Santa Clara
All-America City
2001

INTEROFFICE MEMORANDUM
City of Santa Clara

DATE: March 23, 2007

TO: Mayor and City Council

FROM: City Manager

SUBJECT: News Reports Regarding Proposed Use of Utility Funds for 49ers Stadium

Several City Council Members have asked me about the media reports regarding use of City utility funds, particularly Electric Utility reserves as a potential funding source for the 49ers Stadium.

The attached report provides information on the electric utility reserves, their purposes and uses, existing City Council policy on the reserves, etc., the attached bullet point report has been prepared for initial information. Behind the bullet point report are copies of some supporting documentation.

Please contact me if you would like to discuss utility reserves in general, or need clarification on the report.

Jennifer Sparacino

Jennifer Sparacino
City Manager

attachments

cc: Assistant City Manager
Deputy City Manager
Director of Electric Utility
Director of Finance

March 23, 2007

Use of Utility Funds for 49ers Stadium

Recent interest in the use of utility funds for the proposed 49er stadium creates a series of concerns and issues. These issues require substantial review and consideration before final decisions are made.

Current Utility Situation

- Utility loads grew 8% in 2006 (p 40, 42)
  - New generation resources are required to meet projected energy needs in order to continue to provide reliable electric service (p 39)
- Current Five Year Plan adopted by Council in June 2006 indicates that most ($213.5 M) of the Cost Reduction Fund (CRF), rate increases, or a combination of CRF and rate increases is necessary to fund operating expenses and capital expenses (p 1)
  - Five year plan summary does not include generation projects being explored:
    - Klamath Falls Generation Project – MSR
    - Lodi II – NCPA
    - Altamont Wind Repower
    - NCPA Green RFP
    - Other City projects
- Long standing policy has been to pay for distribution system improvements and capital maintenance out of cash or current operating funds, and to bond larger generation projects
- Council approved rate increase in 2006 totaling 10.25% (p 52)
  - 19% would have been required to balance revenue and expense
  - CRF used to buffer difference
- As of December 31, 2006
  - $264M Electric utility revenue bonds issued by City (p 4)
  - $461.3M City's share of joint powers agency debt (p 5)
  - $725.3M Total outstanding debt obligation
- Favorable utility bond ratings depend on adequate reserves and rates (p 45)
  - Current bond ratings cite strong cash reserves
  - Bond indentures require rates to be sufficient to cover 1.25 to 1.0 times debt service
  - Indentures allow the use of CRF to maintain coverage
- Total pooled cash reduced from $411.4M June 2006 to $387M January 2007 (p 19)
  - $64.2M Operating cash
    - $65M minimum set by Council policy in September 2001
    - Supports day to day operations including liquidity for difference in timing of payment of expenses and revenue receipt
  - $52.2M Construction cash
    - Covers Council approved capital projects
  - $25.0M Rate Stabilization Fund
    - Required by 1985 and1998 Bond indentures
  - $241.1M Cost Reduction Fund (See Below)
  - $ 4.5M DVR Power Plant Reserve
    - Reserve for replacement of capital components

March 23, 2007

Cost Reduction Fund (See exhibit with yellow tab) (p 20)

- Fund was created in May of 1997 (p 13)
    - Accordance with the City's Strategic Plan for the Electric Utility adopted by Council in October of 1996. (p12)
    - Created "to achieve competitive costs, and reduce debt service and other costs" (p i5 of the Strategic Plan)
- $403.6M Total contributions to CRF from the its establishment in May 1997 to present (p 20)
    - $282.8M from operations
        - $211M net from wholesale transactions optimizing use of existing assets ($247M per 2003 OS less $36.5M Enron Settlement)
    - $90.8M Interest income
    - $23.6M from existing reserves
    - $6.4M Reductions in contributions in lieu

OS - Official Statement

- $162.5M has been reinvested into the utility (p 20)
    - $126M in capital projects
        - $45.7M for DVR
        - $29.4M for 230kV transmission project
        - $30.0M Natural Gas Reserves
        - $20.9M in other projects
- As of January 31, 2007, $241.1M is in the cost reduction fund (p 7)
- Anticipated uses include:
    - Mitigation of rate increases
    - Funding of capital projects
    - Electric Market volatility
        - Gas and energy prices
        - Hydro conditions
        - Regulatory risk:
            - CAISO Market redesign January 2008
            - Green House Gas/renewable and environmental regulations/legislation
            - Possible future legislation regarding deregulation
    - Credit support
        - Bond rating support and bond coverage
        - Collateral for Letter of Credit used to support power trading function
        - Interest rate support for bond swaps
        - Hedge variable interest bonds
        - Provide liquidity required by power trading counterparties
    - Interest income used to support annual utility operations
- Liquidity target of $185M to $245M, including CRF and $65M operating cash, considered reasonable by Fitch Ratings (Bond rating agency) (p 45)
- Impact of use of CRF funds for stadium
    - If no CRF funds were used for stadium, a 3% rate increase would maintain cash liquidity near bottom of target range ($130M CRF + $65M operating cash) (p21)
    - If $50M were used for stadium, a 7% rate increase January 2008 would maintain cash liquidity near bottom of target range ($130M CRF + $65M operating cash) (p 22)
    - If $200M were used for stadium, a 16% rate increase January 2008 would maintain cash liquidity near bottom of target range ($130M CRF + $65M operating cash) (p 23)

Legal Issues

- Use of enterprise funds for the stadium would require a public vote to change the City Charter (p 58)
- Other legal concerns regarding the use of enterprise funds would need to be examined

Customer Issues

- 90% of cost responsibility falls on commercial and industrial customers
- Customers primary concerns:
  - High reliability
  - Stable competitive rates
- Among all public and private electric utilities in California, Santa Clara has the lowest system average rate (p37)
- Current City utility rates (p38)

Residential	8.5 cents per kWh	48% below PG&E
Small Commercial	12.4 cents per kWh	27% below PG&E
Large Commercial	9.2 cents per kWh	37% below PG&E
Small Industrial	9.2 cents per kWh	29% below PG&E
Large Industrial	8.2 cents per kWh	23% below PG&E

Prepared by City of Santa Clara Electric and Finance Departments

List of Documents for Council Packet
Friday March 23, 2007

Capital Improvement Project Budget 2006-2007

ELECTRIC UTILITY
REVENUE AND EXPENDITURE PROJECTIONS

	Fiscal Year 2007 - 08	2008 - 09	2009-10	2010-11	2011-12	
ESTIMATED REVENUE						
Charges for Current Service (1)	$ 226,317,674	$ 229,746,874	$ 233,193,077	$ 236,690,973	$ 240,241,338	
Mandated Revenue, not subject to CLT (2	7,001,203	7,107,286	7,213,896	7,322,104	7,431,936	
Use of Money & Property	12,651,639	11,158,170	9,590,504	8,614,100	7,043,462	
Other Revenue (Except Bond Proceeds)	6,305,765	6,359,188	6,327,002	6,387,180	6,591,877	
CRF Withdrawal/ Future Rate Adjustmen	38,027,005	40,576,635	41,932,103	30,516,714	36,433,947	= 213.5
2006-07 26,055,438 **Total Revenue**	**290,303,287**	**294,948,154**	**298,256,582**	**289,531,072**	**297,742,559**	
ESTIMATED EXPENDITURES						
Utility & Street Light Construction (3) 6.95 2006-07	$ 27,489,000 +	$ 15,800,000 +	$ 11,530,000 +	$ 14,430,000 +	$ 15,710,000	= 84.959
Salaries & Benefits	20,143,936	20,647,534	21,163,722	21,692,815	22,235,136	+6.95
Other Operating Expenditures	15,770,673	16,164,939	16,569,063	16,983,289	17,407,872	
Resource & Production Costs (8)						91.90
Purchased Power, Non-JPA (7)	25,960,451	29,018,362	32,267,767	37,480,493	41,000,906	
Purchased Power, JPA	83,918,889	96,448,809	97,218,322	87,157,069	89,840,222	
Other Production Costs	66,361,526	67,292,366	69,560,729	65,328,905	67,499,514	
Mandated Cost (4)	7,001,203	7,107,286	7,213,896	7,322,104	7,431,936	
Internal Service Funds	7,493,381	7,680,716	7,872,734	8,069,552	8,271,291	
Contribution-in-lieu of Taxes	12,263,754	12,363,212	12,455,529	12,584,613	12,693,834	
Debt Service (5)	23,900,475	22,424,930	22,404,820	18,482,231	15,651,850	
Total Expenditures	**290,303,287**	**294,948,154**	**298,256,582**	**289,531,072**	**297,742,559**	
TOTAL AVAILABLE REVENUE (6)	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	

(1) Assumes present rates at 8.21 cents/kWh, excluding PBC and State Surcharge
(2) Mandated Revenue: PBC and State Surcharge
(3) Includes Electric Utility General Operating Funds 091 and 491 and Electric Utility Capital Improvement Funds 591 and 534
(4) Mandated Cost to include PBC and State Surcharge
(5) Including DVR on line January 2005
(6) Deficits funded either from Cost Reduction Fund or additional revenue from rate increases
(7) Excludes ISO-related costs collected as Mandated Cost

(8) Avg. Cost of Gas- $/MMBtu	$ 7.62	$ 7.62	$ 7.76	$ 7.55	$ 7.71

Capital Improvement
Project Budget
2006-07

ELECTRIC UTILITY - FUND 591

Future Projects - No Funding in Current Budget

		2007-08	2008-09	2009-10	2010-11	2011-12	Total
1	SCADA System II Phase II	$ 500,000	$ -	$ -	$ -	$ -	$ 500,000
2	Public Benefits Program 2008/09 - 2013/14	-	250,000	250,000	250,000	250,000	1,000,000
3	Power Scheduling 08/09-12/13		200,000	200,000	200,000	200,000	800,000
4	DVR Combustion Turbine Overhaul 48 MW Engine No. 191-498	1,800,000		-	-	1,800,000	3,600,000
5	DVR Combustion Turbine Overhaul 48 MW Engine No. 191-555	-	1,800,000	-	-	-	1,800,000
6	Overhaul of DVR Power Plant	-	-	-	250,000	4,700,000	4,950,000
7	Wierless Remote Access	65,000	-	-	-	-	65,000
8	Electric Shop Renovation	54,000	-	-	-	-	54,000
9	DVR Combustion Turbine Overhaul 48 MW Engine No. 191-502	-	-	-	1,800,000	-	1,800,000
10	PC Lifecycle Replacement FY 08/09 - FY 11/12	-	20,000	20,000	20,000	20,000	80,000
11	Substatin Storage Building	120,000	-	-	-	-	120,000
12	Substation Rebuilds and Replacements	5,270,000	3,070,000	4,200,000	5,200,000	2,140,000	19,880,000
13	Marketing & Customer Service Prgm. Development	-	200,000	200,000	200,000	200,000	800,000
	Total	$ 7,809,000	$ 5,540,000	$ 4,870,000	$ 7,920,000	$ 9,310,000	$ 35,449,000
	Future Funding						
	Customer Service Charge	$ 2,154,453	$ 1,718,278	$ 1,695,978	$ 2,124,778	$ 5,491,250	$ 13,184,737
	Public Benefits Charge		250,000	250,000	250,000	250,000	1,000,000
	Cost Reduction Fund	5,270,000	3,070,000	4,200,000	5,200,000	2,140,000	19,880,000
	Transfer to Other Funds	(2,154,453)	(1,718,278)	(1,695,978)	(1,874,778)	(791,250)	(8,234,737)
	Total	$ 5,270,000	$ 3,320,000	$ 4,450,000	$ 5,700,000	$ 7,090,000	$ 25,830,000
	Net to be Funded:	$ 2,539,000	$ 2,220,000	$ 420,000	$ 2,220,000	$ 2,220,000	$ 9,619,000

Capital Improvement Project Budget 2006-2007

Project ID: 2397 **Title: Silicon Valley Power Photovoltaic Project** **Contact: John Roukema**

NEW

Location: To be determined

Description: Install a commercial scale photovoltaic system over existing City owned public parking area or structure that will double as a sunscreen for parked cars and provide renewable energy directly into the electric system.

Justification: Provide renewable solar energy for the City's electric utility. Project will be consistent with State solar and renewable initiatives.

Status: Site selection began July, 2005. Engineering to begin in the first quarter of 2006.

Appropriations	Prior Years	Current Year	2007-08	2008-09	2009-10	2010-11	2011-12	Total
Construction	$ 1,000,000	$ 500,000	$ 500,000	$ -	$ -	$ -	$ -	$ 2,000,000
Total	$ 1,000,000	$ 500,000	$ 500,000	$ -	$ -	$ -	$ -	$ 2,000,000
Financing Sources								
Public Benefits Charge	$ 500,000	$ 250,000	$ -	$ -	$ -	$ -	$ -	$ 750,000
Cost Reduction Fund	500,000	250,000	-	-	-	-	-	750,000
Total	$ 1,000,000	$ 500,000	$ -	$ -	$ -	$ -	$ -	$ 1,500,000
To be Funded			$ 500,000	$ -	$ -	$ -	$ -	$ 500,000
Impact on Operating Budget		$ -	$ -	$ -	$ -	$ -	$ -	$ -

W

Project ID: 2398 **Title: Renewable Resource and Wind Power Development** **Contact: Ken Speer**

NEW

Location: To be determined

Description: Developing resources that are renewable or non-finite that provide for the generation of power.

Justification: To meet regulatory guidelines and for environmental protection.

Status: Currently seeking to repower Altamont and/or Benicia to 40.5MW.

