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City Manager's Office

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Leanna Bieganski

SUBJECT: Early Council Packet

DATE: November 1, 2011

Approved

Date 11/1/11

EARLY DISTRIBUTION COUNCIL PACKET FOR NOVEMBER 15, 2011

Please find attached the Early Distribution Council Packet for the November 15, 2011 Council Meeting.

2.x Memorandum of Agreement to Implement a Regional Approach to Obtaining and Allocating Federal Funding for Water Recycling Projects.

Recommendation: Adopt a resolution authorizing the City Manager to execute an amended Memorandum of Agreement among the cities of San José, Mountain View, Palo Alto, Hayward, Pleasanton and Redwood City, Town of Yountville, Central Contra Costa Sanitary District, Delta Diablo Sanitation District, Dublin San Ramon Services District, Ironhouse Sanitary District, Zone 7 Water Agency, North Coast County Water District, Coastside County Water District, Santa Clara Valley Water District and the Bay Area Clean Water Agencies to implement a regional approach to obtaining and allocating federal funding for water recycling projects, at a cost for 2011-12 not to exceed $20,000, with future year funding to be subject to appropriation by Council. CEQA: Not a Project, File No.PP10-066 (g), Memorandum of Understanding. (Environmental Services)

3.x Agreement with Standard Insurance Company to provide Long-Term Disability Insurance Services to Employees.

Recommendation: Adopt a resolution authorizing the City Manager to negotiate and execute an agreement between the City and Standard Insurance Company to provide Long-Term Disability (LTD) insurance services to employees at a cost not to exceed $10,045,390 for the period of January 1, 2012 through December 31, 2016. CEQA: Not a Project, PP10-066 (e), Services that involve no physical changes to the environment. (Human Resources)

5.x Actions Related to San José Family Camp.

Recommendation: Adopt a resolution including the following actions:
(a) Authorize the City Manager to offer for sale the improvements associated with Camp, and therefore remove the City from future obligations to operate Camp; or if acceptable financial terms cannot be reached;
(b) Operate Camp through a third party concessionaire similar to the other facilities under the City's Community Center Reuse Policy, which would require the City to enter into a new Special Use Permit/Land Lease with the U.S. Forest Service and does not relieve the City from the future capital expenditures at Camp.
CEQA: Not a Project, File No. PP10-069, City Organizational and Administrative Activities. (Parks, Recreation and Neighborhood Services)

6.x Authorization for the Issuance of Airport Revenue Bonds.

Recommendation: Adopt the seventeenth supplemental resolution of the Council authorizing the issuance of City of San José Airport Revenue Bonds, Series 2011B and Series 2011C (the "2011B/C Bonds") in a total aggregate principal amount of not to exceed $315,000,000 to be sold through negotiated sale; approving substantially final forms of Supplemental Trust Agreement, Preliminary Official Statement, Bond Purchase Agreement and Continuing Disclosure Certificate; authorizing the distribution of one or more Preliminary Official Statements and Final Official Statements; and authorizing and approving other related actions in connection with the issuance of the 2011B/C Bonds. CEQA: Not a Project, File No. PP10-066(e), Services that involve no physical changes to the environment. (Finance)

6.x Actions Related to "Smart" LED Streetlight System.

Recommendation:
(a) Accept staff report on Request for Proposal (RFP) for the purchase of a "smart" light emitting diode (LED) streetlight wireless communication monitoring and control system ("System"); and
(b) Adopt a resolution authorizing the City Manager to:
    (1) Execute an agreement with Schréder Lighting, LLC (Illinois) for the purchase of "smart" LED streetlight wireless communication monitoring and control system, including all hardware, software, professional services, three years of software maintenance and support, shipping, and applicable sales tax for an amount not to exceed $2,087,000, with an initial expiration date of November 15, 2014;
    (2) Execute a software license and maintenance agreement with Schréder Lighting, LLC (Illinois) at no additional cost to City during the initial term for use of the OWLET Nightshift software application with the purchase

of the "smart" LED streetlight wireless communication monitoring and control system;

(3) Negotiate and execute change orders or amendments to the agreement to cover any unanticipated design or implementation changes or to purchase additional luminaries and accessories for both the initial term of the agreement and option years, subject to the appropriation of funds; and

(4) Execute up to three, one-year options to extend the software license and maintenance agreement as required to provide ongoing software maintenance and support of the system, subject to the appropriation of funds.

CEQA: Exempt, File No. PP11-002, January 12, 2010. (Finance/Transportation)

These items will also be included in the Council Agenda Packet with item numbers.

Le Bieganski

LEANNA BIEGANSKI
Council Liaison

COUNCIL AGENDA: 11-15-11
ITEM:

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Kerrie Romanow

SUBJECT: SEE BELOW

DATE: 10-24-11

Approved

Date 10/27/11

COUNCIL DISTRICT: City-Wide

SUBJECT: AMENDED MEMORANDUM OF AGREEMENT AMONG THE CITIES OF SAN JOSÉ, MOUNTAIN VIEW, PALO ALTO, HAYWARD, PLEASANTON AND REDWOOD CITY, TOWN OF YOUNTVILLE, CENTRAL CONTRA COSTA SANITARY DISTRICT, DELTA DIABLO SANITATION DISTRICT, DUBLIN SAN RAMON SERVICES DISTRICT, IRONHOUSE SANITARY DISTRICT, ZONE 7 WATER AGENCY, NORTH COAST WATER DISTRICT, COASTSIDE COUNTY WATER DISTRICT, SANTA CLARA VALLEY WATER DISTRICT AND BAY AREA CLEAN WATER AGENCIES WITH RESPECT TO FEDERAL FUNDING FOR WATER RECYCLING PROJECTS

RECOMMENDATION

Adopt a resolution authorizing the City Manager to execute an Amended Memorandum of Agreement among the cities of San José, Mountain View, Palo Alto, Hayward, Pleasanton and Redwood City, Town of Yountville, Central Contra Costa Sanitary District, Delta Diablo Sanitation District, Dublin San Ramon Services District, Ironhouse Sanitary District, Zone 7 Water Agency, North Coast County Water District, Coastside County Water District, Santa Clara Valley Water District and the Bay Area Clean Water Agencies to implement a regional approach to obtaining and allocating federal funding for water recycling projects, at a cost for 2011-12 not to exceed $20,000, with future year funding to be subject to appropriation by the City Council.

OUTCOME

The City, as administering agency for South Bay Water Recycling and the San José/Santa Clara Water Pollution Control Plant, would re-enter into an agreement with five other cities, one Town, three water districts, a special district, four sanitation districts (the Participating Agencies) and Bay Area Clean Water Agencies (BACWA) (a regional joint powers authority of which the

City is already a member) to implement the "Bay Area Recycled Water Coalition" (BARWC), for the purpose of pursuing a regional approach to obtaining and allocating federal funding for water recycled projects. The City's participation with other agencies on a regional basis through approval of the amended Memorandum of Agreement (MOA) will continue to enhance its ability to obtain future grant funding.

BACKGROUND

South Bay Water Recycling (SBWR) is a multi-agency water recycling program administered by the City as lead agency for the San José/Santa Clara Water Pollution Control Plant. The SBWR project was included in Title XVI of PL102-575, the "1992 Central Valley Project Improvement Act" (Section 1607) which authorized the US Bureau of Reclamation (Reclamation) to reimburse the City for up to 25% of eligible construction costs. Since 1995, the City has signed several grant agreements with Reclamation for water recycling capital projects approximating $237,000,000 of infrastructure investment. These agreements also provided for up to $59,000,000 in federal grant reimbursement, however, only $39,000,000 has been reimbursed as of September 2011, providing a balance of $20,000,000 from Reclamation.

In 2007, Senator Dianne Feinstein wrote to a number of California agencies urging them to adopt a regional approach to coordinate their requests for federal support for water recycling projects. Senator Feinstein's request was consistent with state funding policy which requires agencies to demonstrate a regional approach to water projects proposed for funding through Propositions 50 and 84. In response, staff from a number of cities and agencies in the Bay Area actively developing recycled water projects formed the Bay Area Water Recycling Coalition (BARWC) to develop a regional platform for developing and coordinating projects in order to improve their ability to obtain federal funding.

Primary objectives of the BARWC agencies is to obtain Congressional authorization for federal funding for recycled water projects in the Bay area, and obtain an appropriation of federal funds adequate to fund the authorized projects. Subsequent to passage of PL110-229 "Consolidated Natural Resources Act of 2008." federal participation of seven BARWC projects were authorized. These projects included the Palo Alto/Mountain View Moffett Area Pipeline Project, South Bay Advanced Recycled Water Treatment Facility; and the Pittsburg, Antioch, North Coast County Water District, Redwood City, and South Santa Clara County Recycled Water Projects. The San José Area Water Reclamation and Reuse Project (now known as South Bay Water Recycling) that was originally authorized in PL102-575, was also included in the Bay Area Regional program.

ANALYSIS

A Memorandum of Agreement with BARWC agencies was originally drafted and executed on August 25th, 2008. The Participating agencies (including agencies that became Participating agencies after the execution of the original MOA) and BACWA are proposing execution of an amended MOA. Under the amended MOA, the City would continue to no longer advocate exclusively for federal funding for SBWR, but rather would request federal support for the entire regional request, designating BACWA as the entity to represent the SBWR Program in pursuit of Title XVI recycled water grants under Public Law 102-575. City participation on behalf of SBWR in the amended MOA is recommended in order to continue maximizing the local share of federal funding by aligning San Jose's recycled water interests with the entire Bay Area region. Consistent with the original MOA, should the total amount of federal appropriation be less than the total amount sought for all authorized projects in any given year, each participating agency would receive its percentage share of the lower appropriation (federal funding for authorized recycled projects will be subject to pro rata allocation , total appropriation / total request/).

The MOA also addresses coordination and cost sharing for federal legislative efforts. It provides that one of the Participating Agencies will be responsible for managing outside consultant and legislative advocacy services. The amended MOA provides for the parties to share BACWA administrative and outside consultant costs, as well as advocacy costs based on their federal share (i.e. 25% of project cost) and not on the basis of the ratio of the number of agency projects to total projects, as was the case for the original MOA. For calendar year 2011, San Jose's share of BACWA outside agency costs is estimated to be an amount not expected to exceed $20,000.

The amended MOA includes new provisions to allow other Investor-Owned Water Utilities to become members, and also allows for "associate" level of membership. Any public agency or an investor-owned water utility that does not have a recycled water project may become an Associate member, thus enabling them to participate in BARWC discussions regarding federal funding efforts. However, they may not vote or otherwise participate in any formal decision-making.

The amended MOA continues to allows any agency to unilaterally withdraw from the BARWC on or before October 31st of each year, and effective the following January 1st, should it determine that its interests are no longer served by participation with the other regional entities. If sufficient funds are not appropriated for participation in future years, the City Manager can terminate the city's participation. Further, if the City's share of costs for any calendar year should exceed the City Manager's contract authority, which is not anticipated, then the City Manager will seek Council authorization.

EVALUATION AND FOLLOW-UP

An annual accounting of federal support for San José area water recycling projects will be compared to recent year appropriations. If at any time it appears that the City would be more likely to receive significantly more funding by independently advocating for federal support, staff will recommend that the City consider terminating its agreement with BACWA and the other Coalition members.

PUBLIC OUTREACH/INTEREST

☐ **Criterion 1:** Requires Council action on the use of public funds equal to $1 million or greater.
(Required: Website Posting)

☑ **Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

☐ **Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This memorandum will be posted on the City's website for the November 15, 2011 City Council Agenda.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office, the Office of Intergovernmental Relations, and the City Manager's Budget Office. This item is scheduled to be heard at the November 10, 2011 meeting of the Treatment Plant Advisory Committee (TPAC).

COST IMPLICATIONS

Participation in the Bay Area Water Recycling Coalition (BARWC) will continue enhancement of the City's ability to obtain authorized federal funding for South Bay Water Recycling. Based on past experience, annual contributions to the Bay Area Water Recycling Coalition costs are not expected to exceed $20,000 per year. If the City's share of cost for any calendar year should exceed the City Manager's contract authority, which is not anticipated, then the City Manager will seek Council authorization. Payments in future years will be subject to City Council appropriation of funds.

BUDGET REFERENCE

Fund #	Appn. #	Appn. Name	Total Appn.	Amount for Project	2011-2012 Proposed Operating Budget Page*	Last Budget Action (Date, Ord. No.)
513	0762	ESD Non-Personal/Equipment	25,548,275	20,000	XI-77	06/21/2011 Ord. 28928

* The City Council adopted the 2011-2012 Proposed Operating Budget on June 21, 2011. The Adopted Budget will be published in Fall 2011.

CEQA

Not a Project, File No.PP10-066 (g), Memorandum of Understanding.

/s/
KERRIE ROMANOW
Acting Director, Environmental Services

For questions please contact Mansour Nasser, Deputy Director, at 277-4218.

COUNCIL AGENDA: 11/15/11
ITEM:

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Alex Gurza

SUBJECT: SEE BELOW

DATE: October 25, 2011

Approved [signature] Date 11/1/11

SUBJECT: AGREEMENT WITH STANDARD INSURANCE COMPANY TO PROVIDE LONG TERM DISABILITY INSURANCE FOR CITY EMPLOYEES FOR THE PERIOD OF JANUARY 1, 2012 TO DECEMBER 31, 2016.

RECOMMENDATION

Adopt a resolution authorizing the City Manager to negotiate and execute an agreement between the City and Standard Insurance Company to provide Long-Term Disability (LTD) insurance services to employees at a cost not to exceed $10,045,390 for the period of January 1, 2012 through December 31, 2016.

OUTCOME

Approval of the recommendation will provide the City's employees with high quality and cost effective voluntary LTD insurance benefits.

EXECUTIVE SUMMARY

Staff facilitated the development of a request for proposal (RFP) process for the City's LTD insurance benefits with the City's benefits consultant, Keenan & Associates. This process included convening an Evaluation Committee comprised of key stakeholders to identify key issues and objectives, finalize selection criteria, develop vendor questions, interview vendors, and evaluate proposal responses.

