



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL AND  
CITY OF SAN JOSE  
FINANCING AUTHORITY BOARD

**FROM:** Julia H. Cooper  
Kerrie Romanow

**SUBJECT:** SEE BELOW

**DATE:** September 18, 2017

Approved

*D. D. S. Y. L.*

Date

*9/22/17*

**SUBJECT: ACTIONS RELATED TO THE ESTABLISHMENT OF AN INTERIM FINANCING PROGRAM TO FINANCE CAPITAL IMPROVEMENTS AT THE SAN JOSE-SANTA CLARA REGIONAL WASTEWATER FACILITY**

## RECOMMENDATION

1. It is recommended that the City Council:
  - a. Adopt a resolution providing for the allocation of Wastewater System Revenues, the pledge of Wastewater Net System Revenues, and establishing covenants to secure the payment of obligations payable from Wastewater Net System Revenue and repealing prior inconsistent resolutions.
  - b. Adopt a resolution approving the issuance by the City of San José Financing Authority of its Subordinate Wastewater Revenue Notes from time to time in an aggregate principal amount not to exceed \$300,000,000 outstanding at any one time for the purpose of financing Wastewater System and Treatment Plant Projects for the City of San José and/or refunding Prior Obligations issued or incurred for such purpose, approving and authorizing the execution and delivery of a Credit Agreement and a Fee Letter Agreement with Wells Fargo Bank, National Association, and a Subordinate Installment Purchase Contract, and authorizing other related actions in connection therewith.

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2. It is recommended that the City of San José Financing Authority Board:
  - a. Adopt a resolution authorizing the issuance by the City of San José Financing Authority of its Subordinate Wastewater Revenue Notes from time to time in an aggregate principal amount not to exceed \$300,000,000 outstanding at any one time for the purpose of financing Wastewater System and Treatment Plant Projects for the City of San José and/or refunding Prior Obligations issued or incurred for such purpose, approving and authorizing the execution and delivery of a Credit Agreement and a Fee Letter Agreement with Wells Fargo Bank, National Association, and a Subordinate Installment Purchase Contract, and authorizing other related actions in connection therewith.

**OUTCOME**

Approval of these recommendations will allow the establishment of an interim financing program under a three-year contract that enables the issuance of subordinate wastewater revenue notes that can be outstanding at any one time in an amount not to exceed \$300 million to finance capital improvements at the San José-Santa Clara Regional Wastewater Facility, and will provide for the allocation, pledge and commitment of wastewater system net revenues received by the City to secure repayment of the notes.

**EXECUTIVE SUMMARY**

The purpose of the interim financing facility is to help bridge the financing gap between cash funding of the \$1.4 billion Capital Improvement Program (“CIP”) for the San José- Santa Clara Regional Wastewater Facility (“RWF”) and obtaining long-term financing in the form of bonds. To prepare for the interim financing facility, the City of San José (“City”) issued an RFP on April 3, 2017 for firms interested in establishing an interim financing facility in support of the RWF CIP. Respondents were asked to provide commitment amounts and fee levels for both \$300 million and \$420 million, the higher amount being sought in case the tributary agencies and Santa Clara chose to participate. Proposer responses were due on May 5, 2017. The City received nine responses for interim financing facilities – only two banks committed to both funding levels. On July 18, 2017, the City’s evaluation team selected Wells Fargo Bank, National Association as providing the most cost effective and flexible credit facility. The \$300 million interim financing facility, if approved, would be available to meet the cash flow and financing needs of the City’s Environmental Services Department (“ESD”) during the early construction phases of the major construction process. As the project progresses, the City will periodically pay off the interim financing facility with long-term bonds. Any associated debt service for financing (whether interim or long-term) will be paid by net system revenues of the facility. It is expected that the closing for the interim financing facility will occur on or about

October 19, 2017. It is necessary to have the interim facility in place by the end of October to allow ESD to encumber contracts it anticipates executing later this calendar year.

