

**AGENDA
CORCORAN CITY COUNCIL
SPECIAL MEETING
CITY COUNCIL CHAMBERS
1015 CHITTENDEN AVENUE
March 15, 2016, 12:45 P.M.**

1. ROLL CALL

2. PUBLIC DISCUSSION

Members of the audience may address the Council on non-agenda items; however, in accordance with government code section 54954.2, the Council may not (except in very specific instances) take action on an item not appearing on the posted agenda.

This is the time for members of the public to comment on any matter within the jurisdiction of the Corcoran City Council. This is also the public's opportunity to request that a Consent Calendar item be removed from that section and made a regular agenda item. The councilmembers ask that you keep your comments brief and positive. Creative criticism, presented with appropriate courtesy, is welcome.

After receiving recognition from the chair, speakers shall walk to the rostrum, state their name and address and proceed with comments. Each speaker will be limited to five (5) minutes.

3. CONSENT CALENDAR (VV)

3-A Approval of minutes of the City Council regular meeting of February 16, 2016.

4. STAFF REPORTS

4-A. Approve consultant service agreement with Interstate Gas Services (IG Services) for the water rate study and administrative overhead allocation study (*Rodriguez*) (VV)

4-B. Consider options for the refunding of the 2008 Variable Rate Demand Certificates of Participation (2008 COPs). (*Meik*)(VV)

5. CLOSED SESSION - None

6. ADJOURNMENT

I certify that I caused this agenda of the Corcoran City Council meeting to be posted at the City Council Chambers, 1015 Chittenden Avenue on March 11, 2016.



City Clerk

**MINUTES
CORCORAN CITY COUNCIL,
JOINT POWERS FINANCE AUTHORITY,
SUCCESSOR AGENCY FOR CORCORAN RDA
& HOUSING AUTHORITY
REGULAR MEETING
Monday, March 7, 2016**

The regular session of the Corcoran City Council was called to order by Mayor Robertson, in the City Council Chambers, 1015 Chittenden Avenue, Corcoran, CA at 6:00 P.M.

ROLL CALL

Councilmembers present: Mark Cartwright, Sidonio Palmerin and Jim Wadsworth
Councilmembers absent: Raymond Lerma and Jerry Robertson
Staff present: Karla Cruz, Jennie Barkinskaya, Rick Joyner, Kindon Meik, Soledad Ruiz-Nuñez, Baldomero Rodriguez, Reuben Shortnacy, and Kevin Tromborg
Press present: Jeanette Todd, "The Corcoran Journal"

INVOCATION

Invocation was presented by Meik.

FLAG SALUTE

The flag salute was led by Cartwright.

1. **PUBLIC DISCUSSION** - None

2. **CONSENT CALENDAR**

Following Council discussion a **motion** was made by Palmerin and seconded by Wadsworth to approve Consent Calendar. Motion carried by the following vote:

AYES: Cartwright, Palmerin and Wadsworth

NOES: None

ABSENT: Lerma and Robertson

2-A. Approval of minutes of the City Council regular meeting of February 16, 2016.

2-B. Authorization to read ordinances and resolutions by title only.

3. **APPROPRIATIONS**

Following Council discussion a **motion** was made by Wadsworth and seconded by Palmerin to approve the Warrant Register dated February 16, 2016. Motion carried by the following vote:

AYES: Cartwright, Palmerin and Wadsworth

NOES: None

ABSENT: Lerma and Robertson

4. **PRESENTATIONS** – None

5. **PUBLIC HEARINGS**

5-A. Public Hearing to obtain regarding Unmet Transit Needs and consider Adoption of Resolution No. 2826 regarding Unmet Transit Needs was declared open at 6:08 p.m. Rodriguez made the report. There being no written or oral testimony, the hearing was declared closed at 6:08 p.m.

8. **MATTERS FOR MAYOR AND COUNCIL**

- 8-A. Council received information items.
- 8-B. Staff received referral items.
- 8-C. Committee reports.

9. **CLOSED SESSION**

At 6:52 p.m. Council recessed to closed session pursuant to:

- 9-A. **CONFERENCE WITH REAL PROPERTY NEGOTIATOR(S)** (Government Code § 54956.8). It is the intent of this governing body to meet in closed-session to confer with its real property negotiator concerning the purchase, sale, exchange, or lease of real property by or for this local agency as follows:

Property Description (Specify street address, or if no street address, the parcel number or other unique reference): 2410 Bell Avenue

Our Negotiator: Kindon Meik Parties with whom negotiating: _____

Instructions to negotiator concerning: Price Terms of payment.

The regular meeting was reconvened at 7:48 p.m. Mayor Robertson reported direction was provided on item 9-A.

ADJOURNMENT

7:50 P.M.