This RFP process was a success as it resulted in lower premiums for quality LTD benefits. Employee paid premium rates fell 21% to 24% with a projected annual savings of $500,199 while maintaining current benefits.

Staff recommends that the Council authorize the City Manager to negotiate and execute an agreement with Standard Insurance Company to provide LTD insurance services to City employees.

BACKGROUND

Standard Insurance Company has been the provider of the City's LTD insurance benefits since April 1, 1970. In keeping with the City's intention to provide high quality and cost effective benefits, an RFP process was initiated in June 2011 to review new proposals for LTD insurance services from quality vendors and to obtain competitive market rates.

LTD is a 100% employee-paid benefit that provides the following services to enrolled City employees:

- Disability insurance for injuries and illnesses incurred both on and off the job;
- Rehabilitation plan to prepare employees to return to work; and
- Waiver of LTD premiums during the period in which the participant is receiving benefits.

City employees do not pay into either Social Security or State Disability Insurance. LTD insurance is the only wage protection available to City employees for non-occupational injuries after sick leave balances have been exhausted. LTD insurance has also provided supplemental wage protection for many City employees receiving workers compensation and/or retiree disability benefits.

The City currently maintains an LTD policy with two LTD benefit plans, an LTD-30 and an LTD-60. The two plans differ in the length of the waiting period for disability benefits to start. The LTD-30 plan starts paying after a waiting period of 30 days; the LTD-60 plan has a waiting period of 60 days. The other difference between the two plans is that LTD-60 plan has a preexisting condition restriction that the LTD-30 plan does not have. The pre-existing condition restriction prohibits benefits payment for medical conditions that were diagnosed within three months prior to the coverage begin date under the plan for up to 12 months after the coverage begin date.

ANALYSIS

Review Committee

The RFP review committee consisted of representatives from Human Resources and the Benefits Review Forum (BRF).

Staff facilitated the development of an RFP process for the City's long-term disability benefit programs, with the assistance of Keenan and Associates, the City's contracted benefit consultant for non-City paid benefit programs. The process included facilitating the stakeholder input process to identify key issues and objectives, finalize selection criteria, develop vendor questions, interview vendors and evaluate proposal responses.

Targeted Outreach

Staff conducted a targeted outreach to eight known LTD providers in addition to posting the RFP on BidSync. Interested providers were asked to price the current level of benefits and to provide alternative plan designs comprised of a combination of short-term and long-term disability plans.

The City received proposals from Standard Insurance Company (Standard Insurance), the Prudential Insurance Company of America (Prudential Insurance), Metropolitan Life Insurance Company (MetLife Insurance), CIGNA Group Insurance (CIGNA), and Sun Life Financial (Sun Life). Several other providers declined to submit proposals due to inability to offer competitive pricing or an inability to match the current plan design.

Evaluation Criteria

The RFP used the evaluation criteria outlined in the following table.

Evaluation Criteria	Weight
• Proposal Responsiveness	Pass/Fail
• Ability to Provide Requested Services	50%
• References	10%
• Fee Structure (Cost)	30%
• Local Business Enterprise	5%
• Small Business Enterprise	5%

Evaluation and Selection

Based on the above criteria, the Evaluation Committee determined the proposals from Sun Life and CIGNA were the least competitive. These companies' proposals did not match the existing benefit levels and/or the prices quoted were higher than what other proposers were offering.

The Evaluation Committee chose to interview the three remaining proposers: MetLife Insurance, Prudential Insurance, and Standard Insurance Company. All three of the proposers provided quotes for the current LTD plans as well as submitted alternative short-term and long-term disability plans for consideration.

During the finalist interviews, the Evaluation Committee clarified proposed benefits and rates. All finalists were provided an opportunity to clarify benefits and/or correct rates to insure the proposals matched, as closely as possible, the current negotiated benefits. Following the finalists interviews, the Evaluation Committee met to review all final information received from the proposers. Then, each Evaluation Committee member completed an individual score sheet. The composite scores of the Evaluation Committee are contained in the table below:

Criteria	Rating Spread	MetLife Insurance	Prudential Insurance	Standard Insurance
Ability to Provide Requested Insurance Services	0 – 50 points	40.4	40.6	49.8
References	0 – 10 points	6.6	5.6	7.8
Fee Structure	0 – 30 points	29.8	24.4	25.6
Local Business Enterprise	0 – 5 points	0	0	0
Small Business Enterprise	0 – 5 points	0	0	0
Total		**76.8**	**70.6**	**83.2**

Plan Design and Vendor Proposal Evaluation

Plan Design
The RFP was constructed to obtain competitive market rates for the current LTD plan designs. Additionally, the RFP requested quotes on alternative plan designs comprised of a combination of short-term and long-term disability plans. As a result of this RFP construction, the Evaluation Committee spent time evaluating whether the City's current plan design still makes sense in today's marketplace.

After considering both the current LTD plan designs and several combinations of short-term and long-term disability plan combinations, the Committee determined that the current plan design remains the most cost competitive and the easiest plan to communicate to employees. Once the plan design decision was made, the Evaluation Committee then evaluated each finalists proposal related to the City's current LTD plan designs.

Finalist Proposer Evaluations

MetLife Insurance's proposal differed in some key benefits, as follows: (1) eligibility requirements eliminated coverage for benefited employees working less than 20 hours per week and for all temporary employees; (2) the proposed benefit formula would be based on a percentage of base earnings, a reduction from the current benefit formula, which includes both base earnings and shift differentials; and (3) pre-partum pregnancy disability coverage would be reduced from four weeks to two weeks. MetLife's proposal did provide an enhanced benefit as benefit payments do not integrate with Social Security, so an employee who becomes disabled and eligible for Social Security would not receive a reduction in LTD benefits, but this was not weighted strongly since City employees do not pay into Social Security and many are not eligible. The Evaluation Committee determined that the advantage of slightly lowered annual premiums did not offset the value of the benefit decreases to employees, and eliminated MetLife from further consideration.

Prudential Insurance's proposal also contained key benefit modifications. Prudential Insurance's benefit formula was also based only on base salary and did not include shift differentials when calculating benefits. Special dismemberment provisions would not be continued, but could be covered on a separate policy for an additional cost. Prudential's LTD-30 day plan was the highest of the three finalists. The LTD-60 rates were between the other two finalist's rates. The Evaluation Committee noted that many of the benefits contained in the proposal would require filing for approval with the State of California and would be subject to approval before such benefits could be offered to the City. The uncertainty of State approval coupled with the concern over the ability to implement a change by January 1, 2012, and the reduction to current benefits resulted in elimination of Prudential Insurance from further consideration.

Standard Insurance Company's proposal permits all City employees regardless of hours scheduled to work to purchase LTD benefits, which is an important benefit as this is the only wage protection insurance available to City employees. Additionally, benefit calculations include shift differentials resulting in benefits that more closely match employees' compensation. The majority of claims submitted to the City's LTD program are maternity claims, so the ability to apply up to four weeks of pre-partum medical disability to a participant's waiting period results in a higher total benefit payment. The Evaluation Committee noted that while Standard's rates were slightly higher than MetLife Insurance's rates, the difference was minimal compared to the value of additional benefits provided.

Staff recommends selecting Standard Insurance Company's proposal based on their ability to maintain current benefits including maintaining dismemberment and pregnancy provisions, their ability to insure all City Job Classes, and their competitive premium rates.

<u>Key Terms of the Proposed Agreement with Standard Insurance Company</u>

The Agreement with Standard Insurance Company effective January 1, 2012, will provide both an LTD-30 and an LTD-60 plan with the same benefits currently provided to City employees. The terms for the proposed Agreement are listed below.

1. The rate for LTD-30 plan premiums will reduce from 1.52% to 1.20% of insured monthly earnings.
2. The rate for LTD-60 plan premiums will reduce from 0.95% to 0.72% of insured monthly earnings.
3. Definition of Pre-Disability Earnings will be amended to include Holiday In-Lieu Pay.
4. Employees in the LTD-60 Plan will have a one-time special enrollment to move to the LTD-30 Plan without a medical certification.
5. All rates are guaranteed for three years from January 1, 2012 through December 31, 2014; thereafter rates will be based on claims experience.
6. Performance guarantees will be based on metric based performance measures with a total of funds at risk equal to 1% of annual premium.
7. A dedicated toll free customer service line will be provided for City employees.

The City collects premiums from employees through payroll deductions and sends them to the insurance carrier biweekly.

The agreement will contain the standard terms from the City's consulting agreement. The term of the Agreement would be January 1, 2012 through December 31, 2016, beginning with one, six month initial term and continuing with four, one year renewal options and one, six month renewal option as outlined below:

1. LTD insurance plans for employees with an initial term of six (6) months, beginning on January 1, 2012 and ending on June 30, 2012, and a total cost not to exceed $1,004,539.
2. LTD insurance plans for employees with an optional term of one (1) year ending on June 30, 2013, and a total cost not to exceed $2,009,078.
3. LTD insurance plans for employees with an optional term of one (1) year ending on June 30, 2014, and a total cost not to exceed $2,009,078.
4. LTD insurance plans for employees with an optional term of one (1) year ending on June 30, 2015, and a total cost not to exceed $2,009,078.
5. LTD insurance plans for employees with an optional term of one (1) year ending on June 30, 2016, and a total cost not to exceed $2,009,078.
6. LTD insurance plans for employees with an optional term of six (6) months ending on December 31, 2016, and a total cost not to exceed $1,004,539.

EVALUATION AND FOLLOW UP

This project addresses the Human Resources' performance measure of the cost of benefits administration and operations per budgeted full-time employee. The Employee Benefits Division of Human Resources ensures that City of San José employees receive high quality and cost effective benefits by subjecting benefit plan providers to regular competition.

PUBLIC OUTREACH/INTEREST

☒ **Criteria 1:** Requires Council action on the use of public funds equal to $1 million or greater; **(Required: Website Posting)**

☐ **Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

☐ **Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

The local business community was given the opportunity to compete by posting the RFP on the BidSync website. All key stakeholders were invited to participate in the RFP process.

This recommendation was reviewed by the Benefits Review Forum on August 31, 2011.

This memorandum is posted on the City's website for the November 15, 2011 Council Agenda.

COORDINATION

This memorandum has been coordinated with the Office of the City Attorney and City Manager's Budget Office.

COST SUMMARY/IMPLICATIONS

Long Term Disability (LTD) Insurance

Long Term Disability (LTD) Insurance is a voluntary optional benefit. The costs are borne by the employees who choose to enroll and are not paid by the City.

Attachment A compares the current employee costs to the proposed employee costs beginning January 1, 2012. Attachment A also projects the total annual cost impact. The projected annual costs are based on current participation and current elected insurance amounts.

The 2012 employee paid LTD-30 projected plan cost is $1,577,269, a $420,605 or 21% savings. The 2012 employee paid LTD-60 projected plan cost is $249,164, a $79,594 or 24% savings. The annual total LTD premium cost of $2,009,078 includes the projected total annual premium cost of $1,826,434, plus $182,644 for an enrollment contingency factor.

BUDGET REFERENCE

The Employee Health Fund (Fund 161) accounts for participant contributions and long-term disability premium payments. Premium costs are fully funded by participant contributions. Long Term Disability premium payments will vary based on actual enrollment. The annual contract cost is estimated to be $2,009,078.

CEQA

Not a project, PP10-066 (e) Services that involve no physical changes to the environment.

Alex Gurza
Deputy City Manager

For questions please contact Jeanne Groen, Benefits Manager, (408) 975-1428.

Attachment A: Long-Term Disability Premium Changes

Attachment A

Long-Term Disability Premium Changes

Plan	Number of Participants	Pay Period Covered Gross Earnings	Current LTD Rate	Proposed LTD Rates	Current Annual Projected LTD Cost	Proposed Annual LTD Cost	Projected Annual Savings	Employee Premium Percentage Savings
LTD - 30	1,966	$5,055,350	**1.52%**	**1.20%**	$1,997,874	$ 1,577,269	$ 420,605	21%
LTD - 60	539	$1,331,006	**0.95%**	**0.72%**	$ 328,758	$ 249,164	$ 79,594	24%
		Total Projected Annual Premium Savings:					**$ 500,199**	
		Total Projected Annual LTD Premiums:				**$ 1,826,434**		
		10% Reserve for Enrollment Variance:				$ 182,644		
		Proposed Annual Contract Limit:				**$ 2,009,078**		

COUNCIL AGENDA: 11-15-11
ITEM:

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Julie Edmonds-Mares

SUBJECT: **SAN JOSE FAMILY CAMP**

DATE: October 28, 2011

Approved

Date 11/1/11

COUNCIL DISTRICT: Citywide

RECOMMENDATION

Adopt a resolution including the following actions:

(a) Authorize the City Manager to offer for sale the improvements associated with Family Camp, and therefore remove the City from future obligations to operate Family Camp; or if acceptable financial terms cannot be reached;

(b) Operate Camp through a third party concessionaire similar to the other facilities under the City's Community Center Reuse Policy, which would require the City to enter into a new Special Use Permit/Land Lease with the U.S. Forest Service and does not relieve the City from the future capital expenditures at Family Camp.

OUTCOME

Acceptance of this report and adoption of the resolution will provide the U.S. Forest Service with the City's commitment to discontinue operating San José Family Camp in the future as a direct City program.

EXECUTIVE SUMMARY

Organization camps like Family Camp have played an important role in exposing children and adults to the natural environment. Such camps have provided an opportunity for children raised in metropolitan areas to gain an appreciation of the great outdoors. Such camps also allow the family to bond, grow closer, and build relationships as a family and with other families and friends.

