THE FISCAL YEAR ENDED JUNE 30, 2018

The following table summarizes the changes in net position for the fiscal years ended June 30, 2018, and 2017:

<b>Authority's Changes in Net Position</b>			
<b>(Amounts Expressed in Thousands)</b>			
	2018	% Change	2017
Operating revenues	\$ 44,638	5.4%	\$ 42,365
Nonoperating revenues (expenses):			
Interest expense	(47,148)	5.1%	(44,876)
Change in net position	(2,510)	0.0%	(2,511)
Net position, beginning of year	34,466		36,977
Net position, end of year	\$ 31,956		\$ 34,466

Total operating income increased by approximately \$2.2 million. The increase is attributable to an increase in interest expense paid by Regional San for the State Revolving Loan. Total non-operating revenues and expenses increased by approximately \$1.0 million in the year ending June 30, 2018. The change is mostly attributable to a higher State Revolving Loan balance from the prior year increasing the amount of interest expense.

#### **LONG-TERM DEBT ACTIVITY**

**Long-term obligations** totaled \$1,977 and \$1,793 million at June 30, 2018 and 2017, respectively. These amounts were comprised of SASD and the Regional San's revenue bonds and the State Revolving Loan. The following table summarizes the amount of long-term obligations for the fiscal years ended June 30, 2018, and 2017.

<b>Authority's Outstanding Long-term Obligations</b>		
<b>(Amounts Expressed in Thousands)</b>		
	2018	2017
SASD Revenue Bonds, Net	172,161	173,496
Regional San Revenue Bonds and Loans, Net	1,804,490	1,619,315
Total Long-term obligations	1,976,651	1,792,811

Revenue bonds and loans related to the Regional San have increased by approximately \$185.1 million. The increase was a result of \$221.9 million increase in the Authority's loan balance from the State Revolving Loan and offset by scheduled debt payments. Revenue bonds related to SASD have decreased by approximately \$1.3 million during the 2017-18 fiscal year. These changes were the result of scheduled debt service payments of \$990 thousand and bond premium amortization of \$345 thousand.

Additional information on the Authority's long-term debt obligations can be found in Note 5 of the notes to the basic financial statements.

**SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**ADDITIONAL INFORMATION**

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the information provided in the report or requests for additional financial information should be addressed to Joseph T. Maestretti, Chief Financial Officer; Sacramento Regional County Sanitation Regional San, 10060 Goethe Road, Sacramento California 95827, or phone (916) 876-6116.



**SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY  
(A Component Unit of the Sacramento Regional County Sanitation District)**

STATEMENT OF NET POSITION  
JUNE 30, 2018

ASSETS:	
CURRENT ASSETS:	
Loans receivable from Regional San	\$ 41,822,896
Accrued interest receivable from Regional San	4,503,289
Loans receivable from SASD	1,375,155
Accrued interest receivable from SASD	3,939,191
TOTAL CURRENT ASSETS	51,640,531
NONCURRENT ASSETS:	
Long-term loans receivable from Regional San	1,762,666,725
Long-term loans receivable from SASD	170,785,680
TOTAL NONCURRENT ASSETS	1,933,452,405
TOTAL ASSETS	1,985,092,936
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred amounts on refunding - Regional San	33,353,053
LIABILITIES:	
CURRENT LIABILITIES:	
Bond interest payable - Regional San	4,503,289
Current portion of long-term obligations - Regional San	41,822,896
Bond interest payable - SASD	3,939,191
Current portion of long-term obligations - SASD	1,375,155
TOTAL CURRENT LIABILITIES	51,640,531
NONCURRENT LIABILITIES:	
Long-term bond obligations - Regional San	1,762,666,725
Long-term bond obligations - SASD	170,785,680
TOTAL NONCURRENT LIABILITIES	1,933,452,405
TOTAL LIABILITIES	1,985,092,936
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows on loan refunding - SASD	1,397,324
NET POSITION:	
Restricted for debt service - Regional San	33,353,053
Unrestricted	(1,397,324)
TOTAL NET POSITION	\$ 31,955,729

See accompanying notes to the basic financial statements.

**SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY  
(A Component Unit of the Sacramento Regional County Sanitation District)**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**OPERATING REVENUES:**

Base payment from Regional San	\$ 35,525,515
Base payment from SASD	9,112,204
Total operating revenues	<u>44,637,719</u>
Operating income	<u>44,637,719</u>

**NONOPERATING REVENUES (EXPENSES):**

Interest expense - Regional San	(38,113,853)
Interest expense - SASD	(9,034,575)
Total nonoperating revenues (expenses)	<u>(47,148,428)</u>

Change in net position	(2,510,709)
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Net position, beginning of year	<u>34,466,438</u>
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Net position, end of year	<u><u>\$ 31,955,729</u></u>
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See accompanying notes to the basic financial statements.

**SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY  
(A Component Unit of the Sacramento Regional County Sanitation District)**

**STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from Regional San, principal portion	\$ 33,454,370
Cash received from Regional San, interest portion	38,991,867
Cash paid to Regional San for long-term debt issuance	(221,946,927)
Cash received from SASD, principal portion	990,000
Cash received from SASD, interest portion	9,051,074
Net cash provided by operating activities	(139,459,616)
 <b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>	
Regional San Principal payments on long-term debt	(33,454,370)
Regional San Interest payments on long-term debt	(38,991,867)
Regional San Proceeds from issuance of long-term obligations	221,946,927
SASD Principal payments on long-term debt	(990,000)
SASD Interest payments on long-term debt	(9,051,074)
Net cash used by non-capital financing activities	139,459,616
Net increase in cash and cash equivalents	-
Cash and cash equivalents, beginning of year	-
Cash and cash equivalents, end of year	-
 <b>RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES TO OPERATING INCOME:</b>	
Operating income	\$ 44,637,719
Adjustments to reconcile operating income to net cash provided by operating activities:	
Amortization from SASD	(77,630)
Change in assets and liabilities:	
Interest receivable from Regional San	(5,086,125)
Loans receivable from Regional San	(179,940,080)
Interest receivable from SASD	16,500
Loans receivable from SASD	990,000
Net cash provided by operating activities	\$ (139,459,616)

See accompanying notes to the basic financial statements.

# **SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY**

## **NOTES TO THE BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

### **1. REPORTING ENTITY**

The Sacramento County Sanitation Districts Financing Authority (the Authority), a component unit of the Sacramento Regional County Sanitation District (formerly known as the District) (Regional San), was created pursuant to a Joint Exercise of Powers Agreement with the Regional San and the Sacramento Area Sewer District (SASD), in October 1993 for the purpose of facilitating the financing of acquisition and/or constructing of real and personal property in and for the Regional San and SASD.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of Presentation**

The fiscal agent, as trustee for the bondholders, is required to maintain separate funds for specified activities. The accompanying basic financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

#### **Basis of Accounting**

The Authority uses the accounting principles applicable to enterprise funds. The Authority uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows.

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's operations. The principal operating revenues of the Authority are base payments from Regional San and SASD.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

#### **Statement of Cash Flow**

For purposes of the statement of cash flow, the Authority considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompany notes. Actual results could differ from those estimates.

#### **Deferred Outflows**

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and thus, will not be recognized as an outflow of resources until that time. Deferred amounts on refunding were \$33,353,053 and \$0 for Regional San and SASD, respectively. Amortization of deferred amounts on refunding is computed using the straight-line method over the life of the related obligation.

**SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY**

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Deferred Inflows**

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and thus, will not be recognized as an inflow of resources until that time. Deferred amounts on refunding were \$0 and \$1,397,324 for Regional San and SASD, respectively. Amortization of deferred amounts on refunding is computed using the straight-line method over the life of the related obligation.

**3. LOAN TO PARTICIPATING AGENCIES**

As stated in note #1 the Authority was created pursuant to a Joint Exercise of Powers Agreement (JPA) with Regional San and SASD, in October 1993 for the purpose of facilitating the financing of acquisition and /or constructing of real and personal property in and for Regional San and SASD.

In return, Regional San and SASD and the JPA have entered into master installment agreements to repay these funds and interest, as well as repay the Authority for any costs incurred such as bond issuance and discounts costs. Such repayments, net of any interest earned by the Authority, are required to be sufficient to cover the Authority's debt service requirements on the bonds. As such, the set repayment schedules are consistent with the long-term liabilities repayment schedule. The balance of the loans as of June 30, 2018, is \$1,808,992,910 and \$176,100,026 for Regional San and SASD respectively.

	Balance July 1, 2017	Increase	Decrease	Balance June 30, 2018
Loan receivable - Regional San	\$ 1,619,315,217	\$ 221,946,927	\$(36,772,523)	\$ 1,804,489,621
Interest accrual - Regional San	4,675,332	4,503,289	(4,675,332)	4,503,289
Subtotal - Regional San	<u>1,623,990,549</u>	<u>226,450,216</u>	<u>(41,447,855)</u>	<u>1,808,992,910</u>
Loan receivable - SASD	173,495,990	-	(1,335,155)	172,160,835
Interest accrual - SASD	3,955,691	3,939,191	(3,955,691)	3,939,191
Subtotal - SASD	<u>177,451,681</u>	<u>3,939,191</u>	<u>(5,290,846)</u>	<u>176,100,026</u>
Total	<u>\$ 1,801,442,230</u>	<u>\$ 230,389,407</u>	<u>\$(46,738,701)</u>	<u>\$ 1,985,092,936</u>

**4. NET POSITION**

The net position as reported on the Authority's financial reports consists of \$33,353,053, which is restricted for debt service for Regional San and \$(1,397,324), which is unrestricted for SASD.

**SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY**

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**5. LONG-TERM DEBT**

The Authority's long-term debt at June 30, 2018 consisted of the following:

	<u>2018</u>
<b>Regional San Long-Term Debt:</b>	
2014 B Series Taxable Refunding Bonds	\$ 58,460,000
2014A Series Refunding Bonds	411,991,547
2013D Series Subordinate Refunding Bonds	50,000,000
2013C Series Subordinate Refunding Bonds	50,000,000
2013B Series Subordinate Refunding Bonds	50,000,000
2012A Series Subordinate Refunding Bonds	50,000,000
2011 Series Refunding Bonds	82,509,482
2007 Series Refunding Bonds	429,920,178
2006 Series Revenue Bonds	21,691,713
2001 Series Refunding Bonds	25,342,556
2000 Series C Subordinate Lien Revenue Bonds	100,000,000
Clean Water State Revolving Fund	<u>474,574,145</u>
 Total long-term debt - Regional San	 1,804,489,621
 Less current portion - Regional San	 <u>(41,822,896)</u>
Long-term portion - Regional San	<u>1,762,666,725</u>
 <b>SASD Revenue Bonds:</b>	
2010A/B Series Revenue Bonds	121,205,223
2015 Series Revenue Bonds	50,955,612
Total long-term debt - SASD	<u>172,160,835</u>
 Less current portion	 (1,375,155)
 Long-term portion - SASD	 <u>170,785,680</u>
 Total Long-term portion	 <u>\$ 1,933,452,405</u>

**SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY**

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**5. LONG-TERM DEBT (Continued)**

**State Water Resources Control Board  
Division of Financial Assistance**

On April 7, 2015 at the State Water Resources Control Board (State Water Board) meeting the State Water Board approved the Deputy Director of the Division of Financial Assistance to provide Clean Water State Revolving Fund (CWSRF) program financing to the Sacramento County Sanitation Districts Financing Authority (Authority) for the EchoWater Project. The EchoWater Project is estimated to be in eight construction phases and is estimated to take place over the next several years, starting in March 2015 and ending in February 2022. The total cost of the project is estimated at approximately \$1.4 billion. Pursuant to CWSRF Policy, the interest rate for a construction financing agreement is established by the earlier of the date that the Division of Financial Assistance (Division) initiates preparation of the financing agreement or the date the financing is approved by the State Water Board.

Repayment of an associated financing agreement begins one year after completion of construction of each phase as established in the associated financing agreement for each phase of construction. The combined financing agreements of approximately \$1.4 billion with thirty year terms and rates estimated to be from 1.6 percent to 1.7. The interest rate for the associated financing agreements for each component would be the rate otherwise in effect at the time that each financing agreement is prepared. These component projects vary in their start dates from March 2015 to January 2018 and completion dates from August 2016 to March 2022.

The amount of existing debt will be on parity with the CWSRF debt and the Master Installment Purchase Contract because it provides adequate security for financing. It allows parity debt if the net revenues equal at least 1.2 times the total debt service.

A separate reserve fund shall be maintained for the full term of the financing agreements equal to one year's debt service on all associated financing agreements by completion of construction. The State Water Board reserves the right to add new or modify existing conditions to the commitment in the future, as required by state or federal law or agreements. All eight components of the EchoWater Project have been approved at an interest rate of ranging from 1.6% to 1.7% over a 30 year life. As of June 30, 2017, there was \$253,786,588 in draws that have been processed related to any component of the EchoWater Project.

The table below shows the estimated costs related to each of the eight EchoWater Projects components.

EchoWater Project Component	CWSRF Number	Estimated		Interest rate	Construction Start Date	Estimated Construction Completion Date
		Cost/Maximum Loan Amount	Loan balance at 6/30/2018			
Site Preparation	C-06-8025-110	\$ 43,949,856	\$ 40,904,317	1.6%	Mar-15	Aug-16
Flow Equalization	C-06-8025-120	138,672,372	120,619,962	1.6%	Mar-15	Feb-18
Main Electrical Substation						
Expansion	C-06-0825-130	3,439,831	2,791,156	1.6%	Aug-15	May-16
Disinfection Chemical Storage	C-06-8025-140	21,465,759	21,363,637	1.6%	Sep-15	Aug-16
Nitrifying Sidestream Treatment	C-06-8025-150	53,490,845	43,588,844	1.6%	Jan-16	Jan-19
Biological Nutrient Removal Facility	C-06-8025-160	533,142,603	194,751,066	1.7%	Apr-16	Dec-20
RAS Pumping Station	C-06-8025-170	35,696,952	17,263,894	1.7%	Jul-16	Mar-19
Tertiary Treatment Facility	C-06-8025-180	564,657,506	26,656,207	1.7%	Jun-18	Mar-22
Total EchoWater CWSRF Loan		<u>\$1,394,515,724</u>	<u>\$467,939,083</u>			

**SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY**

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**5. LONG-TERM DEBT (Continued)**

In November 2015, the California State Water Resources Control Board approved construction financing for the phased construction of a transmission pipeline that will provide recycled water to the southern portions of the City of Sacramento. The pipeline will convey recycled water from the existing Sacramento Regional Wastewater Treatment Plant Water Reclamation Facility to the Sacramento Power Authority Cogeneration Facility for use at its cooling towers.