## **BACKGROUND**

### **Treatment Plant - Capital Improvement Program**

#### Overview

The San José-Santa Clara Water Pollution Control Plant (“Treatment Plant” or “Plant”) is a regional wastewater facility serving eight South Bay cities (some as members of a district) and two unincorporated districts: San José, Santa Clara, Milpitas, Cupertino Sanitary District (Cupertino), West Valley Sanitation District (Campbell, Los Gatos, Monte Sereno, and Saratoga), County Sanitation District No. 2-3 (unincorporated), and Burbank Sanitation District (unincorporated) (the “Tributary Agencies” being all agencies except the cities of San José and Santa Clara). The Treatment Plant is jointly owned by the cities of San José and Santa Clara, and is administered and operated by ESD. ESD is also responsible for planning, designing, and constructing capital improvements at the Plant, including water reclamation facilities. On March 26, 2013, the City Council approved changing the name of the Plant to the San José-Santa Clara Regional Wastewater Facility for use in public communications and outreach.

The Treatment Plant is in the early stages of a \$1.4 billion, 10-year CIP to rebuild and modernize the facility and its processes. The recently adopted 2017-2018 Capital Budget and 2018-2022 CIP (Water Pollution Control section seen here:

<http://www.sanjoseca.gov/DocumentCenter/View/71793>) identifies the expected revenues and project costs for the next five-year period. The development of CIP is guided by the Plant Master Plan (“PMP”), a 30-year planning-level document focused on long-term rehabilitation and modernization of the Plant. The PMP

(<http://www.sanjoseca.gov/DocumentCenter/View/38425>) recommended more than 114 capital improvement projects to be implemented over 30 years at an estimated investment level of approximately \$2 billion. The PMP was approved by both San José and Santa Clara City Councils in late 2013. In 2014, the City completed a project validation process that analyzed the criticality, sequencing, and interconnectivity of the PMP projects, and packaged them for more efficient project implementation, resulting in updated project schedules and cost estimates that make up the 10-year, \$1.4 billion CIP.

#### Ten-Year Funding Strategy

Since early 2014, City staff has been working with representatives from Santa Clara and the Tributary Agencies to develop a ten-year funding strategy to provide sustained funding for the 10-year, \$1.4 billion CIP and to allow the Tributary Agencies to participate with the City, and possibly Santa Clara, in financing of the projects to allow the recognition of costs to ratepayers

over the life of the projects instead of through pay-as-you-go funding. On June 2, 2015, City Council approved the Ten-Year Funding Strategy, and on January 12, 2016 approved an update. The staff reports can be viewed here:

June 2, 2015 Memo:

[http://sanjose.granicus.com/ViewerServlet.action?document\\_id=732&meta\\_id=516433](http://sanjose.granicus.com/ViewerServlet.action?document_id=732&meta_id=516433)

January 12, 2016 Memo:

[http://sanjose.granicus.com/ViewerServlet.action?document\\_id=2118&meta\\_id=550326](http://sanjose.granicus.com/ViewerServlet.action?document_id=2118&meta_id=550326)

The Tributary Agencies initially expressed interest in the interim financing discussed in the Ten-Year Funding Strategy and contemplated herein, as well as California State Water Resources Control Board (SWRCB) clean water State Revolving Funds (SRF) loans and future long-term financing, but declined to limit the amendment of the Master Agreement for Wastewater Treatment Services with the City and Santa Clara to only terms necessary to ensure payment on the financings. As a result, the Tributary Agencies are not currently participating in the proposed interim financing. The Tributary Agencies also declined to participate in seeking an SRF loan for which the City and the Santa Clara as co-owners of the Plant submitted an application. As staff previously informed the City Council (see information memo here:

<http://files.constantcontact.com/7a210436601/5abb91b5-45ee-4673-9daf-4d031c80fcbd.pdf>), the State did not approve the SRF loan application, indicating that the State's focus is on other types of projects. The Tributary Agencies have remitted their quarterly payments for allocated capital costs and may decide at a future date to renew discussions regarding participation in Plant financings administered by the City. Santa Clara also plans to secure its own financings for its share of capital costs.