San José Family Camp ("Camp"), a 46.8 acre site, has been managed and utilized by the City of San José since 1968. Currently there are 70 wood-framed and canvas covered platform-tents scattered among the pines and oak trees along the Middle Fork of the Tuolumne River. Other Camp improvements include a dining hall, a patio and deck area, an amphitheater, a crafts and arts building, restrooms, a playfield, a tot play area, and service buildings. Camp is a retreat from urban life, where campers of all ages can fish, hike, swim and participate in organized activities, interpretive programs, or just relax and enjoy the beautiful mountain scenery. The Camp ranges from 70 to 300 campers per night, with a summer support staff of approximately 40 to 60 seasonal employees and volunteers. The Camp summer program runs seven days a week from the middle of June through the middle of August, with complete in-house meal services and a variety of structured recreational and interpretive activities. Three meals a day are prepared by Camp staff and are served cafeteria-style. During the spring pre- and fall post-seasons, Camp is available for families, individuals, and groups on various weekends. During these periods, Camp has hosted community organizations such as YMCA, Scouts, the Boys and Girls Clubs, schools, and special interest groups. The pre- and post-seasons have a reduced staffing level. Camp typically opens on the Friday before the last Saturday in April, opening day of trout fishing in the Sierra Nevada Mountains. Camp closes down in October for the winter.

The program costs for Camp are mainly underwritten by the revenue fees obtained from the campers. The City's goal is to operate Camp to be a 100% cost recovery program with no impacts to the General Fund. In 2009, the last year the Camp was fully opened and serving 5,755 individuals, the site generated revenues provided a cost recovery rate of 91.5% for direct seasonal costs, 83.1% when including the annual capital expenditure liabilities, which are funded from the Citywide Park Fund and 60.4% when the indirect costs are included. For the 2011 season, the City increased the camper fees by approximately 20% to move closer to the 100% cost recovery goal.

A major issue for Camp is the estimated expenditure of $10,000,000 to $16,000,000 over the next 20 years to renovate the existing deteriorating facilities and to implement the environmental work required by the Camp's landlord, the U.S. Forest Service, and other regulatory agencies. The estimated cost to close Camp, remove the facilities, and restore the site to a natural state as indicated by the current agreement with the U.S. Forest Service is just under $16,000,000 and within the range to repair Camp; however, the timeframe for such expenditures is likely reduced for the closure option.

The City is facing at least a $78,000,000 dollar deficit in the 2012-2013 General Fund Budget. However, this preliminary figure is expected to grow since it does not include potential impacts from increases in pension costs, the impacts of State legislation and related court decisions on the San José Redevelopment Agency, and a number of other things that could make these numbers worse. The size of the proposed deficit makes clear the City will not be able to offer all of its current programs next year.

Before December 31, 2011, the U.S. Forest Service has asked the City to make known its intention to either operate Camp in the future or to discontinue it as a City program. Staff believes that Camp revenues can pay for its direct operational costs in the future, however, the future capital costs is daunting. Therefore, staff recommends the options to either sell its interest in the Camp improvements and discontinue Camp as a City program, or to operate Camp through a third party concessionaire similar to other facilities under the City's Community Center Reuse Policy. The latter option will require the City to renew its Special Use Permit/Land Lease with the U.S. Forest Service.

The City does not have a Special Use Permit/Land Lease with the U.S. Forest Service to operate Camp beyond December 31, 2011; therefore staff is recommending not operating Camp next year for the 2012 season and beyond as a City run program and to place improvements up for sale.

BACKGROUND

A condition of Amendment Number Five to the current Special Use Permit/Land Lease Agreement with the Forest Service for Camp is for the Director of the Department of Parks, Recreation, and Neighborhood Services (PRNS) to make a recommendation to the City Council whether to continue future operations of Camp by the City and to inform the Groveland Ranger District of the U.S. Forest Service on or before December 31, 2011, of the City Council's action regarding the future operation of Camp. Amendment Number Five extended the City authority to operate Camp on Federal land to December 31, 2011.

On March 2, 2010, the Council directed staff to return with the following analysis prior to the execution of a new 20-year Special Use Permit/Land Lease Agreement with the U.S. Forest Service to operate Family Camp on Federal land:

> (1) A plan that could bring the operation of Family Camp to full cost recovery, including the amount necessary to amortize the cost of needed repairs over a period not to exceed ten years, which includes the establishment of a sinking fund to address the other anticipated and unanticipated needs of Family Camp in the future.
>
> (2) A plan for a potential exit strategy; the implications of closing Family Camp and discontinuing the City agreement with United States Forest Service; and what that would entail as far as costs that the City would need to return the camp area to pristine condition or as required by the permit so that Council can evaluate all options on the table.

Camp is currently managed and operated by Parks, Recreation and Neighborhood Services (PRNS). The Camp is approximately two and half hours east of the City and is situated on 46.8 acres of federal land leased from the Groveland Ranger District of the Stanislaus National Forest (U.S. Forest Service). It is located just off State Highway 120, fifteen miles east of Groveland, and ten miles west of the northern entrance to Yosemite National Park.

The U.S. Forest Service has requested that the City provide a comprehensive evaluation of Camp facilities, and identify opportunities to renovate the facilities and ensure regulatory compliance. The U.S. Forest Service has requested this information be presented in a master plan format, which will also be used to define the City proposed project for environmental review under the National Environmental Policy Act (NEPA) and the California Environmental Quality Act (CEQA). The City has contracted with David J. Powers & Associates, Inc., an environmental consultant and planning firm to prepare a joint NEPA/CEQA document regarding the proposed renovations and new facilities as noted in the Draft Master Plan for Camp. This effort should result in a Master Development Plan for capital improvements that is acceptable to the U.S. Forest Service and fulfill a prerequisite required to obtain a Special Use Permit/Land Lease to operate Camp on Federal land.

On September 11, 1967, the City Council considered and approved the concept of purchasing Family Camp (aka Tuolumne Camp Site) from the City of Oakland by a four to two vote with one absent. City Manager Hamann expressed the opinion that the purchase price of the Camp was reasonable. Mayor James expressed the opinion that a majority of the Council was interested in providing camping facilities for San José residents, and advocated for providing camping facilities for both campers who desire to cook their own meals and sleep on the ground as well as those who desire to sleep in tents and eat in a dining hall. On November 13, 1967, Councilmember Mineta motioned that the City Manager be authorized to submit a sealed bid to the City of Oakland for the acquisition of the improvements associated with the Camp. On November 20, 1967, City Manager Hamann reported that the City's bid for the acquisition of the Camp had been accepted by the City of Oakland. The City of San José was the only bidder for the camp site. On February 26, 1968, the City Council approved the first Special Use Permit/Land Lease with the U.S. Forest Service to operate Camp as a City program.

In the past, the Friends of Family Camp, a not for profit 501 (c) 3 organization, have provided donated labor to help run, repair, and enhance the Camp facilities. The Friends of Family Camp was established in 1973, as an auxiliary volunteer organization dedicated to maintaining Camp for the enjoyment of all campers. They have been conducting periodic work parties at Camp since their inception and continue to the present day to support site maintenance, camp repairs, and modest fund raising activities. PRNS anticipates this relationship will continue into the future.

Prior to the issuance of a new 20-year Special Use Permit/land Lease, the U.S. Forest Service requested the City to prepare an evaluation of its current facilities and to discuss opportunities to renovate existing or build new facilities at Camp. PRNS staff has prepared the Draft 2010/11 Master Plan for Family Camp to comply with the request from the U.S. Forest Service. The Draft 2010/11 Master Plan is currently under environmental review. The Draft Master Plan provides a list of proposed capital projects that could occur at Camp over the next 20-year period. The implementations of those projects are dependent on funding. PRNS also prepared a Business Plan and hired Pros Consulting, LLC, to review the staff documents and to prepare a Feasibility Study for Camp. All of these documents are posted online at the PRNS Family Camp website at http://www.sanjoseca.gov/prns/familycamp.

ANALYSIS

Camp is one of many facilities and programs operated by PRNS. The draft "Business Plan" and "Feasibility Report" for Camp provides information regarding the Council's March 2, 2010 (Item 5.2) request to create a plan that could bring the operations of Camp to full cost recovery. The chart on the next page provides a summary of Camp operations for the last three fully operating seasons. Camp was closed in 2010 and for the 2011 pre-season for repairs to the dining hall. For 2011, the camper fees were increased by an average of 20% to bring the program closer to achieving a full cost recovery rate for direct costs and annual capital expenditures. The 2011 adult resident fee is $70 per night, which includes three meals per day and a tent. As a comparison, the average adult cost that San José residents would pay at other nearby camps for a similar experience is $89 per night. Therefore, there is possible latitude to increase the camper fees in the future.

Summary of Operations	2007	2008	2009	2011

Description (1)	**Season**	**Season**	**Season**	**Projected**
Camper Revenues	$544,865	$676,833	$712,078	$675,000
Total Direct Camp Expenditures (2)	$722,815	$714,412	$778,518	$621,000
Annual Capital Expenditures (3)	$85,752	$66,426	$78,216	$84,000
Total Expenditures	$808,567	$780,838	$856,734	$705,000
Operating Margins (4)	(-$263,702)	(-$104,005)	(-$144,656)	(-$30,000)
Direct & Capital Cost Recovery Rate	67.4%	86.7%	83.1%	95.7%
Indirect Program Costs (5)	$243,357	$218,562	$322,777	$195,000
Camp Expenditures with Indirect Costs	$1,051,942	$999,400	$1,179,511	$900,000
Cost Recovery Rate with Indirect Costs	51.8%	67.7%	60.4%	75%
Number of Individual Campers	4,685	5,570	5,755	4,000
Adult Summer Fee per day (16 and up)	$52	$52	$55	$70
Summer Season Occupancy Rate (6)	74%	83%	89%	80%

1. Camp was closed in 2010 and for the 2011 pre-season session for repairs to the Dining Hall
2. These numbers do not include indirect costs, but do include direct general fund costs
3. The annual capital expenditures is from the Citywide Parks Fund for the site lease and minor capital improvements
4. Camp revenues minus total direct and annual capital expenditures
5. Amount associated with direct program personnel wages based on PRNS overall indirect cost factor by year
6. Percentage of tent rentals

Projected Operation Scenarios Description	**2012 Season**	**2013 Season**	**2014 Season**	**2015 Season**
Camper Revenues (1)	$702,400	$727,195	$752,865	$779,441
Camp Retail Revenues (Camp Store) (2)	$28,050	$31,472	$35,312	$39,620
Total Revenues	$730,450	$758,667	$788,177	$819,061
Total Direct Camp Expenditures (3)	$635,294	$703,857	$720,648	$737,851
Annual Capital Expenditures (4)	$84,000	$30,000	$30,000	$30,000
Total Expenditures	$719,294	$733,857	$750,648	$767,851
Operating Margins (5)	$11,156	$24,810	$37,529	$51,210
Direct and Capital Cost Recovery Rate	101.6%	103.4%	105.0%	106.7%
Indirect Cost at 68.62% of Direct Wages (6)	$200,093	$205,115	$210,264	$215,541
Camp Expenditures with Indirect Costs	$919,387	$938,972	$960,912	$983,392
Cost Recovery Rate with Indirect Costs	79.4%	80.8%	82.0%	83.3%
Number of Individual Campers	4,900	5,000	5,100	5,200
Adult Summer Fee per day (16 and up)	$71	$72	$73	$74

1. Includes an annual increase of 1.5% in camping revenues and 2% in visitors based from the 2011 Fee Schedule
2. Includes an annual increase in retail revenues of 10%
3. Includes a 2% annual increase in expenditures and beginning in 2013 the lease payment
4. Annual capital expenditures from the Citywide Parks Fund for the site lease payment in 2012 and minor capital repairs.
5. Camp revenues minus total direct and annual capital expenditures
6. The Indirect Cost Factor changes from year to year – This Chart uses the PRNS average of 68.62% factor for future years

[Information derived from the Feasibility Study by Pros Consulting]

According to the tables above, Camp revenues are anticipated to be 95.7% of direct and annual capital expenses for 2011 and should be cost recovery in the following years. It is important to note that the cost recovery rate drops to 75%, when adjusting for the indirect cost factor at 68.62% of direct wages associated with a PRNS program. All camper fees would need to be increased by 25%

to cover the indirect costs. The current adult resident fee at $70 per night would need an increase of $17.50 and the non-resident adult fee by $23.00. These numbers do not include the amount required for long range capital repairs, which are discussed later in this report.

Based on the City's budget procedures for indirect costs, camper fees will need an increase for the program to be truly cost recovery. This rate changes each year to facilitate the indirect cost factor for a program. The indirect cost is derived from the Department's administrative costs and all non-personal costs, as well as the PRNS share of all support department costs, compared to the Department's personnel costs, excluding benefits amounts.

In order to minimize the impacts on the City's General Fund from Camp, PRNS has done initial explorations regarding potential use of a third party operator and potential collaborations with universities and/or other public agencies as partners in operating Camp. An interest letter was sent to universities, government entities, non- profit and for profit businesses. We received inquiries including the following examples:

- The City of Tracy expressed an interest with the idea of its residents having access to Family Camp for a reduced fee. One scenario that appeared most feasible is for the City of Tracy to create and manage an online registration process for Camp, thus reducing City expenditures and making the process visible to campers regarding tent selection.
- Staff has also discussed possible collaborations with the Dean of the College of Applied Sciences and Arts for San José State University (SJSU). A follow-up meeting was conducted at Camp with SJSU faculty.
- Staff met with the Park Company, a Camp concessionaire, on-site. They showed interest in operating Camp, but expressed concern regarding prevailing/living wage requirements.
- Additionally, staff had conversations with operators of similar camps including Berkeley and San Francisco.

If the Council decision is to continue to operate Camp, then staff will further explore opportunities to partner with others in providing this camping experience.