The table below shows the estimated costs and maximum loan amount, interest rate and loan balance at June 30, 2018 for the Water Recycling Pipeline Project.

<b>Water Recycling Pipeline Project</b>	<b>CWSRF Number</b>	<b>Estimated Cost/Maximum Loan Amount</b>	<b>Loan balance at 6/30/2018</b>	<b>Interest rate</b>	<b>Construction Start Date</b>	<b>Estimated Construction Completion Date</b>
Phase 1B	C-06-8082-110	\$ 8,182,200	\$ 6,635,062	1.0%	Oct-16	Dec-18

**Regional San - Letter of Credit**

The Series 2000 C Subordinate Lien Variable Rate Revenue Bonds (the Series 2000C Bonds”) are secured by an irrevocable direct pay Letter of Credit (LOC). The current LOC provider for the Series 2000C Bonds is Bank of America, N.A. The LOC is drawn down by the amount necessary to pay the bondholders the principal and interest due on each interest and principal payment date. The funds received by the Trustee from the Regional San are used to reimburse Bank of America for the amount of the LOC draw plus the draw fee of \$250.00 per draw. The LOC maintains a constant balance of \$100,000,000. On February 21, 2018, the District extended the expiration date of the letter of credit from March 25, 2018 to March 25, 2021.

**Regional San - Direct Purchase Arrangements**

The \$50 million Series 2013 C and \$50 million Series 2013 D Subordinate Lien Variable Rate Refunding Revenue Bonds (the “Series 2013 C and D Bonds”) refunded the Series 2008 B and D Variable Rate Revenue Bonds on November 14, 2013. The Series 2008 B and D Variable Rate Revenue Bonds were previously secured by an irrevocable direct pay LOC. The Series 2013 C and D Bonds were purchased directly by Banc of America Preferred Funding Corporation (BofA). Pursuant to its direct purchase of the Series 2013 C and D Bonds, BofA will hold the bonds. The original agreement was for three years ending in November of 2016. The direct purchase agreement was renewed at that time for an additional three-year term until November 2019. BofA cannot put the bonds back to the Authority or Regional San during the term of the agreement. This eliminates the need for a bank liquidity facility such as a LOC; and eliminates bank risks, remarketing risks and remarketing costs for the duration of the agreement. The renewed direct purchase agreements reduces the cost by \$12,500 per year for each series and changes the index used to calculate the variable rate from SIFMA to 70% of 1 month LIBOR plus 50 bps.



# SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

### 5. LONG-TERM DEBT (Continued)

The \$50 million Series 2012 A Subordinate Lien Variable Rate Refunding Revenue Bonds (the "Series 2012 A Bonds") refunded the Series 2008 C Variable Rate Revenue Bonds in July 2012. The 2008 C Variable Rate Revenue Bonds were previously secured by an irrevocable direct pay LOC. The Series 2012 A Bonds were purchased directly by Wells Fargo Bank (WFB). Pursuant to its direct purchase of the Series 2012 A Bonds, WFB will hold the Bonds for three years through July 2018. WFB cannot put the bonds back to the Authority or Regional San during the term of the agreement. This eliminates the need for a bank liquidity facility such as a LOC; and eliminates bank risks, remarketing risks and remarketing costs for the three year term of the agreement. The Series 2012 A Bonds will bear interest at a floating rate equal to 70% of 1 month LIBOR plus 45 bps per annum for the duration of the three year direct purchase arrangement. In July 2018, the direct purchase arrangement was extended to July 2, 2021. See Note 7, Subsequent Events for additional details.

The \$50 million Series 2013 B Subordinate Lien Variable Rate Refunding Revenue Bonds (the "Series 2013 B Bonds") refunded the 2008 A Variable Rate Revenue Bonds on May 30, 2013. The Series 2008 A Variable Rate Revenue Bonds were previously secured by an irrevocable direct pay LOC. The Series 2013 B Bonds were purchased directly by Wells Fargo Bank (WFB). Pursuant to its direct purchase of the Series 2012 A Bonds, WFB will hold the Bonds for three years through May 30, 2016. On May 1, 2016, the direct purchase agreement was amended to extend the agreement for an additional three years through May 27, 2019. WFB cannot put the bonds back to the Authority or Regional San during the term of the agreement. This eliminates the need for a bank liquidity facility such as a LOC; and eliminates bank risks, remarketing risks and remarketing costs for the three year term of the agreement.

For the original agreement, the Series 2013 B Bond's interest was calculated using a floating rate equal to SIFMA times 70% plus 50 bps per annum, effective for the first three years of the direct purchase arrangement. The amended agreement, effective May 25, 2016, with interest at a floating rate equal to 70% of 1 month LIBOR plus 45 bps per annum for the duration of the three year direct purchase arrangement.

