

REPORT

To the Public Financing Authority Board
From the Executive Director

November 14, 2005

Subject

Appointment of financial advisor, bond counsel, and disclosure counsel to provide professional services in connection with the sale of bonds by the Redwood City Public Financing Authority.

Recommendation

In connection with the second sale of bonds to provide funding for the construction of the Redwood City Recycled Water Project, approve by motion the appointment of:

- William Euphrat Municipal Finance, Inc. as financial advisor,
- Nossaman, Guthner, Knox & Elliott as bond counsel,
- Jones Hall as disclosure counsel,

and authorizing the Public Financing Authority's (PFA) Finance Director to enter into professional service contracts for such services.

Background

In August 2003 the City Council approved a broadly defined flexible project, filed a California Environmental Quality Act Notice of Determination, and formed a citizen community task force to provide input on the implementation of the recycled water project. The Council charged the task force with the "goal to identify 1,946 acre-feet per year of potable water demand reductions by 2,010 in a financially feasible manner that avoids using recycled water at schoolyards, parks and playgrounds." The task force completed their work in March 2004 and unanimously recommended that the City implement an alternative that through a combination of recycled water use, replacement of natural turf playing fields with synthetic turf, continued use of groundwater at Sequoia High School, and additional water conservation programs achieves an estimated 2,002 acre-feet per year of potable water demand reductions. The City Council accepted the task force report and directed staff to return with various implementation actions for their consideration.

The Redwood City Recycled Water Project ("Project") will be implemented in multiple phases over the next several years, beginning with some recycled water delivery in the 2006 irrigation season. The initial phases will include commercial portions of Redwood Shores and the Greater Bayfront area, with future expansion possible into central Redwood City. The major components of the Project are:

- **Treatment improvements** consisting of filter modifications, a chemical feed addition, and filtered water lines at the South Bayside System Authority (SBSA) site – owned and operated by SBSA.

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- **Disinfection facility** consisting of a new chlorine contact chamber at the SBSA site – owned by Redwood City, operated by SBSA.
- **Storage and pumping facilities** located inside the SBSA plant property (includes a back-up supply line for potable water) – owned and operated by City of Redwood City.
- **Distribution system** consisting of new transmission pipelines throughout the water service area in street right-of-ways – owned and operated by City of Redwood City.
- **Customer site retrofits** for each existing private or public site with landscape irrigation meter. Retrofits will occur as each property owner has agreed to convert to recycled water for landscape irrigation and industrial uses.

The project is to be financed in multiple phases through 2010. The first phase of the financing was approved on January 24, 2005, which provided \$35 million for the construction of treatment improvements, disinfection facility, and storage/pumping facilities that will be situated on property leased from the South Bayside System Authority.

A second sale of bonds is planned for March 2006. The proceeds of this sale (\$16 million) will be used to fund distribution pipelines, customer site retrofits, and artificial fields.

As with the first set of bonds, it is recommended that the PFA sell these bonds on behalf of the City. Under state law the PFA may sell bonds on behalf of the City and then transfer the proceeds of the bond sale to the City via an installment sale agreement.

The recommended financing team consists of the same firms that assisted in the issuance of the Water Revenue Bonds in 2005 by the PFA. Staff continues to be very pleased with the timeliness and quality of the services provided by each firm. Moreover, staff continues to be pleased with the support that these firms have been providing since the bonds were sold.

This is the second of a series of bond issuances and these firms provide an expertise in the area of bond financing that staff does not have. Furthermore, these firms are familiar with the project and are providing these services at a lower price compared to the 2005 bond issue.

Due to the resignation of the Assistant City Attorney and the current vacancy in the City Attorney's department, the City Attorney is not available to serve as city counsel as he has done in the past. Staff recommends that the firm of Hanson, Bridgett, Marcus, Vlahos, Rudy, LLP be assigned to provide legal services as needed. Beginning in July 2002, the Public Works Services Department, in collaboration with the City Attorney's office, retained the San Francisco law firm Hanson, Bridgett, et al. to assist staff with several environmental, regulatory, and long-term water supply planning activities for potable water supply and the potential use of recycled water for non-potable applications. In February 2004 the City Council approved an agreement with Hansen, Bridgett, et al. for a range of legal services related to the water enterprise. This assignment fits within the scope of services and contract budget.

The attachment contains a description of the responsibilities of the respective members of the financing team. Since these bonds will be sold competitively, the Council does not need to appoint an underwriter to purchase and sell these bonds on behalf of the City.

William Euphrat, the proposed financial advisor, has reviewed the proposals submitted from bond counsel, disclosure counsel, and city counsel and finds their proposed fees competitive with the market rates for these services. The Finance Director has reviewed Mr. Euphrat's proposal and finds his proposed fees in line with fees the City has paid him for past bond issues and consistent with the level of complexity of this bond sale.

Alternative

The PFA Board may reject staff's recommendation to engage these firms to provide the professional services needed to successfully sell bonds for this project. Staff will need to obtain proposals from other firms since staff does not have the expertise to perform these functions. Obtaining proposals from other firms may delay the issuance of bonds by up to two months without any guarantee that staff will be able to identify firms that can provide comparable services at less cost. The City anticipates that the bond proceeds from the first bond issuance will be expended on schedule, and therefore the issuance of the second series of bonds is time-critical to keep the project on track.

Fiscal Impact

The cost for each member of the financing team is as follows:

William Euphrat Municipal Finance, Inc. as financial advisor	\$ 35,000
Nossaman, Guthner, Knox & Elliott as bond counsel	\$ 40,000
Jones Hall as disclosure counsel	<u>\$ 27,500</u>
Total Costs	\$102,500

The total costs for each of these services will be provided, as in the customary practice in municipal bond sales, from the proceeds of the bond sale and will only be paid if the City successfully sells these bonds.



Brian J. Ponty
Director of Finance



Ed Everett
City Manager

Attachments

Responsibilities of the Members of the Financing Team

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Financial Advisor - William Euphrat Municipal Finance (Attachment 1A)

Assist in assembling the finance team (bond counsel, trustee, and other service providers).

Prepare a schedule of events for accomplishing the proposed financing.

Meet and confer with appropriate parties to assure timely completion of all financing documentation.

Participate with the bond counsel, disclosure counsel, the underwriter, and staff in structuring the bonds and providing for their timely issuance.

Provide financial analyses regarding the amount of debt to be issued and the structure of the debt.

Assist with the preparation and distribution of the preliminary official statement and the final official statement.

Assist with the preparation of the Authority's and City's credit profile for disclosure in the official statement and presentations to the bond insurers and rating agencies.

Assist staff with reviewing the pricing proposals submitted by the underwriter.

Bond Counsel – Nossaman, Guthner, Knox & Elliott (Attachment 1B)

Draft all legal documents required for the issuance of the bonds.

Participate with the financial advisor, underwriter, and staff in structuring the issuance of bonds.

Assist in the preparation of the official statement and supporting documentation relating to the sale of the bonds.

Render any necessary legal opinions related to the issuance of the bonds.

Disclosure Counsel – Jones Hall (Attachment 1C)

Prepare the official statement, the primary disclosure document for a municipal bond offering, the continuing disclosure certificate, and the bond purchase agreement.