



THE CITY OF SAN DIEGO

Report to the City Council

DATE ISSUED: February 23, 2016

REPORT NO: 16-018

ATTENTION: Council President and City Council

SUBJECT: Public Facilities Financing Authority of the City of San Diego Water Revenue Bonds (Capital Improvement Projects & Advance Refunding)

REFERENCE: Budget and Government Efficiency Committee Report No. 16-003, titled Bond Authorization for 2016 Water Revenue Bonds (Capital Improvement Projects & Advance Refunding Opportunity), dated January 27, 2016

REQUESTED ACTION:

1. Authorize the issuance of the Public Facilities Financing Authority of the City of San Diego (the "Authority") Water Revenue Bonds in one or more series in an aggregate principal amount not to exceed \$835,000,000 to provide net bond proceeds of \$80,000,000 to finance capital improvements to the Water System, and to refund/refinance all or a portion of the outstanding Public Facilities Financing Authority of the City of San Diego Water Revenue Refunding Bonds, Series 2009A (the "2009A Bonds"), Water Revenue Bonds, Series 2009B (the "2009B Bonds"), Water Revenue Refunding Bonds, Series 2010A (the "2010A Bonds"), and Subordinated Water Revenue Bonds, Refunding Series 2012A (the "2012A Subordinated Bonds"), and/or all or a portion of certain Drinking Water State Revolving Fund ("SRF") Loans. The authorization will remain in effect until June 30, 2018.
2. Authorize the execution of related financing documents which include the forms of the Supplement to the Master Installment Purchase Agreement; the Supplemental Bond Indenture; the Assignment Agreement; the Bond Purchase Agreement; the Escrow Agreement, and the Continuing Disclosure Certificate; and
3. Authorize the City Attorney to retain and enter into an agreement with Bond and Disclosure Counsel, Orrick, Herrington & Sutcliffe LLP for the 2016 Water Revenue Bonds in an amount not to exceed \$70,000, plus out-of-pocket expenses not to exceed \$3,000; and
4. Authorize the Chief Financial Officer to establish one or more special interest bearing account(s) for the proceeds of the 2016 Water Revenue Bonds.

STAFF RECOMMENDATION:

Approve the requested actions.

ITEM BACKGROUND:

From time to time, bonds have been issued and state loans have been obtained to finance portions of the Water System's Capital Improvement Program. As of January 31, 2016, the Water Utility has the following outstanding bonds and Drinking Water State Revolving Fund ("SRF") Loans:

• Water Revenue Refunding Bonds, Series 2009A	\$148.1 million
• Water Revenue Bonds, Series 2009B	\$293.9 million
• Water Revenue Refunding Bonds, Series 2010A	\$123.1 million
• Subordinated Water Revenue Bonds, Refunding Series 2012A	\$136.0 million
• Drinking Water SRF Loans	\$64.9 million

Given the current low interest rate environment coupled with potential further interest rate increases later in 2016 and beyond, the City will be best positioned to attain economic savings by refunding/refinancing outstanding bond and loan obligations of the Water System. Currently, the outstanding Series 2009A, 2009B, and 2010A Bonds are economic to refund on an advance refunding¹ basis pursuant to the City's Debt Policy requirements of aggregate net present value ("NPV") savings of at least 4% and aggregate NPV savings compared to the outstanding debt service. The 2012A Subordinated Bonds do not meet the savings requirements at this time based on current interest rate levels. All annual debt service savings produced by the refundings would benefit the Water System.

The Water System has \$64.9 million principal outstanding in SRF loans provided to the City by the State Water Resources Control Board ("SWRCB"), which include five Senior SRF loans and one Subordinate SRF loan. Pursuant to the City's Debt Policy, the City will consider conducting a current refunding if NPV savings of at least 3% can be achieved. At current interest rates, all or portions of four SRF loans are eligible for a current refunding. Proceeds from the refunding bonds will be used to immediately repay a portion of the SRF loans to the SWRCB. Annual debt service savings produced by the repayment of SRF loans would benefit the Water System.