#### Financing of Capital Improvements at Treatment Plant

Since 1982, capital improvements at the Treatment Plant have been financed two different ways. In 1981, the San José-Santa Clara Clean Water Financing Authority ("CWFA"), a joint powers authority of the City and Santa Clara, was formed to finance the acquisition and construction of improvements to the Plant. Between 1982 and 2009, the CWFA issued various series of long-term, new money and refunding bonds. Currently, only the CWFA, Sewer Revenue Refunding Bonds, Series 2009A (the "CWFA 2009A Bonds") remain outstanding in the amount of \$20.7 million and have a final maturity date of November 15, 2020. The CWFA 2009A Bonds were issued to refund prior bonds that were issued to pay for capital improvements for recycling treated wastewater from the Treatment Plant for irrigation and industrial uses in the City, Santa Clara, and Milpitas. Secondly, beginning in 1997, the City (not the CWFA) entered into SRF loan agreements (cumulatively, the "SRF Loan") to finance various Plant projects. The SRF Loan currently totals \$4.76 million and is scheduled to be paid off by May 1, 2019.

As discussed in the 2018-2022 CIP and the Ten-Year Funding Strategy, going forward, City staff will continue to pursue SRF loans. The core Treatment Plant CIP funding plan, however, is expected to include the use of bank credit and the issuance of bonds. For the interim financing

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program contemplated herein that utilizes bank credit (the “Program”) and future long-term bonds anticipated to be issued to supplement and/or refinance notes issued under the Program, debt will be issued by the City of San José Financing Authority (“CSJFA”), a joint powers authority of the City and the Redevelopment Agency. Financing projects through the CSJFA instead of the CWFA provides the City autonomy in its decision-making process, and does not prohibit Santa Clara, as the other party to the CWFA and co-owner of the Plant, from securing financing based on its own ratepayer revenues and allocable share of Tributary Agency payments.

**Request for Proposals for Interim Financing Program**

On April 3, 2017, the City posted a Request for Proposals for Bank Support of a Commercial Paper Program or Revolving Line of Credit (“Bank RFP”) to the BidSync solicitation posting system and also emailed banks known to provide such facilities informing them about the Bank RFP being posted to BidSync. The Bank RFP requested offers of \$300 million to \$420 million of which the lower amount is expected to support the City’s capital financing needs for the Regional Wastewater Facility. The additional \$120 million requested with the higher amount would be needed if Santa Clara and the Tributary Agencies were interested in participating.

By the May 5, 2017 due date for the Bank RFP, nine responses provided offers of bank support for a commercial paper program (letter of credit) and/or a line of credit. The table below shows the banks, amount offered, and type of bank supported offered by the respondents to the Bank RFP:

<b>Bank</b>	<b>Amount (\$ millions) / Type(s) of Support</b>
Bank of America, N.A.	300 / Letter of Credit
Bank of China, Los Angeles Branch	420 / Letter of Credit
Barclays Bank PLC	300 / Letter of Credit
Citibank, N.A.	150 / Letter of Credit
Industrial and Commercial Bank of China Limited, New York Branch	300 / Letter of Credit
JPMorgan Chase Bank, N.A.	420 / Letter of Credit 420 / Line of Credit
MUFG Union Bank, N.A.	300 / Letter of Credit
Wells Fargo Bank, N.A.	420 / Letter of Credit 420 / Line of Credit
U.S. Bank N.A. / Sumitomo Mitsui Banking Corporation	300 / Letter of Credit 150 / Line of Credit (US Bank)

The City focused on the bank responses for the \$300 million of credit support because Santa Clara and the Tributary Agencies had not decided to participate in the Program at the time. City staff, in consultation with its municipal advisor, Public Resources Advisory Group (“PRAG”),

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determined that a direct loan (line of credit) from Wells Fargo Bank, N.A. (the "Bank") was expected to provide the lowest overall cost to the City.

## **ANALYSIS**

City staff has negotiated a three-year agreement with the Bank to provide for the borrowing of up to \$300 million outstanding at any one time, as needed, to finance RWF CIP improvements. This interim financing program is part of a long-term plan to provide funding for the RWF CIP at the lowest possible cost and with the least risk. An overview of the financing plan is provided below along with a discussion of the documents that will enable the establishment of the Program pursuant to the recommendations in this memo.

