

8-29-2023

Item #6




RTC #23-767

**Approving Installment
Sale Financing
Certificates of
Participation (COPs)
for RWF Capital Costs**

August 29, 2023

**Gary Welling
Director of Water and Sewer
Utilities**

1




**City of
Santa Clara**
The Center of What's Possible

Background

San Jose-Santa Clara Regional Wastewater Facility (RWF)

- One of the Largest Advanced Wastewater Treatment Plant in the Western USA
- City of San Jose 80.5% Co-Owner
- City is Santa Clara 19.5% Co-owner
- Flows Average 110mgd into the RWF, Sources: SJ, SC and 5 Tributary Agencies; Capacity 167 mgd
- City has a Substantial Available Capacity of 12 mgd, Current Flow 14 mgd
- City Receives 3mgd of Recycled Water for 361 Customers Irrigation, Industrial and Commercial Uses



2

POST MEETING MATERIAL

1

37 NHT

2500-PR 8



Capital Projects

- RWF Undergoing Over \$600 Million of Capital Improvements in the Next 5 Years
- \$2.0 B Project (over 20 years)
- The City's Share of the RWF Capital Improvement Costs is \$98 Million Over the Next 5 Years



3



Why Borrow?

- Cash Flow
 - Large CIP Allocation - \$98 Million in Next 5 Years.
- Rates
 - Efforts to Keep Rates Reasonable for Santa Clara Customers
- Generational Equity
 - Future Rate Payers Sharing the Burden with Current Customers

4

4

POST MEETING MATERIAL



Financing Concepts

- **Installment Sale Agreement:** Between the City Public Facilities Financing Corporation and the City
- Creates Annual City Obligation to Make Installment Payments to the Corporation for the Portion of the RWF Being Financed
- Corporation Assigns all Installment Payments to the Trustee for Payment to the Investors
- Certificates of Participation are Held by Investors and Represent Undivided Fractional Interests in the Stream of Installment Payments

5

5



Financing Concepts (cont.)

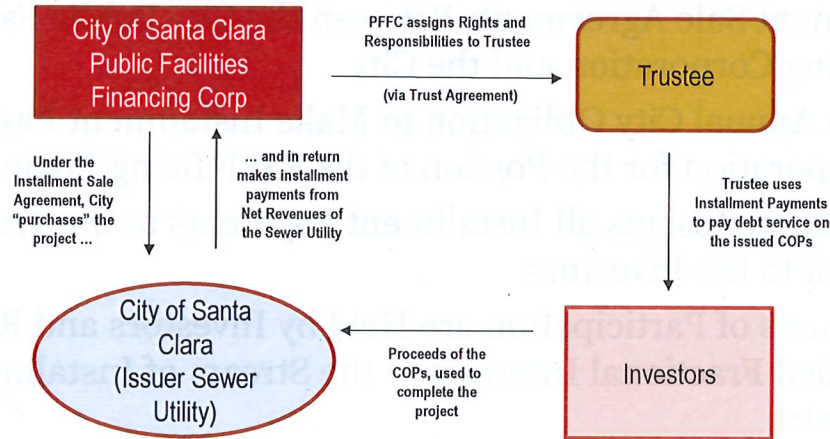
- Installment Payments are Secured Only by Net Revenues of the City's Sewer Utility
- Certificates of Participation Secured by an Installment Sale Agreement are a Legally Available Form of Long-Term Obligations to Finance Capital Projects

6

6



Legal Structure of Wastewater Revenue COPs



7



2020 Installment Sale Agreement

- Short-Term Financing Entered into by the City 2020 to Provide for the City's Share of RWF costs
- Matures in June 2024
- \$50 Million Maximum Amount; \$20 Million has Been Drawn
- Certificates of Participation Will Refinance this Debt over 25 Years

8

8



Financing Strategy

Approximate Uses of Proceeds

Refinance 2020 Installment Sale Agreement:	\$20,400,000
Finance City's Share of Current RWF Projects:	\$15,000,000
Issuance Costs:	\$ <u>500,000</u>
Total	\$35,900,000

- Total Anticipated Borrowing is within \$38 Million Maximum Authorized by the Resolutions

9

9



Financing Timeline

- June 2020: City Executes 2020 Installment Sale Agreement to Provide Interim Project Financing
- March 2023: City Staff, Legal Counsel and Municipal Advisor Begin Analysis of Options to Refinance 2020 Installment Sale Agreement and Finance New RWF Costs
- March 2023: Council Approves Resolution of Intention to Reimburse Project Cost Expenditures from Proceeds of Future Financing

10

10



Financing Timeline (cont.)

