

# REPORT

To the Honorable Mayor and City Council  
From the City Manager

August 25, 2008

## **SUBJECT**

Finance Agreement between South Bayside System Authority (SBSA) and Redwood City

## **RECOMMENDATION**

Authorize by resolution the signing of the Financing Agreement between South Bayside System Authority (SBSA) and City of Redwood City by the Mayor to implement the existing provisions of the Joint Powers Agreement with respect to the issuance and repayment of bonds.

## **BACKGROUND**

The cities of Belmont, Redwood City and San Carlos and the West Bay Sanitary District entered into an agreement entitled the "Joint Exercise of Powers Agreement - South Bayside System Authority" on November 13, 1975. This Joint Exercise of Powers Agreement (JPA) grants SBSA legal authority to issue long-term debt and bill each member agency for their share of the indebtedness. Further, the JPA authorizes the SBSA Commission to approve any debt issuance without requiring the approval of the individual member agencies. However, each member agency appoints a member of their city council or board to represent the jurisdiction on the SBSA Commission. As facilities jointly held by the member agencies, under the terms of the existing JPA each agency is explicitly obligated to cover proportionally its share of any indebtedness incurred to maintain, operate and improve the wastewater treatment facilities.

The Financing Agreement establishes the rate covenant and other bond covenants ultimately used to secure the debt. These covenants are not in the existing JPA agreement. Without the Financing Agreement, SBSA would likely have to bill each member agency for their share of capital improvement costs on a pay-as-you-go basis, meaning the City would have to issue its own debt independently. The SBSA Capital Improvements Program addresses the replacement and rehabilitation of the aging plant and facilities.

There are important advantages to SBSA issuing this debt:

- The member agencies will likely get better pricing on bond insurance and possibly on the interest rates with a larger, more diversified issue.
- There are some economies of scale and the City will save on the shared issuance costs.
- The broader customer base provided by pooling member agencies in the bond issuance should yield better credit.
- Significantly less City staff effort is required if SBSA takes the lead.
- The debt will more clearly tie to the SBSA CIP efforts.

This is a one-time contractual agreement between SBSA and each member agency that reiterates the JPA terms that each agency raise rates and fees as needed to repay their

share of the SBSA debt and meet certain basic legal covenants. It is flexibly structured to meet individual agency needs and can be applied to all future SBSA debt, whether bonds or State Revolving Fund (SRF) loans, rather than executing separate agreements for each debt issuance.

The SBSA Commission approved a 10-Year Capital Improvements Program (CIP) of approximately \$400 million (in future dollars) in June 2008 to make necessary improvements to its facilities. SBSA needs approximately \$50 million in the near-term to finance engineering and design work and several initial capital projects. Redwood City's share of this first issuance is approximately \$22 million.

The City has interagency agreements with the Town of Woodside and San Mateo County for five county Sewer Maintenance Districts (SMD), listed below:

Edgewood SMD  
Emerald Lake Heights SMD – Zone 2  
Fair Oaks SMD  
Kensington SMD  
Oak Knoll SMD

Note that by virtue of several interagency agreements between the City of Redwood City and San Mateo County, Redwood City sold portions of its allocated treatment capacity to these agencies. As currently defined, each agency proportionately shares in Redwood City's financial obligation to the SBSA capital program costs over the term of the capital program. The City passes its annual sewer rate increase to these agencies and the SBSA capital expenses are contained within each rate increase. Based on the existing agreement between Redwood City and the Town of Woodside, the latter currently rents treatment and disposal capacity from the City. Staff will need to do a further review of the agreements with the Town of Woodside to determine if the terms of the agreements adequately address the Town's sharing in the costs of the SBSA capital improvement costs.

Each year the City Council typically reviews and adjusts sewer service charges in consideration of the operating and capital budgets for the City sanitary sewer collection system and for the SBSA wastewater treatment plant. The established sewer service charges for Fiscal Year 2008-2009 includes the costs associated with the impending SBSA bond sale. Additionally, the City's 10-Year Financial Plan for the Sewer Enterprise Fund contains the City's share of the projected costs of the SBSA CIP over the long-term.

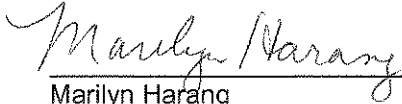
#### **ALTERNATIVES**

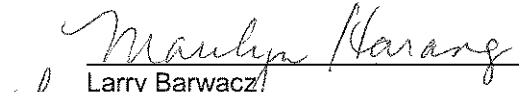
The City could issue its own debt independently. However, staff and the Council Utilities Committee considered this alternative but preferred that SBSA take the lead on issuing debt, while still giving the City flexibility to structure the debt as it sees fit.

