

## CITY OF MILPITAS

### MINUTES of: CITY COUNCIL (FINANCE) SUBCOMMITTEE

Date/Time: Thursday, October 18, 2012 – 5:30 p.m.

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**I. CALL TO ORDER:** Council Member Althea Polanski called the meeting to order at 5:45pm

**Attendance:**

City Council: Council Member Althea Polanski, Mayor Jose S. Esteves (absent at roll call, Mayor arrived at 6:10 pm)

Staff: Kathleen Phalen, Acting Public Works Director  
Jane Corpus, Finance Manager  
Flora Tzeng, Budget Manager

External Presenter: Arthur R. Jensen, Chief Executive Officer and General Manager, Bay Area Water Supply and Conservation Agency (BAWSCA)

**II. PUBLIC FORUM:** None

**III. APPROVAL of MINUTES:** The March 22, 2012 minutes were approved (at 6:10 pm when Mayor was present).

**IV. ITEMS FOR DISCUSSION**

**A. Approve City's participation in BAWSCA's bond issuance to prepay City's obligation under the Water Supply Agreement**

**Kathleen Phalen, Acting Public Work Director** – Presented to the Finance Subcommittee the recommendation of participating BAWSCA Capital Recovery Bonds:

- Seeking subcommittee's recommendation for City to participate in BAWSCA's bond issuance to prepay capital debt owed to City & County of San Francisco (SF)
- Prepayment will lower cost of wholesale water over remaining 21.5 years of the Water Supply Agreement.
- Milpitas purchases water from SF.
- SF recoups its costs of capital improvements through its wholesale rate.
- 1984 agreement used Return on Investment (ROI) of SF. It allowed SF to recoup the capital assets over the life time of the assets. Some of these assets have very long life. It could be 50 years or 75 years. At the end of 1984 agreement, there is still money owed to SF for these assets.
- 2009 agreement incorporated remaining debt of prior investments into 25year debt payment schedule at 5.13% interest rate, this agreement applies to all participating agencies.
- Remaining value of this debt is \$367 million.
- Milpitas's share is approximately \$16 million for the remaining 21.5 years.

- BAWSCA evaluated potential savings of prepaying \$367 million debt with bond proceeds. With current market, the rate for bond issuance would be lower than 5.13% imposed in current agreement with SF.
- Bond market is favorable now: tax exempt bond is approximately 3.6% and taxable bond is approximately 4%.
- Total regional would save approximately \$20 to \$34 million.
- Milpitas would save approximately \$860,000 to \$1,460,000 over 21.5 years,
- Milpitas' annual savings is about \$40,000 to \$68,000.
- BAWSCA assembled a strong team which includes:
  - KNN Public Finance-feasibility analysis
  - Orrick, Harrington & Sutcliffe, LLP – bond counsel & disclosure counsel
  - Hanson, Bridgett - legal counsel
  - Goldman Sachs – underwriters
  - De La Rosa & Co - underwriters
  - Burr, Pilger, Meyer – accountant
  - Moody's and Standard & Poor's – credit ratings
  - BAWSCA staff
  - BAWSCA Board Policy Committee
  - BAWSCA Board of Directors ( City Of Milpitas representative is Council Member Armando Gomez)
- AB2058 (2002) enables BAWSCA to issue bonds.
- On 9/7/12, Government Brown signed AB 2167 to explicitly authorize BAWSCA to issue bonds to prepay the member agencies' capital debt.
- AB 2167 also allows BAWSCA to impose a surcharge for bond payment to be collected by SF through the wholesale rate. Such surcharge is already considered as part of the net savings of \$20 to \$34 million. By collecting the surcharge through wholesale rate is seamless to the bond buyers, the participating agencies and the water rate payers. This seamless feature is good for the bond market.
- BAWSCA evaluated tax-exempt vs taxable bonds.
- Approximately 80% to 85% of the bonds can be tax-exempt.
- Approximately 15% to 20% must be taxable due to participation of private entities such as Cal Water and Stanford.
- BAWSCA Board Policy Committee recommends a blended rate as fair and equitable for all the retail customers.
- BAWSCA's analysis shows all agencies would benefit by participation. There is no increase risk for participating agencies and can save money.
- On 9/20/12, BAWSCA Board of Director adopted resolution encouraging all agencies to participate in this bond issuance.
- Non-participating members can be accommodated. Non-participating members will continue paying their debt share using existing method.
- City must certify that the prepayment is authorized and will not violate any law or agreement, including agreements for issuance of debt secured by the revenues of the City's Water Enterprise Fund.

- The surcharge payment will constitute an operation and maintenance expense of the City's Water Fund, payable from revenues of the Water Fund prior to other obligations.
- Information about the City and the City's water enterprise financial and operating data provided for the official statement for the sale and issuance of the bonds is true and correct.
- The Assistant City Attorney has reviewed these certifications and has no problem with the documents.
- Schedules:
  - 9/20/12 BAWSCA issues feasibility report.
  - 9/20/12 BAWSCA Board of Director adopted a resolution encouraging full participation.
  - 10/18/12 Presented to Finance Subcommittee
  - 11/20/12 City Council to adopt the resolution.
  - 12/23/12 BAWSCA deadline for all resolutions.
  - December 2012 – BAWSCA will receive final credit ratings for all agencies.
  - January 2013 – Start selling bonds on the market

Questions from audience:

- Council Member Polanski asked the current Hetch-Hetch Destroy the Dam ballot initiative has any impact on this issue. Mr. Jensen answered the result of the initiative has no effect on this issue.
- Council Member Polanski asked why the issue can't be brought to the Council on 11/6/2012 meeting. Kathleen Phalen answered that BAWSCA has not finalized components of the certifications. There might still be changes. It is better to wait until the BAWSCA Board's final adoption.
- Finance Manager, Jane Corpus confirmed that surcharge will come from Water Fund and it is separated from other City funds.
- This is a pass-through savings to Milpitas residents.
- Mr. Dan Manassau, Milpitas resident asked if the term of the new bond same as old bond. Mr. Jensen answered it is not retiring old bonds. The old bond was issued by SF. By issuing this new bond, agencies would pay off the outstanding debt (@5.13% over 25 years) to SF. Then, agencies pay the bond at a more favorable rate. The new bond will be secured by water revenue.
- Ms. Carol Kassab, CEO of Milpitas Chamber of Commerce asked for a list of pros and cons for the City to participate the issuance of bond. Mr. Jensen answered:
  - Pros:
    - The City saves money and bears no greater risk.
    - One agency can not issue a bond and repay the debt to SF. BAWSCA is able to do it and to assist 26 participating agencies.
  - Cons:
    - None. It takes some efforts/time from BAWSCA staff.

**The Finance Subcommittee recommended City Council adopting of a Participation Resolution documenting the City's election to participate in the debt prepayment and directing City staff to assist BAWSCA with completion of the bonds issuance**

**V. OTHER BUSINESS**

None

**VI. NEXT MEETING – November 15, 2012**

**VII. ADJOURNMENT**