

OTAY WATER DISTRICT
FINANCE, ADMINISTRATION AND COMMUNICATIONS
COMMITTEE MEETING
and
SPECIAL MEETING OF THE BOARD OF DIRECTORS

2554 SWEETWATER SPRINGS BOULEVARD
SPRING VALLEY, CALIFORNIA
BOARDROOM

THURSDAY
April 21, 2011
11:30 A.M.

This is a District Committee meeting. This meeting is being posted as a special meeting in order to comply with the Brown Act (Government Code Section §54954.2) in the event that a quorum of the Board is present. Items will be deliberated, however, no formal board actions will be taken at this meeting. The committee makes recommendations to the full board for its consideration and formal action.

AGENDA

1. ROLL CALL
2. PUBLIC PARTICIPATION – OPPORTUNITY FOR MEMBERS OF THE PUBLIC TO SPEAK TO THE BOARD ON ANY SUBJECT MATTER WITHIN THE BOARD'S JURISDICTION BUT NOT AN ITEM ON TODAY'S AGENDA

DISCUSSION ITEMS

3. INFORMATIONAL REPORT ON THE LETTER OF CREDIT (LOC) SUBSTITUTION FOR THE OUTSTANDING VARIABLE RATE DEBT (BEACHEM) [5 minutes]
4. APPROVE AN AMENDMENT TO THE COOPERATIVE AGREEMENT CREATING THE INTERAGENCY WATER TASK FORCE WITH REFERENCE TO WHEN THE TASK FORCE WILL MEET (WATTON) [5 minutes]
5. ADJOURNMENT

BOARD MEMBERS ATTENDING:

Gary Croucher, Chair
David Gonzalez

All items appearing on this agenda, whether or not expressly listed for action, may be deliberated and may be subject to action by the Board.

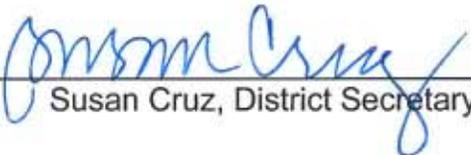
The Agenda, and any attachments containing written information, are available at the District's website at www.otaywater.gov. Written changes to any items to be considered at the open meeting, or to any attachments, will be posted on the District's website. Copies of the Agenda and all attachments are also available through the District Secretary by contacting her at (619) 670-2280.

If you have any disability which would require accommodation in order to enable you to participate in this meeting, please call the District Secretary at 670-2280 at least 24 hours prior to the meeting.

Certification of Posting

I certify that on April 15, 2011 I posted a copy of the foregoing agenda near the regular meeting place of the Board of Directors of Otay Water District, said time being at least 24 hours in advance of the meeting of the Board of Directors (Government Code Section §54954.2).

Executed at Spring Valley, California on April 15, 2011.



Susan Cruz, District Secretary



AGENDA ITEM 3

STAFF REPORT

TYPE MEETING:	Special Board Meeting	MEETING DATE:	May 16, 2011
SUBMITTED BY:	Joseph R. Beachem, Chief Financial Officer	W.O./G.F. NO:	DIV. NO.
APPROVED BY: (Chief)			
APPROVED BY: (Asst. GM):	German Alvarez, Assistant General Manager, Finance and Administration		
SUBJECT:	Substitution of the Letter of Credit for the Outstanding Variable Rate Debt		

GENERAL MANAGER'S RECOMMENDATION:

That the Board accept this informational report on the Letter of Credit (LOC) substitution for the outstanding variable rate debt.

COMMITTEE ACTION: _____

See Attachment A.

PURPOSE:

To inform the Board of the upcoming request to replace the Letter of Credit Bank. On May 16th the General Manager will bring the required resolutions to the Board for approval.

ANALYSIS:

SUMMARY

The Letter of Credit Bank, Landesbank Hessen-Thuringen Girozentrale (Helaba), is discontinuing the service. In order to maintain the debt, the District must find a substitute Letter of Credit and have it in place a few weeks prior to the June 10th expiration of the existing LOC. The District's continued Capital Improvement Program requires the ongoing financial funding provided by this debt while the variable rate accomplishes this at a very low cost.