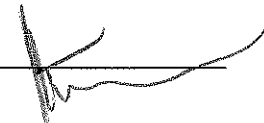
#### **FISCAL IMPACT**

City Council must adjust sewer service charges to customers in order to meet the City's financial obligations to the SBSA Capital Improvements Program debt. The table below shows the current City Council approved Fiscal Year 2008-2009 and the future proposed monthly service charge for City collection system operation, maintenance and CIP costs and SBSA treatment operation, maintenance and CIP costs to Redwood City Single Family Residential (SFR) customers over the next 5 fiscal years.

<u>Fiscal Year</u>	<u>City O&amp;M and Capital Costs (Collection System)</u>	<u>SBSA O&amp;M and Capital Costs (Treatment &amp; Disposal)</u>	<u>Total SFR Monthly Charge</u>	<u>% Increase over Prior Year</u>
2008-09	\$21.01	\$20.00	\$41.01	15.0%
2009-10	\$22.05	\$23.88	\$45.93	12.0%
2010-11	\$21.71	\$28.81	\$50.52	10.0%
2011-12	\$23.97	\$35.50	\$54.81	8.5%
2012-13	\$25.27	\$39.25	\$59.47	8.5%

  
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 Marilyn Harang  
 Public Works Superintendent

  
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 for Larry Barwacz  
 Public Works Services Director

  
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 Peter C. Ingram  
 City Manager

**ATTACHMENTS**

Resolution of The City Council Of The City Of Redwood City Authorizing Execution And Delivery Of Financing Agreement With The South Bayside System Authority And Approving Related Actions

**RELATED DOCUMENTS IN CITY CLERK'S OFFICE**

Financing Agreement

## RESOLUTION NO. \_\_\_\_\_

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF REDWOOD CITY AUTHORIZING EXECUTION AND DELIVERY OF FINANCING AGREEMENT WITH THE SOUTH BAYSIDE SYSTEM AUTHORITY AND APPROVING RELATED ACTIONS**

**WHEREAS**, in order to provide for the transmission, treatment and disposal of wastewater, the Cities of Belmont, San Carlos and Redwood City and the West Bay Sanitary District (collectively, the "Members") have entered into a Joint Exercise of Powers Agreement dated as of November 13, 1975, as amended (the "Joint Powers Agreement"), under which the South Bayside System Authority (the "Authority") has been organized as a joint powers authority which is a public entity separate and apart from the Members; and

**WHEREAS**, under the Joint Powers Agreement, the Authority owns and operates a sub-regional wastewater treatment plant and related facilities which serve the Members, and the Commission of the Authority has approved a 10-Year Capital Improvement Program for the construction of improvements to such plant and facilities, including improvements which benefit individual Members, including the City of Redwood City (the "City"); and

**WHEREAS**, in order to provide financing for such improvements, the Authority intends to issue tax-exempt bonds, notes or other obligations in series from time to time in accordance with the Joint Powers Agreement and the laws of the State of California (collectively, the "Bonds"); and

**WHEREAS**, under the Joint Powers Agreement, the Members are obligated to pay their allocable share of debt service on the Bonds, as such allocable shares are determined in accordance with the provisions of the Joint Powers Agreement; and

**WHEREAS**, the Authority has requested the City to enter into a Financing Agreement in order to facilitate the issuance of the bonds and to implement provisions of the Joint Powers Agreement with respect to the repayment of the Bonds and to provide adequate security for the Bonds; and

**WHEREAS**, this Council wishes to approve the Financing Agreement in furtherance of the public purposes of the City;

**NOW, THEREFORE, BE IT RESOLVED** by the Council of the City of Redwood City, California, as follows:

**Section 1. Approval of Financing Agreement.** That certain agreement entitled "Financing Agreement," between the Authority and the City, is hereby approved substantially in the form of the copy thereof on file in the Office of the City Clerk, to which copy reference is hereby made for the full particulars thereof and is incorporated herein, and the Mayor and City Clerk are hereby authorized and directed to execute said agreement and to attest thereto, respectively, for and on behalf of the City.

**Section 2. Official Actions.** The Mayor, the City Manager, the Finance Director and the City Clerk and their duly authorized deputies, designees or agents are each hereby authorized and directed, in their respective official capacities, to execute or attest thereto, any and all financial instruments, warrants, agreements and other financing documents, necessary or appropriate to effectuate the purposes of the Financing Agreement and the issuance of Bonds by the Authority.

**Section 3. Effective Date.** This Resolution shall take effect immediately upon its passage and adoption.

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