Prior to the issuance of a new Special Use Permit/Land Lease, the U.S. Forest Service requested that the City prepare the "Draft 2010/11 Master Plan for Family Camp" to evaluate its current facilities and discuss opportunities to renovate existing or build new replacement facilities. The Draft Master Plan provides both the U.S. Forest Service and the City with a list of proposed capital projects that could occur at Camp over the next 20-year period, if funding permits. The Draft Master Plan provides staff and the City Council with cost options to either renovate the existing deteriorating facilities, or close Camp and remove the existing facilities, and restore the site to a natural state. Staff has considered the following four alternatives noted below in the "Draft 2010/11 Master Plan" document for Family Camp.

Proposed Alternatives:

1. The status quo option, which would repair, enhance and/or replace the existing Camp facilities in-kind and implement the environmental land management work required by the

U.S. Forest Service and other regulatory agencies. The environmental land management work includes the installation of bear proof trash containers and food lockers, the protection of on site cultural resources, sediment reduction, hazardous tree management, noxious weed management, and vegetation reduction work to reduce the fire fuel load in Camp The primary cost factor in this alternative is the replacement of the dining hall at $4,000,000. The current dining hall capacity is 200 campers at one seating. In total, this alternative is estimated to cost approximately $9,840,000 in capital repairs, which includes the dining hall, over the next 20 years. This amount is above and beyond the revenues and funding streams identified in the tables on the preceding pages.

2. The replacement of the existing deteriorating dining hall/kitchen/office/first aid facility with a new two story building on the same footprint as the existing building. The first story would be used for an expanded dining hall facility, the first aid station, and the Camp's reception office. The second story would be used for a nature center and office space. This option would also convert the existing caretaker's carport into a garage and provide two solar carports to help off-set the Camp's electrical costs, and some year-round sleeping facilities. This alternative would increase the capacity of the dining hall by approximately 30 campers. This alternative is estimated to cost up to $14,940,000 ($5,100,000 more than Alternative 1) over the next 20 years, which again is above and beyond the revenue and funding streams identified in the above table.

3. Enlargement of the footprint to the proposed dining hall/nature center building proposed in Alternative 2 by removing two nearby facilities so that the overall square footage of improvements located in the Forest Service's Riparian Conservation Area (RCA) is not increased. The RCA is a 300 foot set back zone on each side of the Middle Fork of the Tuolumne River, which flows through Camp. Approximately 80% of the existing Camp facilities are located within the RCA. This alternative would increase the dining hall capacity by 48 campers compared to Alternative 1. This alternative is estimated to cost up to $16,260,000 ($1,300,000 more than Alternative 2) over the next 20 years. Again this capital amount is above and beyond the revenue and funding streams identified in the table on the preceding pages.

4. Alternative 4 in the Master Plan would close Camp. The Special Use Permit/Land Lease Agreement with the U.S. Forest Service states that upon abandonment, termination, revocation, or cancelation, the City shall remove all structures and improvements, except those owned by the United States, and shall restore the site. If the City fails to remove the Camp structures and improvements owned by the City, then such structures and improvements shall become the property of the United States. The failure to comply with this condition will not relieve the City of its liability to pay for the removal of Camp facilities and to restore the site. This alternative is estimated to cost up to $15,950,000 to remove the existing improvements, and to re-contour and re-vegetate the site. The time period for this work to return the Camp site to pristine conditions would have to be negotiated with the U.S. Forest Service.

Much of the proposed work defined in the Draft Master Plan is the result of deferred capital maintenance, environmental land management work required by Forest Service, and/or future code compliance requirements from other regulatory agencies. Without detailed construction and work plans for the four proposed alternatives, establishing firm estimates at this time is difficult. Therefore these numbers are staff evaluations regarding future costs to rebuild and enhance Camp and to implement the work required by the Forest Service. Furthermore, some of the proposed work may be done by Camp volunteers, like the Friends of San José Family Camp, which is a non-profit support organization, therefore lowering the overall costs for infrastructure repairs.

Alternative 3, the enlarged dining hall/nature center building, is the project that is being analyzed by David J. Powers and Associates to determine any significant environmental impacts associated with the proposed capital projects under both the National Environmental Policy Act of 1969 (NEPA) and the California Environmental Quality Act of 1970 (CEQA). Alternative 3 was selected as the preferred Alternative in the Master Plan, because it provides the greater seating capacity in the dining hall. Alternative 3 also has the greatest impacts on the environment of the three alternatives to continue the operation of Camp. Alternative 1 and 2 would stay within the existing footprint of the dining hall. Alternative 3 would provide an enlarged footprint and the most useful information regarding environmental impacts, which the two other alternatives could be built under. Once the environmental review process is completed, staff will negotiate with the Forest Service for a defined list of proposed projects that will be noted in the future Master Development Plan for Council's consideration and approval along with a Special Use Permit/Land Lease Agreement, if required.

One part of the 2010 Council request was to amortize the cost of needed capital repairs over a period not to exceed 10 years, which includes the establishment of a sinking fund to address the other anticipated and unanticipated needs of Camp in the future. The estimated capital costs to repair and/or enhance Camp facilities over the next 10 years significantly exceeds additional revenues that would be obtained from annual camper fees as noted in the chart below. Such an increase could overprice Camp in the market place compared to other rustic tent family-oriented camping facilities. The 2011 adult fee for the City of Berkeley Camp is $96 per night for residents, San Francisco's Camp Mather is $79, and the Lair of the Golden Bear Camp is $110.

Capital Alternative	**Capital & Environ. Land Mgt. Work**	**Adjusted (Needed) Capital Costs (1)**	**Adult Camper Fee w. Capital Costs (2)**		**Camper Fee w. Cap. & Indirect Costs (3)**	
			10 Yr. Period	**20 Yr. Period**	**20 Yr. Period**	**20 Yr. Period**
Alt. No. 1) Status Quo Repairs & Environmental Land Management Work	$9,840,000	$8,490,000	$137.00 96% Increase	$108.85 55% Increase	$154.50 121% Increase	$126.35 80.5% Increase
Alt. No. 2) Same footprint for a new 2 Story Dining Hall & Nature Center (4)	$14,940,000	$13,590,000	$177.30 153% Increase	$129.00 84% Increase	$194.80 178% Increase	$146.5.00 109% Increase
Alt. No. 3) Enlarged footprint for a new 2 Story Dining Hall & Nature Center (4)	$16,260,000	$14,910,000	$187.70 168% Increase	$134.20 92% Increase	$205.20 193% Increase	$154.70 121% Increase

Alt. No. 4) Closure of Camp (Removal of Improvements) (5)	$15,950,000	NA	NA	NA	NA	NA
Alt. No. 5) New Ownership	Unknown	NA	NA	NA	NA	NA

1. Proposed Capital and Environmental Land Management Work over a 10 year period per Council request of March 2, 2010
2. Rate increases from the 2011 Adult City Resident Fee at $70.00 per night with three meals to cover the proposed capital costs.
3. These rates do include funding to capture the $17.50 for indirect Camp costs to the Adult City Resident Fee.
4. Includes all of the work in Alternative 1
5. Over a shorter time period to be negotiated with the U.S. Forest Service

The "Capital & Environmental Land Management Work" column in the chart includes program level funding estimates to upgrade the facilities over a 20-year period. These amounts include a contingency fund and the annual costs associated with the environmental land management work. The "Adjusted (Needed) Capital Costs" column represents a reduction to the overall capital costs associated with future contributions and environmental land management work to take place after year 10. This reduction is carried to the 10 year camper fee adjustment amount regarding fee rates needed to fund the proposed capital work and the environmental land management work within the first 10 years.

The City could place a $20 capital surcharge on each tent rental per night during the summer season and $20 per weekend tent rental for the pre- and post- seasons to augment the capital costs to rebuild and improve Camp facilities. Such a fee could generate approximately $66,000 per year, which could fund the required environmental management work by the U.S. Forest Service, and some minor capital repairs and enhancements as part of a capital reserve fund.

Currently, the Camp lease payment to the U.S. Forest Service is funded from the Citywide Park Fund in the Capital Budget, which derives its funds from PRNS share of the Construction and Conveyance Tax (C&C). Family Camp is named in Section 4.55.420 of the San José Municipal Code as an allowable expenditure of the Citywide C&C Park funds. If revenues permit, the City could transfer future lease payments as a direct program cost to be paid from camper fees. The City could use the current Citywide Park Fund contribution of $54,000 for the lease payment to establish a capital reserve fund for Camp, which would generate over $1,000,000 during the next 20 years.

Based on the above analysis, it is highly unlikely that Camp could generate the necessary income through user fees to fully fund all future capital costs, even in the lowest cost alternative (Alternative 1- status quo). To replace the existing Dining Hall in Alternative 1 with a one story building is estimated to cost $4,000,000. A current ongoing source of funding in the City eligible to be spent at Camp is the C&C funds associated with Citywide Park Fund. It is important to note that from Fiscal Year 2011-2012 to Fiscal Year 2012-2013, the Citywide C&C Park Fund is only estimated to generate approximately $360,000 in additional revenues over ongoing anticipated expenses and there are many competing priorities for this funding. At 46.8 acres, Camp is only 2.5% of the City's citywide park acreage and the Citywide C&C Park Fund is also the only funding source available for infrastructure repairs to other citywide parks such as Guadalupe River Park & Gardens, Happy Hollow Park & Zoo, and Alum Rock Park. In addition, the City Council could consider using C&C funds allocated to specific council districts to help with the long term capital needs. However, as a result of declining conveyance taxes over the past several years, approximately half of the council district C&C funds are spending more money annually than they are taking in. This has not become an issue yet because of positive fund balances generated during the early part of the last decade; however it is a long term problem for the fund. Staff will be proposing a correction to this issue as part of the FY 2012-2013 budget process. In the meantime, these funds are not able to provide ongoing support for Camp's capital needs. Ultimately, in order to fund necessary capital improvements under any alternative at Camp, the City would need to seek alternative funding to defray the capital costs through a capital surcharge on tent rentals, grants, donations, a fund raising campaign, and/or other capital fund development strategies.

On September 7, 2011, the Parks and Recreation Commission heard a presentation from staff and public testimony from 12 individuals on Family Camp. The Commission has scheduled Family Camp for its November meeting to advise the City Council of its recommendation on whether or not the City should operate Camp as a City program with seasonal staff.

On September 8, 2011, the Neighborhood Services and Education (NSE) Committee (Committee) heard a presentation from staff on Family Camp and public testimony. Staff received input from the public and the Committee to improve the Family Camp marketing campaign, registration procedures, along with its interpretive offerings. The Committee requested the analysis to include the City's indirect costs information, which is noted in the above tables. Indirect costs are placed against City personnel wages only that are associated with a program. The indirect cost is estimated at 68.62% for 2011 for PRNS' programs, which is derived from the Department's administrative costs and non-personal costs, as well as the PRNS share of all support department costs, compared to the Department's personnel wages without benefits. This rate changes each year to facilitate the overhead costs for a program. The indirect cost increase to Family Camp expenditures based on the 2011 rate could be approximately $2,200,000 over a 10 year period. This would require a 25% increase to all camper fees just to cover indirect costs. If the City were to use a third-party vendor to operate Camp, the indirect cost factor assessment against Camp would be substantially reduced. The Committee also requested staff for expanded exploration of exit strategies. The Committee did not express support for out-right closure of Camp, but rather to engage other entities in operating Camp.

Exit Strategies

Another part of the 2010 Council request was to consider exiting strategies for Camp.

A different exiting strategy not considered in the Draft Master Plan, is for the City to sell its interest in the Camp improvements to another entity, subject to U.S. Forest Service approval. Because the City is not authorized in its Special Use Permit/Land Lease to transfer its interest in the agreement associated with Camp, this option would require negotiation of a new Special Use Permit/Land Lease with the U.S. Forest Service by the new entity to lease and operate the Camp. The outstanding issue here is whether or not there is another entity interested in owning the improvements and operating Camp, which would be determined through a bidding process.

An alternative strategy is for the City to operate the Camp through a concessionaire and/or other partners. Such a partnership could relieve the City from the day to day operation of the Camp and its associated seasonal cost liabilities. This option is similar to other City's facilities under the

Community Center Reuse Policy. This option would hinge on the City ability to obtain a new Special Use Permit/Land Lease from the U.S. Forest Service.

The last strategy is the direct closure of Camp, which would require the removal of the existing improvements and restore the site to a natural state by the City as outlined by the current agreement with the U.S. Forest Service. If the City fails to remove the Camp structures and improvements, then such structures and improvements shall become the property of the United States. The failure to comply with this condition in the agreement will not relieve the City of its liability to pay for the removal of the improvements and to restore the site. Such restoration work would include regrading the site to remove the appearance of any roads and pathways, along with all building pads, the river retaining walls, and the sewer pond. Staff has provided a program estimate for this closure option at just under $16 million. This cost is within the range to repair the Camp facilities; however, the timeframe for such expenditures is likely reduced for the closure option.

Staff Conclusion

On or before December 31, 2011, the City is to inform the U.S. Forest Service of City Council's action regarding the future operation of Camp. Based on the current financial situation of the City, staff recommends the option to either sell its interest in the Camp improvements and discontinue Camp as a City program, or operate Camp through a third party concessionaire similar to other City's facilities under the Community Center Reuse Policy. The latter option will require the City to renew its Special Use Permit/Land Lease with the U.S. Forest Service. If the City is unable to sell its interest in the Camp improvements, or operate Camp through a third party concessionaire, it may result in the City being required to remove the Camp improvements and return the site to a natural state. The costs to remove the improvements are in the range to repair Camp, but the timeline for the removal of these improvements is likely reduced. Therefore, staff is proposing to discontinue its operation of Camp beginning with the 2012 season and take the necessary actions to sell Camp within the next 19 months.

EVALUATION AND FOLLOW-UP

If Council directs staff to move forward with the sale of the Camp improvements, the City should complete the Camp Master Plan and its associated environmental review as documents for the new owner to use in its negotiations for a Special Use Permit/Land Lease with the U.S. Forest Service. The Draft Master Plan is posted online at http://www.sanjoseca.gov/prns/familycamp. Staff anticipates the environmental review process for both CEQA and NEPA will take about a year. Staff would return to Council before July 1, 2013, with an offer to purchase the improvements. If the City is unable to solicit a buyer for Camp, staff would return to Council by September 1, 2013, with a request to add Camp to the facilities under the Community Center Re-Use Policy.