#### Regional San – 2014B Series Refunding Bonds

In November 2014, the Sacramento County Sanitation Districts Financing Authority (Authority) issued the 2014 B Series Taxable Refunding Bonds senior lien bonds in the amount of \$61,895,000 with interest rates ranging from 0.5% to 3.2%, principal payments ranging from \$1,105,000 to \$10,830,000 with the first payment starting in 2015 and ending in 2023. Proceeds from this debt issue were used to advance refund \$58,730,000 of the tax-exempt Series 2005 Revenue Bonds. Regional San completed the advance refunding to reduce its future total debt service payments by approximately \$4.3 million and obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$3.8 million. Unamortized deferred amount on refunding was \$3,987,388 at June 30, 2018.

# SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

### 5. LONG-TERM DEBT (Continued)

#### Regional San – 2014A Series Revenue Bonds

In July 2014, Regional San (through the Authority) issued the 2014 A Series Revenue Bonds in the amount of \$378,510,000 with interest rates ranging from 3.0% to 5.0%, principal payments ranging from \$7,400,000 to \$36,250,000 with the first payment starting in 2016 and ending in 2044, net of premium of \$55,778,814. Proceeds from this debt issue were used to advance refund \$260,600,000 of the Series 2006 Revenue Bonds and to pay certain costs of preliminary planning design, construction and related activities in connection with the implementation of facilities and upgrades to the Sanitation System. Regional San completed the advance refunding to reduce its future total debt service payments by approximately \$29.9 million and obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$21.6 million. Unamortized premium was \$48,581,547 and deferred amount on refunding was \$14,777,686 at June 30, 2018.

#### Regional San - 2013D Series Refunding Bonds

In November 2013, Regional San (through the Authority) refunded \$50,000,000 of the Subordinate Lien Variable Rate 2008 D Bonds by issuing \$50,000,000 Series 2013 D Subordinate Lien Variable Rate Tax Exempt Revenue Bonds. The Series 2013 D Subordinate Lien Variable Rate Tax Exempt Revenue Bonds carry a variable interest rate of 70% of 1 month LIBOR plus 50 basis points. Unamortized deferred amount on refunding was \$324,444 at June 30, 2018. Proceeds on the Series 2013 D Bonds were used for the refunding of the 2008 A Series Bonds.

#### Regional San - 2013C Series Refunding Bonds

In November 2013, Regional San (through the Authority) refunded \$50,000,000 of the Subordinate Lien Variable Rate 2008 B Bonds by issuing \$50,000,000 Series 2013 C Subordinate Lien Variable Rate Tax Exempt Revenue Bonds. The Series 2013 C Subordinate Lien Variable Rate Tax Exempt Revenue Bonds carry a variable interest of 70% of 1 month LIBOR plus 50 basis points. Unamortized deferred amount on refunding was \$324,444 at June 30, 2018. Proceeds on the Series 2013 C Bonds were used for the refunding of the 2008 B Series Bonds.

#### Regional San - 2013B Series Refunding Bonds

In May 2013, the Authority refunded \$50,000,000 of the Subordinate Lien Variable Rate 2008 A Bonds by issuing \$50,000,000 Series 2013 B Subordinate Lien Variable Rate Tax Exempt Revenue Bonds. The Series 2013 B Subordinate Lien Variable Rate Tax Exempt Revenue Bonds carry a variable interest rate of 70% of 1 month LIBOR plus 45 basis points. Unamortized deferred amount on refunding was \$324,444 at June 30, 2018. Proceeds on the Series 2013 B Bonds were used for the refunding of the 2008 A Series Bonds.

#### Regional San - 2012A Series Refunding Bonds

In July 2012, the Authority refunded \$50,000,000 of the Subordinate Lien Variable Rate 2008 C Bonds by issuing \$50,000,000 Series 2012 A Subordinate Lien Variable Rate Tax Exempt Revenue Bonds. The Series 2012 A Subordinate Lien Variable Rate Tax Exempt Revenue Bonds carry a variable interest rate of 70% of 1 month LIBOR plus 45 basis points. Unamortized deferred amount on refunding was \$324,444 at June 30, 2018. Proceeds on the Series 2012 A Bonds were used for the refunding of the 2008 C Series Bonds.

# SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

### 5. LONG-TERM DEBT (Continued)

#### Regional San - 2011A Series Refunding Bonds

In August 2011, the Authority refunded approximately \$85,420,000 of the 2001 Bonds by issuing \$77,180,000 Series 2011 A Refunding Bonds. The Series 2011 A Refunding Bonds carry a fixed interest rate ranging from 4.000% to 5.000% and mature serially commencing in fiscal year 2022 through 2027. Proceeds of these bonds were used to partially refund the Series 2001 Refunding Bonds. Unamortized premium was \$5,329,482 and deferred amount on refunding was \$1,767,280 at June 30, 2018.