The General Manager has secured the services of Suzanne Harrell, Harrell & Company Advisors, LLC as the Financial Advisor and the legal firm of Stradling, Yocca, Carlson & Rauth to serve as Bond

Counsel. Both of these firms were selected due to their excellent work in the past, reasonable fees, and familiarity of the District. Due to these factors, the work can be completed in the short turnaround time required.

The new LOC Bank will be selected through a competitive bid process so the District obtains the most cost effective fee possible. This competitive bid process includes six banks and began the same day the notice was received from Heleba. Staff was prepared for this possibility and had prior conversations with various banks to insure that there were options available.

Staff will present the resolutions listed below at the May 16th Budget Workshop. The timing of Heleba's decision to discontinue the LOC leaves the District very short on time, requiring that this be presented to the Board no later than mid-May. The selection of the new bank and the preparation of the documents is not expected to be completed until then.

BACKGROUND

The District currently has five outstanding debt issuances and one loan from the State of California. Four of the debt issuances have purchased credit enhancements from various sources which enables the District to save on the interest costs of the debt.

The 1996 variable rate debt issuance has a face value of \$15,400,000 and a current balance of \$11,300,000. The debt was sold by the District to finance the cost of design, acquisition, and construction of certain capital improvements. The debt has a LOC for both credit enhancement and liquidity guarantee provided by Helaba. The LOC allows the interest cost to float at a variable rate, based on a short-term seven-day rate.

Helaba has expressed that the District's debt is smaller than those they would like to work with and has also commented that they are trying to reduce their exposure to California debt. As a result, they are opting to discontinue their services as the LOC Bank. The LOC will expire on June 10th of this year. In order for the District to maintain this variable rate debt a substitute LOC must be obtained from another bank.

The trust agreement approved by the Board in connection with the original issuance requires that this bond have a liquidity guarantee and a credit enhancement. Substitutions of LOC's are a common occurrence in the debt markets and should raise no

concerns. While unlikely, it is possible that bondholders will contact District representatives to inquire of the pending change. This is a simple substitution with no substantive changes in the debt. The most significant change may be that the new bank could have a single "A" rating whereas Heleba had a AA rating. At the time of this report, proposals have not been received or evaluated so the bank's rating is not yet known. Staff will be evaluating the overall cost of each of the bank's proposals and will recommend the least costly option for the District. Staff has sent out six RFPs with a deadline of April 25th for proposals.

The new LOC will enable the District to maintain its existing debt. This action is consistent with the strategic goal to provide for sound financing of District facilities. Minor costs will be incurred by the original Trustee, Bond Counsel, and the new LOC Bank. These costs will be evaluated in the RFP process to insure the lowest cost solution to this action.

OPTIONS

When the Letter of Credit expired in June, instead of substituting the LOC and allowing the debt to remain outstanding, the District could consider using its existing reserves to payoff this debt. However, the District's reserves would then fall below the target levels and even below the minimum levels outlined in the Reserve Policy. This would put the District in the position of borrowing other funds at a higher cost.

With the termination of the existing LOC, the District could exercise an option to convert the debt to a fixed rate. Staff, with the assistance of Suzanne Harrell, have determined that the variable rate debt remains financially beneficial to the District. Over the remaining life of the debt, the District is expected to save approximately \$700,000 dollars by retaining the variable rate as compared to a fixed rate, taking in the cost of the LOC substitution.

Maintaining this variable rate debt will also enhance the flexibility of the District to pay down debt as this debt can be prepaid on 30 days notice with no premium. However, based on the District's six-year rate model, the District will need to retain the debt for at least five to six years. This debt is necessary to fund the District's Capital Improvement Program.

It is possible that after six years the District could be in a position to begin paying down debt.