POLICY ALTERNATIVES

Alternative #1: City to continue the Camp program and repair and upgrade the facilities.

In 1967, the City Council acquired Family Camp from the City of Oakland to provide camping facilities for San José residents. Camp is a retreat from urban life, where campers of all ages can fish, hike, swim and participate in organized activities, interpretive programs, or just relax and enjoy the beautiful mountain scenery located near the northern entrance to Yosemite National Park. Camp also provides summer employment opportunities for the City's young adults.

Pros: Organization camps like Family Camp have played an important role in exposing children and adults to the natural environment. Such camps have provided an opportunity for children raised in metropolitan areas to gain an appreciation of the great outdoors. Such camps also allow the family to bond, grow closer, and build relationships as a family and with other families, neighbors, and friends. Through increases to fees, Camp is a program that can be 100% cost recovery for both direct and indirect operational costs. Furthermore, this program has an extremely high level of customer satisfaction as noted in the user survey results in the appendix to both the Draft Master Plan and the Business Plan. This recreational opportunity would not be lost for family enjoyment.
Cons: A major issue for Camp is the estimated expenditure of $10,000,000 to $16,000,000 over the next 20 years to renovate the existing deteriorating facilities and to implement the environmental work required by the Camp's landlord, the U.S. Forest Service, and other regulatory agencies. Family Camp is competing for capital funding available for infrastructure repairs to other citywide parks, such as Guadalupe River Park & Gardens, Happy Hollow Park & Zoo, and Alum Rock Park.
Reason for not recommending: The estimated deficit amount of at least $78,000,000 dollar for the 2012-2013 Fiscal Year will have a major impact on PRNS. The size of the proposed deficit makes clear that PRNS will not be able to offer all of its current programs next year. Therefore, the recommendation to close Camp and sell the improvements to another entity allows the City to save operational funds and release our land restoration obligations. This would relieve the obligation of the City to operate Family Camp in the Stanislaus National Forest, which is approximately a two and half hour drive east of the City, and focus on infrastructure repair work on other regional facilities within the City limits.

PUBLIC OUTREACH/INTEREST

☐ **Criterion 1**: Requires Council action on the use of public funds equal to $1 million or greater. **(Required: Website Posting)**

☐ **Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

✓ **Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council, or a

Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

In September 2010, PRNS mailed out approximately 3,115 surveys to Camp patrons including contacts and members on the Friends of San José Family Camp's mailing list. The City received over 640 surveys for a return rate of 20.5%. Based on the survey results, 98% of the responders would like the City to keep Camp opened and 94% will attend Camp in the future. The survey results are in the appendices to both the Draft Master Plan and the Business Plan.

On August 8, 2011, PRNS posted the Draft 2010/11 Master Plan and 2011 Business Plan for Camp on its website and an email notice was sent out informing many of those who participated in the 2010 Camp survey of the posting of the Draft Master Plan and the upcoming meetings.
On August 30, 2011, PRNS conducted a community meeting on San José Family Camp at the Almaden Community Center. This meeting was attended by approximately 38 supporters of Camp. Councilmembers Pyle and Oliverio were also in attendance. This was an informational meeting to update the community on the actions taken by the City regarding the proposed 20-year Special Use Permit/Land Lease to operate Camp and to comply with City Council directions of March 2, 2010.

Notice of the community meeting was posted in the San Jose Mercury News, El Observador, and Metro newspapers. A notice was posted on the PRNS web-site regarding the community meeting, and a notice was given to the Friends of San José Family Camp. An email notice was sent out informing many of those who participated in the 2010 Camp survey.

Staff has attended the monthly meetings of the Friends of San José Family Camp, our partner in making Camp a reality for San José residents to enjoy a family-oriented sierra camping experience.

A notice of this Council meeting was sent to San José registrants on the Camp's mailing list.

COORDINATION

This memorandum has been coordinated with the Department of Public Works, the City Manager's Budget Office, and the Office of the City Attorney.

FISCAL/POLICY ALIGNMENT

The Mission of PRNS is to build healthy communities through people, parks, and programs.

BUDGET REFERENCE

This year's operational costs for Family Camp are associated with Appropriation 0641 for Personal Services and 0642 for Non-Personal/Equipment for PRNS within the Operating Budget. The current lease payment and minor capital funding are identified in Capital Fund 391- Citywide Park Fund. Funds associated with Camp are approved through the annual budget process.

CEQA

Not a project, File No. PP10-069(a), Staff Reports.

/S/
JULIE EDMONDS-MARES
Acting Director of Parks, Recreation and Neighborhood Services

For questions please contact Steve Hammack, Deputy Director, at 408-793-5579.

Please see www.sanjoseca.gov/prns/familycamp for the documents noted in this report.

COUNCIL AGENDA: 11-15-11
ITEM:

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Julia H. Cooper

SUBJECT: **ISSUANCE OF CITY OF SAN JOSE AIRPORT REVENUE BONDS, SERIES 2011B/C**

DATE: October 24, 2011

Approved

Date 11/1/11

COUNCIL DISTRICT: City-Wide

RECOMMENDATION

It is recommended that the City Council adopt the Seventeenth Supplemental Resolution (the "Resolution") of the City Council:

(a) Authorizing the issuance of City of San José Airport Revenue Bonds, Series 2011B and Series 2011C (the "2011B/C Bonds") in a total aggregate principal amount of not to exceed $315 million to be sold through negotiated sale;
(b) Approving substantially final forms of Supplemental Trust Agreement, Preliminary Official Statement, Bond Purchase Agreement and Continuing Disclosure Certificate;
(c) Authorizing the distribution of one or more Preliminary Official Statements and Final Official Statements; and
(d) Authorizing and approving other related actions in connection with the issuance of the 2011B/C Bonds.

OUTCOME

Approval of the recommendations will allow the issuance of the Series 2011B/C Bonds to refund a portion of the outstanding City of San José, San José International Airport Subordinated Commercial Paper Notes ("CP Notes") and to refund certain outstanding City of San José Airport Revenue Bonds to the extent such refunding of Airport Revenue Bonds meets the City's Debt Management Policy savings objectives and the requirements stipulated in the Airport's Master Trust Agreement.

EXECUTIVE SUMMARY

This staff report recommends approving the issuance of Airport Revenue Bonds in an amount not to exceed $315 million to refund outstanding taxable CP Notes and, where market conditions are favorable, to refund certain outstanding airport revenue tax-exempt bonds previously issued in 2001. This taxable CP Notes refunding is the second step of a larger financing strategy that will result in the refunding of taxable CP Notes primarily used to fund the construction of the Airport's new consolidated rental car facility (the "ConRAC"). The first phase of the CP Notes refunding strategy was completed in July 2011 when the City issued $236,785,000 of Airport Revenue Bonds, Series 2011A-1 and Series 2011A-2 (the "2011A Bonds"). The 2011A Bonds refunded outstanding tax-exempt CP Notes, all of the outstanding Airport Revenue Bonds, Series 1998A and a portion of the outstanding Airport Revenue Bonds, Series 2001A (the "2001A Bonds").

The 2011B/C refunding plan meets several objectives. It complies with the Airport's original plan of finance to refund short-term CP Notes with long term fixed rate bonds. The CP Notes were an interim financing vehicle used during the construction period of the Airport Master Plan. Refunding of CP Notes mitigates future letter of credit renewal risk and allows the Airport to substantially reduce the size of the CP program at a time when market conditions have made it increasingly difficult and expensive to obtain the credit facilities required to support the CP program. Finally, due to continued improvements in the municipal market, refunding some or all of the remaining 2001A Bonds could achieve economic savings for the Airport in the form of lower debt service.

BACKGROUND

The Airport CP Program

The Airport CP program was established in November 1999, pursuant to Council Resolution 69200, to provide interim financing for Airport capital needs in anticipation of issuance of long term fixed rate Airport Revenue Bonds. Airport CP Notes are debt obligations backed by Net General Airport Revenues and are subordinate to Airport senior lien debt, also backed by these revenues. Net General Airport Revenues are the Airport's gross revenues less maintenance and operation expenses.

The Airport CP program has been amended and expanded since its inception in November 1999. In particular, in March 2008[1] City Council approved an expansion of the Airport CP program from $450 million to $600 million, primarily to refund the Airport Revenue Bonds, Series 2004A and Series 2004B (the "2004A/B Bonds") that were adversely impacted by disruptions in the financial markets related to auction rate securities. This expansion was accomplished through the creation of three additional series of commercial paper notes: Series D (Non-AMT), Series E (AMT), and Series F (Taxable), secured by a letter of credit issued by Lloyds TSB Bank plc,

[1] Council Agenda 3/25/2008, Item #6.4

acting through its New York Branch ("Lloyds"). This letter of credit was terminated on August 26, 2011 after the related CP notes were refunded in connection with the 2011A Bonds issuance in July 2011. A full legislative history of the Airport CP program has been included in Attachment A of this memo.

The Airport CP program is currently supported by four letters of credit and reimbursement agreements with each of JPMorgan Chase Bank, N.A. ("JP Morgan"), Bank of America, N.A. ("Bank of America"), Citibank, N.A. ("Citibank") and Wells Fargo Bank, N.A ("Wells Fargo Bank"). The terms of the agreements range from one year to three years and provide aggregate credit support of $383 million to the Airport CP Program.

Phase 1 of the Airport Development Program

Construction of the Phase 1 projects was substantially complete in fiscal year 2010-11. The Phase 1 projects included nine new gates and approximately 366,000 square feet of new terminal space; design and construction of the new Terminal B; improvements to the existing Terminal A, including new ticketing facilities, a new in-line baggage system that serves both Terminals A and B and security checkpoint, lobby concessions and other improvements; the phased demolition of Terminal C; design and construction of the ConRAC; realignment and improvement of existing terminal roadways; parking improvements; airfield projects, including noise mitigation and the reconstruction of Taxiway Y; and other improvements, including construction of a new belly freight facility and an aircraft rescue and fire fighting facility. The Phase 1 projects also include design of certain Phase 2 projects, but under the Airline Lease Agreement the commencement of construction of the Phase 2 projects is contingent upon satisfying specified activity-based triggers. All of these projects have been financed, in part, with bond proceeds and CP Notes.

ANALYSIS

Proposed Financing Strategy

The Airport currently has approximately $280 million of CP Notes outstanding. Approximately $250 million of the outstanding CP Notes were issued on a taxable basis for projects such as the construction of the ConRAC, Fuel Farm Cleanup, and the Owner Controlled Insurance Program ("OCIP") Reserve. An additional $30 million of CP Notes were issued for projects such as public parking improvements, Taxiway W, and various other elements of the Terminal Area Improvement Program.

The proposed financing strategy would refund approximately $225 million of the outstanding CP Notes issued for the construction of the ConRAC to long-term fixed rate bonds (2011 B Bonds) and refund all or a portion of the outstanding 2001A Airport Revenue Bonds to the extent that economic savings are realized (2011C Bonds). Following the issuance of the 2011B/C Bonds, approximately $55 million in CP Notes will remain outstanding, consisting of $14 million of private activity Non-AMT CP Notes, $16 million of AMT CP Notes and $25 million of taxable

CP Notes. Staff is currently evaluating the appropriate size of the CP program after issuance of the 2011B/C Bonds. However, it is expected that the letter of credit provided by Citibank currently scheduled to expire on January 12, 2012, will be allowed to expire according to its terms.

Plan of Finance

This section provides a description of the 2011B/C Bonds, including a summary of the estimated sources and uses of funds, and discusses the additional bonds tests that are a prerequisite to the issuance of the 2011B/C Bonds.

Description of the 2011B/C Bonds

The 2011B/C Bonds will be issued in up to two series as the City of San José Airport Revenue Bonds, Series 2011B (the "2011B Bonds") and the Series 2011C (the "2011C Bonds) (collectively, the "2011B/C Bonds") in the not to exceed aggregate principal amount of $315 million. Federal tax law permits the issuance of tax-exempt bonds for governmental purposes ("Non-AMT") or for specified private use purposes that qualify the bonds for tax-exempt status pursuant to the Internal Revenue Code, subject to certain provisions relating to the Alternative Minimum Tax ("AMT"). Federal law generally prohibits the issuance of tax-exempt debt in financings involving other types of private use, such as the construction of the ConRAC facility. The 2011B Bonds, which refund taxable CP Notes, will be issued on a taxable basis; and the 2011C Bonds, which refund Non-AMT bonds, will be Non-AMT bonds.

The 2011B Bonds are being issued to refund CP Notes originally issued to finance and/or refinance the construction of the ConRAC facility, make cash deposits to the Bond Reserve Fund and the Interest Fund (to pay capitalized interest), to fund an additional amount of rolling coverage for the 2011B Bonds, and to pay a portion of the costs of issuing the 2011B/C Bonds. The 2011C Bonds are being issued to refund certain outstanding 2001A Bonds to the extent such refunding would provide sufficient economic savings and to pay a portion of the costs of issuing the 2011B/C Bonds.

The 2011B Bonds will be issued pursuant to an Eighth Supplemental Trust Agreement and if the proposed refunding of the 2001A Bonds proceeds, the 2011C Bonds will be issuance pursuant to potentially a Ninth Supplemental Trust Agreement to the Master Trust Agreement (which, together with prior Supplemental Trust Agreements, is referred to in this memo as the "Trust Agreement"), as described below.

The 2011B Bonds is currently planned to be issued with a 30-year final maturity date of March 1, 2041, with slowly increasing annual debt service structured to mirror the projected revenue stream from customer facility charges ("CFCs") collected by the rental car companies serving the Airport, and designed to produce a substantially level Facility Rent to be paid by the rental car companies serving the Airport. However, if market conditions are favorable at the time of pricing, a shorter final maturity may be contemplated if it is deemed to be economically advantageous.