Appropriations	Prior Years	Current Year	2007-08	2008-09	2009-10	2010-11	2011-12	Total
Construction	$ 250,000	$ -	$ 100,000	$ 100,000	$61,000,000	$ 100,000	$ -	$ 61,550,000
Total	$ 250,000	$ -	$ 100,000	$ 100,000	$61,000,000	$ 100,000	$ -	$ 61,550,000
Financing Sources								
Cost Reduction Fund	$ 250,000	$ -	$ -	$ -	$ -	$ -	$ -	$ 250,000
Total	$ 250,000	$ -	$ -	$ -	$ -	$ -	$ -	$ 250,000
To be Funded			$ 100,000	$ 100,000	$61,000,000	$ 100,000	$ -	$ 61,300,000
Impact on Operating Budget		$ -	$ -	$ -	$ -	$ -	$ -	$ -

City of Santa Clara
Oustanding Debt Schedule
As of December 31, 2006

Report to City Council/
Semi-annual Debt Schedule

Description of Debt	Year of Issue	Maturity	Interest Rate (%)	Amount of Issue	Principal Outstanding	Years to Maturity	Bond Rating Moody's/Fitch	Bond Rating S&P
CITY OF SANTA CLARA								
Insurance Funding Bonds								
City of Santa Clara Insurance Funding Bonds (1)	1987	2012	3.00	$ 20,000,000	$ 20,000,000	5.5	Aaa/VMIG1	AAA
Certificates of Participation								
1997 Police Administration Building Project	1997	2007-2022	4.50-5.375	16,050,000	12,940,000	15.5	Aaa	AAA
2002 Series A - Library Building Project	2002	2007-2032	3.00-5.00	25,025,000	23,850,000	25.5	Aaa	AAA
2002 Series B - Refunding of LGFA & 1993 COP (2)	2002	2007-2014	3.00-4.50	33,505,000	26,045,000	7.5	Aaa	AAA
Total Certificates of Participation				74,580,000	62,835,000			
Special Assessment Bonds	1998	2007-2011	4.10-5.20	10,325,000	5,015,000	4.5	No Rating	
Revenue Bonds								
1985 Electric Refunding Series A	1985	2007-2010	Variable	25,000,000	9,800,000	3.5	Aa2/VMIG1	
1985 Electric Refunding Series B	1985	2007-2010	Variable	25,000,000	9,800,000	3.5	Aa2/VMIG1	
1985 Electric Refunding Series C	1985	2007-2010	Variable	28,300,000	11,100,000	3.5	Aa2/VMIG1	
1991 Electric Rev. Refunding Bonds Series B (3)	1991	2007	6.25-6.35	23,194,097	2,006,285	0.5	Aaa	AAA
1998 Subordinated Electric Rev. Refdg. Bonds Series A	1998	2007-2027	4.50-5.25	89,275,000	83,861,000	20.5	AAA by Fitch	AAA
2003A Subordinated Electric Rev. Bonds	2003	2007-2029	2.50-5.25	100,000,000	97,425,000	22.5	AAA by Fitch	AAA
2003B Subordinated Electric Rev. Bonds	2003	2029-2035	Variable	50,000,000	50,000,000	28.5	AAA by Fitch	AAA
Total Revenue Bonds				340,769,097	263,992,285			
REDEVELOPMENT AGENCY								
1992 Tax Allocation Refunding Bonds	1992	2007-2010	7.00	74,240,000	22,000,000	3.5	Aaa	AAA
1999 Tax Allocation Bonds Series A	1999	2017-2023	5.25-5.50	31,550,000	31,550,000	16.5	Aaa	AAA
1999 Tax Allocation Bonds Series B	1999	2011-2017	5.25-5.50	16,905,000	16,905,000	10.5	Aaa	AAA
2002 Tax Allocation Refunding Bonds (4)	2002	2007-2014	4.00-5.50	33,910,000	21,180,000	7.5	Aaa	AAA
2003 Tax Allocation Bonds	2003	2007-2023	5.00	43,960,000	43,960,000	16.5	Aaa	AAA
Total Redevelopment Agency Debt (excluding 2002B COP, see Note 2)				200,565,000	135,595,000			
Total					**487,437,285**			
Less Self Funded Issues					**(20,000,000)**			
Total of Outstanding Debt Directly Issued by the City and its Agencies					**467,437,285**			
City's Share of Outstanding Joint Power Authority Debt					**461,309,725**			
GRAND TOTAL					**$ 928,747,010**			
				PPr	($960,445,333)			
				change	(31,698,323)			

Report to City Council
Semiannual Debt Schedule

City of Santa Clara
Oustanding Debt Schedule
As of December 31, 2006

Description of Debt	Year of Issue	Sinking Fund Retirement Dates	Interest Rate (%)	Amount of Issue	Principal Outstanding	City's Share (%)	City's Share ($)	Bond Rat Moody's
JOINT POWER AGENCIES								
M-S-R Public Power Agency								
San Juan Refunding Revenue Bonds Series F	1993	2007-2013	4.90-6.125	108,960,000	20,410,000	35.00%	7,143,500	Aaa
San Juan Subordinate Lien Rev. Bds. Ser. B&C	1995	2022	Adjustable	21,300,000	17,500,000	35.00%	6,125,000	Aaa/VMIG1
San Juan Subordinate Lien Rev. Bds. Ser. D&E	1997	2014-2022	3.875 -4.30	130,000,000	130,000,000	35.00%	45,500,000	Aaa/VMIG1
San Juan Refunding Revenue Bonds Series G	1997	2007-2014	4.50-5.75	97,515,000	55,120,000	35.00%	19,292,000	Aaa
San Juan Subordinate Lien Rev. Bds. Ser. 1998 F&G	1998	2020-2022	5.97 & 4.48	79,500,000	79,500,000	35.00%	27,825,000	Aaa
San Juan Revenue Bonds Series I (5)	2001	2007-2018	4.00-5.00	64,230,000	57,485,000	35.00%	20,119,750	Aaa
San Juan Subordinate Lien Rev. Bds. Ser. 2003 I	2003	2007-2018	3.875 -4.30	54,435,000	43,025,000	35.00%	15,058,750	Aaa
San Juan Subordinate Lien Rev. Bds. Ser. 2004J (6)	2004	2007-2011	1.80 -4.09	47,345,000	32,220,000	35.00%	11,277,000	Aaa
Total M-S-R Public Power Agency Bonds				603,285,000	435,260,000		152,341,000	
Transmission Agency of Northern California								
Commercial Paper	1995	2007-2024	variable	34,600,000	34,600,000	20.703%	7,163,238	
Revenue Bonds 1990 Series A	1990	2007-2013	7.00-7.25	283,634,036	28,460,000	20.703%	5,892,074	Aaa
Revenue Refunding Bonds 1993 Series A (7)	1993	2007-2024	4.30-5.50	240,480,000	35,860,000	20.703%	7,424,096	Aaa
Revenue Refunding Bonds 2002 Series A	2003	2007-2024	variable	103,825,000	93,285,000	20.703%	19,312,794	Aaa
Revenue Refunding Bonds 2003 Series A	2003	2007-2024	variable	95,775,000	94,125,000	20.703%	19,486,699	Aaa
Revenue Refunding Bonds 2003 Series B	2003	2007-2024	variable	95,800,000	94,125,000	20.703%	19,486,699	Aaa
Revenue Refunding Bonds 2003 Series C	2003	2007-2024	variable	44,525,000	39,775,000	20.703%	8,234,618	Aaa
Total Transmission Agency of Northern California Bonds				898,639,036	420,230,000		87,000,217	
Northern California Power Agency Revenue Bonds								
Geothermal Project 1993 Refunding Series A	1993	2007-2010	4.60-5.85	254,530,000	76,910,000	44.39%	34,140,734	A
Hydroelectric Project 1992 Refund. Ser.A	1992	2007-2023	5.25-10.00	195,610,000	58,090,000	37.02%	21,504,918	Aaa
Hydroelectric Project 1993 Refund. Ser.A	1993	2007-2024	4.40-5.50	63,600,000	785,000	37.02%	290,607	Aaa
Hydroelectric Project 1998 Refund. Ser.A	1998	2007-2032	4.40-5.50	301,490,000	283,370,000	37.02%	104,903,575	Aaa
Hydroelectric Project 2002 Refund. Ser.A	2002	2007-2023	Variable	43,310,000	43,310,000	42.88%	18,570,029	Aaa
Hydroelectric Project 2002 Refund. Ser.B	2002	2007-2023	Variable	43,310,000	43,310,000	42.88%	18,570,029	Aaa
Hydroelectric Project 2003 Refund. Ser.A (8)	2003	2007-2024	Variable	49,130,000	49,130,000	37.02%	18,187,926	
Hydroelectric Project 2003 Refund. Ser.B (8)	2003	2007-2013	Variable	5,910,000	5,455,000	37.02%	2,019,441	
Combustion Turbine Project Ser A Refunding	1998	2007-2010	4.00-5.00	43,165,000	15,125,000	25.00%	3,781,250	Aaa
Total Northern California Power Agency Bonds				1,000,055,000	575,485,000		221,968,508	
Total of City's Share of Outstanding Joint Power Agencies and Joint Financing Authority Debt							**$ 461,309,725**	

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Report to City Council
Semiannual Debt Schedule

City of Santa Clara
Oustanding Debt Schedule
As of December 31, 2006

NOTES:

(1) The Insurance Funding Bonds are special obligations of the City payable from proceeds deposited in the Insurance Fund, together with interest earnings thereon and therefore deducted from the total of this schedule. The Insurance Funding Bonds are subject to mandatory purchase every three years on April 1, at which time the interest rate will be reset. On April 1, 2005, the interest rate was reset at 3.00%.

(2) The City issued the 2002 Refunding Certificates of Participation (COP) Series B to defease the Local Government Financing Authority (LGFA) Bonds and the 1993 COP. About 80% of the debt is allocated to the SOSA, 10% to the General Fund, and 10% to the RDA. Although part of the debt is allocated to RDA, City's General Fund is legally obligated to make all debt service payments.

(3) $2,554,097 of the Electric Revenue Refunding Bonds, Series 1991B were issued as Capital Appreciation Serial Bonds (CAB). These bonds appreciate at an annual rate from 6.25% to 6.35% and mature on July 1, 2005 through 2007. The amount outstanding on this schedule includes these bonds at their current compounded value. On July 1, 2002, the City redeemed the non-CAB portion of the 1991B issue.

(4) The City issued $33,910,000 Tax Allocation Refunding Series 2002 Bonds (2002 Bonds) and applied proceeds to redeem $34,290,000 of the Redevelopment Agency's Bayshore North Project 1992 Tax Allocation Refunding Bonds (1992 Bonds). The remaining balance of the 1992 Bonds ($26,630,000) is not subject to optional redemption. The reserve fund account was proportionately transferred and the 1992 Bonds qualifies as an In-substance Defeasement, therefore, the amount is excluded from the schedule.

(5) A portion of the proceeds of the MSR Public Power Agency San Juan Project Refunding Revenue Bonds, 2001 Series I were deposited into an escrow fund. The escrow fund will be applied to advance refund $76,565,000 of the San Juan Project Revenue Bonds, 1991 Series E (Series E Bonds). Since principal and interest payments on the Series E Bonds are secured by the escrow fund, the refunded portion of the Series E Bonds that matures between 2002 and 2019 is considered defeased and are not shown as outstanding on this schedule.

(6) Proceeds of the MSR Public Power Agency San Juan Project Subordinate Lien Revenue Bonds Series 2004J were used to refund $50,330,000 of the 1997 Series H and $3,800,000 of the 1995C Bonds. Concurrently, cash were applied for the defeasance of the $31,390,000 remaining principal amount of the 1997 Series H Bonds maturing in 2020. The defeased portion is not shown as outstanding on this schedule.

(7) Proceeds of the TANC California-Oregon Transmission Project Revenue Refunding Bonds, 1993 Series A, were deposited into an escrow fund. The escrow fund will be applied to advance refund $207,470,000 of the Transmission Project Revenue Bonds, 1990 Series A (1990 Bonds). Since principal and interest payments on the 1990 Bonds are secured by the escrow fund, the refunded portion of the 1990 Bonds is considered as in-substance defeased and therefore excluded from this schedule.

(8) $50,945,000 of the NCPA 2003 Refunding Bonds were deposited into an escrow account. The escrow fund will be applied to advance refund part of the Hydroelectric Project 1993 Refunding Series A. Since principal and interest payments on the 1993 Bonds are secured by the escrow fund, the refunded portion is considered as in-substance defeased and therefore excluded from this schedule.