### **Financing Plan Overview**

#### **General**

Funding for the City's portion of the RWF CIP will primarily include (1) pay-as-you-go cash funding from available sewer service and use charge revenues imposed by the City with respect to the Treatment Plant and the collection and conveyance (sewer pipe) system and (2) proceeds from debt issuances and loans. The first step in the plan of finance is to establish the Program to provide funding above and beyond any cash that is available from fund balance, which is necessary due to the large scope of the CIP. The Program provides for needed flexibility and liquidity as the City undergoes additional Plant projects that require an additional funding source. As the debt outstanding issued under the Program grows (up to a maximum of \$300 million outstanding at any one time), the Authority will periodically issue long-term wastewater revenue bonds to refinance all or a portion of the notes issued under the Program and possibly new money for projects in lieu of additional notes. SRF loans will be entered into if and when they become available to provide supplement funding.

#### **Interim Financing Program**

Staff intends to use the Program for construction and 3<sup>rd</sup>-party capital costs only and funding of City staff costs with cash on hand. The Program is flexible enough to provide funding for City staff costs if needed, however, as well as for refunding other wastewater revenue obligations that could be entered into in the future. Under the Program, the Authority issues notes to the Bank. The Bank makes advances against the notes as requested by the Authority. At the expiration of the bank agreement, the Authority needs to repay the notes in full, extend the agreement, or enter into a new agreement with another bank. If none of these actions occur, balances on the notes transition into a "term out" whereby repayment is required every three months over a three-year

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period at an increased borrowing rate (see a more detailed description below under “Credit Agreement and Fee Letter”).

Source of Repayment

The source of repayment for wastewater debt obligations under the Program is comprised of installment payments made to the Authority from pledged system revenues received by the City related to the Treatment Plant and the sewer collection and conveyance system (the “Wastewater System”, and together with the Treatment Plant the “Wastewater Treatment System”) less maintenance and operation costs of the Wastewater Treatment System. These “Net System Revenues” are the security for the Program. There is no pledge of funds from the City’s General Fund.

Payments of Program obligations from Net System Revenues are subordinate to payments on existing obligations paid from Net System Revenues, specifically the CWFA 2009A Bonds and SRF Loan and will be subordinate to payment on long-term bonds issued in the future. Although Net System Revenues include revenues of the Wastewater System and could be used to secure financing for sanitary sewer system improvements, the Program is being set-up solely for financing improvements to the Plant.

**Master Resolution**

Recommendation 1.a. herein refers to the adoption of a master resolution (the “Master Resolution”). The Master Resolution serves as the governing resolution of the City which allocates and pledges Net System Revenues received from operation of the Wastewater System and the Treatment Plant, including associated revenues from Santa Clara and the Tributary Agencies, and establishes covenants to secure the payment of obligations, including those of the Program, from such funds.

Any payments of obligations secured by the proposed pledge of revenues by the Master Resolution is subject to the prior pledge of the City for repayment of the CWFA 2009A Bonds. The plan is to close off the current senior lien (1<sup>st</sup> lien) on Net System Revenues that supports the CWFA 2009A Bonds when those bonds are paid off in 2020. Long-term obligations, including planned long-term bonds and possibly new SRF loans, issued in the meantime will be issued under the Master Resolution on the same lien (2<sup>nd</sup> lien) as the existing SRF Loan. The issuance of Subordinate Wastewater Revenue Notes under the Program (“Notes”) will be on a subordinate lien (3<sup>rd</sup> lien) under the Master Resolution. The proposed financing documents allow the City to structure a 4<sup>th</sup> lien that is subordinate to the lien on the Notes.

The covenants in the Master Resolution include limitations on the sale or disposition of property, maintaining the Wastewater System and Treatment Plant in operating order, and prescribing rates and charges to provide sufficient revenues to cover payment obligations at minimum required levels.

The Master Resolution also repeals Resolution No. 77577 that the Council adopted on November 10, 2015 to provide for the allocation and pledge of wastewater revenues in connection with the SRF loan applications. With the State Water Board's decision to not fund the SRF loan applications, the pledge set forth in Resolution No. 77577 is no longer necessary. The Master Resolution will act as the governing resolution for the allocation and pledge of Net System Revenues for all wastewater financings going forward. Accordingly, Resolution No. 77577 needs to be repealed in order to avoid any conflicts in stated commitments and intentions.