#### Regional San - 2007A and 2007B Series Refunding Bonds

In February 2007, the Authority issued Series 2007 A Refunding Bonds in the amount of \$89,915,000 and Series 2007 B Refunding Bonds in the amount of \$353,450,000. The Series 2007 A Refunding Bonds carry fixed interest rates ranging from 4.00% to 5.25%. The Series 2007 B Refunding Bonds bear interest at a variable interest rate which is established at each quarterly interest payment date based on 67% of the Three-Month LIBOR Rate plus a per annum spread of 0.53%, providing the resulting interest rate never exceed 12%. The variable rate at June 30, 2018 was 1.400%.

Concurrently with the issuance of the bonds, Regional San entered into an interest rate swap in the notional amount of the Series 2007 B Refunding Bonds whereby Regional San pays the swap counterparty the fixed rate of 4.152% and receives a floating amount equal to the debt service requirements (see Note 3). The Series 2007 A Refunding Bonds mature serially commencing in fiscal year 2016 through 2036. The 2007 B Series Refunding Bonds mature serially commencing in fiscal year 2025 through 2036. Proceeds of the Series 2007 A and B Refunding Bonds were used to: i) advance refund \$456,865,000 of the outstanding principal of Series 2004 A Revenue Bonds (the refunded bonds); ii) pay certain bond issuance costs; and iii) fund the reserve requirements for the bonds.

The bonds were issued at a premium and \$485,933,906 of the proceeds, including reserve fund and available debt service monies related to the refunded bonds, was deposited in an irrevocable trust to retire the Series 2004 A refunded bonds as they come due in fiscal year 2016 through 2036; \$445,770,000 of such defeased bonds were outstanding as of June 30, 2018. Unamortized premium related to the Series 2007 A and B Refunding Bonds was \$6,960,178 at June 30, 2018; unamortized deferred amount on refunding was \$11,292,488 at June 30, 2018.

#### Regional San - 2006 Series Revenue Bonds

In July 2006, the Authority issued Series 2006 Revenue Bonds in the amount of \$338,960,000. Interest rates range from 4.00% to 5.00%. The bonds mature serially from December 2007 through December 2031. Proceeds of these bonds were to be used to: i) finance improvements to the wastewater conveyance, treatment and disposal system; ii) pay certain bond issuance costs; and iii) fund the reserve requirements for the bonds. The bonds were issued at a premium. Unamortized premium was \$561,713 at June 30, 2018.

During the year ended June 30, 2014, \$260,600,000 of the Series 2006 Revenue Bonds were advanced refunded by the escrow deposit funded by the 2014 A Series Revenue Bonds. The principal balance after the advanced refunding was \$30,830,000. The escrow is sufficient to provide for the payment of principal and interest on the advanced refunded portion of the Series 2006 Revenue Bonds. The portion of the bond that was advanced refunded was called for redemption on June 1, 2016. As a result, a portion of the Series 2006 Revenue Bonds has been removed from the Authority's financial statements.

# SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

### 5. LONG-TERM DEBT (Continued)

#### **Regional San - 2001 Series Refunding Revenue Bonds**

In June 2001, the Authority issued the Series 2001 Refunding Revenue bonds. These bonds funded an escrow sufficient to solely provide for the payment of interest on the Series 2001 Refunding Bonds as it became due on and prior to December 1, 2005 (also known as the "Crossover Date") and a portion of the principal of the Series 2000 A Revenue Bonds. Principal payments are due serially commencing on December 1, 2006 through 2027 with interest rates ranging from 4.00% to 5.50%. On the Crossover Date, the escrow deposit of \$121,953,020 was used to refund \$120,145,000 of Series 2000 A Revenue Bonds.

In August 2011, the Authority refunded approximately \$85,420,000 of the 2001 bonds by issuing \$77,180,000 Series 2011A Tax Exempt Revenue Bonds. Proceeds were used for a current refunding, as a result a portion of the 2001 bonds are considered to be refunded and the liability for those bonds has been removed from the Authority's financial statements. Unamortized discount was \$102,444 and unamortized deferred amount on refunding was \$230,437 at June 30, 2018.

#### **Regional San - 2000 Series Revenue Bonds**

In June 2000, the Authority issued the Series 2000 A Revenue Bonds in the amount of \$390,563,095, Series 2000 B Refunding bonds in the amount of \$12,973,543 and Series 2000 C Subordinate Lien Variable Rate Revenue Bonds in the amount of \$100,000,000. Interest rates for the Series 2000 A Revenue bonds range from 4.60% to 6.00% and Series 2000 C rates are set by Bank of America Securities LLC on a weekly basis according to market trends. The variable rate was 1.230% at June 30, 2018. Final payment on the Series 2000 B Revenue bonds was made in December of 2003.

Proceeds from these debt issues were used to; i) advance refund all of the outstanding amounts of the Series 1993 and Series 1995 Revenue Bonds; and ii) finance the acquisition and construction of new facilities. The Series 2000 A Revenue Bonds are payable and secured by a pledge of and lien on the net revenues of Regional San. The Series 2000 C Variable Rate Revenue Bonds are secured by a pledge of and lien on the net revenues of Regional San subordinate to the claims of the bondholders of the Series 2000 A Revenue Bonds and any additional parity revenue bonds subsequently issued by the Authority.