Additionally, the Public Utilities Department estimates that it will require approximately \$80 million to fund ongoing Capital Improvement Program ("CIP") projects such as water pipeline projects, pipeline transmission projects, water pump station projects, water storage projects, water treatment plants groundwater projects, recycled water projects, and other projects through December 2016.

While the Ordinance authorizes the issuance of Water Revenue Bonds through June 30, 2018, the City expects to conduct a bond offering in calendar year 2016 ("2016 Water Revenue Bonds"). The 2016 Water Revenue Bonds will include a new money series and a refunding series. The goal of the issuance is to conduct a common issuance for the benefit of the Water System to deliver bond funds for the Water System's CIP funding needs as well economic refund outstanding bonds to lower debt service through lower and more favorable interest rates. The planned refunding in 2016 is estimated to produce average annual savings of \$4.1 million over the remaining life of the bonds/loans and an estimated cumulative savings of \$98.1 million (estimated based on current market conditions, subject to change).

¹ An advance refunding, which may only be conducted once for each bond issue under IRS guidelines, is utilized when refunding bonds are issued more than 90 days prior to the date the bonds can be called. In this case, proceeds from the refunding bonds are placed in an escrow fund in an amount sufficient, along with interest earnings, to pay scheduled debt service payments on the refunded bonds until the bonds are eligible to be called, and to redeem all remaining bonds on the call date.

DISCUSSION:

A. Plan of Finance

Issuer: Public Facilities Financing Authority of the City of San Diego.

Not to Exceed Amounts in the Ordinance: \$835 million aggregate principal to finance \$80 million in capital improvements to the Water System, refund all or a portion of the outstanding Public Facilities Financing Authority of the City of San Diego Water Revenue Bonds, and/or all or a portion of certain outstanding SRF loans; with the flexibility to sell the Water Revenue Bonds in one or more series through June 30, 2018.

2016 Water Revenue Bonds: The 2016 Water Revenue Bonds will include a new money component and refunding components.

1. *New Money Component:* \$80 million is needed to fund a portion of the Water System's CIP program. The financing proceeds will be utilized for the following CIP needs by asset category:

- \$45.8 million for pipeline projects
- \$24.6 million for pipeline transmission projects
- \$3.1 million for pump station projects
- \$2.6 million for storage projects
- \$1.8 million for other projects *
- \$1.3 million for water treatment plant projects
- \$0.8 million for recycled water projects

* "other projects" consist of security upgrades, facility improvements, and solar projects, among others

Based on year-to-date expenditure trends and projections, approximately \$42 million is expected to reimburse eligible CIP expenditures advanced by the Water System from August 2015 until bond proceeds are received at closing. The remaining approximate \$38 million in bond proceeds is expected to meet projected CIP spending needs from closing through December 2016 for the project categories described above. Actual reimbursement levels, spending needs for projects through December 2016, and dollars by asset type may change dependent upon project bidding, execution, and contract encumbrance needs.

At the January 24, 2016 Budget and Government Efficiency Committee, Chair Gloria requested that information be provided by Public Utilities Department on how this \$80 million in new money financing would be spent on projects, whether any of the projects included would advance the City's Climate Action Plan, and if any Pure Water projects would be included in this financing. The following is the information addressing this request: The \$80 million will be utilized to forward portions of the City of San Diego Climate Action Plan adopted in December 2015. Specifically, the projects that are forecasted to be executed with this financing advance the Climate Action Plan through protection of public health and quality of life from continued water quality due to replacement and maintenance of critical water infrastructure. Additionally, a portion of "other projects" are to be utilized for solar projects at the Public Utilities Department's Metropolitan Operations Complex and Bayview Reservoir for an

estimated 1,000 kilowatts of power generation. This financing is not expected to fund Pure Water Program expenditures in Fiscal Years 2016 and 2017, as the Public Utilities Department and Debt Management are exploring SRF loans, grants, and other financing mechanisms in the near future in addition to pay-go cash funding. Additionally, the initial phases of the Pure Water Program are expected to be partially funded by the Wastewater System through grants, SRF loans, bonds and pay-go funds.