Jerry Robertson, Mayor

Karla Cruz, City Clerk

APPROVED DATE: _____

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**STAFF REPORT
ITEM #: 4-A**

MEMO

TO: Corcoran City Council

FROM: Baldomero Rodriguez, Public Works Director - Interim

DATE: March 10, 2016

MEETING DATE: March 15, 2016

SUBJECT: Approve consultant service agreement with Interstate Gas Services (IGServices) for the water rate study and administrative overhead allocation study.

Recommendation: That the City Council award the Water Rate Study contract to Interstate Gas Services (IGServices) in the “not to exceed” amount of \$29,595. The contract purpose is to perform a comprehensive water rate study (\$24,778) and prepare a formal Administrative Overhead Allocation study (\$4817). Further, staff respectfully requests that the City Council authorize an 8.5% (\$2,500) contingency in the event additional reports, studies or community meetings are deemed necessary.

Discussion: The time has come for the City to review and calculate new water rates. The comprehensive water rate study will compliment and support the recent water rate increase and, performing periodic utility rate updates is good management practice. At the February 16th Council meeting, Council authorized the Public Works Director to negotiate a comprehensive water rate study contract with Carollo Engineers and, if not successful, authorized the Public Works Director to negotiate with the 2nd ranked consulting firm.

Regrettably, negotiations with Carollo Engineers was not successful. Subsequent to the Carollo meetings, staff met and negotiated with the 2nd ranked firm, IGServices. Staff is pleased to submit for Council’s consideration the award of the water rate study to IGServices of Pleasant Hill, CA. The Service Agreement, Scope of Services (Exhibits A, B), and Budget (Exhibits A.1, B.1) are attached herein.

Budget Impact: Costs associated with the water rate study will be charged to the water fund. The administrative overhead allocation study will be charged to the professional services line of from the Finance Department.

City Offices

EXHIBIT A – WATER RATE STUDY

SCOPE OF SERVICES:

IGS shall provide consulting support to Corcoran's enterprise funds as directed by the city manager. The initial task shall be to perform a cost of service study on the water system for the purpose of determining rates that are fair and equitable according to California law, specifically the requirements of Proposition 218.

IGS specific work product for the water rate study shall include:

1. Categorization of costs to operate (electricity, personnel, chemicals, vehicles, maintenance, etc.)
2. General evaluation of extent of nonpayment of utility bills and consideration in rate planning
3. Calculation of lost and unaccounted for water, including an assessment of the volume of water delivered to customers without water meters.
4. General assessment of the scope, cost, and benefit of completing installation of meters
5. Consideration of the cost of planned capital improvement projects (CIP) and funding options
6. Collaboration with City Staff and municipal advisor regarding bond debt strategies
7. Revenue requirement and rates shall be shown for at least two scenarios dependent upon the extent of planned CIP projects, as appropriate
8. Determination of customer classes (residential, commercial, industrial, prison, schools, etc.)
9. Allocation of water deliveries by customer class
10. Assignment of operating costs to each customer class
11. Creation of rate options, balanced between fixed and variable costs
12. Comparison of existing revenue and rates by customer class to proposed revenue and rates
13. Comparison of existing and proposed average residential cost in Corcoran to nearby communities
14. The finalized Excel workbook used to develop the cost of service results (AWWA methodology)
15. PowerPoint slides and presentations to the city council as necessary to move process forward.
16. A written report for distribution to the city council and public, subject to review and approval of the city manager.
17. Proposition 218 rate notice for legal review and approval
18. Participation in media communication
19. Available to individual city council members and general public, as requested by city manager
20. Participation in Rate Hearings

Exhibit A-1: IGS Estimated Budget for Cost of Service Rate Study

As of March 10, 2016

Labor	Hrs	Rate	Total	Subtotals
Public Works/Field: Tour water system to view infrastructure, familiarize with community, and see largest customers. Study water system maps. Investigate metering status, including reading methodology.	4	165	\$660	
Historical revenue and operating costs: Develop comparison table showing last three years (FY13, 14, 15) actual costs to operate water enterprise. Confirm revenue shown from billing system to audited statements, include evaluation of unpaid bills. Include FY16 projected revenue/cost based on drought conditions. Confirm debt service burden, covenants, and terms. Identify fund transfers and payback structure. Reconcile to audited statements. Will include meeting time with Finance Director.	12	165	\$1,980	
Funds Available: Review Balance Sheet and Impact Funds available. Confirm funds available to Water Enterprise for capital projects. Current Assets, Impact Fees, or other.	2	165	\$330	
Unbilled and Lost water: Calculate water system balance by month at least last 12 months comparing water production to water billed. Provide separate report and Excel workbook showing data.	6	165	\$990	
Customer Classes, including data processing: Determine and assign customers to classes. Allocate water volumes sold to customer classes. Based on database-friendly export from billing system of all billing cycles last 12 months.	8	165	\$1,320	
Capital Improvement Projects: Work with public works director and city manager to establish scenarios for projects that must be completed within three to five years, and estimated cost of each project. Prioritize projects. Evaluate funding options (pay as go, grant, bonds). Determine at least two options to present to city council, and associated rate impact.	24	165	\$3,960	
Water Meters: Develop planning scope and cost to complete water meter installation, including benefit analysis. Include review of meter reading methodology, opportunity for improvement.	8	165	\$1,320	
Assign Operating Costs: Use AWWA cost of service model to assign operating costs to each customer class	4	165	\$660	
Cost of Service Factors: Allocation factors by customer class: Volume, capacity, fire protection, billing/customer services, and peaking	4	165	\$660	