### **Credit Agreement and Fee Letter Agreement**

#### Overview

The Credit Agreement, along with the Fee Letter Agreement that is incorporated by reference into the Credit Agreement and provides for the fees associated with the Program, includes the financial terms and conditions related to the Bank's commitment to periodically provide loans to the Authority in the form of purchasing Notes. The Credit Agreement describes the terms under which the Bank will extend loans by purchasing Notes, which includes the interest rates that will accrue (which vary depending on whether the Notes are taxable or tax-exempt) and the term of the Credit Agreement. Pursuant to the Credit Agreement, the Notes will mature at the end of the three-year period, at which time the Authority has the obligation to pay the Notes in full unless the Authority and the Bank negotiate an extension. If an extension is not negotiated, the City may repay the Notes by a refunding to another variable rate mode or a fixed rate mode. If the City fails to repay the Notes at the termination date, and assuming no events of default have occurred, the Credit Agreement provides for a "term-out" similar to that provided for in a reimbursement agreement for a letter of credit or liquidity facility, as described below.

#### Pricing

The Bank's fee, or "spread," is based on the ratings of unenhanced (uninsured) long-term debt that is also secured by Net System Revenues. The fee on any undrawn capacity of up to \$300 million (the "Commitment Fee") is 0.25% (or 25 basis points), which is lower than the fee for amounts loaned (the "Applicable Spread"). If loans are drawn, the Notes will accrue interest at an index rate, which is the sum of the relevant floating rate index and Applicable Spread. The floating rate index varies depending on the tax status of the Notes: tax-exempt loans will be based on 70% of One-Month LIBOR (a taxable index) and taxable loans will be based on 100% of One-Month LIBOR. The Applicable Spreads are also higher on taxable loans than tax-exempt loans. The Commitment Fee and Applicable Spread increase if the credit ratings on long-term, unenhanced (uninsured) debt supported by the pledged Net System Revenues are downgraded, as set forth in the following table (the current long-term, unenhanced ratings on the only outstanding, rated obligations paid from the Net System Revenues, the CWFA 2009A Bonds, are Aa2/AAA/AAA, which puts the current fees into the lowest fee rate category):



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<b><i>Ratings on Long-Term, Unenhanced Wastewater Obligations (Moody's/S&amp;P/Fitch)</i></b>	<b>Commitment Fee (Undrawn Amount)</b>	<b>Applicable Spread (Drawn Amount) [Tax-Exempt / Taxable]</b>
Equal to Aaa/AAA/AAA	0.250%	0.350% / 0.450%
Equal to Aa1/AA+/AA+	0.275%	0.425% / 0.525%
Equal to Aa2/AA/AA	0.300%	0.500% / 0.600%
Equal to Aa3/AA-/AA-	0.325%	0.575% / 0.675%
Equal to A1/A+/A+	0.375%	0.725% / 0.825%
Equal to A2/A/A	0.425%	0.875% / 0.975%
Equal to A3/A-/A-	0.475%	1.025% / 1.125%
A3/A-/A- or below	N/A	Default Rate

In the case of a split rating or differing ratings as between and among the rating agencies, for purposes of determining the Commitment Fee and/or Applicable Spread, (1) if three rating agencies then provide ratings, the middle of such ratings shall apply and (2) if two rating agencies then provide ratings, the lowest of such ratings shall apply.

An alternate pricing methodology was developed in case there are no rated long-term wastewater revenue bonds outstanding on which to base the fee and spread pricing, which is a possibility after the CWFA 2009A Bonds mature on November 15, 2020. Although the Adopted 2018-2022 CIP assumes an issuance of rated bonds on January 1, 2020, a possibility exists that bonds are not issued prior to the final maturity of the CWFA 2009A Bonds. The fee is based on debt service coverage levels from adjusted Net System Revenues and is incorporated into the Fee Letter Agreement.