2. **Refunding Components:** The current market allows for an advance refunding of all of the outstanding Series 2009A, 2009B, and the 2010A Bonds (“Refunding Bonds”) totaling \$565.1 million in outstanding principal.

A current refunding will be utilized to refinance four outstanding SRF loans for which construction of those projects are completed. This includes the Earl Thomas Reservoir Loan (\$11.6 million principal outstanding), the Alvarado Water Treatment Plant Loan (\$9.8 million principal outstanding), the Otay Water Treatment Plant Phase 1 Loan (\$15.1 million principal outstanding), and the Miramar Water Treatment Plant Loan (\$16.3 million principal outstanding). Refunding select loan payments that produce positive savings on a maturity-by-maturity basis results in savings per loan in excess of the 3% NPV requirement.

Debt Service Reserve Funds: The outstanding Water Revenue Bonds have a fully cash funded Debt Service Reserve Funds securing the Bonds. These funds were funded with bond proceeds. Currently, the common Senior Bond Debt Service Reserve Fund holds approximately \$48.7 million.

The market is currently accepting issuance of highly rated revenue bonds, such as the Water Revenue Bonds, without debt service reserves. However, since the 2009 Master Indenture controlling the 2009A, 2009B, and 2010A Bonds, and any additional parity bonds, requires a fully funded Debt Service Reserve Fund, certain amendments are required to facilitate the issuance of additional bonds without a debt service reserve fund. This structuring potential would allow the release of cash reserves within the common Senior Debt Service Reserve Fund for the benefit of the Water System. Such amendments are proposed to be implemented with the execution of the Supplemental Indenture in conjunction with the 2016 Water Revenue Bonds (see section Financing & Legal Documents – Form of the Supplemental Bond Indenture below for discussion). Recently, similar amendments were successfully implemented for Sewer System bonds which enabled utilization of reserve funds to pay down outstanding debt.

It is currently expected the amendments in the Supplemental Indenture take effect upon closing of the 2016 Water Revenue Bonds, and the cash reserves within the common Senior Bonds Reserve Fund for associated with the 2009A, 2009B, and 2010A Bonds will be released and can be used to either reduce the Water System’s new money CIP borrowing needs and/or to partially fund the escrow to pay the principal and interest on the refunded bonds. The permitted applications will be examined and finalized under advice of the tax counsel for the bonds.

Structure: Water System supported Water Revenue Bonds. To be issued under the 2009 Master Indenture and the 2009 Amended and Restated Master Installment Purchase Agreement. Water System revenue is the repayment pledge with rate covenant protection for bondholders.

Method of Sale: Public Offering; Negotiated Sale.

Tax Status: The 2016 Water Revenue Bonds issued as a tax-exempt issuance. Interest on the 2016 Water Revenue Bonds will not be included in gross income for federal income tax purpose and will be exempt from present State of California personal income taxes.

Repayment Source: Payable from Water System Revenues. Under the terms of the financing documents, the 2016 Water Revenue Bonds are limited obligations of the Authority payable solely from the Installment Payments made by the Water System. The Installment Payments are secured by and payable solely from the Net System Revenues of the Water System. Net System Revenue is the income derived from the operation of the Water System (primarily water rates and charges) less the maintenance and operation costs. Such Installment Payments with respect to the 2016 Water Revenue Bonds may be made on parity with the payments securing the 2009A, 2009B, and 2010A Bonds, or on a subordinated basis, as is the case with the 2012A Subordinated Bonds. Such determination will be made by the Chief Financial Officer with the advice of the Municipal Advisor at the time of the bond sale.

Final Maturity: New Money Series – August 1, 2045 for a 30-year term; Refunding Series will match the final maturity of the existing outstanding bonds proposed to be refunded.