RESOLUTIONS

Resolution for the Otay Water District:

- Approve Substitution of the Letter of Credit; form of Reimbursement Agreement.
- Approve Amendment to Trust Agreement (to facilitate the substitution).
- Approve Amendment to Installment Sale Agreement (to revise the parity test to conform to other outstanding debt)
- Approve form of Reoffering Memorandum.
- Authorize the General Manager, Chief Financial Officer and designees to execute the new and amended documents and take all steps necessary to cause the new Letter of Credit to be delivered.

Resolution for the Otay Service Corporation:

- Approve Substitution of the Letter of Credit; form of Reimbursement Agreement.
- Approve Amendment to Trust Agreement (to facilitate the substitution).
- Approve Amendment to Installment Sale Agreement (to revise the parity test to conform to other outstanding debt).
- Authorize the Executive Director, Chief Financial Officer and designees to execute the new and amended documents and take all steps necessary to cause the new Letter of Credit to be delivered.

PARTIES AND COSTS

Unlike a new debt issuance, where all costs to establish the debt are paid from the proceeds of the debt issuance, on this substitution the costs will be paid from the District's reserves. These costs have been incorporated into the District's 2012 rate model. The following parties are key in order to complete the LOC substitution. The list below shows the various parties and the related costs.

Financial Advisor	\$25,000 paid only if transaction is completed
Bond Counsel	\$40,000 paid only if transaction is completed

Rating Agency \$5,000
LOC Bank Commitment \$30,000 to \$45,000
LOC Bank Counsel \$35,000 to \$45,000

The Financial Advisor and the Bond Counsel were selected under the General Manager's authority based on their prior work with the District and the reasonableness of their fees. This matter is time sensitive so their availability and ability to start working on this project on such short notice was a tremendous benefit to the District.

The rating agencies fees are estimated above and are in line with other similar transactions.

The LOC Bank and their fees will be set based on a competitive process. The following banks have been contacted and given an RFP: Union Bank, Bank of the West, Banco Popular, JP Morgan, CitiBank, and Wells Fargo.

FISCAL IMPACT: 

The onetime costs to substitute the LOC are expected to be approximately \$150,000. The annual LOC costs are not expected to be significantly different from the existing LOC, and will be approximately \$110,000 per year. The net result of maintaining this variable rate debt as compared to a fixed rate borrowing is expected to save the District approximately \$1 million over the next seven years.

STRATEGIC GOAL:

Sound financing of District facilities.

LEGAL IMPACT: _____

None.



General Manager

Attachments:

A) Committee Action Form



ATTACHMENT A

SUBJECT/PROJECT:	Substitution of the Letter of Credit for the Outstanding Variable Rate Debt
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COMMITTEE ACTION:

This is an informational item only.

NOTE:

The "Committee Action" is written in anticipation of the Committee moving the item forward for board approval. This report will be sent to the Board as a committee approved item, or modified to reflect any discussion or changes as directed from the committee prior to presentation to the full board.



STAFF REPORT

TYPE MEETING:	Regular Board	MEETING DATE:	May 4, 2011
SUBMITTED BY:	Mark Watton, General Manager	W.O./G.F. NO:	DIV. NO.
APPROVED BY: (Chief)			
APPROVED BY: (Asst. GM):			
SUBJECT:	Approve an Amendment to the Cooperative Agreement Creating the Interagency Water Task Force		

GENERAL MANAGER'S RECOMMENDATION:

That the board approve the attached second amendment to the Cooperative Agreement creating the Interagency Water Task Force.

COMMITTEE ACTION: _____

Please see Attachment A.

PURPOSE:

To present for the board's consideration the approval of the proposed amendment to 'Part III' of the Cooperative Agreement creating the Interagency Water Task Force, with reference to when the task force will meet.

ANALYSIS:

The Interagency Water Task Force was implemented in June 1990 through a mutual cooperative agreement between the Otay Water District, Sweetwater Authority and the City of Chula Vista. The Task Force's purpose is to study water related issues facing the City of Chula Vista and make recommendations with regard to such issues to the City Council and to affected water agencies.