Security

The principal of and interest on the 2011B/C Bonds, and all of the City's Airport Revenue Bonds, are secured solely by the General Airport Revenues and certain other funds held or made available under the Master Trust Agreement (referred to as "Other Available Funds"), after Maintenance and Operation Costs are paid. The City is not obligated to pay debt service on any outstanding Airport debt except from the General Airport Revenues and such other funds held or made available under the Master Trust Agreement. The General Fund of the City is not liable, and the credit or taxing power of the City is not pledged, for the payment of the principal of, premium, if any, or interest on the 2011B/C Bonds. The 2011B/C Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the City or any of its income or receipts, except the General Airport Revenues. The owners of the 2011B/C Bonds have no right to compel the exercise of any taxing power of the City.

The Master Trust Agreement generally defines General Airport Revenues as meaning all revenues, income, receipts and moneys derived by the City from the operation of the Airport. General Airport Revenues also includes all interest, profits or other income derived from the deposit or investment of any moneys in the General Revenue Fund or any account therein established under the Master Trust Agreement. General Airport Revenues also includes all Facility Rent (as defined below) paid by rental car companies operating at the Airport. Under the terms of their ten year Rental Car Operations and Lease Agreement with the City which expires in May 2020, rental car operators are required to pay an amount equal to the difference between debt service on all debt issued to finance the ConRAC facility plus coverage amounts and reserve fund requirements and the City's operating costs to transport passengers to the ConRAC minus Customer Facility Charges paid by the rental car customers ("CFC revenues") (the difference being referred to as "Facility Rent").

Proposed CFC Increase

In addition to General Airport Revenues, the principal and interest of the City's Airport Revenue Bonds is also secured by any Other Available Funds designated by the City, which includes CFC revenues. Pursuant to State law and City Council approval scheduled to occur on November 8, 2011, the Airport's Customer Facility Charges will be adjusted from $10.00 per contract fee to $6.00 per day (subject to a five day maximum) starting on December 1, 2011, and $7.50 per day (subject to a five day maximum) starting on January 1, 2014. The implementation of the fee increase is anticipated increase annual CFC revenues from approximately $6.0 million based on the current $10 per contract fee to $12 million based on the $6 per contract day in FY 2013. As noted above, the 2011B Bonds debt service is structured to mirror the future CFC revenue stream as projected by the Airport's feasibility consultant, Ricondo & Associates ("Ricondo"), and provide for a projected level annual Facility Rent of approximately $5 million to be paid by Airport rental car companies.

Potential Refundings of Airport Revenue Bonds

As stated above, the 2011C Bonds represent a potential economic refunding of all or a portion of the outstanding maturities of the 2001A Bonds. Incorporating a refunding with a larger, longer-dated bond issuance creates certain market access efficiencies, reduces costs of issuance and streamlines the administration of the Airport debt portfolio.

The Council-adopted Debt Management Policy specifies a minimum of 3% net present value savings for a refunding to be considered economically viable and provides for consideration of refundings below the 3% threshold on a case-by-case basis. The final refunding amount of the remaining 2001A Bonds will be determined closer to the pricing date, consistent with the Debt Management Policy. Staff will evaluate the 3% savings threshold in view of the operational efficiencies of refunding all maturities concurrently with the larger 2011B/C Bond financing. The final refunding will also conform to the requirements of the Master Trust Agreement as it relates to refundings.

Bond Reserve Fund for 2011B Bonds

The City anticipates that the 2011B Bonds will be secured by a separate Bond Reserve Fund securing only the 2011B Bonds. The required reserve for the 2011B Bonds will be equal to 10% of the principal amount outstanding during the term of the 2011B Bonds. The initial reserve requirement is expected to be approximately $26.1 million and will be funded from the proceeds of the 2011B Bonds.

General Account of the Bond Reserve Fund

The City anticipates that the 2011C Bonds debt service reserve requirement will be secured by the General Account of the Bond Reserve Fund ("General Account") for the City's outstanding Airport Revenue Bonds. The General Account serves as a "common reserve" for all of the Airport's outstanding Airport Revenue Bonds except for the Series 2004 Bonds and the Series 2007 Bonds. Since the 2011C Bonds are economic refunding bonds which are anticipated to result in a decrease in annual debt service associated with the 2001A Bonds being refunded, no net deposit to the General Account of the Bond Reserve Fund will be required in conjunction with the issuance of the 2011C Bonds.

It should be noted that the Reserve Requirement in the General Account is presently satisfied, in part, by a $4.25 million surety bond from Ambac Indemnity Corporation and a $6.6 million surety bond from National Public Finance Guaranty Corporation ("NPFG"), as successor to MBIA Insurance Corporation. The ratings of NPFG and Ambac were reduced or withdrawn subsequent to the deposit of the respective surety bonds to the General Account. The Master Trust Agreement does not require that the rating of any surety bond held in the General Account be maintained after the date of deposit.

The NPFG surety bond expires on March 1, 2016, and the Ambac surety bond expires on March 1, 2018. If no additional Bonds are issued and no additional amounts are deposited in the General Account prior to such dates, on each such date the City would have to make a deposit to the General Account from accumulated Airport surplus funds or provide a Qualified Reserve Surety to replace the amount of each of the expiring surety bonds. The City will also be obligated to replenish the General Account prior to the expiration dates of the surety bonds in the event of a non-payment or cancellation under either surety bond, including upon the liquidation of a surety bond provider. A detailed discussion on the status of the surety bond providers is included in the draft Official Statement for the 2011B/C Bonds. This document will be posted on the City's agenda website on or about November 3, 2011.

Estimated Sources and Uses

The estimated sources and uses of funds for the 2011B/C Bonds are shown below. It should be noted that the amounts shown for the Series 2011B and the Series 2011C bonds are preliminary and subject to change.

City of San José
Airport Revenue Bonds, Series 2011B/C
Estimated Sources and Uses of Funds[(1)]

	2011B (Taxable CP Refunding)	2011C (2001A Refunding)[(2)]	Total
Sources of Funds:			
Par Amount of Bonds	$261,365,000.00	$44,405,000.00	$305,770,000.00
Premium	--	1,663,037.40	1,663,037.40
Total Sources of Funds	**$261,365,000.00**	**$46,068,037.40**	**$307,433,037.40**
Uses of Funds:			
Refund Commercial Paper	$225,000,000.00	--	$225,000,000.00
Deposit to Refunding Escrow	--	$45,710,000.00	45,710,000.00
Capitalized Interest	5,116,661.94	--	5,116,661.94
Debt Service Reserve Fund	26,136,500.00	--	26,136,500.00
Deposit for Rolling Coverage[(3)]	2,990,901.66	--	2,990,901.66
Underwriters' Discount	1,437,507.5	238,721.25	1,676,228.75
Costs of Issuance[(4)]	683,428.90	119,316.15	802,745.05
Total Uses of Funds	**$261,365,000.00**	**$46,068,037.40**	**$307,433,037.40**

(1) Preliminary; subject to change.
(2) Refunding reflects which currently have positive savings. Total par amount of refunding bonds issued will depend on interest rates and savings available at the time of sale.
(3) Deposit to provide rolling debt service coverage to support the 2011B Bonds.
(4) Includes bond counsel fees and expenses, financial advisor fees and expenses, rating agencies fees, trustee fees and expenses, and printing costs. Does not include municipal bond insurance premium, if any.

Conditions for Issuance of Additional Airport Revenue Bonds

Under the Master Trust Agreement, the City is authorized to issue additional bonds conditioned upon certain tests being met. A summary of the City's outstanding airport revenue bonds, and review of Council's prior approval of Airport bond issuances, may be found in Attachment B of this memorandum.

The 2011B Bonds are proposed to be issued under the prospective additional bonds test, which requires that, for the longer of (i) the next five fiscal years or (ii) the three fiscal years following the fiscal year in which the bond-funded project is estimated to be completed, net General Airport Revenues plus other funds available for the payment of airport revenue bonds are projected to be at least equal 125% of annual debt service on all outstanding airport revenue bonds after the 2011B Bonds are issued.

For the purposes of the 2011B Bonds, this forecast period will be through fiscal year 2017, or the next five fiscal years. In connection with the issuance of the 2011A Bonds, Ricondo prepared a report which sets forth findings, assumptions, and projections of the air traffic and financial analysis for the Airport. For the issuance of the 2011B/C Bonds, Ricondo prepared a letter update to this report indicating that subsequent developments at the Airport were either neutral or positive and indicating that the projections prepared in the report remain valid. This letter update and the Feasibility Report are included in Appendix B of the Preliminary Official Statement (collectively the "Ricondo Report"). The City will deliver to the Trustee a certificate setting forth the annual debt service on all bonds subject to the lien of the Master Trust Agreement (including the 2011B Bonds), and the projections of net general airport revenues and other available funds provided by Ricondo, which demonstrate that these projected revenues equal at least 125% of the annual debt service for each corresponding fiscal year through fiscal year 2017. Based on the Ricondo Report, estimated debt service coverage is expected to range from 163% to 193% within the projection period of fiscal years 2012 through 2017.

Pursuant to the Master Trust Agreement, the City is also authorized to issue additional bonds for the purpose of refunding outstanding Airport Revenue Bonds without meeting an additional bonds test, so long as (i) the proceeds are used solely to pay or defease the refunded Airport Revenue Bonds and to pay the costs of issuance, accrued interest, and reserve costs of the refunding Airport Revenue Bonds and (ii) the annual debt service for the refunding Airport Revenue Bonds in each year is less than or equal to the annual debt service for the refunded Airport Revenue Bonds in each year the refunding bonds are to be outstanding. So long as the 2011C Bonds issued to refund the 2001A Bonds are delivered simultaneously with the 2011B Bonds issued to refund outstanding CP Notes, the City expects to show compliance with the prospective additional bonds test described in the preceding paragraphs for all 2011B/C Bonds. However, if the 2011C Bonds issued to refund the 2001A Bonds are delivered on a different date, it is possible that the additional bonds test described in this paragraph that applies only to 2011C refunding bonds would be used.

Ricondo Report, Use of Unspent Bond Proceeds

The projection of debt service coverage in the Ricondo Report discussed above is based on a number of assumptions and projections, including the growth of enplaned passengers, from 4,107,394 in FY 2010 to 4,195,000 in FY 2017. The Ricondo Report will be posted on the City's agenda website on or about November 3, 2011.

In preparing the financial projections, Ricondo worked with Airport staff and Bond Counsel to incorporate certain assumptions relating to the allowable uses of unspent bond proceeds associated with Airport Revenue Bonds, Series 2007A and 2007B. Based on Bond Counsel advice and information provided by Airport staff, Ricondo assumed that a portion of the unspent bond proceeds associated with the 2007A bonds (estimated at $62 million) and certain other Airport funds will be applied towards future principal payments due on the 2007A bonds. Similarly, the unspent bond proceeds associated with the 2007B bonds (estimated at $28 million) are assumed to be applied towards future principal and interest on the 2007B bonds. This represents a conservative assumption for the purpose of calculating certain financial projections, including cost per enplanement and debt service coverage ratios.

It should also be noted that staff has worked with Bond Counsel to evaluate the application of unspent bond proceeds associated with the 2007A and 2007B bonds and the 2004 Bonds, including the potential of reimbursing various Airport capital and operating expenses that have previously been paid with Airport revenues. It is currently estimated that approximately $36 million of prior Airport expenses will be reimbursed from the 2007A and 2007B unspent bond proceeds.

Sale Parameters

Staff recommends that the 2011B/C Bonds will be sold within certain parameters as described below. The Seventeenth Supplemental Resolution sets forth these parameters.

Principal Amount: The estimated principal amount is $305,540,000 which represents the approximately $261,135,000 principal amount that will be required to refund the outstanding commercial paper, plus the principal amount of $44,405,000 needed to refund the 2001A Bonds currently outstanding.

True Interest Cost: The not-to-exceed true interest cost of the taxable 2011B Bonds is 9.00%, which is approximately 2.88% higher than current market rates.

The not-to-exceed true interest cost of the tax exempt 2011C Bonds is 8.50%, which is approximately 3.70% higher than current market rates.

Underwriters' Discount. The not-to-exceed total compensation to underwriters is 0.6% of the par amount of the 2011B/C Bonds.

Bond Insurance

The Council resolution permits the City to solicit a quote for municipal bond insurance. Assurance Guaranty Corporation ("AGC") is the only remaining viable provider of municipal bond insurance. The resolution proposes to delegate this decision and negotiation of terms and conditions with AGC to the Director or Assistant Director of Finance. However, based on discussions with AGC in conjunction with the issuance of the 2011A Bonds, it was determined that AGC's condition of submitting a bid for municipal bond insurance was a requirement that the City dismiss its case against AGC (among other municipal bond insurance providers). Given this factor and the fact that the projected economics of bond insurance were marginal for the 2011A Bonds and bond insurance is not expected to be economically beneficial to the sale of the 2011B/C Bonds, it is unlikely the City will pursue the use of municipal bond insurance for the 2011B/C Bonds.

Bond Financing Documents

There are a number of bond financing documents that require Council approval to proceed with the issuance of the 2011B/C Bonds. All of these documents, in substantially final form, will be posted to the City's agenda webpage on or about November 3, 2011.

***Official Statement*.** The Official Statement is the public offering statement for the issuance of the 2011B/C Bonds. City staff has worked with Disclosure Counsel in preparing the Preliminary Official Statement for the 2011B/C Bonds. This document describes the purpose of the 2011B/C Bonds, activity information on the Airport, and the financial condition of the Airport. Detailed financial and activity information regarding the Airport is included in Appendix A to the Preliminary Official Statement and information regarding the City's pension plans is included in Appendix C. The Preliminary Official Statement also includes, as Appendix B, Ricondo's full report and letter update. Investors use all of this information to evaluate the credit quality of the 2011B/C Bonds. Following the sale of the 2011B/C Bonds and prior to the closing, Disclosure Counsel will prepare the final Official Statement for the 2011B/C Bonds.

