



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kerrie Romanow

SUBJECT: SEE BELOW

DATE: April 6, 2015

Approved

D. DSYL

Date

4/6/15

INFORMATION

SUBJECT: STATUS OF REGIONAL WASTEWATER FACILITY TEN-YEAR FUNDING STRATEGY

BACKGROUND

The San José-Santa Clara Regional Wastewater Facility¹ (RWF) Ten-Year Funding Strategy was presented to the Treatment Plant Advisory Committee (TPAC) on March 12, 2015. The staff report on the San José-Santa Clara Regional Wastewater Facility Ten-Year Funding Strategy included a ten year forecast of the capital and operating needs, and outlined guiding principles with recommended fiscal practices for developing a plan to meet those funding needs. The report included preliminary allocations for each agency but did not include a specific financing plan. TPAC directed staff to return with specific information related to reserve requirements and financing costs.

ANALYSIS

In April 2014, TPAC approved the funding strategy guiding principles, which include maintaining prudent reserve levels, proportionately funded by the cities and agencies served by the RWF. Staff representing San José, Santa Clara and the tributary agencies met to discuss funding these reserve requirements, including increasing the overall reserves to the equivalent of 365 days of operating expenses both for prudent operation of the RWF and in order to obtain a high rating on long-term bonds to fund the RWF improvements. On February 18, 2015, forecast information by agency, based on the proposed five year Capital Improvement Program (CIP) and the proposed operating budget for fiscal year 2015-16 for the RWF was provided to each agency. As all agencies are still working on their own financing evaluations, and final decisions will not

¹ The legal, official name of the facility remains San Jose/Santa Clara Water Pollution Control Plant, but beginning in early 2013, the facility was approved to use a new common name, the San José-Santa Clara Regional Wastewater Facility.

be available before the proposed budgets are issued, staff is building certain assumptions into the proposed RWF capital and operating budgets.

These assumptions include the following:

1. All agencies will contribute to a 60 day Operations and Maintenance (O&M) Reserve starting in 2015-2016

San José currently funds a 60 day O&M Reserve in the San José-Santa Clara Treatment Plant Operating Fund, which is meant to cover unforeseen expenditures related to operations and maintenance. San José is recommending that all agencies contribute their proportional share of this reserve starting in 2015-2016. The master agreement between San José/Santa Clara and each of the tributary agencies, which governs the wastewater treatment services provided by the RWF, would need to be modified in fall 2015 to reflect the payment of each agency's proportional share.

2. All agencies will be participating in commercial paper program starting in 2015-2016

Staff is recommending that the Clean Water Financing Authority establish a commercial paper program in 2015-2016. A commercial paper program is a short term financing tool that can provide interim funding before the issuance of long term bonds that is anticipated to occur in 2017-2018. The assumption that all agencies will participate will allow any agencies that do not have sufficient cash to fund their proportional share of the capital costs in 2015-2016 to have their contributions paid through the issuance of commercial paper in 2015-2016. Funds drawn from the commercial paper program will be paid off once long term debt is issued in 2017-2018 or from cash funding from participating agencies at the same time. The master agreement will need to be amended in fall 2015 to reflect financing terms. If an agency decides that it will not participate in the funding of the establishment of the commercial paper program (in order to reserve its right to access commercial paper at any time), the costs will be adjusted through a budget adjustment in the future.

3. Long term financing will only be included for San José

Although some agencies have indicated their interest in participating in financing through the Clean Water Financing Authority, other agencies are still evaluating alternate options. Partial participation in the financing would result in significant financial implications for those participating in the financing since they would need to take on additional obligations related to cash-on-hand liquidity targets. Since decisions about participation are not yet final, for the purposes of the proposed RWF budgets, staff will be assuming that each city and agency will be securing its own long term financing.

Between April and August, San José staff will continue to work with staff and representatives from Santa Clara and the tributary agencies to finalize each agency's short and long-term financing needs and funding of required reserves. Once the final funding strategy has been developed, the agreements between the cities of San José/Santa Clara and tributary agencies will need to be amended to incorporate the repayment and reserve obligations of each agency. These amendments will be finalized prior to establishing the commercial paper program and/or securing State Revolving Fund loans.

HONORABLE MAYOR AND CITY COUNCIL

April 6, 2015

Subject: Status of Regional Wastewater Facility Ten-Year Funding Strategy

Page 3

Staff will return to TPAC and City Council in May 2015 with specific recommendations and detailed next steps on the ten year funding strategy for the RWF CIP.

COORDINATION

This information memorandum has been coordinated with the Department of Finance, the Office of the City Attorney, and the City Manager's Budget Office.

/s/

KERRIE ROMANOW

Director, Environmental Services

For questions, please contact Linda Charfauros, Division Manager, at (408) 535-8553.