City of Santa Clara Electric Utility Cash Position

THT 3/22/2007

Prelim. 7/25/05 Prelim. 9/13/0: Prelim. 9/23/05

Month / Year	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05
Operating Cash	80,847,401	72,039,127	72,762,441	68,899,106	67,925,411	70,796,275	71,486,253	77,527,592	78,081,703	76,972,938	$ 70,097,398	55,707,105
Construction Cash	68,011,446	65,688,194	57,642,376	59,050,467	65,080,605	55,424,729	54,352,388	50,079,600	47,906,746	47,519,481	53,073,365	52,578,127
Rate Stabilization Fund	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000
Cost Reduction Fund	282,907,431	285,024,013	282,006,647	276,078,909	271,295,783	271,638,850	272,355,998	274,316,067	275,183,449	275,785,803	272,543,250	272,724,606
DVR Power Plant Reserve	4,149,197	4,169,918	4,183,201	4,195,593	4,216,757	4,219,503	4,230,643	4,261,090	4,274,992	4,284,350	4,306,991	4,311,383
Total Cash	460,915,475	451,921,252	441,594,665	433,224,075	433,518,556	427,079,357	427,425,282	431,184,349	430,446,890	429,562,572	425,021,004	410,321,221
Increment above prev. month	(2,027,935)	(8,994,223)	(10,326,587)	(8,370,590)	294,481	(6,439,199)	345,925	3,759,067	(737,459)	(884,318)	(4,541,568)	(14,699,783)

Month / Year	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06
Operating Cash	54,400,729	55,833,049	56,613,752	55,509,291	$ 62,777,333	$ 64,363,159	$ 68,129,866	$ 71,693,162	$ 73,991,834	$ 74,274,472	72,389,685	64,339,282
Construction Cash	52,316,604	51,461,998	47,274,668	47,188,526	46,198,673	44,430,102	44,258,843	43,407,822	43,272,344	52,488,481	52,129,070	51,934,412
Rate Stabilization Fund	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000
Cost Reduction Fund	273,576,902	275,148,865	276,082,414	276,870,512	277,932,672	278,467,212	242,951,446	244,172,142	244,962,302	238,775,971	239,855,530	240,370,523
DVR Power Plant Reserve	4,324,857	4,349,706	4,364,464	4,376,923	4,393,714	4,402,166	4,417,725	4,437,023	4,451,669	4,466,162	4,486,059	4,495,004
Total Cash	409,619,092	411,793,618	409,335,298	408,945,252	416,302,392	416,662,639	384,757,880	388,710,149	391,678,149	395,005,086	393,860,344	386,139,221
Increment above prev. month	(702,129)	2,174,526	(2,458,319)	(390,046)	7,357,140	360,246	(31,904,759)	3,952,269	2,968,001	3,326,937	(1,144,742)	(7,721,123)

Month / Year	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07
Operating Cash	64,156,600											
Construction Cash	52,178,495											
Rate Stabilization Fund	25,000,000											
Cost Reduction Fund	241,115,327											
DVR Power Plant Reserve	4,510,171											
Total Cash	386,960,593											
Increment above prev. month	821,372											

Summary of cash/Cash Data

City of Santa Clara, Electric Utility Cash Position

12/22/2007

Month / Year	Jan-98	Feb-98	Mar-98	Apr-98	May-98	Jun-98	Jul-98	Aug-98	Sep-98	Oct-98	Nov-98	Dec-98
Operating Cash	44,341,085	29,021,384	31,221,208	30,498,767	30,687,625	32,274,859			52,589,584	52,791,576	60,262,987	64,712,883
Construction Cash	28,146,691	27,958,481	27,801,844	27,569,389	27,467,651	27,230,044			29,553,785	29,975,241	29,511,785	28,941,341
Rate Stabilization Fund	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	no report		25,000,000	25,000,000	25,000,000	25,000,000
Cost Reduction Fund	33,640,517	51,872,934	52,125,924	52,380,317	52,673,727	44,290,606			44,831,989	45,077,568	45,362,817	45,601,829
Total Cash	131,128,293	133,852,799	136,148,976	135,448,473	135,829,003	128,795,509			151,975,358	152,844,385	160,137,589	164,256,053
Increment above prev. month	(3,703,240)	2,724,506	2,296,177	(700,503)	380,530	(7,033,494)			23,179,849 *	869,027	7,293,204	4,118,464

Month / Year	Jan-99	Feb-99	Mar-99	Apr-99	May-99	Jun-99	Jul-99	Aug-99	Sep-99	Oct-99	Nov-99	Dec-99
Operating Cash	57,256,019	46,810,016	49,511,487	55,682,301	52,313,299	34,715,398		29,429,536	37,400,006	41,691,424	35,228,931	41,698,040
Construction Cash	26,984,681	27,008,596	26,470,215	26,012,706	25,860,454	25,077,888		35,782,387	35,330,999	35,689,055	38,995,771	38,082,427
Rate Stabilization Fund	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000		25,000,000	25,000,000	25,000,000	25,000,000	25,000,000
Cost Reduction Fund	52,956,946	65,327,926	65,765,413	66,194,689	66,701,523	94,300,000		95,264,238	95,856,894	96,383,641	96,802,413	97,490,726
Total Cash	162,197,646	164,146,538	166,747,115	172,889,696	169,875,276	179,093,286		185,476,161	193,587,899	198,764,120	196,027,115	202,271,193
Increment above prev. month	(2,058,407)	1,948,892	2,600,577	6,142,581	(3,014,420)	9,218,010		6,382,875 *	8,111,738	5,176,221	(2,737,005)	6,244,078

FY 1998/99

Month / Year	Jan-00	Feb-00	Mar-00	Apr-00	May-00	Jun-00	Jul-00	Aug-00	Sep-00	Oct-00	Nov-00	Dec-00
Operating Cash	47,588,959	43,398,449	46,295,325	50,130,189	54,840,316	34,063,765	64,484,001	50,542,991	68,143,716	71,664,751	75,454,104	81,347,907
Construction Cash	36,824,179	35,386,660	36,725,000	35,477,798	34,263,509	34,620,890	35,041,374	40,057,933	39,508,255	41,658,236	41,086,708	39,741,629
Rate Stabilization Fund	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000
Cost Reduction Fund	98,057,370	106,685,024	107,348,991	107,877,631	108,713,668	131,500,000	110,092,031	132,971,134	133,763,734	134,127,076	135,506,813	136,282,927
Total Cash	207,470,508	210,470,133	215,369,316	218,485,618	222,817,493	225,184,655	234,617,406	248,572,058	266,415,705	272,450,063	277,047,625	282,372,463
Increment above prev. month	5,199,315	2,999,625	4,899,183	3,116,302	4,331,875	2,367,162	9,432,751	13,954,652	17,843,647	6,034,358	4,597,562	5,324,838

FY 1999/00

Month / Year	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-02	Jul-01	Aug-01	Sep-01	Oct-01	Nov-01	Dec-01
Operating Cash	93,496,948	73,635,156	91,179,267	128,072,586	141,338,685	156,278,888			95,038,481	99,718,699	99,749,818	99,198,251
Construction Cash	39,796,394	39,087,052	38,116,182	38,212,486	39,793,032	38,839,616			48,281,354	46,386,864	44,787,307	43,848,957
Rate Stabilization Fund	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	no report		25,000,000	25,000,000	25,000,000	25,000,000
Cost Reduction Fund	137,041,773	185,455,298	186,504,309	187,368,288	188,635,836	189,096,431			282,904,885	283,466,224	285,642,421	285,944,320
Total Cash	295,335,115	323,177,506	340,799,758	378,653,360	394,767,553	409,214,935			451,224,720	454,571,787	455,179,546	453,991,528
Increment above prev. month	12,962,652	27,842,391	17,622,252	37,853,602	16,114,193	14,447,382			42,009,785	3,347,067	607,759	(1,188,018)

FY 2000/01 184,030,280

Month / Year	Jan-02	Feb-02	Mar-02	Apr-02	May-02	Jun-02 *	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02
Operating Cash	94,957,456	93,331,943	99,269,404	94,945,638	84,156,330	90,398,730			36,176,383	70,156,870	70,775,783	69,305,500
Construction Cash	37,986,819	37,272,977	36,738,919	34,015,864	32,750,860	32,881,531			58,674,745	57,300,798	55,138,968	52,810,098
Rate Stabilization Fund	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	no report		25,000,000	25,000,000	25,000,000	25,000,000
Cost Reduction Fund	286,542,707	289,313,891	290,005,662	290,563,322	292,861,580	282,665,292			312,047,596	283,223,160	285,283,184	285,450,854
Total Cash	444,486,982	444,918,811	451,013,985	444,524,824	434,768,770	430,945,553			431,898,724	435,680,828	436,197,935	432,566,452
Increment above prev. month	(9,504,546)	431,829	6,095,174	(6,489,161)	(9,756,054)	(3,823,217)			953,171	3,782,104	517,107	(3,631,483)

Accum. FY 2001/02 21,730,618

Accum. CY 2002 (21,425,076)

* Before Transfer from Operating Cash to CRF

Prelim. 8/1/03 Prelim. 9/25/03 Prelim. 12/18/03

Month / Year	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03
Operating Cash	67,632,919	76,900,308	79,835,374	75,516,416	80,500,000	82,960,626	88,737,000		75,527,520	78,413,588	74,566,399	71,799,834
Construction Cash	50,374,643	44,828,207	38,575,617	33,119,764	28,200,000	20,002,149	10,931,000		416,910	154,310,889	147,543,272	141,557,120
Rate Stabilization Fund	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000		25,000,000	25,000,000	25,000,000	25,000,000
Cost Reduction Fund	285,926,419	288,883,271	289,419,586	289,867,989	292,100,000	292,371,434	292,371,434		314,629,636	300,512,930	302,848,370	303,003,285
Total Cash	428,933,981	435,611,786	432,830,577	423,504,169	425,800,000	420,334,209	417,039,434		415,574,066	558,237,407	549,958,041	541,360,239
Increment above prev. month	(3,632,471)	6,677,805	(2,781,209)	(9,326,408)	2,295,831	(5,465,791)	(3,294,775)		(1,465,368)	142,663,341	(8,279,366)	(8,597,802)

Month / Year	Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04
Operating Cash	71,975,216	79,077,201	81,982,917	87,479,641	91,151,596	85,406,566			88,228,244	83,109,282	86,022,768	78,788,731
Construction Cash	137,333,099	133,040,996	123,739,449	115,243,941	104,638,446	93,321,518			94,581,395	88,107,757	78,818,117	72,669,102
Rate Stabilization Fund	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	no report		25,000,000	25,000,000	25,000,000	25,000,000
Cost Reduction Fund	303,721,438	306,690,054	307,154,103	307,617,725	309,864,265	310,109,298			283,996,300	284,529,453	286,592,036	282,349,952
DVR Power Plant Reserve												4,135,625
Total Cash	538,029,753	543,808,251	537,876,469	535,341,307	530,654,307	513,837,382			491,805,939	480,746,492	476,432,921	462,943,410
Increment above prev. month	(3,330,486)	5,778,498	(5,931,782)	(2,535,162)	(4,687,000)	(16,816,925)			(22,031,443)	(11,059,447)	(4,313,571)	(13,489,511)

Official Statement
2003A Subordinated Electric Revenue Bonds

NEW ISSUE – FULL BOOK-ENTRY

Ratings: See "RATINGS" herein.

In the opinion of Sidley Austin Brown & Wood LLP, San Francisco, California, Bond Counsel, based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants in the documents pertaining to the Series 2003 A Bonds and requirements of the Internal Revenue Code of 1986, as amended, as described herein, interest on the Series 2003 A Bonds is not includable in the gross income of the owners of the Series 2003 A Bonds for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Series 2003 A Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Series 2003 A Bonds is, however, included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. In the further opinion of Bond Counsel, interest on the Series 2003 A Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" herein.

$100,000,000
City of Santa Clara, California
Subordinated Electric Revenue Bonds, Series 2003 A

Dated: Date of Delivery

Due: July 1, as shown on the inside front cover

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.

The Series 2003 A Bonds are being issued by the City of Santa Clara, California (the "City") for the purpose of financing a portion of the costs of a combustion turbine generating facility for the City's electric utility (the "Electric Utility"), as more fully described herein (the "Project"), to fund a deposit to a reserve fund for the Series 2003 A Bonds and the Series 2003 B Bonds (referred to below), and to pay the costs of issuance of the Series 2003 A Bonds. See "THE PROJECT" herein. Simultaneously with the issuance of the Series 2003 A Bonds, the City expects to issue $50,000,000 principal amount of its Subordinated Electric Revenue Bonds, Series 2003 B (Auction Rate Securities) (the "Series 2003 B Bonds") to finance a portion of the costs of the Project.

The Series 2003 A Bonds are being issued pursuant to a Subordinated Electric Revenue Bond Indenture, dated as of March 1, 1998, as amended and supplemented (the "Indenture"), by and between the City and BNY Western Trust Company, as trustee (the "Trustee"). The Series 2003 A Bonds are being issued in fully registered form and, when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2003 A Bonds. Beneficial ownership interests in the Series 2003 A Bonds may be purchased in book-entry form only in denominations of $5,000 principal amount or an integral multiple thereof. Interest on the Series 2003 A Bonds will be payable on January 1 and July 1 of each year, commencing January 1, 2004. Payments of principal of, premium, if any, and interest on the Series 2003 A Bonds will be paid by the Trustee to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the Series 2003 A Bonds, as described herein.

The Series 2003 A Bonds are subject to redemption prior to maturity as described herein.

The Series 2003 A Bonds are revenue obligations of the City, payable solely from and secured by a pledge of the Subordinated Net Revenues of the Electric Utility and the other funds pledged therefor, which pledge of Subordinated Net Revenues is junior and subordinate to the pledge of the Net Revenues of the Electric Utility for the City's outstanding senior lien electric revenue bonds and on a parity with the City's outstanding subordinate lien bonds and any additional subordinate lien bonds (including the Series 2003 B Bonds) and parity debt hereafter issued or incurred by the City, as more fully described herein. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2003 A BONDS" herein.

Payment of the principal of and interest on the Series 2003 A Bonds maturing on and after July 1, 2006 when due (not including acceleration or redemption, except scheduled mandatory sinking fund redemption) will be insured under a financial guaranty insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the Series 2003 A Bonds.

MBIA

The Series 2003 A Bonds are limited obligations of the City and are payable, both as to principal and interest, and as to any premiums upon the redemption thereof, out of the Subordinated Net Revenues and certain funds held under the Indenture. 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 Series 2003 A Bonds or the interest thereon. The Series 2003 A 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 Subordinated Net Revenues and said funds held under the Indenture. No registered owner of the Series 2003 A Bonds shall ever have the right to compel any exercise of the taxing power of the City to pay the Series 2003 A Bonds or the interest thereon.