Additional Terms and Covenants

The Credit Agreement includes the following key terms and covenants that are briefly summarized below:

Termination Date	Three (3) years after effective date of agreement	
Base Rate	Greatest of (i) Bank's prime rate + 1.0%; (ii) Fed Funds Rate + 2.0%; (iii) 7.0%.	
	In the current interest rate environment, the highest of these three rates is the 7.0% per annum rate.	
Bank Rate	Base Rate	(Termination Date through 180 days)
	Base Rate + 1.0%	(181+ days after Termination Date)

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	This interest rate is charged when loans have not been repaid and the Credit Agreement has not been extended beyond the Termination Date.
Term Out	Assuming no events of default have occurred and subject to the Authority making certain representations and warranties, if the Authority fails to repay the loans on the Termination Date, the unpaid loans will carry the Bank Rate described above and will be amortized in equal quarterly installments over a period ending three years after the Termination Date. This provision is similar to a "Term Loan" in a reimbursement agreement for a letter of credit or liquidity facility.
Default Rate	Base Rate + 3.0%. Applicable only in the event of a default.
Optional Prepayment	Loans may be prepaid upon two business days' notice, subject to any make-whole funding costs. Any potential make-whole funding costs can be avoided entirely with 30-days' notice to the Bank
Determination of Taxability	Tax-exempt loans are subject to the City paying a taxable rate of interest to the Bank, as well as any fees, penalties, or other costs, in the event all or a portion of the interest is determined to be taxable, whether through a change in law or a determination of taxability that is made by the IRS or legal counsel.
Waiver of Jury Trial	The City, the Authority and the Bank each waive its right to jury trial. Further, the City and the Bank agree that if a waiver of jury trial is unenforceable (which may be the case under California law), the dispute will be adjudicated by a judicial referee per the provisions of California law.
Increased Bank Costs and Capital Adequacy	Increased costs and changes in capital adequacy requirements include changes resulting from the Dodd-Frank Act and Basel III, regardless of the date of enactment.
Participations by the Bank	While it is the Bank's intention to not participate any of the loans, the Bank has the right under the Credit Agreement to sell, assign, negotiate or grant participations in the loans.

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As is common in agreements with banks, the Credit Agreement requires the City and the Authority, to the extent permitted by law, to indemnify the Bank for various claims by third parties, the City or the Authority arising from various aspects of this transaction. The only

exception to the Authority's obligation to indemnify the Bank for these claims is where the liability or damages results from the Bank's willful misconduct or gross negligence.

### **Subordinate Installment Purchase Contract**

Under the Subordinate Installment Purchase Contract (the "Contract"), the City makes payments from Net System Revenues to the Authority to purchase RWF projects that were financed by Authority-issued Notes. These payments, and accordingly the Program, are established as subordinate to senior obligations including the CWFA 2009A Bonds, the existing SRF Loan, and future obligations to be established as obligations senior to the Notes, which are anticipated to include long-term bonds and SRF loans but may include other debt instruments.

### **Resolutions Authorizing Program Documents and Delegation of Authority**

Staff recommends that the City Manager, Director of Finance, or their designees (the "City Designated Officers"), and the Executive Director, the Treasurer, their authorized designees, or any officer or employee of the Authority (the "Authority Designated Officers"), be authorized to execute the Credit Agreement and Subordinate Installment Purchase Contract, as posted, on behalf of the City and the Authority, as applicable, with such modifications as the City Designated Officers and Authority Designated Officers determine to be desirable or appropriate, upon consultation with the City Attorney. Staff recommends that the Authority Designated Officers be authorized to execute the Fee Letter Agreement, as posted, on behalf of the Authority, as applicable, with such modifications as the Authority Designated Officers determine to be desirable or appropriate, upon consultation with the City Attorney, and furthermore, recommends that the Authority Designated Officers be authorized to execute Notes for delivery to the Bank as provided in the Credit Agreement.

