


Item 4: RTC 20-472

# Report on Approving Financing for the Capital Costs at the Regional Wastewater Facility


May 26, 2020

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## Background

- San Jose-Santa Clara Regional Wastewater Facility(RWF) undergoing over \$1 billion of capital improvements in next five years
  - The City is obligated to contribute its share of the RWF capital improvement costs; currently projected to total \$145.4 million in 2019-20 through 2023-24
- An interim credit facility financing instrument (Installment Sale Agreement) has been identified as the best option to help fund the Project



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## Installment Sale Agreement

- Short-term variable rate interim financing that matures in four years
- Provides Department with the flexibility to only draw funds as needed to fund a capital project with uncertain cash flow requirements
- It is anticipated that the Installment Sale Agreement financing will be refinanced within 2-4 years with long-term fixed rate debt amortized over 30 years.

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Figure 5: 78-inch SES Pipeline System Outlined in Orange

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Figure 1: Aerial view of the Digester 5 (left) and Digester 6 (right) gas withdrawal system

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## Discussion

- Finance Department entered into an agreement with Brandis Tallman LLC to assist with the solicitation of offers to fund Project
  - Brandis Tallman sent a request for proposals to 22 banks on March 5, 2020
  - On March 27, 2020 received two proposals from JPMorgan Chase and Wells Fargo, respectively, to finance the Project
  - Both were considered very competitive by the Finance Department and the City's financial advisors, with the JPMorgan Chase proposal offering the lowest rates and most favorable terms
  - Finance Department entered into contract negotiations with JPMorgan Chase to provide funding for the Project

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- Two Resolutions authorizing and approving documents and actions relating to the financing of the Project
  - Resolution of the City Council of the City of Santa Clara
  - Resolution of the City of Santa Clara Public Facilities Financing Corporation
    - Approve Financing Proposal, entering into an installment sale agreement and assignment agreement
    - Approve proceeds of the financing: \$50,000,000
    - Approve the engagement of professional services related to financing
    - Authorize various officers of the City and Financing Corporation to execute all documents that may be necessary to close transaction.

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## Fiscal Impact

- Interest payment in FY 2021 is estimated at approximately \$600,000
  - Installment Sale Agreement to be refinanced with long-term, fixed rate sewer revenue certifications of participation (COPs)
  - Annual debt service on COPs is conservatively estimated to be approximately \$3.25 million for 30 years
- 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.

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## Recommendation

- That the Council and Financing Corporation:
  - Adopts the Resolution authorizing the Installment Sale Financing in the amount not to exceed \$50,000,000 to provide interim financing for capital costs of the RWF.
  - Authorize various officers to execute all required agreements necessary to consummate any transactions contemplated by the agreements approved under the Resolution.