Lien Status: The legal documents and Financing Ordinance provide flexibility to determine the lien status – senior bonds or subordinate bonds – at the time of bond pricing based on market preferences and interest rate levels. The outstanding 2009A, 2009B, and 2010A Bonds, and five SRF Loans are currently on a senior lien basis. The City is contemplating utilizing the subordinate lien for 2016 Water Revenue Bonds issuance. The bond documents require a minimum coverage ratio of 120% of available annual revenues to annual debt service for senior bonds, and at least 100% of available annual revenues to aggregate annual debt service. By issuing on a subordinate lien, the Water Utility’s current debt coverage burden can be reduced. Based on current market conditions, it is expected that there will be minimal impact in interest costs between issuing on senior or subordinate basis.

B. City Council Authorization

The City Council is requested to (i) authorize the issuance of the Water Revenue Bonds, in one or more series; (ii) approve the financing legal documents; (iii) authorize the City Attorney to appoint the Bond and Disclosure Counsel; and (iv) authorize the Chief Financial Officer to establish one or more special interest-bearing accounts for the bond proceeds contingent upon approval of the bond documents and contingent upon the issuance of the bonds. Certain of the financing legal documents, including the forms of the Supplemental Indenture, the Supplement to the Master Installment Purchase Agreement, the Escrow Agreement, Assignment Agreement, and the Continuing Disclosure Certificate would be approved via ordinance, and the form of Bond Purchase Agreement via resolution.

Staff will be docketing the Preliminary Official Statement (“POS”) for the 2016 Water Revenue Bonds separately to be authorized via resolution in March 2016, closer to the distribution of the POS to potential investors.

C. Financing Schedule and Key Milestones

Following are the critical milestones related to the execution of the 2016 Water Revenue Bonds, including the authorization of the financing ordinance and the POS.

March/April 2016	Introduction & approval (two readings) of the financing ordinance authorizing the issuance of Water Revenue Bonds, and the financing documents. Authority approval of the Water Revenue Bonds.
April 2016	City Council & Authority approval of the disclosure document (POS) for 2016 Water Revenue Bonds. Print and distribute the POS.
Week of May 2, 2016	Bond Sale.
4-5 weeks after pricing	Bond Closing, Escrow Fund established & Refunded portions of the 2009A, 2009B, and 2010A Bonds are legally defeased, and repayment on refunded SRF loans is made to the SWRCB.
August 1, 2018	Refunded portion of the 2009A Bonds are called by the Escrow Agent using proceeds from the Escrow Fund.
August 1, 2019	Refunded portion of the 2009B Bonds are called by the Escrow Agent using proceeds from the Escrow Fund.
August 1, 2020	Refunded portion of the 2010A Bonds are called by the Escrow Agent using proceeds from the Escrow Fund.

D. Financing Team

The City's Financing Team for the 2016 Water Revenue Bonds consists of staff of the Department of Finance, including the Chief Financial Officer and staff of the Debt Management Department, the Comptroller's Office, the Treasurer's Office, and the Financial Management Department. The Financing Team also includes staff of the City Attorney's Office and Public Utilities Department. External members include: Public Financial Management as the Municipal Advisor; Orrick, Herrington & Sutcliffe LLP, as Bond and Disclosure Counsel; and U.S. Bank as Trustee and Escrow Agent.

Municipal Advisor: Public Financial Management, Inc. was selected to provide municipal advisory services for this transaction through a competitive RFP process utilizing the City's As-Needed Financial Advisors Pool based on the firm's experience in water revenue bond financings, and the fee proposal. The fee is a not to exceed \$50,000 plus out of pocket expenses not to exceed \$1,000 to be paid out of bond proceeds.

Bond and Disclosure Counsel: The City Attorney's Office has identified, via a RFP process, Orrick, Herrington & Sutcliffe LLP to serve as Bond and Disclosure Counsel for the 2016 Water Revenue Bonds for an amount not to exceed \$70,000 for services, plus out-of-pocket expenses not to exceed \$3,000. The fees payable to Bond and Disclosure Counsel are to be paid out of bond proceeds.