Maturity Schedule
(See Inside Cover)

The Series 2003 A Bonds are offered when, as and if issued and received by the Underwriters, subject to approval of legality by Sidley Austin Brown & Wood LLP, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the City by the City Attorney of the City of Santa Clara, and for the Underwriters by Hawkins, Delafield & Wood, Los Angeles, California. Certain legal matters will be passed upon for MBIA Insurance Corporation by its General Counsel. It is expected that the Series 2003 A Bonds will be available for delivery through the DTC book-entry system in New York, New York on or about October 9, 2003.

Bear, Stearns & Co. Inc. | **Citigroup**

Goldman, Sachs & Co. | **JPMorgan**

September 23, 2003

9

Management's Discussion of Financial Results

Set forth below is a discussion of the financial results for the Electric System for the past five fiscal years, and the estimated results for the fiscal year ended June 30, 2003. This discussion should be read in conjunction with the City's management discussion contained in the audited financial statements attached hereto as APPENDIX C.

City's Strategic Plan. The City's financial performance over the past five years has been greatly influenced by the strategic plan which the City implemented, commencing in 1997, to provide a framework for future operations in the face of expected electric utility industry competition and restructuring. At the time the Strategic Plan was first approved, the perception of most industry participants, including the City, was that electric industry restructuring, which included the ability of retail customers to buy directly from energy providers (direct access), would preclude the City from charging rates that would cover all of the City's generation costs. (This potential shortfall in cost recovery is called "stranded costs.") The fallout from California's energy crisis (as described below under "Recent Developments Affecting the Strategic Plan" and under "DEVELOPMENTS IN THE ENERGY MARKETS") radically altered the energy markets in California and the business and regulatory environment in which the City's Electric Department operates. These external market changes, together with the successful implementation of the City's Strategic Plan, have substantially improved the comparative competitiveness of the City's cost structure and enhanced the City's ability to address any future direct access initiatives by the State Legislature. The elements of the Strategic Plan and their impact upon the City's financial performance are described in greater detail below.

To assure a competitive position, the Strategic Plan initially established a target average rate of 4.5 to 5.5 cents per kWh for delivered, bundled energy service by the year 2002, or 2.0 to 3.0 cents per kWh less than the City's average retail rate of 7.5 cents per kWh. Although the City was unable to achieve its full savings objectives, it was able to reduce its net average per kWh cost of delivered energy from 7.5 cents (in fiscal year 1995-96), to 5.9 cents in fiscal years 2001-02 and 2002-03. To achieve a portion of the savings realized in earlier years, the City undertook transactions to refinance or restructure portions of its joint powers agency debt obligations and its electric system revenue bonds. These transactions included the use of variable rate instruments (the City has established a non-binding target of maintaining at least 25% of its debt in the form of variable rate debt), as well as the extension of maturities of these obligations.

The City also froze its electric rates at an average of 7.5 cents per kWh (exclusive of AB 1890-related charges), and the rate freeze is expected to continue through December 31, 2004. The cash flow reflected by the difference between the City's rates and its actual costs has been credited to a cost reduction fund (the "Cost Reduction Fund"). Costs imposed as a result of AB 1890 (about 5% of retail sales revenues), including the Public Benefit Charge and the ISO Grid Management Charge, were passed on to customers over and above the frozen rate. As of June 30, 2003, there was approximately $292.0 million on deposit in the Cost Reduction Fund. On August 26, 2003, the City Council authorized the transfer of an additional $18.0 million from operating cash into the Cost Reduction Fund (of which approximately $15.0 million wil be applied towards costs of the Project). The Cost Reduction Fund further insulates the City from financial volatility.

In addition to the Cost Reduction Fund, the City established a Rate Stabilization Fund (the "Rate Stabilization Fund"). Amounts in the Rate Stabilization Fund are available to pay costs of the Electric Utility subject to certain terms and conditions. As of June 30, 2003, approximately $25.0 million was on deposit in the Rate Stabilization Fund. In fiscal year 2001-02, the City established a policy of maintaining an additional cash reserve equal to approximately two months' retail and wholesale operating cash requirements, or approximately $65 million.

The City is heavily dependent upon its industrial customers, which comprise approximately 86% of its load and 85% of its revenues (in fiscal year 2002-03). To help retain its industrial customers, and thus assure the stability of the City's electric sales and revenue, the City entered into power purchase contracts with many of its largest customers. To date thirteen customers, representing approximately 39% of the City's Electric Utility load and approximately 32% of annual sales revenues, are under contract. Certain of the contracts provide for flat rates for all or a portion of the energy sold thereunder or contain limits on rate increases during their terms. The contracts have varied terms.

To further protect the City from the departure of its customers, the City Council approved a open access plan imposing a CTC (competitive transition charge) on all customers, including those receiving energy from third party energy providers. The City's open access plan was validated by the Santa Clara Superior Court in April 2000. The plan includes obtaining written agreements to pay the CTC from customers selecting third-party energy providers and the right of the City to terminate direct access if the recovery of stranded costs was denied to the City. Although the open access plan has never been implemented (due to the impact of the California energy crisis), and stranded costs have not actually occurred for the City, the plan should provide basis for the City's recovery of stranded costs should some form of open access, combined with the future emergence of stranded costs, be mandated by the State legislature in the future. See "DEVELOPMENTS IN THE ENERGY MARKETS—Industry Restructuring and the Energy Crisis—State Intervention" herein.

Moreover, as deregulation unfolded, the City attempted to optimize the value of the utility's assets, in part, through a more comprehensive approach to energy trading operations, and in particular, the expansion of its wholesale trading operations. For fiscal years ended June 30, 1999, 2000, 2001, 2002, and 2003, net trading revenues (wholesale power sales revenues less wholesale power purchase costs) were approximately $12 million, $25 million, $181 million, $29 million and $0.17 million, respectively. Trading activity is summarized below. The difference between the quantity of energy sales and energy purchases shown below was provided from the City's own resources.

Σ 247.17
<36.00>
Enron
241.2

CITY OF SANTA CLARA
ELECTRIC SYSTEM
SUMMARY OF TRADING OPERATIONS

	Fiscal Year Ending June 30				
	1999	2000	2001	2002	2003 (Unaudited)
Sales – $000	$220,377	$606,451	$899,417	$424,379	$227,454
Sales – GWh	8,502	16,167	5,636	9,893	6,058
Purchases – $000	$207,910	$581,148	$717,887	$395,336	$227,284
Purchases – GWh	7,949	15,920	5,471	9,986	5,776

The recent economic downturn has impacted the industries in the Silicon Valley and has resulted in some decline in energy use in the City. The economic downturn has also caused the City to make downward revisions in its demand forecasts. As a consequence of this decline in projected energy use, certain medium term (ranging from three to nine years) power purchase agreements that were originally undertaken to meet forecasted retail energy requirements are currently treated by the City as surplus to its needs. As a consequence, the City characterizes transactions under these contracts as "wholesale" transactions. Moreover, these contracts presently have "above market" costs. As of June 30, 2003, future costs under current "above-market" long-term purchase agreements could exceed the market value of such purchases by as much as $50 million, exclusive of any potential liability to Enron. See "Electric Utility Litigation" below. In addition, approximately $5 million of amounts related to wholesale sales in

As a Special Order of Business, the Chief of Police, on behalf of the Council, accepted a $5,000 **Donation** from the **Kmart Family Foundation** to benefit the Police Department's Drug Abuse Resistance Education (D.A.R.E.) pilot program. The Chief of Police showed a slide of the recent Kmart Kids Race Against Drugs program and thanked the Kmart Family Foundation. **MOTION** was made by DeLozier, seconded and unanimously carried, that the Council **accept** the donation and all future individual/corporate donations that are less than $200 to benefit the Police Department's D.A.R.E. program and **approve** the appropriations to and annual reporting of the D.A.R.E. Program Expendable Trust Account 067-7731-5965-0480. **[File: Donations for Police Department D.A.R.E. Pilot Program]**

Also as a Special Order of Business, a presentation was made on the **City of Santa Clara's Electric Utility Draft Strategic Plan**. The City Manager gave an overview of the plan and introduced the members of the Strategic Planning Committee and Dan Gibson (Theodore Barry & Associates) and John Dey (Municipal Finance). She informed the Council that copies of the plan were distributed to the Libraries, Electric Department employees, Chamber of Commerce, and media representatives. Dan Gibson reviewed the process followed in developing the strategic plan. The Director of Electric Utility reviewed the main elements of the plan. Assistant Directors of Electric Utility Paul Eichenberger and John Roukema and the Director of Finance Kris Machnick reviewed various elements of the plan. Santa Clara resident Julia Raymond addressed the Council regarding the plan. **MOTION** was made by DeLozier, seconded and unanimously carried, that, per the Assistant City Manager (10/18/96), the Council **accept** the **City of Santa Clara's Electric Utility Strategic Plan** with the addition to Goal #2 of the following "and competitive rates for all customer classes"; and empower the City Manager to begin the implementation of the plan. **[File: Electric Department Strategic Plan]**

The Council proceeded to consider the City Manager's memo (10/11/96) regarding a letter from **San Jose Mayor Susan Hammer** encouraging the adoption of an ordinance **banning the sale of "Saturday Night Specials" (handguns)**. **MOTION** was made by Gillmor, and seconded, that the Council **refer** the matter to the City Manager and to the Chief of Police to return on November 19, 1996, with a report. Councilman DeLozier stated for the record that "I'm not a great believer in handguns or any kind of guns. In fact, I don't even own one. I do believe in the right that is set up in the United States that you can bear arms. I believe that this issue is a Federal and State issue and ought to be legislated from the top down and not from the bottom up. I think we ought to note and file it." The following citizens addressed the Council in opposition to the ordinance: Bruce Brady, Mike Varar, David Keegan, Mr. Opitz,

City Council Minutes
Oct 22, 1996

Electric

Meeting Date: 5/20/97
Council ☒
Agency ☐
SOSA ☐

AGENDA REPORT

City of Santa Clara, California

Agenda Item # 6C

DATE: May 16, 1997

TO: CITY MANAGER FOR COUNCIL ACTION

FROM: James H. Pope, Director of Electric Utility
A. Kristin Machnick, Director of Finance

APPROVED BY COUNCIL
Date: 5/20/97

SUBJECT: Cost Reduction Fund Reserve Establishment and Cash Transfer

EXECUTIVE SUMMARY

The Electric Department Strategic Plan, approved by the City Council on October 22, 1996, described a Cost Reduction Fund Reserve as a means of referring to an accumulation of cash that will occur during the period between now and the end of 2002 as a result of holding rates fixed and reducing the cost of delivering energy to the electric customers. Staff is requesting that the Cost Reduction Fund Reserve be established in the Electric Utility's set of accounts in order to (1) better quantify the extent to which the Electric Utility's cost saving measures have been effective and (2) to have a designated source of funds with a recognized purpose readily available to use for approved actions that will further contribute to cost reductions and financial stability of the Electric Utility. Staff also recommends that the interest earnings on the account balance be retained in the account to support the purpose of the Cost Reduction Fund Reserve. Further, Staff recommends transferring $4.9 million in cash from the Utility Operating Cash to the Cost Reduction Fund Reserve. This initial transfer into the Cost Reduction Fund Reserve is based on cost saving activities that have occurred over recent months.

- Renegotiated contracts that reduced the cost of purchased power	$ 1.2 million
- Joint powers agency refinancings	$ 1.0 million
- Elimination of PCA	$ 1.0 million
- Joint powers agency savings (reduced cash calls)	$ 1.7 million

Staff will describe the future additional amounts available for transfer to the Cost Reduction Fund Reserve as part of quarterly Strategic Plan reports.

ADVANTAGES AND DISADVANTAGES

Approval of the establishment of this account will provide a way of tracking the amounts resulting from implementation of the Electric Utility Strategic Plan.

ECONOMIC IMPACT

There is no current economic impact. The Cost Reduction Fund Reserve account is a designation of Electric Utility cash.

City of Santa Clara Agenda Report
May 20, 1997

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STAFF RECOMMENDATION

Staff recommends that Council approve establishment of the Cost Reduction Fund Reserve account in the Electric Utility, that all interest earnings be retained in the account and that $4.9 million be transferred from Electric Utility Operating Cash (091-12010) to the Electric Utility Cost Reduction Fund Reserve account (091-12058).

John C Ronkema
James Pope
Director of Electric Utility

A. Kristin Machnick
Director of Finance

APPROVED BY:

Jennifer Sparacino
Jennifer Sparacino
City Manager

Certified as to availability of funds OK 98
091-12010 $4,900,000.00

A. Kristin Machnick
Director of Finance

FIVE COUNCIL VOTES

Council ☒
Agency ☐
SOSA ☐

City of Santa Clara, California

18 C

Fran

APPROVED BY COUNCIL
Date: 8/19/97
8/19/97

DATE: August 13, 1997

TO: CITY MANAGER FOR COUNCIL ACTION

FROM: James H. Pope, Director of Electric Utility
A. Kristin Machnick, Director of Finance

SUBJECT: Revision of Electric Department Cash and Reserve Policy and Cash Transfer to the Cost Reduction Fund Reserve

City of Santa Clara Agenda Report Aug 19, 1997

EXECUTIVE SUMMARY:

At the Strategic Plan update given to the Council on July 22, 1997, Staff indicated that a request would be made in the near future to make additional transfers to the Cost Reduction Fund Reserve (CRFR). In the DISCUSSION section below, a description is given of a policy approach that would establish prudent amounts of funds to maintain for continuing operations and for planned and emergency electric system construction. A review of Electric Department related funds leads staff to request that Council approve a change in the Electric Utility Reserve policy and that the CRFR be increased to $32.6million by (1) transferring funds from the FY96-97 operating surpluses and (2) eliminating two previously established reserves and transferring the funds currently in them to the CRFR.

