

Staff Report

TO: Board of Directors

FROM: Chip Close, Water Operations Manager
Aurora Tipton, Customer Service Administrator

DATE: April 19, 2022

SUBJECT: NID Customer Financing Options

WATER OPERATIONS

RECOMMENDATION:

Review and discuss the financing options available to NID customers and provide feedback on a desired direction for NID loan programs.

BACKGROUND:

NID offers two types of financing to customers, Term Payments, and District Financed Water Line Extension Agreements (DFWLE). The details of each program are listed below.

Term Payments

Term Payments are a form of financing offered in section 6.12 of the District's Rules and Regulations. The General Manager and the Finance Manager, together are authorized to sign term payment agreements with individual property owners under the following conditions:

- A. Up to \$20,000 for a 120-month period for District fees and charges related to a new residential treated water service, including but not limited to capacity charges, meter, and backflow prevention device installation charges, and buy-in fees to improvement districts.
- B. Up to a 12-month period can be authorized for customers to pay delinquent water account charges (includes late payment penalty)

Term Payment plans are subject to a surcharge modifier fee, more commonly known as an interest rate. The Surcharge Modifier is defined in the Water Rules and Regulations Section 10.20.05 as a surcharge used to compensate the District for the loss of interest earnings that would have been realized absent the customer

lending. The fee is determined annually by the Finance Manager/Treasurer and is based upon the United States 5 Year Agency Bond Rates published by the District's investment broker on April 1, currently 1.16 percent.

Term payments are billed in combination with the monthly water billing. Delinquent Term payments are subject to late payment penalties as established in Section 6.01.01 of the NID Rules and Regulations, which states:

Twenty-five (25) days from {bill} issuance - A delinquency penalty charge at the rate of 1 ½ percent, will be applied to each account's unpaid balance and monthly thereafter until paid.

District Financed Waterline Extension Loans

A District Financed Waterline Extension Loan is a loan program specifically developed to help and encourage extension of treated water lines to neighborhoods in need (a former strategic plan objective). This loan program offers customer financing for costs incurred under the DFWLE program, including preliminary design, compliance with CEQA, design, rights of ways, construction, construction management, and capacity and meter installation charges for a domestic meter. The maximum amount of financing is limited to 90% of the total cost per participating parcel with a 30-year repayment period.

Payments for a DFWLE loan are included with the monthly water bill and are subject to late payment penalties as established in Section 6 of NID Rules and Regulations. A due on sale clause requires that payment in full of a DFWLE loan is required when a property changes hands.

Delinquent Payment Plans

Lastly, as required by Senate Bill 998, the District allows customers to set up a payment plan to allow customers to pay delinquent balances over a period of 3-12 months. This program is not considered a loan as it does not include an interest rate. It does, however, include late payment penalties on the past due balances.

Financing Challenges

While the District offers financing as a convenience to our customers, it comes with several challenges and concerns detailed below:

- The District's billing program is not set up to track and bill loans; therefore, all loan programs are manually calculated and monitored in a program outside of the billing software. Preparing and filing term payment agreements, setting up and monitoring loan tracking, and annual reconciliation consumes a large amount of staff time.
- Due to external loan tracking, customers are not able to see their loan balance on their statement.

- Loaning funds to a select number of customers (as is done with DFWLE loans) could be construed as a gift of public funds.
- Continued utilization and expansion of District sponsored loan programs will consume larger portions of the general fund, thus limiting future repair and replacement and capital project funds.
- The interest rate income for District-sponsored loans is far less than the District would realize by investing the funds as part of the District's normal portfolio.
- Given the District's low lending rate and minimal requirements, contractors and investors use District financing to further their projects. This enables investors to complete projects with little to no out-of-pocket water meter installation expense until the property sells.

BUDGETARY IMPACT:

As detailed above, the breakdown of loan funding from each category is as follows:

Term Payment Loans

Number of Loans	Approximate Remaining Balance
37	\$443,500

DFWLE Loans

Number of Loans	Approximate Remaining Balance
86	\$2,200,000

Total Loan Balances

Number of Accounts	Remaining Balance
123	\$2,643,500

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