

CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
BOND FINANCING PROGRAM
Meeting Date: March 24, 2010
Request for Initial Resolution

Prepared by: *Doreen Smith*

Applicant: San Jose Water Company	Amount Requested: \$150,000,000
Project	Application No.: 00833 (SB)
Location: Santa Clara County	Initial Resolution No.: 10-04

Summary. San Jose Water Company (the “Company”) requests approval of an Initial Resolution for an amount not to exceed \$150,000,000 to finance improvements to its water supply system structures and facilities, distribution system and the acquisition of equipment.

Borrower. The Company incorporated in California in 1866 and provides water utilities in the County of Santa Clara. The Company is 100% owned by SJW Corporation.

Legal Questionnaire. Staff has reviewed the Company’s responses to the questions contained in the Legal Status portion of the Application. Between June 22, 2006 and August 2, 2006, three purported shareholder derivative actions were filed naming an entity which is unrelated to the Company and a number of such entity’s current and former officers and directors as defendants. One of such defendants happens to also be a Board member of the Company. The court granted final approval of the settlement by written order on August 12, 2009. No information was disclosed that raises questions concerning the financial viability or legal integrity of this applicant.

Project Description. The Company’s principal business is the production, purchase, storage, purification, distribution and retail sale of water through a water supply system consisting of two surface water treatment plants located in the town of Los Gatos and the city of Saratoga, 108 active wells, five impounding reservoirs, and over 2,400 miles of transmission and distribution mains located throughout Santa Clara County.

The project will prevent the pollution and contamination of drinking water and improve the quality of water and consists of the following:

- Improvements to the structures and facilities that are integral to the supply of water throughout the water supply system, including the treatment plants, wells, reservoirs, tanks, pump stations and other functionally related structures and facilities;
- Improvements to the distribution system, including construction of new mains and replacement of existing mains; and
- The acquisition of equipment for the water supply system, located in portions of the Cities of Cupertino, San Jose, Santa Clara, Campbell, Los Gatos, Monte Sereno, and Saratoga and in contiguous territory in the County of Santa Clara

Volume Cap Allocation. The Company anticipates applying to the Authority for volume cap allocation in May 2010.

Financing Details. The Company anticipates issuance of fixed rate bonds that are anticipated to be rated at least “A-” by Standard & Poor’s Rating Agency or equivalent. The target date for financing is June 2010.

Financing Team.

Underwriter: Goldman Sachs

Bond Counsel: Law Offices of Leslie M. Lava

Issuer’s Counsel: Office of the Attorney General

Staff Recommendation. Staff recommends approval of Initial Resolution No. 10-04 for San Jose Water Company for an amount not to exceed \$150,000,000.

Note: An Initial Resolution approval is not a commitment that the Board will approve a Final Resolution and bond financing of the proposed Project.

**RESOLUTION OF OFFICIAL INTENT TO ISSUE BONDS
TO FINANCE WATER FACILITIES FOR
SAN JOSE WATER COMPANY**

March 24, 2010

WHEREAS, the California Pollution Control Financing Authority (“Authority”), a public instrumentality, is authorized and empowered by the provisions of the California Pollution Control Financing Authority Act (“Act”) to issue bonds for the purpose of defraying the cost of water facilities that prevent the pollution and contamination of drinking water and improve the quality of water; and

WHEREAS, San Jose Water Company, a California corporation (“Company”), has requested that the Authority assist in financing water facilities to be owned and/or operated by the Company, which will prevent the pollution and contamination of drinking water and improve the quality of water and are expected to be comprised of: (i) improvements to the structures and facilities that are integral to the supply of water throughout the Company’s water supply system (the “Water System”), including the treatment plants, wells, reservoirs, tanks, pump stations and other functionally related structures and facilities, (ii) improvements to the distribution system, including construction of new mains and replacement of existing mains, and (iii) the acquisition of equipment for the Water System, and are located in portions of the Cities of Cupertino, San Jose, Santa Clara, Campbell, Los Gatos, Monte Sereno, and Saratoga and in contiguous territory in the County of Santa Clara (collectively, “Facilities”), and has presented an estimate of the maximum cost of such Facilities as shown in Exhibit “A” attached hereto; and