Trustee/Escrow Agent: U.S. Bank will serve as the Trustee and Escrow Agent for the 2016 Water Revenue Bonds (and will also serve as the Trustee for the existing unrefunded bonds). Compensation for the Trustee and its counsel is estimated to be \$7,500 for the 2016 Water

Revenue Bond transaction, with an estimated ongoing annual fee of \$2,000. Compensation for the Escrow Agent is \$500 annually until the escrow funds are applied to redeem the refunded bonds.

Underwriting Syndicate: J.P. Morgan was selected to serve as Senior Manager and Morgan Stanley as Co-Senior for the 2016 Water Revenue Bonds. In addition, the underwriting syndicate includes 3 Co-Managers: Ramirez & Co., Siebert Brandford Shank, and The Williams Capital Group. They were selected through a competitive process utilizing the City's established pool of Underwriters. The solicitation was issued on November 18, 2015; in total, 22 underwriting proposals were received of which 13 firms proposed to serve as a Senior Manager or Co-Manager and 9 firms proposed solely as a Co-Manager.

The syndicate members were identified based on the investment banking experience of the firms on California Water transactions, familiarity with the City's water revenue bonds, capacity to underwrite the transaction, and bond marketing outreach capabilities.

E. Financing & Legal Documents

The financing Ordinance approves and authorizes the execution of the following financing documents:

1. Form of the Supplemental Bond Indenture ("Indenture") – The Indenture is an agreement between the Authority and the Trustee for the bonds. The Indenture provides for the issuance of the bonds, and includes information regarding the amount of the bonds, the maturities and interest rates on the bonds, the use of bond proceeds, and the nature of the security for the bonds (i.e., that the bonds are limited obligations of the Authority payable from installment payments). The Indenture also sets forth terms, including the specific rights, responsibilities, and obligations of each party with respect to the issuance of the bonds.

As described above under Plan of Finance – Debt Service Reserve Fund, Section 5(A-C) of the Supplemental Indenture set forth certain new definitions and amendments to the 2009 Master Indenture, including, among other amendments, providing flexibility in sizing the Debt Service Reserve Fund for future bonds issuances. These amendments allow the reserve requirement to be sized at any level – from Maximum Annual Debt Service to no reserve requirement for all new bonds. In order for these amendments to take effect, there needs to be 51% bondholder consent. With the issuance of the 2016 Water Revenue Bonds, the bondholder consent requirement is expected to be met. The bonds will be restructured without reserve funds and potential investors will be appropriately notified in the disclosure document that the bonds that they will purchase will not have a reserve fund. Any remaining unrefunded outstanding 2009A, 2009B and 2010A Bonds will continue to have a reserve fund.

2. Form of the Supplement to the Master Installment Purchase Agreement ("MIPA") – The MIPA is an agreement between the City and the Authority, pursuant to which the Authority has agreed to provide the Project to the City and the City has agreed from time to time to purchase Components of the Project through Installment Payments.
3. Form of the Continuing Disclosure Certificate ("CDC") – The CDC details the City's ongoing obligation to file annual reports and notices of certain enumerated events with the

Municipal Securities Rulemaking Board (“MSRB”) through its Electronic Municipal Market Access system for the benefit of the bondholders.

4. Form of the Escrow Agreement – The Escrow Agreement among the City, the Authority and the Trustee provides for the deposit of moneys in the escrow account to refund part of the outstanding principal of the 2009A, 2009B, and 2010A Bonds since the 2016 Water Revenue Bonds will be issued prior to the first eligible redemption date of the 2009A, 2009B, and 2010A Bonds. The agreement sets forth the manner in which funds are to be invested pending their expenditure and a schedule of debt service payments to be made with respect to the bonds being refunded.
5. Form of the Assignment Agreement – The Assignment Agreement between the Authority and the San Diego Facilities Equipment Leasing Corporation (“Corporation”) assigns to the Authority the Corporation’s right to receive installment payments made by the City, and allows for the Authority to make debt service payments on behalf of the City on the proposed Water Revenue Bonds.