EXHIBIT B – STUDY OF ALLOCATION OF GENERAL GOVERNMENT EXPENSES

Scope:

IGS shall provide a written study of existing allocation of general government expenses across various city departments and enterprise funds, and shall prepare and apply a reasonable methodology for reallocation of such government expenses, and show the comparison thereafter. The goal here is to create a defensible allocation of general government costs that is subject to public review and scrutiny.

IGS specific work product shall include:

1. Categorize totals of the various cost centers (City manager, City council, legal, human resources, and any other)
2. Show in table form the existing allocation of general government expenses
3. Categorize the various expense centers (As applicable: Police, Fire, Public Works, Parks, Enterprise Funds, others...)
4. First cut at allocating costs: Allocate costs to expense centers as a function of annual budget for each expense center. Compare to existing allocations.
5. Within enterprise funds: Allocate as a function of revenue in each fund and based on general government attention needed, if disproportionate. Compare.
6. Deeper analysis:
 - Review 12 months of city council agendas
 - Review 12 months of legal costs
 - Interview human resources and document outcome
 - Interview city manager and document outcome
 - Interview Public Works Director (to the extent his time not already charged directly within personnel component)
 - All results are consistent with last audited financials
 - Allocate to expense centers accordingly

Findings will be presented in a written report including tables of numbers showing allocations.

Exhibit B-1: IGS Estimated Budget for Allocation of Government Expense Study

As of March 10, 2016

Labor	Hrs	Rate	Total	Subtotals
Study of General Government Cost Allocation: Categorize cost and expense accounts. Allocate cost as function of each funds revenue. Further allocate cost based on council agenda, actual legal expenses and interviews with human resources, city manager, and public works director. Provide written report with numeric tables.	24	165	\$3,960	
Subtotals	24			\$3,960
Expenses (Assuming eight visits)				
1 Driving Time	7	75	\$525	
1 Mileage	430	0.54	\$232	
1 Lodging per night, if two consecutive days work			\$100	\$857
Total Estimated Cost			\$4,817	\$4,817

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**STAFF REPORT
ITEM #: 4-B**

MEMO

TO: Corcoran City Council

FROM: Kindon Meik, City Manager

DATE: March 11, 2016

MEETING DATE: March 15, 2016

SUBJECT: Consider available options for the refunding of the 2008 Variable Rate Demand Certificates of Participation (2008 COPs).

Recommendation:

Staff requests direction be provided to the City's Financial Advisor regarding the refunding of the 2008 COPs or water bond.

Discussion:

Over a nine month period, NHA Advisors has worked with City staff to prepare for the expiration of the letter of credit (LOC) held by Union Bank/MUFG relating to the 2008 COPs. The outstanding balance on the COPs is approximately \$16,385,000.

Based on changes in the global market and favorable interest rates, NHA Advisors and City staff have weighed the advantages and disadvantages of continuing with a variable rate option or a fixed interest rate. The attached memo from NHA Advisors summarizes the available options to the City.

Budget Impact:

The full financial benefit or impact of restricting the 2008 COPs will be determined following direction from the Council and further analysis by NHA Advisors and staff.

Attachments:

Memorandum from NHA Advisors

Comparison of debt service relating to refunding options

CITY OFFICES:

832 Whitley Avenue * Corcoran, CA 93212 * Phone 559-992-2151 * www.cityofcorcoran.com

MEMORANDUM

To: Kindon Meik
From: Eric Scriven and Mike Meyer
Date: March 11, 2016
RE: Restructuring Options for the 2008 Variable Rate Demand Refunding COPs (Water System Project)

The following memorandum outlines the various restructuring options available to the City of Corcoran (the "City") for its 2008 Variable Rate Demand Refunding COPs (the "2008 COPs"). Included is a cost and qualitative comparison summary between a variable rate and a fixed rate restructuring. The fixed rate option also includes the possibility of raising new money proceeds to give the City an idea of overall debt service levels if it chooses to finance a portion of its CIP using bond financing.