WHEREAS, the Authority desires to encourage the Company to provide water facilities which will serve the public of the State; and

WHEREAS, the Authority deems it necessary and advisable to further the purposes of the Act that the Facilities be acquired at the earliest practicable date, but the Company requires satisfactory assurances from the Authority that the proceeds of the sale of bonds of the Authority will be made available to finance such Facilities; and

WHEREAS, the Company expects to incur or pay from its own funds certain expenditures in connection with the Facilities prior to the issuance of indebtedness for the purpose of financing costs associated with the Facilities on a long-term basis; and

WHEREAS, subject to meeting all the conditions set forth in this resolution the Authority reasonably expects that debt obligations in an amount not expected to exceed \$150,000,000 will be issued and that certain of the proceeds of such debt obligations will be used to reimburse the Company for its prior expenditures for the Facilities; and

WHEREAS, Section 1.103-8(a)(5) and Section 1.150-2 of the Treasury Regulations require the Authority to declare its reasonable official intent to reimburse prior expenditures for the Facilities with proceeds of a subsequent borrowing;

NOW, THEREFORE, BE IT RESOLVED by the California Pollution Control Financing Authority as follows:

Section 1. The Authority finds and determines that the foregoing recitals are true and correct.

Section 2. The Authority declares its official intent to issue, at one time or from time to time, an aggregate of up to \$150,000,000 principal amount of bonds of the Authority for the Facilities; including for the purpose of reimbursing to the Company costs incurred for the Facilities prior to the issuance of the bonds.

Section 3. The bonds will be payable solely from the revenues to be received by the Authority pursuant to a loan agreement or other agreements to be entered into between the Authority and the Company in connection with the Facilities. Each bond shall contain a statement to the following effect:

“Neither the faith and credit nor the taxing power of the State of California or any political subdivision thereof or any local agency is pledged to the payment of the principal of, premium, if any, or any interest on this bond.”

Section 4. The bonds shall be issued subject to the conditions that (i) the Authority and the Company shall have first agreed to mutually acceptable terms for the bonds and of the sale and delivery thereof, and mutually acceptable terms and conditions of the loan of the proceeds thereof to the Company; (ii) all requisite governmental approvals shall have first been obtained; (iii) a Final Resolution shall have been received from the Authority; and (iv) an allocation shall have been received from the California Debt Limit Allocation Committee.

Section 5. The Executive Director of the Authority is hereby directed to indicate the willingness of the Authority to proceed with and effect such financing in order to assist the Company by defraying the cost of the Facilities, subject to due compliance with all requirements of the law and the obtaining of all necessary consents and approvals and meeting all other requirements of the Authority.

Section 6. It is intended that this Resolution shall constitute “some other similar official action” towards the issuance of bonds within the meaning of Section 1.103-8(a)(5) of the Treasury Regulations and “official intent” within the meaning of Section 1.150-2 of the Treasury Regulations, each as applicable under Section 103 of the Internal Revenue Code of 1986, as amended. It is also intended that this statement of “official action” or “official intent” by the Authority shall continue in full force and effect even if this Resolution ceases to be effective for other purposes.

Agenda Item – 4.B.3.

Section 7. This Resolution shall take effect immediately upon its passage and remain in full force and effect thereafter; provided that, subject to Section 6, this Resolution shall cease to be effective on March 24, 2013 unless prior thereto the Authority specifically adopts a further resolution extending the effective date of this Initial Resolution, which it will do only after receiving a specific request for such action from the Company, accompanied by an explanation of the reason why the project has not proceeded prior to the date of the letter.

EXHIBIT A

NUMBER: 10-04

LOCATION: Portions of the Cities of Cupertino, San Jose, Santa Clara, Campbell, Los Gatos, Monte Sereno, and Saratoga and in contiguous territory in the County of Santa Clara

TYPE: Water

AMOUNT: Up to \$150,000,000