

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

2554 SWEETWATER SPRINGS BOULEVARD
SPRING VALLEY, CALIFORNIA
BOARDROOM
WEDNESDAY
September 20, 2006
4:00 P.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. APPROVE A CONTRACT WITH HARRELL & COMPANY ADVISORS, LLC TO SERVE AS THE FINANCIAL ADVISOR FOR A DEBT ISSUANCE OF APPROXIMATELY \$30 MILLION IN CERTIFICATES OF PARTICIPATION IN SPRING 2007 (BEACHEM) [10 minutes]
4. FISCAL YEAR-END 2006 STRATEGIC PLAN UPDATE STATUS REPORT (STEVENS) [15 minutes]
5. ADJOURNMENT

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.

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 September 18, 2006 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 September 18, 2006.



Susan Cruz, District Secretary



AGENDA ITEM 3

STAFF REPORT

| | | | |
|-----------------------------|---|---------------|-----------------|
| TYPE MEETING: | Regular Board Meeting | MEETING DATE: | October 4, 2006 |
| SUBMITTED BY: | James D. Cudlip, Finance Manager | W.O./G.F. NO: | DIV. NO. All |
| APPROVED BY: (Chief) |  Joseph R. Beachem, Chief Financial Officer | | |
| APPROVED BY: (Asst. GM): |  German Alvarez, Assistant General Manager | | |
| SUBJECT: | Approve a Contract with Harrell and Company Advisors, LLC to Assist with Debt Issuance | | |

GENERAL MANAGER'S RECOMMENDATION:

That the Board authorizes the General Manager to execute a contract with Harrell & Company Advisors, LLC to serve as the Financial Advisor for a debt issuance of approximately \$30 million in Certificates of Participation (COPS) in spring 2007.

COMMITTEE ACTION: _____

See Attachment A.

PURPOSE:

To authorize the General Manager to execute a contract with Harrell & Company Advisors, LLC to serve as the Financial Advisor for a debt issuance of approximately \$30 million in Certificates of Participation in spring 2007.

BACKGROUND:

As a part of the FY 2007 budget process, staff completed an update of the District's long-range Rate Model and six-year Capital Improvement Program(CIP), which was reviewed and approved by the Board on May 30, 2006. While the Rate Model shows that two-thirds of the planned CIP is supported by reserves and developer fees, the remaining funding is planned to come from three separate debt issuances in 2007, 2009, and 2011. The first debt issue is currently planned to be a fixed rate Certificates of Participation (COPS) with an aggregate amount of between \$28.5 - \$30 million. The exact amount of the issuance will be determined as the issue date gets closer. The amount will be based on the progress of, and expenditures on, the District's CIP projects. The hiring of a Financial Advisor will

facilitate this process by providing the technical industry expertise necessary to assist in requesting an upgrade of the District's overall bond rating and completing all report filings in accordance with California State and US Securities and Exchange Commission regulations.

The role of a Financial Advisor in support of a debt issuance is to assist the District's financial management staff in planning and completing the following actions:

- Develop a financing plan and schedule.
- Assist in the selection and formation of a financing team, including bond counsel, disclosure counsel, bond insurance company, underwriter, trustee, and other professionals as necessary.
- Prepare and coordinate the preparation of the Official Statement and disclosure documents.
- Prepare credit profiles and presentations, with staff participation, to bond insurance companies and/or rating agencies.
- Assist in negotiations with bond insurers and/or letter of credit providers.
- Manage a competitive or negotiated sale process.

ANALYSIS:

Staff has solicited pricing for the services of a Financial Advisor. Requests for Proposal (RFP) were sent to eleven Financial Advisors who expressed interest in working with the District. The requests were mailed on August 10, 2006, with a due date of September 1, 2006. Five proposals were received and evaluated based on the criteria published in the request.

| | |
|-------------------------------------|------------|
| 1. Estrada Hinojosa & Company, Inc. | \$71,000 |
| 2. Fieldman, Rolapp & Associates | \$61,000 |
| 3. Harrell & Company Advisors, LLC | \$66,500 |
| 4. Kelling, Northcross & Nobriga | \$70,000 |
| 5. Springsted Incorporated | \$22,500 * |

- * Staff determined that the RFP response was incomplete compared to the other proposals received.

Staff believes that Harrell & Company Advisors is the best choice and the most qualified respondent based on the following additional factors: 1) overall knowledge and experience;

2) response to the requested services; 3) detailed familiarity and prior consulting contract work experience with the District; 4) recent similar Financial Advisor work with the City of Chula Vista; and 5) highly favorable responses to reference checks.

In 2004, the District contracted Harrell & Company to assist in preparing a Financing Plan and to act as Financial Advisor for the successful refinancing of the District's 1993 COPS. The Financing Plan focused on the District's debt financings, both existing and future. In order to evaluate the future financing needs of the District, numerous factors were considered which included: reserve levels, operating income, grants, bond covenants, credit ratings, and the CIP Budget. This information was used to develop a model identifying the debt requirements for the next five years. Additionally, Harrell & Company has had recent similar experience in securing utility financing for Valley Sanitary District, Indio, CA; City of Signal Hill, CA; City of Lakewood, CA; and the City of Chula Vista, CA.

Staff has negotiated a not-to-exceed price with Harrell & Company and recommends that the Board supports staff's recommendation to contract with Harrell & Company for a price not to exceed \$66,500, and authorize the General Manager to enter into the necessary agreements.

FISCAL IMPACT: 

The debt issuance will generate approximately \$30 million in funds necessary to continue progress for the next two years on the District's Capital Improvement Program (CIP). The not-to-exceed cost of this advisor (\$66,500) is less than 1% of the total expected bond proceeds.

STRATEGIC GOAL:

To raise funds necessary to complete the District's projected CIP projects over the next two years.

LEGAL IMPACT: _____

None.


General Manager

Attachment:

A: Committee Action Form



ATTACHMENT A

| | |
|-------------------------|--|
| SUBJECT/PROJECT: | Approve a Contract with Harrell & Company Advisors, LLC to Assist with Debt Issuance |
|-------------------------|--|

COMMITTEE ACTION:

The Finance and Administration Committee approved staff's recommendation to the Board to authorize the General Manager to execute a contract with Harrell & Company Advisors, LLC to serve as the Financial Advisor for a debt issuance of approximately \$30 million in Certificates of Participation (COPS) in spring 2007.

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.

ITEM 4

There is no staff report for Item 4.
A verbal update will be provided for this item.