BACKGROUND AND RECENT EVENTS

The City currently has \$16,385,000 of outstanding 2008 COPs. The Union Bank/MUFG letter of credit ("LOC") which enhances the credit and liquidity of the 2008 COPs was set to expire on March 26, 2016 but was recently extended by 3 months, to June 30, 2016, in order to give the City more time to secure a new LOC with another bank or execute a fixed rate solution. The City has also entered into a fixed-payer swap, whereby the City pays 3.72% to Piper Jaffray Financial Products ("PJFP"), the Swap Provider. Based on the significant drop in interest rates since 2008, the swap's valuation is currently a negative \$3.7 million, meaning that a payout of \$3.7 million to PJFP would need to occur if the City was forced to or voluntarily terminated the swap (such as through a fixed rate restructuring).

On February 1, 2016, the City implemented an emergency rate increase of 8%, as well as approved an expense reduction and use of the monies deposited into the rate stabilization fund. These strategies were employed to ensure debt service coverage requirements are met for FY 2015/16. On February 23, 2016 the City's rating for its water system (affecting both the 2008 COPs and 2012 Revenue Bonds) was lowered from an "A+" to an "A" by S&P. The downgrade reflects application of updated S&P rating criteria, specifically with regard to the city's weak local service economy, and weakened coverage metrics for fiscal 2015 that is expected to continue through fiscal 2016. Additionally, the City recently hired a consulting firm to perform a comprehensive water rate study analysis. The aim of this study is to modify the City's rate structure to ensure equity between commercial and residential rate payers, strengthen the system's recently weakened financial position condition through proper modifications to the rate structure, and address needed capital improvements.

Given the "hard" LOC expiration date, the timeliness of a completed rate study and associated rate increase approval, including the Prop. 218 process, is of vital importance to a successful restructuring. Whether a variable or fixed rate option is pursued, all involved parties (banks, investors, rating agencies, bond insurers, etc.) will want to see a new rate structure that strengthens the finances of the water system, and is approved prior to execution of the new restructuring. Below we summarize the key differences between the two options.

VARIABLE VS. FIXED RATE COMPARISON

Over the last 9 months, NHA has been in discussions with several banks that provide LOCs, and more recently, bond insurers (for fixed rate option), to educate them on the City's water credit as well as evaluate the

From a quantitative view, the fixed rate option cost about \$1 million more in total debt service costs over the next 20 years, or about \$620K on a present value basis. This equates to about \$50K in annual debt service, however, given that the variable rate option has declining debt service, the debt service in the early years is about the same under the two options, which means initial debt service coverage is about the same. Extending the maturity increases the estimated interest rate from about 3.30% to 4.00% but lowers the aggregate annual debt service number by about \$230K. Raising \$1 million of new money (Option 2C) adds about \$57K in annual debt service costs vs. Option 2B, while raising \$3 million (Option 2D) adds about \$170K in annual debt service costs. It should be noted that even under Scenario 2D, overall aggregate debt service is still \$60K lower than it would be under variable rate Option 1. Lastly, the debt service figures presented above are best estimates of the current market in order to achieve the most accurate comparison between variable and fixed, however, NHA would suggest using slightly more conservative (higher) debt service figures in the rate study.

NHA RECOMMENDATION

While a variable rate restructuring, if achieved, would likely provide lower overall debt service costs since there would be no swap termination fee, NHA recommends that a fixed rate restructuring be strongly considered. In essence, a fixed rate transaction will eliminate future risk to the City. Once executed, a fixed rate transaction, due to its locked-in terms and payments, removes the City's uncertainty in this matter and transfers these risks upon the bond investors.

With fewer banks providing LOCs to municipalities—particularly for the size and credit such as the City's 2008 COPS, there is a strong possibility that a LOC may not be secured in the next several months or ever. While NHA can continue to solicit interest from these LOC banks, NHA feels confident that a fixed rate structure would qualify for bond insurance and could obtain a very low interest rate prior to—or just after—the existing LOC's expiration. Additionally, a fixed rate restructuring would eliminate the swap and also future LOC renewal risk. Lastly, as shown in the various options presented, the City has full flexibility to modify the maturity, and amortization, as well as the opportunity to raise new money for CIP.

In conclusion, given recent changes in the credit markets as well as current low interest rates, NHA recommends that the City convert its 2008 COPS into a fixed rate bond. By following this path, NHA believes that the City will benefit by eliminating the risks associated with the variable structure and gain significant flexibility to better adapt the water enterprise's capital structure to enhance its achieving the goals of providing long-term, safe water service to its customers, while maintaining a sound financial position based upon a fact-based, consistent rate structure.

We stand ready to answer any questions about this analysis and recommendation.