The members of the Interagency Water Task Force wish to update the bylaws with regard to when the task force shall meet. The current bylaws indicate that the task force shall meet "at least twice a year, or quarterly as agenda matters require." The members are proposing the following change:

"The Interagency Water Task Force shall meet as required and mutually agreed as agenda matters require on the day and at the

time and in the place that it shall designate by resolution and/or by bylaw and such special meetings as the Task Force may require."

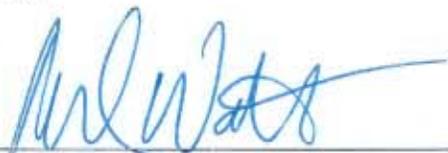
It was suggested that the proposed second amendment be presented to the Task Force participants' boards and the city's council for formal adoption. The attached agreement is presented for this purpose.

FISCAL IMPACT: _____

None.

LEGAL IMPACT: _____

None.



General Manager



ATTACHMENT A

SUBJECT/PROJECT:	Approve an Amendment to the Cooperative Agreement Creating the Interagency Water Task Force
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COMMITTEE ACTION:

This page of staffs' report will be updated with the notes from the committees' discussion of this item at a meeting scheduled on April 21, 2011

SECOND AMENDMENT TO THE COOPERATIVE AGREEMENT
BETWEEN THE CITY OF CHULA VISTA, OTAY WATER
DISTRICT, AND SWEETWATER AUTHORITY CREATING
THE CHULA VISTA INTERAGENCY WATER TASK FORCE
AND ESTABLISHING THE FUNCTIONS AND DUTIES THEREOF

This SECOND AMENDMENT is made and entered into as of _____, 2011, by and among the City of Chula Vista (City), Otay Water District (Otay), and Sweetwater Authority (Sweetwater), in view of the following facts:

WHEREAS, on February 26, 1991, by Resolution 16081, the Chula Vista City Council approved a Cooperative Agreement (Agreement) between the City of Chula Vista (City), the Otay Water District (Otay), and Sweetwater Authority (Sweetwater) that formed the Chula Vista Ad Hoc Water Task Force for the purpose of studying water related issues facing the City of Chula Vista, and making recommendations to the City Council and the affected water agencies regarding water related matters; and

WHEREAS, on March 22, 1991 the Governing Boards of Otay and Sweetwater also approved said Agreement on March 22, 1991; and

WHEREAS, the First Amendment to this Agreement was entered into by City (by Resolution No. 2007-049), Otay, and Sweetwater on April 11, 2006; and

WHEREAS, City, Otay, and Sweetwater now desire to modify the conditions with respect to the schedule of meetings,

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF CHULA VISTA, THE BOARD OF DIRECTORS OF OTAY WATER DISTRICT, AND THE BOARD OF DIRECTORS OF SWEETWATER AUTHORITY AGREE AS FOLLOWS:

1. That Section Part III: Meetings, shall be amended to read as follows:

The Interagency Water Task Force shall meet as required and mutually agreed as agenda matters require on the day and at the time and in the place that it shall designate by resolution and/or by bylaw and such special meetings as the Task Force may require.

Signature Page to the
Second Amendment to the Cooperative Agreement Creating the
Chula Vista Interagency Water Task Force

Dated: 4/6/11

CITY OF CHULA VISTA

Cheryl Cox
Cheryl Cox, Mayor

Attest:
Donna R. Norris
Donna Norris, City Clerk

Approved as to form:
Glen Googins
Glen Googins, City Attorney

Dated: 4/6/11

OTAY WATER DISTRICT

Mark Watton
Mark Watton, General Manager

Approved as to form:

General Counsel

Dated: _____

SWEETWATER AUTHORITY

James L. Smyth
James L. Smyth, General Manager

Approved as to form:
Paula de Sousa
Paula de Sousa, General Counsel