ADVANTAGES & DISADVANTAGES OF ISSUE:

Staff believes the cash needs of the Utility are adequately met by the proposed policy change. Increasing the CRFR in the manner requested will place all the moneys available for this aspect of the Strategic Plan in one account, thereby improving accountability and providing a ready indication of funds available for any proposed cost reduction actions.

ECONOMIC/FISCAL IMPACT:

There are no costs associated with these transfers and the moneys remain invested.

STAFF RECOMMENDATION:

That the City Council approve transfers of $27.7 million to the Electric Department Cost Reduction Fund Reserve (Account No. 091-12058): $4.1million from Electric Department Operating Cash (Account No. 091-12010), $15.0million from Electric Department Operating Reserve (Account No. 091-12051), and $8.6million from Electric Department Capital Reserve (Account No. 091-12055).

for James H. Pope
Director of Electric Utility

A. Kristin Machnick
Director of Finance

Approved:

Certified as to Availability of Funds OK 78
Acct. No. 091-12055 - $8,604,722
Acct. No. 091-12051 - $15,000,000
Acct. No. 091-12010 - $4,100,000

Jennifer Sparacino
City Manager

A. Kristin Machnick
Director of Finance

jpm/sml/f:\council\action\CRFTRAN.WPD

MAJORITY VOTE OF COUNCIL

DISCUSSION

Council action on May 22, 1997 established the Cost Reduction Fund Reserve (CRFR) in order to (1) better quantify the extent to which the Electric Utility's cost saving measures have been effective, and (2) have a designated source of funds with a recognized purpose readily available for use for approved actions that will further contribute to cost reductions and the financial stability of the Electric Utility. With establishment of the CRFR, Council authorized transfer of $4.9 million into that account. During the July 22nd update briefing to Council on progress on Strategic Plan goals, it was pointed out that, at a subsequent Council meeting, action would be requested to transfer additional funds into the CRFR.

As part of the determination of the amount to be transferred, a policy level review was made of the amount of funds to be prudently held in (1) an operating cash account to allow meeting normal expenses during unusual circumstances, and (2) a capital account to provide for a planned construction program in the near term with sufficient contingency to immediately begin to repair the distribution system in the event of an emergency event. The attached letter from the Electric Department's Financial Advisor recommends (1) maintaining two twelfths of the annual operating budget in the operating cash account and (2) maintaining cash for construction so that the capital program can be funded for a given period of time; and such additional cash to provide for a reasonable capital reserve and contingency, as determined by the Department. It was further recommended that the Rate Stabilization Fund Reserve be maintained at its previously established level pending a review and analysis of the bond coverage requirements under the City's indenture. It was also the Financial Advisor's opinion that maintenance of the recommended fund levels described above would allow elimination of the previously established Operating Reserve and Capital Reserve. The Electric Department, with the concurrence of the Finance Department, is prepared to operate in accordance with these recommendations and requests Council to adopt them as policy.

With these recommendations as guidance, the fund level in each of the following accounts was reviewed and it was determined to make the changes indicated:

I. Operating Cash--maintain a minimum of $33.4 million.
II. Construction Cash and Bond Funds--make no changes at the present time and review the construction program with respect to this policy, and, if warranted, request transfers to the Cost Reduction Fund Reserve in six months.
III. Operating Reserve--transfer balance ($15 million) to the Cost Reduction Fund Reserve.
IV. Capital Reserve--transfer balance ($8.6 million) to the Cost Reduction Fund Reserve.

Additionally, the Cost Reduction Fund will be augmented by operating surpluses generated from general cost reduction measures and specific cost saving actions such as power contract renegotiation. Staff reported to you these specific savings of $4.9 million on May 20th. Staff has identified an additional $4.1 million in general cost savings for FY 96-97 and recommends that that transfer also be approved at this time.

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EVENSEN DODGE INC

August 12, 1997

Mr. James H. Pope
Director of Electric Utility
City of Santa Clara Electric Department
1500 Warburton Ave.
Santa Clara, CA 95050

Dear Jim:

You have asked Evensen Dodge, Inc. to review the fiscal year-end balances of the Department's funds and to make recommendations as to the appropriate level based on our knowledge of the levels required to maintain the fiscal health of the electric utility. Provided below are our comments and recommendations as to the level of cash for operations and for the capital program, including reserves to be held in the accounts of the Electric Department. These recommendations assume that the Department will be funding the Cost Reduction Fund Reserve on a quarterly basis until 2002.

- Maintain a minimum of two-twelfths of the annual operating budget dollars in the operating cash account.
- Cash for construction should be maintained at levels so that the capital program can be funded for a given period of time and a reasonable capital reserve and contingency can be maintained. The Department should make the determination of the appropriate level of cash for construction.
- Elements of the Strategic Plan, as established, should generate surpluses that will be added to the Cost Reduction Fund Reserve quarterly until 2002. At the time of each deposit to the Reserve, the Department should reassess the amount of moneys to keep available for operational and capital funding purposes.

With the establishment of the Cost Reduction Fund Reserve and the expected level for its funding, it is our opinion that no other reserve balances are necessary in order to maintain the fiscal health of the electric utility.

Sincerely,

EVENSEN DODGE, INC.

Richard Morales

Richard Morales
Senior Vice President

John S. Dey

John S. Dey
Senior Consultant

Albuquerque • [illegible] • [illegible] • Buffalo • Costa Mesa • [illegible] • [illegible] • [illegible] • [illegible]
[illegible] • New York • [illegible] • Portland • [illegible] • [illegible] • [illegible]
44 Montgomery Street, Suite 500, San Francisco, California 94104
(415) 955-2675 (415) 955-2676 FAX

City of Santa Clara Agenda Report Sep 4, 2001

Meeting Date: 9/4/01

Santa Clara

All-America City

2001

AGENDA REPORT

City of Santa Clara, California

Agenda Item # 13.B

APPROVED

by Council

9-4-01

date

DATE: August 28, 2001

TO: City Manager for Council Action

FROM: James H. Pope, Director of Electric Utility

SUBJECT: Policy Regarding Minimum Operating Cash and Transfer to the Cost Reduction Fund Reserve from Electric Operating Cash

EXECUTIVE SUMMARY:

In August 1997 Council approved a cash balances policy for the Electric Utility, including maintaining a minimum Operating Cash balance of $33.4 million, which was equal to approximately on 60 days of retail revenue. As the cash flow from wholesale transactions increases, staff has reviewed the minimum Operating Cash policy and believes that an increase is appropriate. In addition to maintaining a minimum of 60 days retail revenue, or $34 million, it is recommended that the Operating Cash policy also include 60 days of net wholesale transactions, approximately $31 million, for a total of $65 million.

In conjunction with the August 28, 2001 Strategic Plan update to the City, a transfer to the Cost Reduction Fund Reserve (CRFR) is being requested. Council approved a $47 million transfer to the CRFR for the first six months of FY00-01. Based on final operating results for FY00-01, and consistent with the recommended minimum Operating Cash policy, staff is requesting that another $91 million be transferred from Electric Department Operating Cash into the Cost Reduction Fund Reserve, bringing the total transfer for the year to $138 million. In addition, from January to June $1.0 million has been transferred to the Cost Reduction Fund Reserve, representing the savings from the contribution in lieu of taxes, and the fund earned $4.8 million in interest. Approval of the transfer will bring the Cost Reduction Fund Reserve total to $280.1 million effective June 30, 2001.

ADVANTAGES & DISADVANTAGES OF ISSUE:

Approval of this transfer request will help meet the goals of the Electric Department's Strategic Plan.

ECONOMIC/FISCAL IMPACT:

There is sufficient operating cash to transfer the $91.0 million to the cost reduction fund without compromising the Electric Department's operating cash liquidity.

STAFF RECOMMENDATION:

That the City Council approve: 1) Cash policy to maintain a minimum of $65 million in the Electric Utility Operating Cash and 2) Transfer of $91.0 million to the Electric Department Cost Reduction Fund Reserve Account (091-12058) from Electric Department Operating Cash Account (091-12010).

JHPope

James H. Pope, Director of Electric Utility

Certified as to Availability of Funds
091-12010 $91,000,000.00

Mary Jo Walker

Mary Jo Walker, Director of Finance

APPROVED:

Jennifer Sparacino

Jennifer Sparacino, City Manager

FIVE COUNCIL VOTES

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City of Santa Clara: Electric Utility Cash Position

THT 3/22/2007

Prelim. 7/25/05 Prelim. 9/13/0: Prelim. 9/23/05

Month / Year	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05
Operating Cash	80,847,401	72,039,127	72,762,441	68,899,106	67,925,411	70,796,275	71,486,253	77,527,592	78,081,703	76,972,938	$ 70,097,398	55,707,105
Construction Cash	68,011,446	65,688,194	57,642,376	59,050,467	65,080,605	55,424,729	54,352,388	50,079,600	47,906,746	47,519,481	53,073,365	52,578,127
Rate Stabilization Fund	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000
Cost Reduction Fund	282,907,431	285,024,013	282,006,647	276,078,909	271,295,783	271,638,850	272,355,998	274,316,067	275,183,449	275,785,803	272,543,250	272,724,606
DVR Power Plant Reserve	4,149,197	4,169,918	4,183,201	4,195,593	4,216,757	4,219,503	4,230,643	4,261,090	4,274,992	4,284,350	4,306,991	4,311,383
Total Cash	460,915,475	451,921,252	441,594,665	433,224,075	433,518,556	427,079,357	427,425,282	431,184,349	430,446,890	429,562,572	425,021,004	410,321,221
Increment above prev. month	(2,027,935)	(8,994,223)	(10,326,587)	(8,370,590)	294,481	(6,439,199)	345,925	3,759,067	(737,459)	(884,318)	(4,541,568)	(14,699,783)

Month / Year	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06
Operating Cash	54,400,729	55,833,049	56,613,752	55,509,291	$ 62,777,333	$ 64,363,159	$ 68,129,866	$ 71,693,162	$ 73,991,834	$ 74,274,472	72,389,685	64,339,282
Construction Cash	52,316,604	51,461,998	47,274,668	47,188,526	46,198,673	44,430,102	44,258,843	43,407,822	43,272,344	52,488,481	52,129,070	51,934,412
Rate Stabilization Fund	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000
Cost Reduction Fund	273,576,902	275,148,865	276,082,414	276,870,512	277,932,672	278,467,212	242,951,446	244,172,142	244,962,302	238,775,971	239,855,530	240,370,523
DVR Power Plant Reserve	4,324,857	4,349,706	4,364,464	4,376,923	4,393,714	4,402,166	4,417,725	4,437,023	4,451,669	4,466,162	4,486,059	4,495,004
Total Cash	409,619,092	411,793,618	409,335,298	408,945,252	416,302,392	416,662,639	384,757,880	388,710,149	391,678,149	395,005,086	393,860,344	386,139,221
Increment above prev. month	(702,129)	2,174,526	(2,458,319)	(390,046)	7,357,140	360,246	(31,904,759)	3,952,269	2,968,001	3,326,937	(1,144,742)	(7,721,123)

Month / Year	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07
Operating Cash	64,156,600											
Construction Cash	52,178,495											
Rate Stabilization Fund	25,000,000											
Cost Reduction Fund	241,115,327											
DVR Power Plant Reserve	4,510,171											
Total Cash	386,960,593											
Increment above prev. month	821,372											

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CITY OF SANTA CLARA FINANCE-ACCOUNTING SERVICES
ELECTRIC UTILITY COST REDUCTION FUND ACTIVITY

			Amount	Percent
FY96-97 through FY0506				
From Operations (including net wholesale trading activities, renegotiated contracts and other cost reduction efforts)			282,800,000.00	70.1%
From Other Reserves in FY96-97				
	Capital Reserve	8,604,722.00		
	Operating Reserve	15,000,000.00		
			23,604,722.00	5.8%
From Contribution in Lieu Reduction FY97-98 to FY00-01			6,358,366.72	1.6%
Interest earnings to 1-31-07			90,846,099.00	22.5%
Total Inflows to 1-31-07			**403,609,187.72**	100.0%
Transfers Out				
FY97-98	NCPA	(9,164,632.00)		
FY01-02	Cash transfer to Capital Projects Fund 591 to fund Project 2368 - Donald Von Raesfeld Power Plant	(10,280,000.00)		
	FY01-02 Transfer to Bond Fund for the redemption of 1991 B Series bonds	(10,428,200.00)		
FY02-03	Cash transfer to Capital Projects Fund 591 for the construction of 230KV Transmission Project	(29,400,000.00)		
FY03-04	Cash transfer to Capital Projects Fund 591 to supplement bond proceeds from 2003A and 2003B issues for the construction of DVR Power Plant	(14,423,528.97)		
FY04-05	08-31-04 - Cash transfer to Capital Projects Fund 591 to fund Project #2383-Natural Gas Reserve Purchase.	(30,000,000.00)		
FY04-05	12-14-04 - Cash transfer to set up the DVR Reserve Fund	(4,120,000.00)		
FY04-05	Cash transfer to Capital Projects Fund 591 to fund Project 2364 - Generation Betterment and maintenance	(6,500,000.00)		
FY05-06	07-01-05 - Cash transfer to Capital Projects Fund 591 to fund projects (1)	(4,700,000.00)		
FY05-06	09-27-05 - Cash transfer to Fund 063 for share on the donation to Katrina victims	(27,500.00)		
FY05-06	06-30-06 - Transfer to operating cash for payment of Enron Settlement	(36,500,000.00)		
FY06-07	Cash Transfer To Capital Projects Fund 591	(6,950,000.00)		
			(162,493,860.97)	-40.3%
Balance at 1-31-07			**241,115,326.75**	59.7%
			(241,115,326.75)	

