



City of Sunnyvale

Agenda Item-No Attachments (PDF)

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REPORT TO COUNCIL

SUBJECT

Approve the Engagement Letter with J.P. Morgan Securities LLC to Support the Offering and Sale in a Public or Private Offering of Bond Anticipation Notes Associated with the City's Proposed Loan from the United States Environmental Protection Agency Under the Water Infrastructure Financing and Innovation Act (WIFIA) and Approve Budget Modification No. 8 in the amount of \$275,000

REPORT IN BRIEF

Approval is requested to accept the engagement with J.P. Morgan Securities LLC (J.P. Morgan) to support the offering and sale by the City in a public or private offering of Bond Anticipation Notes associated with the City's proposed loan from the United States Environmental Protection Agency under the Water Infrastructure Finance and Innovation Act (WIFIA) and approve Budget Modification No. 8 in the amount of \$275,000.

EXISTING POLICY

Pursuant to Section 2.08.040 of the Sunnyvale Municipal Code, Council approval is required for the procurement of goods and/or services exceeding \$100,000 in any one transaction.

Pursuant to Sunnyvale Charter Section 1305, at any meeting after the adoption of the budget, the City Council may amend or supplement the budget by motion adopted by affirmative votes of at least four members so as to authorize the transfer of unused balances appropriated for one purpose to another, or to appropriate available revenue not included in the budget.

ENVIRONMENTAL REVIEW

The WIFIA loan will fund projects contemplated by the Program Environmental Impact Report for the Sunnyvale Water Pollution Control Plant Master Plan (SCH #2015062037) (Master Plan PEIR), which was certified by the City Council on August 23, 2016. No additional environmental review is required.

BACKGROUND AND DISCUSSION

The Donald M. Somers Water Pollution Control Plant (WPCP) is one of the oldest wastewater treatment facilities on the West Coast. In 2016, City Council adopted a Master Plan, which serves as a guide for reconstruction of the WPCP. This Master Plan is now being implemented as the Sunnyvale Clean Water Program, with a total cost of approximately \$850 million in the FY 2019/20 Budget.

In 2016, the City successfully secured a \$127 million Clean Water State Revolving Fund (CWSRF) loan for the Headworks and Primary Treatment project portion of this Program. Over the life of that loan, the savings in debt service is likely to exceed \$40 million relative to traditional municipal bonds. Three other projects, now in the early stages of design, are budgeted at \$273million over the next five years.

In support of the program, the City is applying for the WIFIA loan for the Clean Water Program. Staff conducted a competitive request for proposal process for underwriting and special structuring services for the Clean Water program. These services will help the City structure the WIFIA loan in a way that is most advantageous, potentially using other interim financing sources (for example, Bond Anticipation Notes) to maximize savings. The City received five proposals and interviewed the top two. J.P. Morgan was selected as the top proposer. They are one of the top underwriters in California having managed \$49.8 billion in bonds and notes and was also engaged to serve as Structuring Agent for the San Francisco Public Utilities Commission on a \$699 million WIFIA loan. Staff believes J.P. Morgan has the most relevant WIFIA application experience to assist the City in the WIFIA loan application process.

FISCAL IMPACT

Project 834900-Sunnyvale Clean Water Program Financing Support was established to fund the financing support services for the Clean Water Program. In addition to the contracted services needed, an initial application fee of \$100,000 is required for the WIFIA loan. The final amount of application fees will be determined by the EPA at loan closing (approximately October 2020). The application fee is non-refundable and is credited to the credit processing fee, which can be included in the WIFIA loan amount. As part of the WIFIA application, the City is required to provide a credit rating confirmation from a rating agency and the estimated cost of obtaining a credit rating confirmation is about \$25,000. The following is the summary of the additional requested funding:

J.P. Morgan Consulting Services	\$125,000
J.P. Morgan Expenses Not to Exceed	\$25,000
Total J.P. Morgan Contract	\$150,000
Credit Rating Confirmation	\$25,000
WIFIA Loan Application Fee	\$100,000
Total Other Costs	\$125,000
Total Contract and Other Costs	\$275,000

Budget Modification No. 8 has been prepared to appropriate additional funding of \$275,000 in project 834900.

**Budget Modification No. 8
FY 2019/20**

	Current	Increase/ (Decrease)	Revised
Wastewater Enterprise Fund			
<u>Expenditures</u>			
Project 834900 - Sunnyvale Clean Water Program Financing Support	\$897,007	\$275,000	\$1,172,007
<u>Reserves</u>			
Rate Stabilization Reserve	\$24,085,713	(\$275,000)	\$23,810,713

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's website.

RECOMMENDATION

Take the following actions:

- Approve the Engagement Letter with J.P. Morgan, in substantially the same for as Attachment 1 to the report, with a not to exceed contract amount of \$150,000
- Authorize the City Manager to execute the Engagement Letter when all necessary conditions have been met
- Approve Budget Modification No. 8 in the amount of \$275,000 to fund financing support for the Sunnyvale Clean Water Program

Prepared by: Grace Zheng, Assistant Director of Finance

Reviewed by: Timothy J. Kirby, Director of Finance

Reviewed by: Chip Taylor, Director of Public Works

Reviewed by: Teri Silva, Assistant City Manager

Approved by: Kent Steffens, City Manager

ATTACHMENTS

1. Draft J.P Morgan WIFIA Engagement Letter