The portion of the proceeds of the Series 2000 A and Series 2000 B Revenue Bonds used to refund the Series 1993 and Series 1995 Revenue Bonds was irrevocably deposited with an escrow agent and applied to purchase certain investments permitted by the escrow agreement, the principal and interest on which will be sufficient to pay principal, interest and redemption premium, if any, when due with respect to the Series 1993 and Series 1995 Revenue Bonds. As a result, the Series 1993 and Series 1995 Revenue Bonds are considered to be in-substance defeased and the liability for those bonds has been removed from the Authority's financial statements. On June 30, 2018, \$42,495,000 and \$0 of the Series 1993 and Series 1995 defeased Revenue Bonds, respectively.

**SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY**

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**5. LONG-TERM DEBT (Continued)**

**Regional San - Maturity Schedule**

Future debt service requirements on the Authority's revenue bonds at June 30, 2018 are as follows:

<b>Fiscal years</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
<b>Ending June 30:</b>			
2019	39,073,587	57,505,797	96,579,384
2020	40,633,293	55,939,157	96,572,450
2021	43,885,648	55,245,011	99,130,659
2022	45,695,860	53,424,399	99,120,259
2023	51,448,101	54,854,318	106,302,419
2024-2028	295,857,072	244,406,863	540,263,935
2029-2033	365,391,089	184,667,142	550,058,231
2034-2038	409,585,139	109,171,962	518,757,101
2039-2043	248,544,929	49,021,390	297,566,319
2044-2048	160,585,951	11,598,064	172,184,015
2049-2053	42,458,476	1,774,505	44,232,981
	1,743,159,145	877,608,608	2,620,767,753
Plus net unamortized discounts and premiums	61,330,476	-	61,330,476
	<u>\$ 1,804,489,621</u>	<u>\$ 877,608,608</u>	<u>\$ 2,682,098,229</u>

The interest requirements, for the purpose of the maturity schedule above, for the Authority's Variable rate debt, related to the Series 2000 C Subordinate Lien Variable Rate Revenue Bonds are based on the estimated rate of 3.611%, the Series 2007 B Variable Rate Refunding Bonds are based on a rate of 4.152%, the Series 2013 C Subordinate Lien Variable Rate Refunding Revenue Bonds are based on the estimated rate of 3.532%, the Series 2013 D Subordinate Lien Variable Rate Refunding Revenue Bonds are based on the estimated rate of 3.532%, and the Series 2012A and 2013B Subordinate Lien Variable Rate Refunding Bonds are based on the estimated rate of 3.827% and 3.827%, respectively and are included in the maturity schedule.

**SASD 2015 Series Revenue Bonds**

In May 2015, the Authority issued \$45,435,000 2015 Series Revenue Bonds. The bonds proceeds were placed in an irrevocable trust. The bonds mature serially from August 2025 through August 2035. Interest rates for the Series 2015 range from 3.000% to 5.000%, principal payments range from \$3,260,000 to \$5,115,000 with the first payment starting in August 2025 and ending in August 2035. SASD paid \$70.3 million toward the refunding. The refunding resulted in an economic gain of \$6.2 million.

**SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY**

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**5. LONG-TERM DEBT (Continued)**

**SASD - 2010 Series Revenue Bonds**

In August 2010, the Authority issued \$110,690,000 Revenue Bonds, Series 2010A Federally Taxable Direct Subsidy Build America Bonds and \$15,930,000 Revenue Bonds, Series 2010B. The bond proceeds were then loaned to SASD. The bonds mature serially from August 2011 through August 2040. Interest rates for the Series A Bonds range from 6.125% to 6.325%, principal payments ranging from \$1,440,000 to \$16,175,000 with the first payment starting in 2026 and ending in 2040. Interest rates for the Series B Bonds range from 2.5% to 5.0%, principal payments ranging from \$820,000 to \$1,180,000 with the first payment starting in 2011 and ending in 2021. The proceeds were used to finance improvements to the collection system to reduce or eliminate potential sewer overflows, serve new growth, and to purchase capital improvements completed by the Authority.

**SASD - Maturity Schedule**

Future debt service requirements on Authority's SASD revenue bonds as of June 30, 2018 are as follows:

Fiscal years ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,030,000	\$ 9,428,309	\$ 10,458,309
2020	1,085,000	9,380,859	10,465,859
2021	1,130,000	9,330,909	10,460,909
2022	1,180,000	9,279,059	10,459,059
2023	1,230,000	9,230,859	10,460,859
2024-2028	17,215,000	44,561,249	61,776,249
2029-2033	35,955,000	38,085,984	74,040,984
2034-2038	60,360,000	24,596,360	84,956,360
2039-2041	46,590,000	4,501,186	51,091,186
	<u>165,775,000</u>	<u>158,394,774</u>	<u>324,169,774</u>
Plus net unamortized discounts, and premiums,	6,385,835	-	6,385,835
	<u>\$ 172,160,835</u>	<u>\$ 158,394,774</u>	<u>\$ 330,555,609</u>