City of Santa Clara: Cost Reduction Fund

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Impact of Drawdown of Cost Reduction Fund (a)

$0M Drawdown; 3% Rate Increase; Maintain CRF about $130M; Drop $61M Wind from CRF

ELECTRIC UTILITY

FY07-08 to FY12-13 REVENUE AND EXPENDITURE PROJECTIONS

	2007 - 08	2008 - 09	2009-10	2010-11	2011-12	2012-13
ESTIMATED REVENUE						
Charges for Current Service (1)	$ 248,404,360	$ 258,149,695	$ 262,021,941	$ 265,952,270	$ 269,941,554	$ 273,990,677
Mandated Revenue, not subject to CLT (2)	7,676,716	7,965,594	8,085,078	8,206,354	8,329,450	8,454,391
Use of Money & Property	9,877,482	9,204,015	8,663,395	8,331,921	7,948,640	7,667,083
Other Revenue (Except Bond Proceeds)	6,316,071	6,625,088	6,858,152	7,070,796	7,508,433	7,832,778
Total Revenue	272,274,628	281,944,393	285,628,566	289,561,341	293,728,076	297,944,930
ESTIMATED EXPENDITURES						
Utility & Street Light Construction (3)	$ 32,010,000	$ 24,797,500	$ 17,270,400	$ 17,769,700	$ 13,568,500	$ 14,165,950
Salaries & Benefits	20,524,667	21,037,784	21,563,728	22,102,821	22,655,392	23,221,777
Other Operating Expenditures	14,579,959	14,944,458	15,318,069	15,701,021	16,093,547	16,495,885
Resource & Production Costs						
Purchased Power, Non-JPA (7)	31,528,025	34,165,125	37,183,810	45,099,483	45,215,415	48,423,165
Purchased Power, JPA	89,811,000	94,350,997	95,082,834	84,985,554	87,630,936	87,669,873
Other Production Costs	62,218,941	65,174,506	68,107,751	62,503,218	68,705,613	75,166,480
Mandated Cost (4)	7,676,716	7,965,594	8,085,078	8,206,354	8,329,450	8,454,391
Internal Service Funds	7,716,537	7,909,450	8,107,187	8,309,866	8,517,613	8,730,553
Contribution-in-lieu of Taxes	13,229,896	13,698,940	13,877,174	14,067,749	14,269,931	14,474,527
Debt Service (5)	23,710,367	21,045,900	21,136,291	17,229,666	14,460,129	17,948,401
Total Expenditures	303,006,107	305,090,255	305,732,322	295,975,434	299,446,525	314,751,004
TOTAL AVAILABLE REVENUE (6)	**$ (30,731,478)**	**$ (23,145,862)**	**$ (20,103,756)**	**$ (6,414,092)**	**$ (5,718,449)**	**$ (16,806,074)**
Cost Reduction Fund Balance - End of FY	**$198,858,622**	**$175,712,760**	**$155,609,004**	**$149,194,912**	**$143,476,463**	**$126,670,389**

(1) Assumes present rates at 8.23 cents/kWh (Excl. PBC, SS) plus 3% rate increase Jan 2008
(2) Mandated Revenue: PBC, Grid Management Charge, State Surcharge
(3) Includes Electric Utility General Operating Funds 091 and 491 and Elec Utility Capital Improve. Funds 591 and 534. Excludes $61 M of wind repowering.
(4) Mandated Cost to include PBC, GMC-related cost and State Surcharge
(5) Including DVR on line January 2005
(6) Deficits funded either from Cost Reduction Fund or additional revenue from rate increases
(7) "To Be Funded" Capital Financed by Revenue/CRF
(8) Excludes ISO-related costs collected as Mandated Cost
(9) Note: Avg. Cost of Gas- $/MMBtu

	2007 - 08	2008 - 09	2009-10	2010-11	2011-12	2012-13
Avg. Cost of Gas- $/MMBtu	$ 7.02	$ 7.22	$ 7.48	$ 7.40	$ 7.21	$ 7.89

Impact of Drawdown of Cost Reduction Fund (6)

$50M Drawdown; 7% Rate Increase; Maintain CRF about $130M; Drop $61M Wind from CRF

ELECTRIC UTILITY

FY07-08 to FY12-13 REVENUE AND EXPENDITURE PROJECTIONS

	2007 - 08	2008 - 09	2009-10	2010-11	2011-12	2012-13
ESTIMATED REVENUE						
Charges for Current Service (1)	$ 253,552,637	$ 269,252,908	$ 273,291,702	$ 277,391,077	$ 281,551,944	$ 285,775,223
Mandated Revenue, not subject to CLT (2)	7,823,441	8,282,036	8,406,266	8,532,360	8,660,346	8,790,251
Use of Money & Property	9,306,841	8,182,453	7,886,151	7,808,902	7,690,048	7,683,429
Other Revenue (Except Bond Proceeds)	6,316,071	6,625,088	6,858,152	7,070,796	7,508,433	7,832,778
Total Revenue	276,998,991	292,342,486	296,442,272	300,803,135	305,410,770	310,081,681
ESTIMATED EXPENDITURES						
Utility & Street Light Construction (3)	$ 82,010,000	$ 24,797,500	$ 17,270,400	$ 17,769,700	$ 13,568,500	$ 14,165,950
Salaries & Benefits	20,524,667	21,037,784	21,563,728	22,102,821	22,655,392	23,221,777
Other Operating Expenditures	14,579,959	14,944,458	15,318,069	15,701,021	16,093,547	16,495,885
Resource & Production Costs						
Purchased Power, Non-JPA (7)	31,528,025	34,165,125	37,183,810	45,099,483	45,215,415	48,423,165
Purchased Power, JPA	89,811,000	94,350,997	95,082,834	84,985,554	87,630,936	87,669,873
Other Production Costs	62,218,941	65,174,506	68,107,751	62,503,218	68,705,613	75,166,480
Mandated Cost (4)	7,823,441	8,282,036	8,406,266	8,532,360	8,660,346	8,790,251
Internal Service Funds	7,716,537	7,909,450	8,107,187	8,309,866	8,517,613	8,730,553
Contribution-in-lieu of Taxes	13,458,777	14,203,022	14,401,800	14,613,539	14,837,521	15,064,571
Debt Service (5)	23,710,367	21,045,900	21,136,291	17,229,666	14,460,129	17,948,401
Total Expenditures	353,381,715	305,910,779	306,578,136	296,847,229	300,345,011	315,676,908
TOTAL AVAILABLE REVENUE (6)	$ (76,382,724)	$ (13,568,293)	$ (10,135,864)	$ 3,955,906	$ 5,065,758	$ (5,595,227)
Cost Reduction Fund Balance - End of FY	$153,207,376	$139,639,083	$129,503,219	$133,459,125	$138,524,883	$132,929,656

(1) Assumes present rates at 8.21 cents/kWh (Excl. PBC, SS) plus 9% rate increase Jan 2008
(2) Mandated Revenue: PBC, Grid Management Charge, State Surcharge
(3) Includes Electric Utility General Operating Funds 091 and 491 and Elec Utility Capital Improve. Funds 591 and 534. Excludes $61 M of wind repowering.
(4) Mandated Cost to include PBC, GMC-related cost and State Surcharge
(5) Including DVR on line January 2005
(6) Deficits funded either from Cost Reduction Fund or additional revenue from rate increases
(7) "To Be Funded" Capital Financed by Revenue/CRF
(8) Excludes ISO-related costs collected as Mandated Cost
(9) Note: Avg. Cost of Gas- $/MMBtu $ 7.02 $ 7.22 $ 7.48 $ 7.40 $ 7.21 $ 7.89

Impact of Drawdown of Cost Reduction Fund (c)

$200M Drawdown; 16% Rate Increase; Restore CRF to $130M; Drop $61M Wind from CRF

ELECTRIC UTILITY

FY07-08 to FY12-13 REVENUE AND EXPENDITURE PROJECTIONS

	2007 - 08	2008 - 09	2009-10	2010-11	2011-12	2012-13
ESTIMATED REVENUE						
Charges for Current Service (1)	$ 265,954,668	$ 298,101,434	$ 302,572,956	$ 307,111,550	$ 311,718,223	$ 316,393,997
Mandated Revenue, not subject to CLT (2)	8,176,899	9,104,219	9,240,782	9,379,394	9,520,085	9,662,886
Use of Money & Property	7,558,352	4,990,142	5,315,699	5,885,733	6,440,356	7,134,198
Other Revenue (Except Bond Proceeds)	6,316,071	6,625,088	6,858,152	7,070,796	7,508,433	7,832,778
Total Revenue	288,005,991	318,820,884	323,987,589	329,447,472	335,187,097	341,023,859
ESTIMATED EXPENDITURES						
Utility & Street Light Construction (3)	$ 232,010,000	$ 24,797,500	$ 17,270,400	$ 17,769,700	$ 13,568,500	$ 14,165,950
Salaries & Benefits	20,524,667	21,037,784	21,563,728	22,102,821	22,655,392	23,221,777
Other Operating Expenditures	14,579,959	14,944,458	15,318,069	15,701,021	16,093,547	16,495,885
Resource & Production Costs						
Purchased Power, Non-JPA (7)	31,528,025	34,165,125	37,183,810	45,099,483	45,215,415	48,423,165
Purchased Power, JPA	89,811,000	94,350,997	95,082,834	84,985,554	87,630,936	87,669,873
Other Production Costs	62,218,941	65,174,506	68,107,751	62,503,218	68,705,613	75,166,480
Mandated Cost (4)	8,176,899	9,104,219	9,240,782	9,379,394	9,520,085	9,662,886
Internal Service Funds	7,716,537	7,909,450	8,107,187	8,309,866	8,517,613	8,730,553
Contribution-in-lieu of Taxes	13,991,455	15,485,833	15,737,340	16,003,404	16,283,351	16,568,049
Debt Service (5)	23,710,367	21,045,900	21,136,291	17,229,666	14,460,129	17,948,401
Total Expenditures	504,267,850	308,015,773	308,748,192	299,084,128	302,650,580	318,053,020
TOTAL AVAILABLE REVENUE (6)	**$ (216,261,859)**	**$ 10,805,111**	**$ 15,239,397**	**$ 30,363,345**	**$ 32,536,517**	**$ 22,970,839**
Cost Reduction Fund Balance - End of FY	**$13,328,241**	**$24,133,352**	**$39,372,749**	**$69,736,094**	**$102,272,611**	**$125,243,450**

(1) Assumes present rates at 8.23 cents/kWh (Excl. PBC, GMC, SS) plus 16% rate increase Jan 2008

(2) Mandated Revenue: PBC, Grid Management Charge, State Surcharge

(3) Includes Electric Utility General Operating Funds 091 and 491 and Elec Utility Capital Improve. Funds 591 and 534. Excludes $61 M of wind repowering.

(4) Mandated Cost to include PBC, GMC-related cost and State Surcharge

(5) Including DVR on line January 2005

(6) Deficits funded either from Cost Reduction Fund or additional revenue from rate increases

(7) "To Be Funded" Capital Financed by Revenue/CRF

(8) Excludes ISO-related costs collected as Mandated Cost

	2007 - 08	2008 - 09	2009-10	2010-11	2011-12	2012-13
(9) Note: Avg. Cost of Gas- $/MMBtu	$ 7.02	$ 7.22	$ 7.48	$ 7.40	$ 7.21	$ 7.89

CITY OF SANTA CLARA
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
June 30, 2006

	Business-type Activities-Enterprise Funds				
	UTILITY FUNDS				
	Electric Utility	Water Utility	Sewer Utility	Water Recycling Utility	Solid Waste
ASSETS					
Current assets:					
Cash and investments (Note 8):					
Pooled cash and investments	$ 410,823,204	$ 10,116,112	$ 17,627,825	$ 3,789.663	$ 292,648
Investments with fiscal agent	13,051,383	-	-	-	-
Receivables (net of allowance for uncollectibles):					
Accounts	45,013,408	1,869,444	1,013,174	16,698	1,214,270
Interest	4,109,430	107,704	179,016	35,658	-
Intergovernmental	-	-	-	75,000	-
Due from other funds (Note 9B)	1,585,124	85,495	545,413	-	868,552
Materials, supplies and prepaids	3,718,883	609,250	-	-	-
Total current assets	478,301,432	12,788,005	19,365,428	3,917,019	2,375,470
Cash designated for construction (Note 8)	-	303,090	1,507,553	-	510,000
Investment with fiscal agent (Note 8)	14,459,823	-	-	-	-
Deposits (Note 8)	2,206,597	-	-	-	-
Capital assets (Note 10):					
Land and improvements	10,443,186	661,268	725,328	-	-
Buildings and improvements	667,944,890	56,199,233	24,126,573	-	127,362
Equipment	7,420,806	3,385,985	1,340,394	-	440,599
Construction in progress	5,255,784	702,643	77,410	-	153,427
	691,064,666	60,949,129	26,269,705	-	721,388
Accumulated depreciation	219,465,264	32,558,729	16,018,269	-	413,471
	471,599,402	28,390,400	10,251,436	-	307,917
Investment in joint ventures (Note 13)	15,867,700	-	85,291,208	-	-
Other assets	10,743,268	409,813	269,089	-	279,213
Total assets	993,178,222	41,891,308	116,684,714	3,917,019	3,472,600
LIABILITIES					
Current liabilities:					
Accrued liabilities	75,517,670	1,516,464	63,444	1,190,266	1,405,700
Interest payable	4,573,109	-	-	-	-
Accrued compensated absences (Note 2K)	270,912	88,631	38,320	-	5,106
Due to other funds (Note 9B)	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Current portion of landfill closure liability (Not	-	-	-	-	315,000
Current portion of long-term debt (Note 11)	11,820,000	-	-	67,319	-
Total current liabilities	92,181,691	1,605,095	101,764	1,257,585	1,725,806
Advance from other funds (Note 9C)	-	-	-	-	-
Landfill closure liability (Note 12)	-	-	-	-	5,110,066
Long-term Comp Absences (Note 2K)	1,861,493	609,000	263,301	-	35,082
Long-term obligations (Note 11)	252,766,054	-	-	105,349	-
Total noncurrent liabilities	254,627,547	609,000	263,301	105,349	5,145,148
Total liabilities	346,809,238	2,214,095	365,065	1,362,934	6,870,954
NET ASSETS					
Invested in capital assets, net of related debt	234,524,554	28,390,400	10,251,436	-	307,917
Restricted for contractual obligations	492,409	564,942	716	344,068	510
Unrestricted	411,352,021	10,721,871	106,067,497	2,210,017	(3,706,781)
Net Assets	$ 646,368,984	$ 39,677,213	$ 116,319,649	$ 2,554,085	$ (3,398,354)

Amounts reported for *business-type activities* in the Statement of Net Assets are different because certain internal service fund assets and liabilities are included with business-type activities in some cases.