Staff recommends that the Director or Assistant Director of Finance and the Director of Aviation be authorized to sign the final Official Statement for the 2011B/C Bonds on behalf of the City and to make such modifications to these documents as may be necessary upon consultation with the City Attorney's Office. Prior to the distribution of the Preliminary Official Statement and the Official Statement to investors, staff will update budget or financial information, as well as other topics included in the Preliminary Official Statements and in Appendices A and C to reflect the most recent information available to the City to the extent that the updates could affect the deliberations of a reasonable investor in making the decision to purchase the 2011B/C Bonds.

Staff also recommends that the Director or Assistant Director of Finance and the Director of Aviation be authorized to execute certificates regarding these documents as required to comply with securities laws and to authorize the underwriters to distribute these documents for purpose of marketing the 2011B/C Bonds.

Staff has carefully reviewed the information contained in the draft Preliminary Official Statement and believes it to be accurate and complete in all material respects. As part of the process of issuing new debt, it is important that elected officials read through the Preliminary Official Statement, including Appendices A, B and C.

Understanding the following elements of the bond issue is key to Council's review of these documents:

- Purpose of the bond issue
- Sources of repayment of the bonds
- Risks that the sources of repayment may be insufficient to repay the bonds
- Discussion of any other facts or events that could affect the deliberations of a reasonable investor

After such review of the document the following additional elements should be considered:

- Have identified risks, facts, and events been brought to the attention of staff, bond counsel, and other professionals?
- Have such risks, facts, and events been disclosed, and if not, what is the rationale for the non-disclosure?

The information to address these areas in the Preliminary Official Statement can be found in the INTRODUCTION section which describes the purpose of the 2011B/C Bonds and the source of repayment, among other things. More detailed information on these topics and on the risks related to repayment of the 2011B/C Bonds is provided in the SECURITY FOR THE BONDS; and CERTAIN FACTORS AFFECTING THE AIRPORT as well as in Appendices A and B. Appendix C which provides detailed information regarding the pension plans is included in order to give investors an understanding of this cost on Airport operations.

If any Council member has any personal knowledge that any of the material information in the Preliminary Official Statement is false or misleading, or that the Official Statement omits to state a fact that would be material to investors, the Council member must raise these issues prior to approval of the distribution of the document.

City staff, bond counsel, and the financial advisors will be available at the Council meeting on November 15, 2011, to address any questions, issues and/or concerns.

Staff recommends that the Director of Finance, Assistant Director of Finance, or their authorized designees ("Authorized Officials") be authorized to execute each of these agreements described below. As modifications may be required prior to the closing, staff also recommends that the Authorized Officials be authorized to execute the final version of each of these agreements as may be modified upon consultation with the City Attorney's Office.

Supplemental Trust Agreement. The Supplemental Trust Agreement contains the terms of repayment of the 2011B/C Bonds, as well as the responsibilities and duties of the Trustee and the rights of the bondholders in connection with the 2011B/C Bonds. The version posted to the agenda webpage is the Eighth Supplemental Trust Agreement related to the 2011B Bonds. The 2011C Bonds, if issued, would be pursuant to the Ninth Supplemental Trust in a similar form, with changes as necessary to reflect the tax status of the 2011C Bonds and any other terms relating to the final determination of refunded maturities.

The Supplemental Trust Agreement also amends Section 12.02 of the Master Trust Agreement to clarify the reserve fund valuation procedures by providing that the Trustee shall first obtain approval from the City for its valuations of investments held within the Bond Reserve Fund prior to transferring any amounts on deposit in an account within the Bond Reserve Fund to the Interest Fund. Additionally, the Supplemental Trust Agreement amends Section 4.01 of the Master Trust Agreement to clarify an ambiguity related to the application of eminent domain proceedings to the redemption of bonds. These amendments may be made without the consent of the owners of the bonds or municipal bond insurers pursuant to Section 10.02 of the Master Trust Agreement, which provides for the amendment of the Master Trust Agreement for the purpose of curing, correcting of supplementing any ambiguous or defective provision contained in the Master Trust Agreement, as the City may deem necessary or desirable and which shall not materially affect the interest of the owners of the bonds.

Bond Purchase Agreements. The Bond Purchase Agreement is a contract between the City and the underwriters as the purchasers of the 2011B and the 2011C Bonds. The Bond Purchase Agreement specifies the representations and warranties of the City, the documents to be executed at closing, and the conditions that allow the purchaser to cancel the purchase of the applicable series of bonds.

The City will be entering into a Bond Purchase Agreement with J.P. Morgan Securities LLC as the Co-Senior Manager and representative of the underwriting team for the 2011B Bonds, which includes Barclays Capital and Morgan Stanley. The underwriters will be paid a takedown for the 2011B Bonds in a not to exceed amount of \$4.50/\$1,000 of the par amount issued. The City will reimburse the senior managing underwriter for its expenses, including underwriters' counsel.

The City will also be entering into a Bond Purchase Agreement with Citigroup Global Markets, Inc. as a Co-Senior Manager for the 2011C Bonds. The underwriters will be paid a takedown for the 2011C Bonds in a not to exceed amount of $4.50/$1,000 of the par amount issued. The City will reimburse the senior managing underwriter for its expenses, including underwriters' counsel.

Continuing Disclosure Certificate. This Certificate is executed by the City for the benefit of the bondholders and in order to assist the participating underwriters to comply with Securities and Exchange Commission Rule 15c2-12(b)(5). In executing this document, the City commits to notify certain parties if certain listed events occur and to file annually an update to certain information contained in the Official Statement.

Financing Team

The financing team participants consist of:

City's Co-Financial Advisors:	Public Financial Management Public Resources Advisory Group
Bond and Disclosure Counsel:	Orrick Herrington & Sutcliffe LLP
Book-Running Co-Senior Manager (2011B):	J.P. Morgan
Book-Running Co-Senior Manager (2011C):	Citigroup Global Markets
Co-Manager	Barclays Capital
Co-Manager	Morgan Stanley
Airport Consultant:	Ricondo & Associates
Trustee:	The Bank of New York Mellon Trust Company, N.A.

Financing Schedule

The current proposed schedule for the issuance of the 2011B/C Bonds is outlined below.

City Council:	November 15, 2011
Bond Pricing:	Late November 2011
Closing	Mid-December 2011

EVALUATION AND FOLLOW-UP

This memorandum presents a recommendation for the Council's approval of various actions related to the issuance of City of San José Airport Revenue Bonds Series 2011B/C. An informational memo to the Council will be prepared summarizing the results of the bond sale.

PUBLIC OUTREACH/INTEREST

☑ **Criterion 1**: Requires Council action on the use of public funds equal to $1 million or greater.
(Required: Website Posting)

☐ **Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

☐ **Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

COORDINATION

This report has been prepared by the Finance Department in coordination with the City Attorney's Office, Airport Department, and financing team participants.

COST IMPLICATIONS

Professional services (bond counsel fees, financial advisor fees, airport consultant fees and rating agency fees) and other related costs are estimated to be approximately $805,000 and will be paid from costs of issuance of the 2011B/C Bonds.

CEQA

Not a project, File No. PP10-066(e), Services that involve no physical changes to the environment.

/s/
JULIA H. COOPER
Acting Director of Finance

For questions, please contact Arn Andrews, Acting Assistant Director of Finance, at (408) 535-7041.

Attachment A

History of the City's Airport Commercial Paper Program

On November 2, 1999, the City Council adopted Resolution No. 69200 approving the implementation of a commercial paper program (the "Airport CP Program") for the Norman Y. Mineta San José International Airport (the "Airport"), which authorized the issuance of up to $100 million through a combination of three series of commercial paper notes: Series A (Non-AMT), Series B (AMT), and Series C (Taxable). The Airport CP Program was established to provide interim financing for Airport capital needs in anticipation of issuance of Airport revenue bonds that would replace the short-term notes with permanent long-term financing. Airport commercial paper notes are debt obligations backed by Net General Airport Revenues and are subordinate to Airport senior lien debt, also backed by these revenues. Net General Airport Revenues are the Airport's gross revenues less maintenance and operation expenses and are first pledged to repay Airport revenue bonds and then Airport commercial paper notes.

Since 1999, the commercial paper notes have been used to initially fund the Airport's runway projects, consolidated rental car garage project design efforts, costs associated with the 2002 Refunding Bonds, the initial costs associated with the implementation of the requirements under the federal Aviation and Transportation Security Act, the Claims Loss Reserve for the Airport's Owner Controlled Insurance Program for the North Concourse Project, the Terminal Area Improvement Program, and to fund associated interest costs during construction of these projects.

On June 20, 2006, the City Council approved an expansion of the Airport CP Program from $100 million to $200 million to ensure that funding would be available for the award of the design and construction contracts related to the amended Airport Master Plan projects and to pay costs related to the Airport's lease of the former FMC property.

On January 9, 2007, the City Council approved an expansion of the Airport CP Program from $200 million to $450 million to ensure that funding would be available for the design and construction contracts related to the rephased Airport Master Plan projects. The Series A-C Notes of the Airport CP Program were secured by letters of credit issued on a several, not joint, basis by JPMorgan Chase Bank, N.A. ("JPMorgan"), Bank of America, N.A. ("Bank of America"), and Dexia Credit Local, acting through its New York Branch ("Dexia")[2], pursuant to the Second Amended and Restated Letter of Credit and Reimbursement Agreement (the "JPM/BofA/Dexia Agreement").

On March 25, 2008, the City Council approved an expansion of the Airport CP Program from $450 million to $600 million primarily to refund the Series 2004A/B Bonds that were adversely impacted by disruptions in the financial markets related to auction rate securities. This expansion was accomplished through a combination of three additional series of commercial paper notes: Series D (Non-AMT), Series E (AMT), and Series F (Taxable), and is secured by a letter of credit issued by Lloyds TSB Bank plc, acting through its New York Branch ("Lloyds"), pursuant to a Letter of Credit and Reimbursement Agreement (the "Agreement").

Attachment A (continued)

On September 1, 2009, the City Council adopted a resolution authorizing the issuance of tax-exempt private activity Non-AMT commercial paper notes as provided for in the American Recovery and Reinvestment Act of 2009. At that time, the Series A Notes were redesignated as Series A-1 (Non-AMT) and Series A-2 (Non-AMT/Private Activity) and the Series D Notes were authorized to be redesignated as Series D-1 (Non-AMT) and Series D-2 (Non-AMT/Private Activity).

On November 9, 2010, the City Council authorized an amendment to the JPM/BofA/Dexia Agreement that extended the term of the agreement for two months from December 2, 2010 to February 2, 2011, removed Dexia Credit Local as a party to the agreement, reduced the amount of available credit from $450 million to approximately $283 million, and amended other terms of the Agreement. The two-month extension provided additional time to complete negotiations related to the replacement letters of credit approved by the City Council on January 11, 2011.

On January 11, 2011, the City Council approved letter of credit and reimbursement agreements with each of JPMorgan Chase Bank, N.A., Bank of America, N.A., Citibank, N.A. ("Citibank") and Wells Fargo Bank, N.A. ("Wells Fargo"). The terms of the agreements range from one year to three years and the replacement letters of credit provide aggregate credit support of $383 million to the Airport CP Program.

On April 26, 2011, the City Council approved an amended and restated letter of credit and reimbursement agreement (the "Amended Agreement") with Lloyds, which provided for the extension of the credit facility for the Series D, Series E and Series F Notes to September 7, 2011 from its previous termination date of May 7, 2011. The Amended Agreement, which provided aggregate credit support of $140 million to the Airport CP Program, was terminated on August 26, 2011 according to its terms.

Attachment B

Summary of Council Approval of Outstanding Airport Revenue Bonds

The City, pursuant to the City Charter and Municipal Code, has the authority to issue Airport Revenue Bonds. Currently, the City has nine outstanding series of Airport Revenue Bonds.

The 1998A Bonds (which were refunded in whole by the proceeds of the Series 2011A Bonds) were issued pursuant to Resolution No. 57794, as amended and supplemented, originally adopted by the City Council in 1984 (the "1984 Resolution"). In 2001, the City adopted Supplemental Resolution No. 70532 approving the amendment and restatement of the 1984 Resolution in the form of the Master Trust Agreement dated as of July 1, 2001 (the "Master Trust Agreement") between the City and BNY Western Trust Company, predecessor in interest to The Bank of New York Mellon Trust Company, N.A., as Trustee (the "Trustee").

Under the Master Trust Agreement, the City has issued the 2001A Bonds pursuant to the First Supplemental Trust Agreement, the 2002A Bonds and 2002B Refunding Bonds pursuant to the Second Supplemental Trust Agreement, the 2004C and the 2004D Bonds pursuant to the Fourth Supplemental Trust Agreement, the 2007A and the 2007B Bonds pursuant to the Fifth Supplemental Trust Agreement, and the 2011A-1 and 2011A-2 Bonds pursuant to the Seventh Supplemental Trust Agreement. The 2004A and 2004B Bonds which were issued pursuant to the Third Supplemental Trust Agreement were refunded by Airport CP Notes in 2008 as described in the body of the memorandum.

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Julia H. Cooper
Hans F. Larsen

SUBJECT: "SMART" LED STREETLIGHT SYSTEM

DATE: October 24, 2011

Approved

Date 10/31/11

COUNCIL DISTRICT: Citywide

RECOMMENDATION

(a) Accept staff report on Request for Proposal (RFP) for the purchase of a "smart" light emitting diode (LED) streetlight wireless communication monitoring and control system ("System"); and

(b) Adopt a resolution authorizing the City Manager to:

1. Execute an agreement with Schréder Lighting, LLC (Illinois) for the purchase of "smart" LED streetlight wireless communication monitoring and control system, including all hardware, software, professional services, three years of software maintenance and support, shipping, and applicable sales tax for an amount not to exceed $2,087,000, with an initial expiration date of November 15, 2014; and

2. Execute a software license and maintenance agreement with Schréder Lighting, LLC (Illinois) at no additional cost to City during the initial term for use of the OWLET Nightshift software application with the purchase of the "smart" LED streetlight wireless communication monitoring and control system; and

3. Negotiate and execute change orders or amendments to the agreement to cover any unanticipated design or implementation changes or to purchase additional luminaries and accessories for both the initial term of the agreement and option years, subject to the appropriation of funds; and

4. Execute up to three, one-year options to extend the software license and maintenance agreement as required to provide ongoing software maintenance and support of the system, subject to the appropriation of funds.

