



Staff Report

RESOLUTION DIRECTING CITY DEBT ISSUANCE AND APPROVING ACTION PLAN FOR SOUTH BAYSIDE SYSTEM AUTHORITY CAPITAL IMPROVEMENT PROGRAM

Honorable Mayor and Council Members:

Summary

SBSA has proposed an approximate \$340 million Capital Improvement Program (FY 2007 CIP) that will begin with design this summer and be completed over the next ten years. With 4% construction cost inflation, the 10-year total is expected to exceed \$400 million. All four SBSA member agencies (Belmont, San Carlos, Redwood City and West Bay Sanitary District) have been discussing alternative funding methodologies with SBSA. The planned approach is for Belmont to place a new and separate charge on the tax bill to fund the SBSA CIP. A proposition 218 hearing will be required to establish a maximum charge.

Background

On July 8, 2008, City staff and SBSA representatives gave a joint informational presentation to Council and received direction on next steps to be taken in developing the financing of the SBSA CIP. Staff was directed to begin taking the steps necessary to develop a rate proposal, conduct a Proposition 218 process, and consider SBSA's financing mechanism or a stand-alone City debt issue. In addition, staff was directed to review the financing mechanisms with the Finance Commission and the City Council Infrastructure Committee, and come back to Council with an action plan showing the next steps for the Proposition 218 hearing to establish a new Sewage Treatment charge.

After analysis of the SBSA financing agreement, and review by the Bond Team, Finance Commission and the City Council Infrastructure Committee, it was recommended that the City forego SBSA's joint debt proposal and directly issue debt for Belmont's share of the cost.

Staff has also drafted an Action Plan, as shown on the attached schedule (Exhibit B), that contemplates a City only debt issuance.

Discussion

The CIP future project cost is estimated at approximately \$400 million dollars. The future dollar amount includes an estimated 4% inflation per year over the life of the program. Belmont's share of the future dollar cost is \$45 million dollars. The program cost is fairly evenly split

between the Treatment improvement cost (\$14 million), the Belmont pump station (\$15 million) and the Force Main (\$16 million). These elements are illustrated on the schematic attached as exhibit A of this report.

On August 14th, the Finance Commission met for a Special Meeting to consider the SBSA CIP Financing proposal. After hearing from the Bond Team that the SBSA proposal would (i) negatively impact the City's current debt holders, (ii) impede the City's ability to issue future debt to improve the City's conveyance system and (iii) provide unlimited authority to SBSA to pass debt and thereby obligate the City to repayment, the Commission recommended that the City issue debt on a stand-alone basis for the SBSA CIP and proceed with a Proposition 218 protest on a new fee dedicated to those improvements. They also recommended that the fee be a fixed rate with staff discretion for a mild inflator and separated out between conveyance and treatment charges on rate payers' bills. Lastly, the Commission included in their recommendation a strong suggestion that City staff pursue opportunities to collect State and federal grants if available.

On August 15th, the City Council Infrastructure Committee also considered the SBSA CIP Financing proposal. After reviewing the Finance Commission's recommendation, the Committee concurred with the Commission's recommendation and further recommended that a graphic illustrating the elements of the SBSA CIP be provided to the Council.

Based on recommendations from the Finance Commission and City Council Infrastructure Committee, the schedule for the Proposition 218 Noticing was amended, and SBSA was notified that the City of Belmont staff would not be proposing to Council that the City participate in the SBSA debt issuance.

If the Finance Commission and Infrastructure Committee's recommendation is accepted by the City Council, staff will direct our bond counsel to circulate a draft supplement to the Joint Powers Agreement which complies with Section 5.9(b) of the Joint Powers Agreement. Staff anticipates that the draft supplement will be closely modeled on the existing Sections 5.4, 5.6 and 5.9 of the Joint Powers Agreement. At the same time, City staff would work with the City finance team to assure that the City financing can be accomplished in a timely manner. Amongst other things, this supplement will spell out the terms and conditions for payment of Belmont's share of the SBSA CIP.

As mentioned before, an Action Plan has been developed to establish a new Sewage Treatment charge on the tax bill for the SBSA CIP. That Action Plan is attached as Exhibit B to this report. One consideration in development of the Action Plan was to avoid holding the Proposition 218 process between Thanksgiving and New Year's Day. Based on that consideration, the detailed rate analysis will be presented to Council at the first meeting in January. Council would then consider authorization to mail the Notice at the February 10, 2009 meeting.