Net assets of business-type activities

See accompanying notes to financial statements

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CITY OF SANTA CLARA
PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

Business-type Activities-Enterprise Funds

	UTILITY FUNDS					
	Electric Utility	Water Utility	Sewer Utility	Water Recycling Utility	Solid Waste	Cemetery
Operating revenues:						
Charges for services	$202,192,523	$18,956,863	$ 11,821,999	$ 958,632	$14,349,225	$ 510,587
Rents and royalties	-	-	-	-	-	-
Insurance refunds and other	-	-	-	-	-	-
Other	-	-	-	-	339,180	-
Total operating revenues	202,192,523	18,956,863	11,821,999	958,632	14,688,405	510,587
Operating expenses:						
Salaries and benefits	16,485,581	3,771,377	1,669,182	95,045	743,453	503,790
Materials, services and supplies	215,706,156	14,637,243	8,422,187	550,060	14,760,286	215,445
General and administrative	-	-	-	-	-	-
Amortization	1,158,705	80,622	52,856	-	55,052	-
Depreciation	15,917,644	975,418	469,406	-	18,566	37,068
Total operating expenses	249,268,086	19,464,660	10,613,631	645,105	15,577,357	756,303
Operating income (loss)	(47,075,563)	(507,797)	1,208,368	313,527	(888,952)	(245,716)
Nonoperating revenues (expenses):						
Interest revenue	18,033,094	447,197	718,201	145,087	-	-
Net (decrease) in the fair value of investments	(10,376,482)	(273,338)	(473,341)	-	-	-
Rents and royalties	2,053,913	69,284	-	-	53,312	-
Joint project contribution	-	-	-	244,026	-	-
Other revenue	8,918,173	688,686	1,126,084	7,533	-	-
Interest expense	(12,127,360)	-	-	(9,526)	-	-
Other expense	(3,153,464)	-	-	(288,681)	-	-
Provision for disputed SCS charges (Note 18)	10,867,653	-	-	-	-	-
Equity in income (losses) of joint ventures	2,921,301	-	(4,469,399)	[illegible] -	-	-
Gain (loss) on retirement of assets	-	(5,391)	(1,519)	SCSS -	-	-
Wholesale power sales	255,187,805	-	-	WPCP -	-	-
Wholesale power purchases	(249,500,523)	-	-	-	-	-
Total nonoperating revenues	22,824,110	926,438	(3,099,974)	98,439	53,312	-
Income (loss) before contributions and transfers	(24,251,453)	418,641	(1,891,606)	411,966	(835,640)	(245,716)
Contributions	-	-	-	-	-	-
Transfers in (Note 9A)	-	500,000	-	-	396,252	39,223
Transfers (out) (Note 9A)	(2,191,131)	(308,889)	(138,489)	(503,730)	(123,459)	(20,481)
Change in net assets	(26,442,584)	609,752	(2,030,095)	(91,764)	(562,847)	(226,974)
Total net assets-beginning	672,811,568	39,067,461	118,349,744	2,645,849	(2,835,507)	84,526
Total net assets-ending	$646,368,984	$39,677,213	$ 116,319,649	$2,554,085	$(3,398,354)	$ (142,448)

Amounts reported for *business-type activities* in the Statement of Activities are different because the portion of the net income of certain internal service funds is reported with the business-type activities which those funds service.

Change in net assets of business-type activities

See accompanying notes to financial statements

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CITY OF SANTA CLARA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

	Business-type Activities-Enterprise Funds			
	UTILITY FUNDS			
	Electric Utility	Water Utility	Sewer Utility	Water Recycling Utility
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$ 200,389,076	$ 18,932,310	$ 11,840,696	$ 958,740
Payments to suppliers	(192,372,618)	(14,416,727)	(8,442,623)	(523,212)
Payments to employees	(16,907,406)	(3,919,638)	(1,665,861)	(98,267)
Internal activity - payments to other funds	-	-	-	-
Claims paid	-	-	-	-
Other receipts (payments)	5,509,208	688,686	1,126,084	7,533
Net cash provided by operating activities	(3,381,740)	1,284,631	2,858,296	344,794
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Wholesale resource sales	255,187,805	-	-	-
Wholesale resource purchases	(249,500,523)	-	-	-
Provision for disputed SCS charges	10,944,011	-	-	-
Charges for Joint project contribution	-	-	(1,284,883)	169,026
Expenses for joint project	-	-	-	(338,170)
Increase (decrease) in due from other funds	1,026,322	257,143	53,855	-
(Increase) decrease in due to other funds	-	-	-	-
Advances from other funds	-	-	-	-
Transfers in	-	500,000	-	-
Transfers (out)	(2,191,131)	(308,889)	(138,489)	(503,730)
Cash Flows from Noncapital Financing Activities	15,466,484	448,254	(1,369,517)	(672,874)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets, net	(21,159,865)	(2,078,251)	(329,812)	-
Principal payments on capital debt	(11,080,000)	-	-	(64,723)
Interest paid on capital debt	(11,383,485)	-	-	(9,526)
Cash Flows from Capital and Related Financing Activities	(43,623,350)	(2,078,251)	(329,812)	(74,249)
CASH FLOWS FROM INVESTING ACTIVITIES				
Rents and royalties received	2,394,742	69,284	-	-
Net (decrease) in the fair value of investments	(10,376,482)	(273,338)	(473,341)	-
Interest and dividends	18,978,649	472,697	785,675	156,498
Payments made by fiscal agent	22,333,380	-	-	-
Deposits made with fiscal agent	(22,813,957)	-	-	-
Cash Flows from Investing Activities	10,516,332	268,643	312,334	156,498
Net increase (decrease) in cash and cash equivalents	(21,022,274)	(76,723)	1,471,301	(245,831)
Cash and cash equivalents at beginning of period	431,845,478	10,495,925	17,664,077	4,035,494
Cash and cash equivalents at end of period	$ 410,823,204	$ 10,419,202	$ 19,135,378	$ 3,789,663
Cash and cash equivalents:				
Pooled cash and investments	$ 410,823,204	$ 10,116,112	$ 17,627,825	$ 3,789,663
Cash designated for construction	-	303,090	1,507,553	-
Total cash and cash equivalents	$ 410,823,204	$ 10,419,202	$ 19,135,378	$ 3,789,663
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	$ (47,075,563)	$ (507,797)	$ 1,208,368	$ 313,527
Adjustments to reconcile operating income to net cash provided by operating activities:				
Amortization	1,158,705	80,622	52,856	-
Depreciation	15,917,644	975,418	469,406	-
Change in assets and liabilities:				
Receivables, net	(8,884,457)	(22,263)	18,697	108
Inventory	563,966	19,586	-	-
Accrued liabilities	28,990,212	53,404	(86,566)	23,626
Compensated absences	183,044	(3,025)	69,451	-
Deferred revenue	-	-	-	-
Other receipts (payments)	8,918,173	688,686	1,126,084	7,533
Other expenses	(3,153,464)	-	-	-
Net cash provided by operating activities	$ (3,381,740)	$ 1,284,631	$ 2,858,296	$ 344,794
NONCASH TRANSACTIONS:				
Joint Ventures				
Nonoperating income	$ 2,921,301	$ -	$ (4,469,399)	$ -

See accompanying notes to financial statements

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CITY OF SANTA CLARA
Notes to Basic Financial Statements
June 30, 2006

NOTE 11 – LONG-TERM OBLIGATIONS

As of June 30, 2006, outstanding long-term obligations consisted of the following:

Type of Indebtedness	Issue Date	Final Maturity	Interest Rates
Governmental Activity Debt:			
General Long Term Debt:			
Special Assessment Bonds With City Commitment	12/1/1998	9/2/2011	4.10-5.20
1997 Certificates of Participation	7/1/1997	8/1/2022	4.5-5.375
2002A Certificates of Participation	11/14/2002	2/1/2032	3.00-5.00
2002B Certificates of Participation	11/14/2002	2/1/2014	3.00-4.50
Redevelopment Agency Obligations:			
Senior Secured Refunding Notes	6/1/1989	12/31/2005	11.24
Bayshore North Project 1992 TA and Refunding Bonds	10/22/1992	7/1/2014	7.00
Bayshore North Project-1999 TA Bonds Series A	8/1/1999	6/1/2023	5.25–5.50
Bayshore North Project-1999 TA Bonds Series B	8/1/1999	6/1/2017	5.25-5.50
Bayshore North Project-2002 TA Refunding Bonds	6/6/2002	6/1/2014	4.00-5.50
Bayshore North Project-2003 TA Bonds	5/14/2003	6/1/2023	5.00
Internal Service Long Term Debt:			
Insurance Funding Bonds-Series 1987	4/13/1987	4/1/2012	3.00
Business Type Activity Debt:			
Enterprise Long Term Debt:			
Electric Utility:			
1985 Series A Revenue Bonds	8/1/1985	7/1/2010	Adjustable
1985 Series B Revenue Bonds	8/1/1985	7/1/2010	Adjustable
1985 Series C Revenue Bonds	8/1/1985	7/1/2010	Adjustable
1991 Series B Revenue Refunding Bonds	1/28/1992	7/1/2010	6.25-6.35
1998 Series A Subordinate Refunding Revenue Bonds	3/1/1998	7/1/2027	4.50-5.25
2003 Series A Subordinate Revenue Bonds	10/9/2003	7/1/2028	2.50-5.25
2003 Series B Subordinate Revenue Bonds	10/9/2003	7/1/2034	Adjustable
Less Unamortized Discount			
Total of Electric Utility Revenue Bonds			
Water Recycling Utility:			
State Water Resource Control Board Loan	1/9/1989	1/22/2008	4.0128
Subtotal Business-type Activity Debt			
Total Long-Term Obligations			

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Authorized and Issued	Outstanding as of June 30, 2005	Debt Retired	Additions and Amortization of Discounts	Outstanding as of June 30, 2006	Current Portion
$ 10,325,000	$ 6,700,000	$ 825,000	$ -	$ 5,875,000	$ 860,000
16,050,000	13,935,000	485,000	-	13,450,000	510,000
25,025,000	24,350,000	500,000	-	23,850,000	515,000
33,505,000	28,440,000	2,395,000	-	26,045,000	2,470,000
42,000,000	1,712,729	1,712,729	-	-	-
74,240,000	26,630,000	-	-	26,630,000	4,630,000
31,550,000	31,550,000	-	-	31,550,000	-
16,905,000	16,905,000	-	-	16,905,000	-
33,910,000	21,180,000	-	-	21,180,000	-
43,960,000	43,960,000	-	-	43,960,000	-
327,470,000	215,362,729	5,917,729	-	209,445,000	8,985,000
20,000,000	20,000,000	-	-	20,000,000	-
347,470,000	235,362,729	5,917,729	-	229,445,000	8,985,000
25,000,000	12,700,000	$ 1,900,000	-	10,800,000	2,100,000
25,000,000	12,700,000	1,900,000	-	10,800,000	2,100,000
28,300,000	14,300,000	2,100,000	-	12,200,000	2,300,000
23,194,000	5,871,601	2,090,000	242,957	4,024,558	2,080,000
89,275,000	84,975,000	515,000	-	84,460,000	600,000
100,000,000	100,000,000	2,575,000	-	97,425,000	2,640,000
50,000,000	50,000,000	-	-	50,000,000	
-	(5,423,656)	-	300,152	(5,123,504)	-
340,769,000	275,122,945	11,080,000	543,109	264,586,054	11,820,000
975,000	237,391	64,723	-	172,668	67,319
341,744,000	275,360,336	11,144,723	543,109	264,758,722	11,887,319
689,214,000	$510,723,065	17,062,452	543,109	494,203,722	20,872,319

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NOTE 11 – LONG-TERM OBLIGATIONS (Continued)

Service. The City is in compliance with the debt covenants, and no event of default as defined in the indenture has occurred or is occurring.

D. Enterprise Funds

Electric Utility

1985 Floating Rate Electric Revenue Bonds, Series A, B and C

The City's 1985 Floating Rate Electric Revenue Bonds, Series A, B and C (1985 Series A, B and C Bonds) amounting to $25 million, $25 million, and $28.3 million, respectively, were issued to provide for the redemption of the 1984 Series B Electric Revenue Bonds. They bear interest at an adjustable rate, which is determined weekly. The 1985 A, B and C Bonds may be tendered by the holders for purchase at a price equal to 100% of the principal amount of any bond tendered, plus accrued and unpaid interest. Bonds tendered for purchase will be remarketed and the proceeds of the remarketing will be used to pay the purchase price of the tendered bonds. To provide funds to pay the purchase price of any tendered bonds, which were unable to be marketed, the City initially obtained an irrevocable letter of credit from National Westminster Bank, PLC. In August 1999, the letter of credit was replaced with a Municipal Bond Insurance Policy issued by Ambac Assurance Corporation and a standby Bond Purchase Agreement with JPMorgan Chase. Debt service on the 1985 Series A, B and C Bonds is payable from the annual revenues of the Electric Utility Enterprise Fund.