The execution of the following financing document is authorized by the Resolution:

6. Form of the Bond Purchase Agreement (“BPA”) – The BPA is an agreement among the City, the Authority, and the Underwriters for the transaction pursuant to which the Authority agrees to sell, and the Underwriters agree to buy, the bonds. It specifies the purchase price of the bonds, and certain terms of the bonds, such as interest rates and maturities. The agreement also specifies documents that the parties must receive prior to bond closing, including the Bond Counsel opinion regarding the validity and tax exempt nature of the bonds as well as certain opinions and certificates of the City Attorney and other City and Authority officials. Such opinions and certificates would confirm, among other things, that all steps necessary to authorize the execution of the financing documents and the issuance of the bonds have been properly taken.

CITY STRATEGIC PLAN GOAL(S)/OBJECTIVE(S):

Goal #1: Provide high quality public service

Objective #1: Promote a customer-focused culture that prizes accessible, consistent, and predictable delivery of services

FISCAL CONSIDERATIONS:

Bond Proceeds, Interest Rate, Projected Debt Service and Savings

The Estimated Sources and Uses are based on interest rates as of February 15, 2016. The 2016 Water Revenue Bonds will have two series: Series 2016A for new money, and Series 2016B for all refunding components. The total proceeds from the 2016 Water Revenue Bonds are expected to be approximately \$768.4 million which, together with the monies released from the 2009A, 2009B and 2010A Bonds’ Debt Service Reserve Fund and the Earl Thomas Reservoir SRF Loan’s reserve fund, will be used for: the refunding escrow, the payment to the SWRCB for principal and interest of refunded portions of four SRF Loans, new money CIP bond financing, and financing costs of issuance.

The estimated \$645.5 million deposit in the Escrow Fund, along with earnings on the escrow funds will be utilized by the Escrow Agent to pay the interest due on the refunded bonds until the call dates, and to call the refunded bonds on the respective call dates. The estimated \$42.1 million payment to the SWRCB will be made after closing.

The 2012A Subordinated Bonds and certain SRF loan payments do not meet the savings requirements based on current interest rates; they are not included at this time.

Estimated Sources and Uses of Funds *

	Series 2016A (New money)	Series 2016B (Refunding)	Total
<u>Estimated Sources</u>			
Bond Proceeds	\$ 42,050,179	\$ 676,506,788	\$ 718,556,967
Release of DSRF to Construction Fund ⁽¹⁾	38,000,000	--	38,000,000
Release of DSRF to Escrow Fund	--	11,809,861	11,809,861
Total Sources of Funds	\$ 80,050,179	\$ 688,316,650	\$ 768,366,828
<u>Estimated Uses</u>			
Refunding Escrow Fund Deposit ⁽²⁾	--	\$ 645,450,548	\$ 645,450,548
Payment to SWRCB for SRF Loans	--	42,066,196	42,066,196
Deposit to Construction Fund	\$ 80,000,000	--	80,000,000
Costs of Issuance ⁽³⁾	50,179	799,905	850,084
Total Uses of Funds	\$ 80,050,179	\$ 688,316,650	\$ 768,366,828

*Preliminary; subject to change. Based on interest rates as of February 15, 2016. Assumes June 9, 2016 delivery date and subordinate bonds.

- (1) DSRF is Debt Service Reserve Funds. Includes full reserves from the 2009A, 2009B, and 2010A DSRF (assumes that all outstanding bonds are refunded), and the Earl Thomas Reservoir SRF Loan DSRF, for a total combined DSRF release of \$49.8 million, which will be available for use towards the Refunding Escrow and Construction Fund. The amount of refunding, amount released of DSRF, and the effect on the sizing of the new money component are subject to market conditions. Amounts will vary.
- (2) Includes debt service on the refunded portion of the Series 2009A, Series 2009B and Series 2010A Bonds to their respective call dates (August 1, 2018, August 1, 2019, August 1, 2020) and redemption of remaining principal on the call date, net of escrow earnings.
- (3) Costs of Issuance includes underwriter's discount, bond and disclosure counsel fees, municipal advisory fees, trustee and escrow fees, verification agent fees, rating agency fees, Preliminary Official Statement and Official Statement electronic printing/posting costs.