The requirements for a Proposition 218 hearing are summarized as follows. Fees for sewer service are property related fees subject to Proposition 218, but partially exempt from its requirements. These fees need not be submitted to an election of voters or property owners, but they are subject to a majority protest proceeding. In summary, that process is as follows: (i) an agency calculates a budget sufficient to cover the cost of service and determines how to spread that budget as rates across different kinds of customers (e.g., single-family, multi-family, non-residential), (ii) the agency provides 45 days mailed notice of a public hearing on the proposed new rates to every property owner or customer of record who will pay the new rates, (iii) the agency conducts the hearing and accepts written protests from property owners and customers of record, and (iv) the agency tallies the protests; if more than half of the affected property owners and customers of record protest the new rates in writing before the end of the hearing, the agency cannot impose the new rates; otherwise it may impose the rates at any level which does not exceed the rates stated in the notice. Majority protests under these rules are not common except when a very small number of ratepayers are involved. Accordingly, the primary consequences of this process are the delay and cost associated with the noticed hearing and the opportunity for public input on the decision.

Typically, the City conducts rate hearings in the spring. However, an earlier hearing will provide additional flexibility in the timing of the debt issuance, and will also address concerns that the City won't have sufficient funds to finance the SBSA CIP when needed.

General Plan/Vision Statement

There is no impact from this report. Maintenance of existing public works infrastructure is consistent with the City's goals and policies.

Fiscal Impact

No fiscal impact. The rates to be imposed to support debt for the SBSA CIP will be sufficient to cover that cost; thus, while there will be a meaningful impact on the City's sewer customers, this transaction will be revenue neutral to the City and its sewer fund. The new sewer rate to fund the SBSA CIP, if approved, will first appear on the individual sewer customer's property tax bill beginning in 2010 and will continue for approximately 35 years until the SBSA Capital bonds are retired.

Public Contact

The Council agenda was posted.

Recommendation

Approve Resolution Directing City Debt Issuance and Approving Action Plan for South Bayside System Authority Capital Improvement Program

Alternatives

1. Take no action

2. Refer back to staff for further information.

Attachments

- A. Implementing Resolution
- B. Exhibit A – Sewage Flow Schematic
- C. Exhibit B – Action Plan/Schedule for Sewage Treatment Charge

Respectfully submitted,

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RESOLUTION NO. _____

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF BELMONT
DIRECTING CITY DEBT ISSUANCE AND APPROVING ACTION PLAN FOR SOUTH
BAYSIDE SYSTEM AUTHORITY CAPITAL IMPROVEMENT PROGRAM**

WHEREAS, the South Bayside System Authority (SBSA) was established by the Joint Exercise of Powers Agreement dated November 13, 1975; and,

WHEREAS, the SBSA has four member agencies, including the Cities of Belmont, San Carlos and Redwood City and the West Bay Sanitary District; and,

WHEREAS, SBSA has an approximately three hundred and forty million dollar (2007 dollars) Capital Improvement Program (CIP) that will begin with design this summer and be completed over the next ten years. With 4% construction cost inflation the 10-year total is expected to exceed \$400 million; and,

WHEREAS, the planned approach is for the City to place a new and separate charge on the tax bill to fund the SBSA CIP; and,

WHEREAS, a Proposition 218 hearing will be required to establish a maximum charge; and,

WHEREAS, on July 8, 2008 City staff was directed to begin to take the steps necessary to conduct a proposition 218 hearing to raise rates, and to review the rate analysis and proposed financing agreement received from SBSA to determine if it would be preferable to have SBSA issue bonds or if the City should issue bonds directly; and,

WHEREAS, staff was directed to review with the Finance Commission and the City Council Infrastructure Committee and,

WHEREAS, staff was come back to Council with an action plan showing the next steps for the Proposition hearing to establish a Sewage Treatment rate; and

WHEREAS, after analysis of the SBSA financing agreement, and review by the Bond Team, Finance Commission and the City Council Infrastructure Committee, it was recommended that the City directly issue debt for the City share of the cost, rather have having SBSA issue debt to finance the SBSA CIP; and

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Belmont directs City staff to issue City Debt to fund the South Bayside System Authority Capital Improvement Program and approves the Action Plan for South Bayside System Authority Capital Improvement Program.