### **Financing Team Participants**

The financing team participants consist of:

City Municipal Advisor:	Public Resources Advisory Group (PRAG)
Note Counsel:	Orrick Herrington & Sutcliffe
Bank:	Wells Fargo Bank, National Association
Bank Counsel:	Kutak Rock LLP

- Municipal Advisor – PRAG serves as the City's Wastewater Municipal Advisor as selected through a request for proposal ("RFP") process in June 2017 by the Finance Department. PRAG has been advising on the Program under a five-year environmental services general advisory services agreement expired June 30, 2017 pursuant to a short-term extension. Under the City Manager's authority, a non-contingent agreement with

PRAG will be executed for the purposes of providing municipal advisory services related to this transaction.

- Note Counsel – Orrick Herrington & Sutcliffe was selected through a RFP process by the City Attorney's Office.

### **Financing Schedule**

The current proposed schedule is as follows:

Council/Authority approval of agreements:	October 3, 2017
Documents closing:	October 19, 2017

### **EVALUATION AND FOLLOW-UP**

This memorandum presents the set of recommendations related to the City Council and the Authority Board's approval of various actions related to the establishment of an interim financing program for the RWF CIP and requires no additional evaluation or follow-up to the City Council or the Authority Board.

### **PUBLIC OUTREACH**

The proposed resolutions of the City Council and the Financing Authority Board, the Credit Agreement, the Fee Letter Agreement and the Installment Purchase Contract will be posted to the agenda webpage for the joint meeting of the City and the Authority on or about September 22, 2017.

### **COORDINATION**

This memorandum has been coordinated with the City Attorney's Office and the City Manager's Budget Office.

### **COMMISSION RECOMMENDATION/INPUT**

There is no commission recommendation or input associated with this action.

### **FISCAL/POLICY ALIGNMENT**

The proposed financing plan is consistent with the City's Debt Management Policy which establishes objectives in order to obtain cost-effective access to the capital markets, which includes minimizing debt service and issuance costs; maintaining access to cost-effective borrowing; and ensuring compliance with applicable State and Federal laws. The proposed issuance of the variable rate notes and repayment of notes with long term bonds within seven years – the 2018-2022 Adopted CIP assumes an initial issuance of bonds in FY 2019-2020 – is consistent with the City's Debt Management Policy's provisions concerning repayment.

### **COST SUMMARY/IMPLICATIONS**

Costs for establishing the Program, which include the cost for professional services (note counsel, bank counsel, and the City's wastewater municipal advisor) and document hosting, is estimated to be approximately \$223,000 and will be paid from Note proceeds. Fee and interest costs associated with Notes issued pursuant to the Program were budgeted to be \$3,363,000 in FY 2017-2018. Based on the current Commitment Fee, the annual cost for having the Program in place with no draws against any Notes is \$760,000. It is anticipated that total actual costs under the Program in FY 2017-2018 will be less than budgeted due to having procured a lower cost financing and drawing less funds than programmed. The Notes issued for the identified purposes are expected to be repaid periodically from the proceeds of the issuance of long-term bonds.

### **BUDGET REFERENCE**

Debt service costs from having the interim financing in place as well as debt service costs for advances under the Notes issued were included in the 2017-2018 Adopted Capital Budget, and the table below identifies the fund and appropriation proposed to fund the agreement recommended as part of this memorandum:

Fund #	Appn #	Appn. Name	Total Appn.	2017-2018 Adopted Capital Budget (Page)	Last Budget Action (Date, Ord. No.)
512	402C	Debt Service Repayment for Plant Capital Improvement Projects	\$3,363,000	306	6/20/17, Ord. No. 29962

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The 2017-2018 Adopted Capital Budget assumes that \$90 million will be required in interim financing support to cover the cost of capital projects in 2017-2018. Draws on the program will be made monthly shortly after incurrence of the expense and recognition in the City's financial accounting system. Future debt service costs are subject to appropriation by the City Council and will be brought forward for review and approval during the annual budget process in future years requiring debt service payments.

**CEQA**

San José-Santa Clara Regional Wastewater Facility Master Plan EIR, File No. PP11-043  
(Resolution No. 76858).

/s/  
JULIA H. COOPER  
Director of Finance

/s/  
KERRIE ROMANOW  
Director of Environmental Services

For questions, please contact Lisa Taitano, Assistant Director of Finance, at (408) 535-7041.