- August 2023 – Council & Corporation Board Consider Resolutions to Approve Installment Sale Financing and Certificates of Participation
- September 2023 – Rating Agency Presentation. Offering of Certificates of Participation through Distribution of Preliminary Official Statement.
- October 2023 – Competitive Sale of COPs; Closing and Receipt of Proceeds



CIP Allocations - RWF

	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28	5-Year Total	10-Year Total
Santa Clara	\$12.4	\$14.3	\$10.0	\$25.8	\$35.5	\$98.0	\$121.1
San José	\$50.5	\$58.1	\$40.7	\$104.8	\$144.3	\$398.4	\$492.2
Tributary Agencies	\$15.1	\$17.4	\$11.7	\$24.7	\$41.7	\$110.6	\$138.5



RWF Headworks: \$200M



13



RWF Cogeneration: \$115M



14



RWF Filter Rehabilitation: \$59.6 M



15



RWF Digested Sludge Dewatering Facility: \$167 M



16



RWF Outfall Channel Improvements: \$10 M



17



Green Bonds

- Environmental Benefits and Alignment with Low Carbon Transition
- Bonds Used to Finance Improvements to the Plant to Improve Treatment Processes, Increase Resource Recovery and Reduce Greenhouse Gas Emissions
- Financed Projects Reduce Impacts on San Francisco Bay Ecosystem
- Align with the City's Sustainability Goals and Climate Action Plan
- Climate Bonds Certification Pre-Issuance and Post-Issuance, External Reviewer: Kestrel Verifiers
- Conformance with CBI Standards and Criteria



18

18



Fiscal Impact

- Annual Debt Service Estimated to be \$3.3 Million (New Debt \$2.3 Million + Trimble Road Sanitary Sewer \$1 Million)
- Trimble Road Sanitary Sewer Debt Issuance in 2016 will be Paid in Full Beginning of 2031
- Debt Service Payments would be Made from Net Operating Revenues of the Sewer Utility and have been Contemplated in Long-range Financial Plan and Rate Structure.
- Amount/Timing of Future Borrowing Depends on RWF CIP

19

19



Sewer Utility Rates

- Sole Source of Repayment is Sewer Utility Revenues. Not an Obligation of the General Fund.
- City Covenants to Maintain Sewer Rates Sufficient to Generate 125% of Debt Service.
- Could Require Future Rate Increases if Operating Costs Increase

20

20



Projected Fund Balance (in millions)

FUND 094 (Sewer O&M)	FY2023/24 Adopted	FY2024/25 Adopted	FY2025/26 Forecast	FY2026/27 Forecast	FY2027/28 Forecast	FY2028/29 Forecast
Total Revenue	\$43.5	\$47.4	\$51.7	\$55.2	\$58.8	\$60.2
Debt Service (proposed)	\$3.3	\$3.3	\$3.3	\$3.3	\$3.3	\$3.3
Total Expenditures*	\$33.8	\$52.1	\$48.6	\$64.6	\$77.0	\$45.8
Ending Fund Balance	\$29.2	\$24.4	\$24.6	\$12.2	(\$8.9)	\$2.3

* Including Transfers to CIP

21

21



Including Debt Issuance vs Rates Only

- Began Rate Modeling Debt Issuance in FY 2018-19

FISCAL YEAR	2021-22	2022-23	2023-24	2024-25	2025-26
Including Debt Issuance	0%	5.2%	2.7%	~5%	~5%
Rates Only	12.6%	14.7%	8.8%	~10%	~10%

22

22



Recommendation

- Adopt Presented Resolutions of the Board of Directors of the City of Santa Clara Public Facilities Financing Corporation and the City Council of the City of Santa Clara that:
 - Approve an Installment Sale Financing and Authorize the Execution, Delivery and Sale of Wastewater Revenue Certificates of Participation and Related Agreements in a Maximum Principal Amount of \$38 Million
- Approve Installment Sale Agreement, Trust Agreement, Preliminary Official Statement and Related Documents for the Offering, Sale and Delivery of the Certificates
- Authorize various officers of the City and Financing Corporation to Execute all Related Documents and Agreements

23

23



Financing Team

- City Staff – Shilpa Mehta, Brendan McCarthy, Jensen Barna, Randy Piotrowski, Margaret McCahan, Tess Hoang, Daniel Ballin
- Bond Legal Counsel -Jones Hall – Scott Ferguson, Brian Haroldson
- Financial Consultant – KNN -David Brodsly and Nedko Nedev
- Rate Consultant – Black & Veatch -Ann Bui, Alberto Morales
- **Questions?**

24

24



**City of
Santa Clara**
The Center of What's Possible



25

25