Under current market conditions as of February 15, 2016, the estimated All-in True Interest Cost ("All-in TIC") for the 2016 Water Revenue Bonds (New Money Series and Refunding Series combined) is approximately 2.75%. The actual cost of borrowing will depend on market conditions at the time the 2016 Water Revenue Bonds are sold.

New Money Component – Series 2016A

The 2016A Bonds will provide \$80 million in construction fund proceeds for Water System CIP expenditures. A portion of released DSRF, approximately \$38 million, is expected to be applied towards the new money future project costs thereby reducing the amount of long-term borrowing needed and debt service costs. The All-in TIC is approximately 3.5%. The average

annual debt service is estimated to be \$2.3 million for Fiscal Years 2017-2046 (estimated based on current market conditions, subject to change).

The maximum effective interest rate established under the Financing Ordinance for the new money component providing net bond proceeds is 6.00%. Under the current market conditions, it is not expected that the actual pricing for the 2016A Bonds will result in an effective interest rate of 6.00%; should that occur, the average annual debt service would be approximately \$3.0 million.

Refunding Components – Series 2016B

Based on current market conditions, approximately \$565 million in outstanding 2009A, 2009B, and 2010A Bonds are expected to be refunded; and approximately \$41.6 million in outstanding principal payments for SRF loans are expected to be refunded. The refunding is estimated to produce average annual savings of \$4.1 million over the remaining life of the bonds/loans and an estimated cumulative savings of \$98.1 million (estimated based on current market conditions, subject to change).

A. Refunding the 2009A, 2009B, and 2010A Bonds

This advance refunding could provide a cumulative debt service savings to the Water System of approximately \$94.4 million, for an average annual savings of approximately \$3.9 million over the remaining life of the bonds, Fiscal Years 2017-2040. The NPV savings is estimated at 11.6%. With the refunding, the new total debt service of the 2016B Bonds is \$813.9 million compared to \$908.4 million of the refunded bonds.

B. Refunding the SRF Loans

The current refunding of the four SRF loans could provide cumulative loan repayment savings of approximately \$3.7 million, for an average annual savings of approximately \$285,000 in Fiscal Years 2017-2029. The NPV savings is estimated at 4.6%.

EQUAL OPPORTUNITY CONTRACTING INFORMATION (if applicable):

Contract or agreements associated with this action are subject to the City's Equal Employment Outreach Program (San Diego Ordinance No. 18173, Section 22.2701 through 22.2708) and the City's Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517).

PREVIOUS COUNCIL and/or COMMITTEE ACTIONS:

On January 27, 2016, Debt Management presented the 2016 Water Revenue Bonds (Capital Improvement Projects & Advance Refunding Opportunity) item to the Budget and Government Efficiency Committee. The Budget and Government Efficiency Committee forwarded the item to the City Council for approval.

On November 17, 2015, the City Council held a Public Hearing on Water Rates in accordance with Proposition 218. The Public Utilities Department conducted a Proposition 218 noticing process as part of the approval for the rate increases necessary to support the CIP and corresponding bond issuance projections for the Water System.

COMMUNITY PARTICIPATION AND OUTREACH EFFORTS:

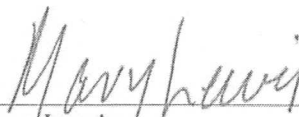
The Public Utilities Department conducts community outreach on a project basis.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Business entities included in the financing: Orrick, Herrington & Sutcliffe LLP (Bond and Disclosure Counsel); U.S. Bank (Trustee/Escrow Agent); Public Financial Management, Inc. (Municipal Advisor); JP Morgan Chase & Co., Morgan Stanley & Co. LLC, Ramirez & Co., Inc., Siebert Brandford Shank & Co., L.L.C., and The Williams Capital Group, L.P. (Underwriters).



Lakshmi Kommi
Debt Management Director



Mary Lewis
Chief Financial Officer