

SAN ELIJO JOINT POWERS AUTHORITY
MINUTES OF THE BOARD MEETING
HELD ON JULY 11, 2011
AT THE
SAN ELIJO WATER RECLAMATION FACILITY

Thomas M. Campbell, Chair

Teresa Barth, Vice Chair

A Meeting of the Board of Directors of the San Elijo Joint Powers Authority (SEJPA) was held Monday, July 11, 2011, at 9:00 a.m., at the San Elijo Water Reclamation Facility at 2695 Manchester Avenue, Cardiff by the Sea, California.

1. CALL TO ORDER

Chair Campbell called the meeting to order at 9:00 a.m.

2. ROLL CALL

Directors Present:

Teresa Barth
Thomas M. Campbell
Maggie Houlihan
Dave W. Roberts

Others Present:

General Manager
Director of Finance/Administration
Director of Operations
Administrative Assistant
Accounting Technician

Michael Thornton
Greg Lewis
Christopher Trees
Monica Blake
Carrie Cook

SEJPA Counsel:

Procopio, Cory, Hargreaves & Savitch

Aiko Osugi

City of Encinitas,

Director of Public Works

Larry Watt

City of Encinitas,

Public Works Management Analyst

Bill Wilson

City of Solana Beach,

City Manager

David Ott

City of Solana Beach,

Director of Engineering/Public Works

Mohammad "Mo" Sammak

Brandis Tallman, LLC

Richard Brandis
Nicki Tallman

3. PLEDGE OF ALLEGIANCE

Chair Campbell led the Pledge of Allegiance.

4. ORAL COMMUNICATIONS

None

5. PRESENTATION OF AWARDS

None

6. CONSENT CALENDAR

Moved by Board Member Houlihan and seconded by Board Member Roberts to approve the Consent Calendar with unanimous vote of approval.

Consent Calendar:

Agenda Item No. 7	Approval of Minutes for the June 13, 2011 meeting
Agenda Item No. 8	Approval for Payment of Warrants and Monthly Investment Report
Agenda Item No. 9	San Elijo Water Reclamation Facility Treated Effluent Flows – Monthly Report
Agenda Item No. 10	San Elijo Joint Powers Authority Recycled Water Program – Monthly Report

11. ITEMS REMOVED FROM CONSENT CALENDAR

None

12. UPDATE TO THE FINANCING AND CONSTRUCTION OF THE ADVANCED WATER (DEMINERALIZATION) TREATMENT SYSTEM AT THE SAN ELIJO WATER RECLAMATION FACILITY

General Manager Michael Thornton provided a detailed update on the financing and construction delivery method of the proposed Advanced Water Treatment Project. Based on current financial projections, it appears that the Recycled Water Program can sustain new capital debt as proposed. However, the General Manager noted that there is the potential for the program's cash flow to go negative during the three to four years after construction. The reason is that recycled water sales over the last two years have dipped and if this trend holds revenues could be below expenses in the near-term. Based on financial modeling, this short fall in revenues could be on the order of \$120,000. The General Manager stated that if this were to occur, the SEJPA would use unrestricted reserve funds to gap the difference. On the other hand, if water sales return to the level of 2009, before mandatory watering conservation, financial modeling indicates water sale revenues will be sufficient and cash flow would remain positive. The General Manager reviewed several financial graphs for the recycled water program that highlighted the historical financial performance of the program and projections of expected future performance.

Under the current planned financing structure for the project, recycled water reserves will fund \$2 million of the estimated \$4.7 million construction cost. The remaining \$2.7 million is planned to be funded through grant funds (approximately \$700,000) and a construction loan (approximately \$2 million). This proposed financing plan keeps approximately \$1.2 million in recycled water reserves to fund unforeseen events, revenue shortfalls, or emergency repair projects.

The General Manager stated there are both benefits and risks associated with constructing this project now. Benefits include a favorable market for construction, favorable interest rates for financing, the award of \$700,000 in grant funding, avoiding regulatory action against the program, and maintaining customer satisfaction with water quality. Factors that weigh against starting construction now include acquiring additional debt during a period of reduced water sales. The cost of this new debt payment has the real potential to cause revenues to fall short of expenditures in the near term, forcing the program to use some reserves to balance the program budget. This risk could be mitigated by waiting until the program built enough reserves to pay cash. However, delaying this project several years or more could increase risk and cost to the SEJPA due to the possibility of escalating construction and financing costs, regulatory action against the program, and the expiration of grant funding.

The General Manager reported that last month SEJPA staff was given direction to pursue negotiations with W.M. Lyles, LLC on a lease-purchase agreement for the construction and financing of the treatment project. The lease-purchase agreement would deliver the project in a manner similar to design-build. The negotiated construction cost would be reached through an open-book bid approach, which allows the SEJPA to review and agree on the cost of each element and category of the project, resulting in a final agreed project price, referred to as a guaranteed maximum price. Discussion with W.M. Lyles on the development of the guaranteed maximum price has proceeded well. However, the financier that W.M. Lyles had partnered with could not provide financing to the SEJPA under the existing conditions. As a result, the SEJPA has engaged Brandis Tallman, LLC, which had previously been identified as a preferred alternative to W.M. Lyles financing.

The General Manager introduced Richard Brandis, of Brandis Tallman, LLC, a municipal bond underwriting firm. Mr. Brandis stated that his firm could produce financing for this project. He stated that the Member Agency's sanitation district funds may need to be pledged as secondary revenue to secure the lowest possible interest rate. Mr. Brandis stated that he would work with SEJPA staff to develop a loan document to be returned to the SEJPA Board for consideration.

All Board Members thanked the General Manager and Mr. Brandis for the presentation. The Board Members agreed unanimously to allow Brandis Tallman, LLC to develop a loan proposal for this project, without the suggested resolution to initiate the underwriting.

Moved by Board Member Houlihan and seconded by Vice Chair Barth to:

1. Direct the General Manager to move forward with preparing a financing package to be presented to the Board of Directors at September 12, 2011 Board meeting.

Motion carried with unanimous vote of approval.

15. GENERAL MANAGER'S REPORT

General Manager Michael Thornton noted that the California Association of Sanitation Agencies (CASA) was holding their summer conference in San Diego. The conference brochure was distributed to the Board and the General Manager stated that if Board Members were interested in attending, to please contact him for arrangements.

The General Manager informed the Board of Directors that staff is evaluating the opportunity to refund the SEJPA's 2003 Wastewater Bond. The bond has approximately eight years of remaining debt and there is an opportunity to call the bond in early 2012. Based on current market conditions, the projected overall savings are approximately \$500,000. More information will be provided at the September Board meeting.

16. GENERAL COUNSEL'S REPORT

None

17. BOARD MEMBER COMMENTS

None

18. CLOSED SESSION

The Board of Directors went into closed session at 9:53 a.m. pursuant to Government Code Section 54957 with respect to Public Employee Performance Evaluation for the General Manager.

The Board of Directors came out of closed session at 9:58 a.m. with no reportable action.

19. ADJOURNMENT

The Board of Directors adjourned at 9:58 a.m. The next Board of Directors meeting will be held on September 12, 2011.

Respectfully submitted,



Michael T. Thornton, P.E.
General Manager