OUTCOME

Execution of this agreement will enable the conversion of existing Low Pressure Sodium (LPS) lights to "smart" LED streetlights to provide effective street lighting using emerging technologies and minimizes operating and maintenance cost while advancing the San José Green Vision. Approximately 2,100 LPS streetlights will be replaced with LED streetlights equipped with a wireless monitoring and communications system. As additional funding becomes available, additional LED streetlights may be purchased during the term of the agreement to replace other existing LPS streetlights in the City.

BACKGROUND

In October 2007, the City of San José adopted San José's Green Vision, a comprehensive strategy to reduce the carbon footprint of the City by more than 50% in 15 years. The Green Vision included the replacement of all City streetlights (approximately 62,000) with smart, zero-emission (lights powered exclusively by renewable energy) lighting by 2022. This would be achieved by applying emerging LED and control technologies to provide the right level of lighting where needed, to monitor energy consumption, and to reduce operating and maintenance costs.

In February 2011, Council approved the Public Streetlight Design Guide which sets forth guidelines for replacing existing and installing new streetlights with white light source for public roadways and adjusting lighting levels commensurate with roadway or pedestrian activity levels during certain hours of the night.

As a recognized leader in smart streetlight technology, San José has been invited to participate in national and international dialogue on advancing streetlight technologies. The City serves as the Chair of a technical task force on remote monitoring and adaptive controls organized by the U.S. Department of Energy's Municipal Solid-State Street Lighting Consortium. The City has also been asked to serve as the Lead Agency in the Bay Area Next Generation Streetlight Initiative, under which the City would lead the product procurement process for a regional group purchase, and to establish attractive financing and purchase terms to encourage or accelerate the adoption of LED lighting by public agencies.

The City has been actively engaged with the California City-County Street Light Association to encourage PG&E to establish a new meter rate for streetlights. Under this effort, the City was selected to participate in a three-year pilot program for PG&E's Network Controlled Dimmable Streetlights, giving participating cities credit for dimming streetlights currently on non-metered rate and the opportunity to test and evaluate newly emerging control system technologies as well as methods for PG&E to provide billing adjustments. The pilot program approved by the California Public Utilities Commission in late September 2011 will help create a new tariff for dimmable streetlights through PG&E's 2014 General Rate Case Phase 2, a necessary action to realize cost savings based on actual energy used.

To date, the City has received $908,000 in Community Development Block Grant (CDBG) and $2,000,000 in American Recovery and Reinvestment Act (ARRA) grant funds to advance LED and lighting control technologies. These grant funds will enable the replacement of approximately 2,100 LPS streetlights with "smart" programmable light emitting diode (LED) streetlights along arterial and collector streets where the greatest lighting efficiency and energy savings can be achieved. It is estimated that these conversions will result in an estimated annual energy cost savings of $70,000 with a reduction of energy use by approximately 500,000kWh/yr and green house gas emissions by over 300 metric tons of CO_2.

ANALYSIS

On February 10, 2011, the Finance Department released a Request for Proposal (RFP) for a "Smart" LED Streetlight Wireless Communication Monitoring & Control System on the City's e-procurement system. A total of 33 companies viewed the RFP and four proposals were received by the April, 18, 2011, proposal submission deadline.

A two-phase process was established to ensure that the most technologically mature and reliable system was selected. In the first phase, interested lighting firms were invited to submit their LED streetlight products for pre-approval by a technical team of City evaluators. This process established a list of qualified LED luminaires meeting both technical specifications and physical inspections. A list of pre-approved LED luminaires was posted on the City's e-procurement system for all prospective proposers to view. In the second RFP phase, interested firms were invited to submit proposals for a fully integrated system consisting of a wireless monitoring and control demonstration system that included any of the pre-approved luminaires. Proposers were required to submit with their proposal a demonstration system in order to evaluate system functionality and compatibility.

The City received four proposals by the April 18, 2011, submittal deadline as follows:

- Schréder Lighting, LLC (Elk Grove Village, IL)
- US Solar & Wind Synergies, LLC (Felton, CA)
- Virticus (Portland, OR)
- Wesco Distribution (Santa Clara, CA)

Proposals were reviewed to determine if minimum qualifications were met. This evaluation consisted of pass/fail assessment. Two proposals were deemed non-responsive for not meeting minimum qualifications:

- US Solar & Wind Synergies' proposal did not include the following information: 1) three references, 2) utilizing a pre-approved luminaire as part of their proposed system, and 3) submitting a complete wireless communication monitoring & control demonstration system for review by the evaluation team.

- Virticus did not provide a proposal certification form or a cost proposal.

Evaluation Team: A five-member evaluation team with representatives from the City's Departments of Transportation and Public Works independently evaluated and scored the proposals.

Technical Evaluation (80%): The technical evaluation consisted of a thorough review of each company's written proposal/system for demonstrated experience implementing systems similar in complexity to the City's requirements, project approach, and system functionality/interface that required integrating Proposers' control systems with different third party LED luminaires and existing City technology for optimal system operation.

***Cost Proposals (20%)*:** Cost proposals were opened and scored at the conclusion of the technical proposal evaluation.

Oral Interview/System Demonstrations: Both Schréder Lighting, LLC and Wesco Distribution were invited to participate in oral presentations to demonstrate their knowledge and understanding of the City's requirements; introduce key personnel that would be assigned to the project, and to present a comprehensive demonstration of their system. At the conclusion of the oral presentations, the scores were adjusted.

Best and Final Offer (BAFO): A Best and Final Offer (BAFO) was issued to clarify the City's specifications and requirements, and obtain best and final pricing.

Wesco Distribution's BAFO was deemed not responsive and disqualified from further consideration because their solution failed to meet two key requirements: 1) they were unable to offer the required on-premise system, and 2) they were unable to provide a metering chip that would allow the system to automatically log energy consumption on each light. Data logging of energy consumption is a condition set by PG&E to adjust the energy bill based on actual energy usage. This functionality is essential in order for the City to participate in the PG&E Pilot Program for Network Controlled Dimmable Streetlights.

Schréder Lighting, LLC's BAFO proposal addressed all of the City's requirements.

Local and Small Business Preference: This project is fully funded by grants from the federal government. The terms of the grant prohibit the application of local preferences.

Protest Period: The RFP process included a ten-day protest period in accordance with the City's purchasing rules. No protests were received.

Recommendation Summary: Staff recommends award of contract to Schréder Lighting LLC. Schréder demonstrated a superior understanding of the City's requirements, and their proposed solution meets or exceeds all of the City's requirements as summarized below:

- Superior system management to determine system output to minimize energy consumption and maximize the potential of the lights.
- Knowledge and experience with system interface that is essential to the optimal system operation and ease of use for the end-user.
- The only solution compliant with the +/- 2% energy measurement accuracy requirement through a metering chip.
- Superior data collection and reporting capability that conforms to PG&E reporting requirements.
- Able to consolidate converted controlled streetlights with existing City streetlight inventory (non-controlled) thereby minimizing database management resources.
- A comprehensive training program that covers all aspects of the operation, configuration, and troubleshooting.

Summary of Agreement: Contractor has agreed, subject to Council approval, to enter into an agreement with the City under the City's standard terms and conditions for a complete LED streetlight wireless control and monitoring system. The system will be made up of three main components consisting of the LED luminaries, OWLET Nightshift System, and wireless communication. The initial term of the proposed agreement is for three years with the option for the City to extend the agreement for up to three additional years. The agreement will include an initial purchase of approximately 2,100 LED luminaries equipped with the OWLET Nightshift System plus three years of software maintenance and support. Pricing is fixed for the duration of the initial period, and payments are contingent upon the successful completion of key project milestones.

The agreement also allows the City to purchase additional luminaries and accessories through the change order process and provides the flexibility to purchase luminaries manufactured by different lighting companies that were pre-approved during the evaluation process, such as, Leotek, Phillips, and Beta LED. Pricing for the first 2,100 LEDs and any additional LEDs purchased during the initial term is fixed and pricing for options years may be adjusted based on the Producer Price Index (PPI) for Industrial Commodities, published by the U.S. Department of Labor. The agreement also includes a detailed scope of work defining the wireless communication monitoring and control system and LED luminaire specifications, all tasks to be performed, a delivery and compensation schedule, inspection, acceptance testing, training, five-year warranty on parts and one-year warranty on labor for field failures.

The OWLET Nightshift software application is owned by Schréder Lighting, LLC. The City is required to enter into a separate software license and maintenance agreement with Schréder

Lighting, LLC. The proposed software license and maintenance agreement authorizes the City to install the proprietary software application on the City's server and use the application to monitor and communicate with the LED streetlights, generate reports, and meet PG&E strict requirements for the City to receive cost savings from its utility bills for dimming streetlights.

The proposed purchasing agreement described above includes three years of software maintenance and support and staff is requesting authority to extend the software license and maintenance agreement with Schréder Lighting, LLC on an annual basis thereafter, subject to the appropriation of funds. Additionally, the software license and maintenance agreement has a limitation of liability provision limiting the Contractor's liability to $1,000,000. Such provisions are typical in software license agreements and staff believes the $1,000,000 amount is sufficient to cover any potential claims under the license agreement. Staff recommends Council approval of the software license and maintenance agreement.

EVALUATION AND FOLLOW-UP

This memo will not require any follow-up from staff.

PUBLIC OUTREACH/INTEREST

☑ **Criterion 1**: Requires Council action on the use of public funds equal to $1 million or greater.
(Required: Website Posting)

☐ **Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

☐ **Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This item meets Criterion 1 and will be posted on the Council Agenda for the November 15, 2011 meeting.

COORDINATION

This memorandum was prepared by the Finance Department in coordination with the Department of Transportation, the City Manager's Budget Office and the City Attorney's Office.

FISCAL/POLICY ALIGNMENT

This project is estimated to reduce the City's energy bill by approximately $70,000 annually and thereby positively impacting the General Fund. This figure does not reflect the additional energy savings derived from dimming the City's streetlights or operational savings achieved by switching to longer-lasting lights. Additionally, the LED streetlights being purchased through this agreement are eligible for rebates as part of the PG&E LED Streetlight Program and the rebate amount is estimated at $135,000.

Council adopted the San José Energy Plan in which energy project cost savings from the first and second year are directed to the Energy Fund. The $70,000 energy savings and $95,000 PG&E energy rebate will be placed in the Energy Fund to support future energy efficient/cost savings projects in compliance with Policy 6.1.9. The remaining $40,000 PG&E energy rebate resulting from the CDBG funded projects is considered an offset to project costs according to CDBG guidelines and therefore the rebate is credited to the CDBG ending fund balance. While a final decision on how these resources will be allocated has yet to be made, it is estimated that these funds could support the purchase of 200 additional LED streetlights. Appropriation actions to the direct savings and rebate to the Energy Fund will be brought forward as part of the 2011-2012 Midyear Budget Review. Ongoing energy savings of approximately $70,000 annually will be recognized beginning in the third year positively impacting the General Fund.

COST SUMMARY/IMPLICATIONS

The following outlines the elements of the contract.

1. AMOUNT OF RECOMMENDATION/CONTRACT:

   Schréder contract (including 3-year software maintenance and support) $2,087,000

2. COST ELEMENTS OF AGREEMENT/CONTRACT:

Description	Cost
2,100 Luminaire Controllers with Meter Chip (including software site license)	$530,000
2,100 LED Luminaires	$1,237,130
Wireless Gateway	$68,000
Temporary Communication from Gateway to Central Software	$3,000
Professional Services	$85,500
Software Maintenance Fee (three year contract)	$11,970
Estimated Sales Tax	$151,400
Total	**$2,087,000**

3. SOURCE OF FUNDING: 306, ARRA – EECBG
441, CDBG – Title II
304, ARRA – CDBG Memo to Fund 441

4. FISCAL IMPACT: This project is estimated to reduce the City's energy bill by approximately $70,000 annually and thereby positively impacting the General Fund. This figure does not reflect the additional energy savings derived from dimming the City's streetlights or operational savings achieved by switching to longer-lasting lights. Additionally, the LED streetlights being purchased through this agreement are eligible for rebates as part of the PG&E LED Streetlight Program and the rebate amount due to the City from PG&E is estimated at $135,000.

BUDGET REFERENCE

The table below identifies the fund and appropriations proposed to fund the contract recommended as part of this memorandum.

Fund #	Appn #	Appn. Name	Total Appn.	Amount for Contract	2011-2012 Adopted Budget Page	Last Budget Action (Date, Ord. No.)
306	3810	Recovery Act – Energy Efficiency and Conservation Block Grant	$6,537,000	$1,386,500	N/A	6/21/2011, Ord No. 28928
304	7152	Recovery Act – Community Development Block Grant Fund	$416,198	$152,000	N/A	6/21/2011, Ord No. 28928
441	7165	LED Streetlight Conversion	$673,366	$548,500	N/A	6/21/2011, Ord No. 28928
Total				**$2,087,000**		

CEQA

PP11-002, January 12, 2010.

NEPA

Exempt-58.34, December 8, 2010.

/s/	*/s/*
JULIA H. COOPER	HANS F. LARSEN
Acting Director of Finance	Department of Transportation Director

For questions about the RFP process, please contact Mark Giovannetti, Purchasing Division Manager (408) 535-7052.

For questions about the "Smart" LED Streetlight System, please contact Amy Olay, DOT Senior Engineer (408) 975-3283.