**Bond Covenants**

Pursuant to various agreements and resolutions entered into by SASD, Regional San and the Authority related to its Revenue Bonds, SASD and Regional San are required to abide by the following provisions:

- Punctual payment of interest and principal will be made when due.
- Proceeds of the Revenue Bonds will be used by the SASD and Regional San to pay the costs of financing or refinancing the acquisition and construction (together with the incidental costs and expenses related thereto) of the Projects approved by the Board of Directors.
- Rates, fees, and charges will be fixed and collected at an amount sufficient to yield adjusted annual net revenues, as defined, equal to at least the amount required by the coverage requirement, as defined by the Master Installment Purchase Contract, for the fiscal year.

# SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

### 5. LONG-TERM DEBT (Continued)

For the year ended June 30, 2018 SASD and the Regional San were in compliance with the preceding covenants.

#### Arbitrage

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury of investment income received at yields that exceed the issuer's tax-exempt borrowing rates. The U.S. Treasury requires payment every five years. The estimated amount payable to the U.S. Treasury for excess investment income related to SASD and Regional San's long-term obligations through June 30, 2015 was \$0. The ultimate liability to be paid to the U.S. Treasury will fluctuate based upon the timing of construction draw-downs and changing investment yields.

#### Changes in Long-Term Obligations

Changes in long-term obligations for the fiscal years ended June 30, 2018 were as follows:

	<u>July 1, 2017</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2018</u>	<u>Due Within One year</u>
SASD - Revenue Bonds	\$ 166,765,000	\$ -	\$ (990,000)	\$ 165,775,000	\$ 1,030,000
Plus premium	6,730,990	-	(345,155)	6,385,835	345,155
Total - SASD	<u>173,495,990</u>	<u>-</u>	<u>(1,335,155)</u>	<u>172,160,835</u>	<u>1,375,155</u>
Regional San's - Long-Term Debt	1,554,666,587	221,946,927	(33,454,369)	1,743,159,145	39,073,587
Plus (less):					
Premium (discounts)	64,648,630	-	(3,318,154)	61,330,476	2,749,309
Total - Regional San's	<u>1,619,315,217</u>	<u>221,946,927</u>	<u>(36,772,523)</u>	<u>1,804,489,621</u>	<u>41,822,896</u>
Total	<u>\$ 1,792,811,207</u>	<u>\$ 221,946,927</u>	<u>\$ (38,107,678)</u>	<u>\$ 1,976,650,456</u>	<u>\$ 43,198,051</u>

Premium and discount, which are recorded as part of long term bond obligation, are amortized over the remaining life of the old debt or over the life of the new debt, whichever is shorter, using the straight line method.

### 6. FUTURE ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) releases new accounting and financial reporting standards which may have a significant impact on the Authority's financial reporting process. Future standards which may impact the Authority include the following:

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Management is currently evaluating the effect of this standard on Regional San's financial statements.

# SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

### 6. FUTURE ACCOUNTING PRONOUNCEMENTS (Continued)

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The Authority is currently evaluating the effect of this standard on the financial statements.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The Authority is currently evaluating the effect of this standard on the financial statements.

GASB Statement No. 88 - In April 2018, GASB issued Statement No 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The Authority is currently evaluating the effect of this standard on the financial statements.

GASB Statement No. 89 - In June 2018, GASB issued Statement No 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The requirements of this Statement will be applied prospectively. The Authority is currently evaluating the effect of this standard on the financial statements.



# **SACRAMENTO COUNTY SANITATION DISTRICTS FINANCING AUTHORITY**

## **NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

### **7. SUBSEQUENT EVENTS**

#### **2006 Series Revenue Bonds**

In July 2018, the Sacramento County Sanitation Districts Financing Authority Revenue Bonds, Series 2006 were redeemed early. The bonds mature in 2036 and became callable on June 1, 2016. The funds to redeem the bonds were paid from the associated reserve fund and a cash contribution from the Authority. The early payoff of the 2006 Series Bond has a net present value savings to the Authority of \$1,911,209.

#### **Direct Purchase Arrangements**

In July 2018, the Authority on behalf of Regional San, renewed the existing Direct Purchase agreements with Wells Fargo Bank for the Subordinate Lien Variable Rate Refunding Revenue Bonds, Series 2012A. The updated terms extends the direct purchase agreement to July 2, 2021. The renewed direct purchase agreements changes the variable rate to 80% of one-month LIBOR plus .45 BPS. See Note 5, Long-Term Debt for additional information regarding the Direct Purchase arrangements.

## **OTHER REPORTS**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Sacramento County Sanitation Districts Financing Authority  
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Sacramento County Sanitation Districts Financing Authority (the Authority), a component unit of the Sacramento Regional County Sanitation District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 28, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinik, Trine, Day & Co. LLP

Sacramento, California

November 28, 2018