* * * * *

I hereby certify that the foregoing Resolution was duly and regularly passed and adopted by the City Council of the City of Belmont at a regular meeting thereof held on September 23, 2008 by the following vote:

AYES, COUNCILMEMBERS: _____

NOES, COUNCILMEMBERS: _____

ABSTAIN, COUNCILMEMBERS: _____

ABSENT, COUNCILMEMBERS: _____

CLERK of the City of Belmont

APPROVED:

MAYOR of the City of Belmont

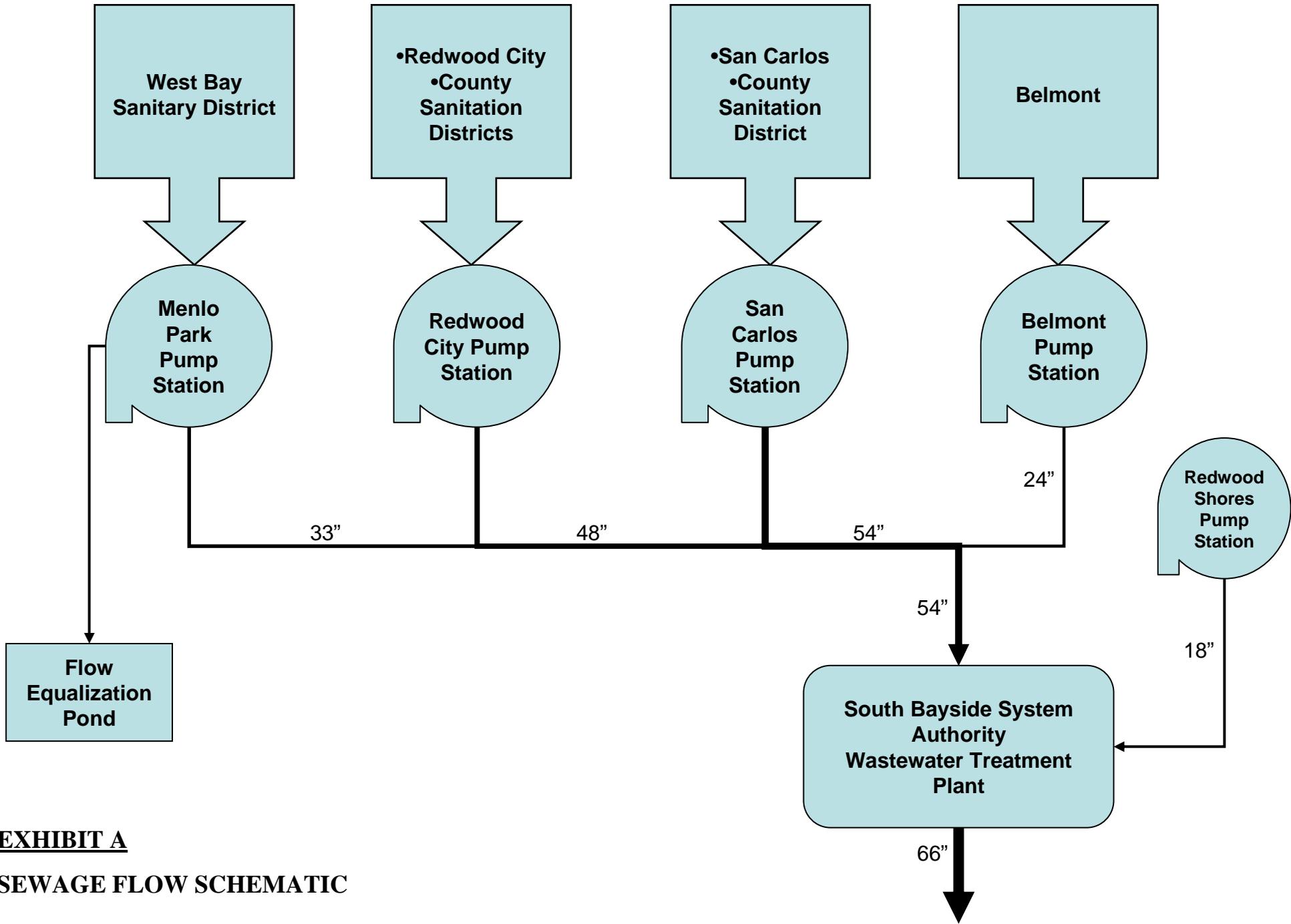


EXHIBIT A
SEWAGE FLOW SCHEMATIC

Exhibit B

ACTION PLAN **Schedule for Sewage Treatment Charges** **Fiscal Year 2010-2011** **City of Belmont** *For South Bayside System Authority (SBSA)* *Ten Year Capital Improvement Program (CIP)*

