

CITY COUNCIL

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Reso No. _____ File No. _____

Ord No. _____

Agenda Item No.: 8

Date: March 16, 2011

TO: Honorable Mayor and Members of the City Council

FROM: Jeffrey R. Epp, City Attorney
Gil Rojas, Director of Finance

SUBJECT: Loan from Wastewater Enterprise Fund and Terms of Repayment

RECOMMENDATION:

Approve Resolution 2011-38 evidencing a loan from the City's Wastewater Enterprise Fund and providing for the terms and conditions of repayment.

BACKGROUND:

On November 17, 2010, the City Council adopted Resolution 2010-172, which authorized staff to complete the purchase of property at 2120 Harmony Grove Road for the relocation of certain city facilities which are currently located at 475 N. Spruce Street. The Harmony Grove property was paid for with \$4.2 million to be loaned from the Wastewater Enterprise Fund, \$1 million in Public Facility Fees, and \$1 million from the City's internal Fleet Services Fund.

Because the Wastewater Enterprise Fund is supported by rates and fees charged to customers, and regulated by various provisions of the California Constitution and state statutes, it is important that the loan from the Fund be documented and structured in a manner that protects the integrity of the Fund. Among other things, this means that the loan must be repaid in full, and account for interest charges. Resolution 2011-38 documents the loan amount, and sets forth a repayment schedule of principal and interest payments over a term of 20 years. Interest on the loan amount is set equivalent to the City's return on its investment portfolio, which is the same amount the funds would earn if they were retained in the enterprise account.

The availability of these funds for a loan does not mean there are excess funds in the enterprise. Rather, the enterprise maintains an ongoing reserve, and the loan amount is made from and repaid to these reserves.

Respectfully submitted,


Jeffrey R. Epp
City Attorney


Gil Rojas
Director of Finance

RESOLUTION NO. 2011-38

A RESOLUTION OF THE CITY COUNCIL OF
THE CITY OF ESCONDIDO, CALIFORNIA,
EVIDENCING A LOAN FROM THE
WASTEWATER ENTERPRISE FUND AND
PROVIDING FOR TERMS AND CONDITIONS
OF REPAYMENT

WHEREAS, California Government Code Section 54300 et seq. has provided for the creation of a local enterprise to serve as revenue producing improvements on buildings, systems, plants, works, facilities and undertakings which may be used for or useful for certain specific purposes; and

WHEREAS, one of the specific purposes enumerated for an enterprise account is the collection, treatment, and disposal of sewage, waste and stormwater, including drainage as well as sewage treatment plants, sewage disposal plants, intercepting and collecting sewers, outfall sewers, trunk, connecting and other sewer mains; and

WHEREAS, California Government Code Sections 54341, 54342, 54343 and 54350, among others, expressly provide the local agency with authority to manage and direct the operations and affairs of the enterprise; and

WHEREAS, the City of Escondido has established and operates a Wastewater Enterprise Fund of the City in accordance with the above-referenced authorizing legislation; and

WHEREAS, the Wastewater Enterprise Fund maintains a certain portion of its revenues in a reserve fund, expressly authorized by Government Code Section 54315,

and such reserves have been deemed necessary to the prudent and stable operation of the Fund; and

WHEREAS, such reserves are maintained in a manner to provide both a reasonable return and general availability to the Fund if needed; and

WHEREAS, the City of Escondido previously elected to utilize \$4.2 million of the Wastewater Enterprise Fund reserves, together with other funding sources, for the purposes of purchasing and improving real property addressed as 2120 Harmony Grove Road, to be used for the purpose of developing a new City public works yard, (the "Loan") and wishes to set terms and conditions for the complete repayment in such a manner that equals or exceeds the otherwise normal investment of such reserves of the Wastewater Enterprise Fund; and

WHEREAS, the City of Escondido, both for itself and the benefit of the proper management of the Wastewater Enterprise Fund, wishes to adopt this Resolution evidencing the Loan and setting forth the terms and conditions for repayment of the Loan.

NOW THEREFORE, the City Council of the City of Escondido, California, as follows:

1. That the above recitations are true.
2. That the Loan Amount from the Wastewater Enterprise Fund of \$4.2 million is hereby documented with such Funds having been transferred from the City's Wastewater Enterprise Fund to the City's General Fund on or about December 15, 2010, as authorized by City Council Resolution 2010-172.

3. Such Loan shall be repaid from the General Fund, or from such other sources as the City Council may direct from time to time, to the Wastewater Enterprise Account, to be amortized over a period of twenty (20) years, commencing on December 15, 2010. Such repayment shall occur on June 30 of each calendar year with an annual principal payment of \$210,000 and bear interest at a rate equivalent to the City's calculated investment portfolio monthly yield. Commencing on June 30, 2011, the first payment will include only interest at a rate equivalent to the City's calculated investment portfolio monthly yield as of June 30, 2011. Subsequent annual payments shall include the principal and interest as described above and will commence on June 30, 2012.