2008

January 18	Staff meets with Bartle Wells & Associates regarding SBSA Financial Planning
February 26	SBSA General Manager, Dan Child, addresses City Council regarding capital expenditure requirements for sewage treatment facilities (SBSA CIP)
February – June	SBSA Commission approval of CIP, and SBSA Staff and consultants meet with member agencies to discuss alternative Financing approaches and begins to prepare documents to present to Agencies for Review and Approval
June 14	Preliminary Bond Debt Service calculations for SBSA debt issuance received from SBSA Bartle Wells
June 26	Final Bond Debt Service calculations received from SBSA Bartle Wells
June 26	Draft Financing Agreement for SBSA debt issuance received from SBSA Bond Counsel
June 26	City of Belmont Rate Analysis (HFH) commences
June 27	Completion of Reports to present at July 8 City Council meeting: Presentation of CIP and Debt Service cost by SBSA Draft Financing Agreement information Draft of resolution authorizing mailing of 45 day Proposition 218 Notice
July 1	City preliminary comment on Financing Agreement sent to SBSA
July 8	Informational presentation to City Council regarding debt estimates received from Bartle Wells, for SBSA Bond Issue, and Discussion and Direction on next steps
July 14	City Council Infrastructure Committee review of Rate Analysis
July 18	Bond Team review of revenue options (City versus SBSA bond issuance)
August 11	City Staff meet with HFH to review amended Rate Analysis and maximum rate

September 15, 2008

1/3

2008

August 14	Finance Commission review of Rate Analysis and Financing Options
August 15	City Council Infrastructure Committee review of Rate Analysis and Financing Options
August 15	Debt estimate for City debt issuance received and the Bond Service Breakdown and Commercial Parcel square footage information sent to HFH to amend Rate Analysis
August 18	City of Belmont notified SBSA that City will not participate in SBSA Financing, but will issue City Bonds instead (schedule amended)
September 4	Amended Rate Analysis received and reviewed.
September 19	Rate Analysis finalized
September 26	Resolution Directing City Debt Issuance and approving Action Plan for South Bayside System Authority Capital Improvement Program
October 3	Preliminary Rate Analysis Report (HFH) submitted
October 15	Draft of Proposition 218 Notice (Notice) setting Public Hearing for 45 days after Notice setting maximum rate is mailed to property owners submitted (Mandell with Colantuono)
October-November	Meeting of City Council Infrastructure Committee to Review of Rate Analysis, Rate Analysis Report, and Draft Notice
November-December	Bond Counsel drafts amendment to Joint Power Agreement (JPA) and City submits to SBSA
December 16	Staff Report for January 13 City Council meeting approved

2009

January 13	Rate Analysis to City Council for review
January 27	*date reserved for second review of Rate Analysis, if needed
February 10	City Council consideration of Resolution authorizing mailing of Notice The Proposition 218 Notice would be authorized for mailing by adoption of (i) setting rules for tabulating protests, (ii) scheduling public hearing* and (iii)_proposing rate structure*. [portions marked with * included principally for benefit of council/staff coordination, not legally required]
February 13	Send 45 day Notice to Printer (Tim Seufert, NBS)

February 19	Mail 45 day Notices to property owners (Tim Seufert, NBS)
February -April	Track written and verbal responses from property owners, prepare response
February - March	Meeting of City Council Infrastructure Subcommittee to discuss Sewage Treatment Rates and review responses
February -March	SBSA Commission considers amendment to SBSA JPA
March 27	Publish first notice of April 14 public hearing (Pam/City Clerk)
April 3	Publish second notice of April 14 public hearing 10 days prior to public hearing (Pam/City Clerk)
April 14	Public Hearing at City Council Meeting (A) Public Hearing and Tally of Protests (B) Introduction (First Reading) of Ordinance setting the City's Sewage Treatment Charges
April 28	Second Reading of Ordinance setting the City's Sewage Treatment Charges (consent calendar)
May	Meeting of City Council Infrastructure Subcommittee to discuss SBSA CIP
April - May	City Council consideration of amendment to SBSA JPA
May 28	(30 days after second reading) Rate Ordinance takes effect
July	Debt Issuance
To Be Determined (TBD)	Filing of 2009-10 Sewage Treatment Charge Report (transmittal data) with City Clerk
TBD	Publish first notice of public hearing on Sewage Treatment Charge Report (Pam/City Clerk)
TBD	Publish second notice of public hearing on Sewage Treatment Charge Report 10 days prior to public hearing (Pam/City Clerk)
TBD	Public Hearing for Sewage Treatment Charge Report
August 1 2009	Send new rates for all properties to County of San Mateo for Tax bill (NBS)