1991 Series B Electric Revenue Refunding Bonds

In January 1992, the City issued $23.19 million 1991 Series B Electric Revenue Refunding Bonds (Electric 1991B Bonds), net of $601 thousand in original issue discount. $2.56 million of the Electric 1991B Bonds were issued as discount capital appreciation bonds (CAB), which gradually increase in value until maturity. On July 1, 2002, the City exercised the option to redeem $10.32 million of the Electric 1991B Bonds. The remaining portion of the Electric 1991B Bonds, which is the CAB, mature serially in 2005, 2006 and 2007. The issue amount, maturity dates, current and future values of the CAB at maturity are as follows:

Issue Amount	Maturity Date	Value at 6/30/2006	Value at Maturity
$ 850,096	07/01/06	$ 2,080,000	$ 2,080,000
789,208	07/07/07	1,944,558	2,070,000
$ 1,639,304		$ 4,024,558	$ 4,150,000

Subordinated Electric Revenue Refunding Bonds, 1998 Series A

On March 1, 1998, the City issued $89.28 million of the 1998 Subordinated Electric Revenue Refunding Series A Bonds (Electric 1998A Bonds). The Bonds mature annually in serial amounts from July 1, 1998 to July 1, 2027 and bear coupon rates ranging from 4.50% to 5.25%. The Electric 1998A Bonds net proceeds totaling $86.06 million were deposited into an escrow fund. Principal and interest from the escrow fund were applied to retire

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NOTE 11 – LONG-TERM OBLIGATIONS (Continued)

$81.65 million of Electric 1991A Bonds on July 1, 2001. Debt service on the Electric 1998A Bonds is subordinate to the 1985 Series A, B and C Bonds and the Electric 1991B Bonds. Debt service payment is secured by a pledge of net revenues of the Electric Utility Enterprise Fund.

Subordinated Electric Revenue Refunding Bonds, 2003 Series A

On October 9, 2003, Silicon Valley Power issued $100 million of the Subordinated Electric Revenue Bonds, Series 2003A (Electric 2003A Bonds) to finance a portion of the Donald Von Raesfeld Power Plant. The Electric 2003A Bonds mature annually in serial amounts from July 1, 2005 to July 1, 2025 with the final Term Bond maturity of July 1, 2028 and bear coupon rates ranging from 2.50% to 5.25%. Debt service on the Electric 2003A Bonds is subordinate to the 1985 Series A, B and C Bonds and the Electric 1991B Bonds. Debt service on the 2003A Bonds is secured by a pledge of net revenues of the Electric Utility Enterprise Fund.

Subordinated Electric Revenue Refunding Bonds, 2003 Series B

On October 9, 2003, Silicon Valley Power issued $50 million of the Subordinated Electric Revenue Bonds, Series 2003B (Electric 2003B Bonds) to finance a portion of the Donald Von Raesfeld Power Plant. The Electric 2003B Bonds mature annually in serial amounts from July 1, 2028 to July 1, 2034. Coupon rates of the Electric 2003B Bonds are set every 28 days. Debt service on the Electric 2003B is subordinate to the 1985 Series A, B and C Bonds and the Electric 1991B Bonds. Debt service on the 2003B Bonds is secured by a pledge of net revenues of the Electric Utility Enterprise Fund.

Water Recycling Utility

The State Water Resource Control Board Loan was issued for the design and construction of pumping facilities and a pipeline to deliver reclaimed water to the City's golf course. Debt service on the loan is payable from the annual revenues of the Water Recycling Utility Enterprise Fund.

Compliance

Various debt agreements governing the Enterprise Funds' revenue bonds contain a number of covenants, including those that require the City to maintain and preserve the respective enterprise in good repair and working order, to maintain certain levels of insurance and to fix and collect rates, fees and charges so as to maintain certain debt coverage ratios. The City is in compliance with these specific covenants and all other material covenants governing the particular revenue bond issues. No event of default as defined in the bond indentures has occurred or is occurring.

E. Repayment Requirements

As of June 30, 2006, the debt service requirements to maturity for the City's and the Agency's long-term obligations and the funds from which payment will be made are as follows:

NOTE 11 – LONG-TERM OBLIGATIONS (Continued)

	Government Activities		Business-Type Activities	
For the Year Ending June 30	Principal	Interest	Principal	Interest
2007	8,985,000	10,650,323	11,887,319	11,380,329
2008	9,470,000	10,154,713	12,440,020	11,037,003
2009	10,000,000	9,620,661	11,415,329	10,633,830
2010	10,555,000	9,047,030	11,980,000	10,051,151
2011	17,635,000	8,428,543	8,365,000	9,916,376
2012-2016	58,135,000	32,760,933	32,315,000	45,699,099
2017-2021	56,215,000	18,867,109	42,690,000	36,770,483
2022-2026	30,135,000	4,813,131	56,325,000	24,460,207
2027-2031	6,755,000	1,436,250	48,790,000	10,019,095
2032-2035	1,560,000	78,000	33,800,000	1,885,611
	209,445,000	105,856,693	270,007,668	171,853,184

Reconciliation of Long-term Obligations
(in thousands)

Principal outstanding as reported above	479,452,668
Plus Insurance Refunding Bonds	20,000,000
Deduct unaccreted Electric Bonds 1991 Series B	(125,442)
Deduct Unamortized discount - Electric Revenue Bonds	(5,123,504)
Total Long-term Obligations	$ 494,203,722

F. Defeasances

The following is a summary of the refunding issues, the issues defeased, and the remaining principal balance of the defeased debt for the City as of June 30, 2006:

Issue Defeased	Interest Rates on Defeased Issue	Originally Defeased	Balance Oustanding on Defeased Bonds	Refunding Issue
Bayshore North 1992 Tax Allocation & Refunding Bonds	5.75%	34,290,000	21,860,000	Bayshore North 2002 Tax Allocation & Refunding Bonds

The proceeds from the above refunding issues are placed in irrevocable escrow accounts overseen by independent bank fiscal agents. These proceeds are generally invested in U. S. Treasury Securities, which together with earned interest, will provide amounts sufficient for future payment of interest, principal, and redemption premium on the defeased bonds. These escrow accounts are not included as assets of the City. The defeased bonds are excluded from the City's long-term obligations because the arrangement satisfies legal requirements of defeasance.

CAFR

NOTE 13 – PARTICIPATION IN JOINT VENTURES

A. Investments in Joint Venture

The City participates in significant joint ventures: Northern California Power Agency (NCPA), the Transmission Agency of Northern California (TANC), San Jose-Santa Clara Water Pollution Control Plant and Clean Water Financing Authority (SJSC), M-S-R Public Power Agency (MSR) and Silicon Valley Animal Control Authority (SVACA).

The separately issued financial statements of these joint ventures (as noted below) are available on request.

	NCPA	TANC	SJSC	MSR	SVACA
Date of latest audited financial statement	6/30/05	6/30/05	6/30/05	12/31/05	6/30/05
Participant's address	180 Cirby Way Roseville, CA 95678	P.O. Box 15129 Sacramento, CA 95851	200 E. Santa Clara St. San jose, CA 95113	P.O. Box 4060 Modesto, CA 95352	2324 Walsh Ave. Santa Clara, CA 95051

The City's basic financial statements reflect the following investments in joint ventures as of June 30, 2006:

	NCPA	TANC	SJSC	MSR
Participating percentage	36.0%	20.2%	16.6%	35.0%
Investment	$15,796,235	$71,465	$85,291,208	-
Method of accounting	Equity	Equity	Equity	Equity

B. Contingent Liability

Under the terms of the various joint venture agreements, the City is contingently liable for a portion of the long-term debt of the entities under take-or-pay agreements, letters of credit, guarantees or other similar agreements. Based on the most recent audited financial statements of the individual joint ventures, the City was contingently liable for long-term debt as follows (in thousands):

CAFR 2005-2006

NOTE 13 – PARTICIPATION IN JOINT VENTURES (CONTINUED)

		Total Debt	City's Participating Share	City's Contingent Liability
TANC		$ 362,257	20.2%	$ 73,176
NCPA		700,714	36.0%	252,257
SJSC		52,658	16.6%	8,726
MSR		376,752	35.0%	131,863
	Total	$ 1,492,381		$ 466,022
				<8,726>
				457,296

In addition, the City would, under certain conditions, be liable to pay a portion of the costs associated with the operations of the entities. Under certain circumstances, such as default or bankruptcy of the other participants, the City may also be liable to pay a portion of the debt of these joint ventures on behalf of those participants and seek reimbursement from those participants.

C. Northern California Power Agency (NCPA)

NCPA was formed in 1968 as a joint powers agency in the State of California. Its membership consists of eleven cities with publicly owned electric utility distribution systems, one irrigation district, one public utility district, one port authority, and four other associate member entities. NCPA is generally empowered to purchase, generate, transmit, distribute and sell electrical energy. Members participate in the projects of NCPA on an elective basis. Therefore, the participation percentage varies for each project in which it participates.

A Commission comprised of one representative for each member governs NCPA. The Commission is responsible for the general management of the affairs, property, and business of NCPA. Under the direction of the General Manager, the staff of NCPA is responsible for providing various administrative, operating and planning services for NCPA and its associated power corporations.

Project Financing and Construction

NCPA's project construction and development programs have been individually financed by project revenue bonds collateralized by NCPA's assignment of all payments, revenues and proceeds associated with its interest in each project. Each project participant has agreed to pay its proportionate share of debt service and other costs of the related project, notwithstanding the suspension, interruption, interference, reduction or curtailment of output from the project for any reason. Certain of the revenue bonds are additionally supported by municipal bond insurance credit enhancements.

Hydroelectric Project

NCPA contracted to finance, manage, construct, and operate Hydroelectric Project Number One for the licensed owner, Calaveras County Water District (CCWD). In exchange, NCPA has the right to the electric output of the project for 50 years from February 1982. NCPA also has an option to purchase power from the project in excess of the CCWD's requirements for the subsequent 50 years, subject to regulatory approval.

NOTE 13 – PARTICIPATION IN JOINT VENTURES (CONTINUED)

Geothermal Project

The NCPA Geothermal Plants have historically experienced greater than anticipated declines in steam production from the existing geothermal wells. Although initially operated as baseload generation projects at full capability (238MW) by 1988, NCPA changed its steam field production from baseload to load-following and reduced average annual steam production to 150 MW gross. Despite the implementation of operating strategies to further reduce the rate of decline in steam production, including the construction of an effluent pipeline from a neighboring sanitation district, and modifications to the steam turbines and associated steam collection system, the average annual generation for 2005 was 129 MW gross.

Based upon current operation protocols and forecasted operations, NCPA expects average annual generation and peak capacity to decrease further, reaching approximately 101 MW by the year 2015 and remaining in excess of 81 MWG through 2027, the end of the study period.

Combustion Turbine Project No. 1

NCPA owns five dual (natural gas and fuel oil) combustion turbine units, each of which is nominally rated at 25 MW, which are collectively known as the Combustion Turbine Project No. 1. These units were completed in 1986 and are designed to provide peak power and reserve requirements and emergency support. Each purchaser is responsible under its power sales contract for paying entitlement share in Combustion Turbine Project No. 1 of all NCPA's costs of such project.

D. Transmission Agency of Northern California (TANC)

TANC was organized under the California Government Code pursuant to a joint powers agreement entered into by 15 Northern California utilities. The purpose of TANC is to provide electric transmission or other facilities for the use of its members through its authority to plan, acquire, construct, finance, operate and maintain facilities for electric power transmission. The joint powers agreement provides that the costs of TANC's activities can be financed or recovered through assessment of its members or from user charges through transmission contracts with its members. Each TANC member has agreed to pay a pro-rata share of the costs to operate TANC and for payment of debt service, and has the right to participate in future project agreements.

The joint powers agreement remains in effect until all debt obligations and interest thereon have been paid, unless otherwise extended by the members.

California-Oregon Transmission Project

TANC is a participant and also the Project Manager of the California-Oregon Transmission Project (Project), a 339-mile long, 500-kilovolt alternating current transmission project between Southern Oregon and Central California. As Project Manager, TANC is responsible for the overall direction and coordination of all Project operations and maintenance, additions and betterments, and for general and administrative support.

The Project was declared commercially operable on March 24, 1993, with a rated transfer capability of 1,600 megawatts and provides a third transmission path between the electric systems of the Pacific Northwest and those in California. The Project has successfully met and completed the major environmental requirements. As of June 30, 2005, the most recent data available, TANC's investment in the Project was $449.8 million, less accumulated depreciation and amortization of $124.3 million.

NOTE 13 – PARTICIPATION IN JOINT VENTURES (CONTINUED)

In connection with its participation in the Project, TANC has an entitlement balance of the Project's transfer capability of approximately 1,242 megawatts and is obligated to pay an average of approximately 73% of the operating costs associated with the Project. TANC incurred and initially capitalized all costs for project construction since they were expected to be recovered through reimbursement from Project participants and from the successful operations of the Project's transmission lines. The Project agreement among the participating members provides that each member agrees to make payments, from its revenues, to TANC for project costs incurred and for payment of debt service.

E. San Jose-Santa Clara Water Pollution Control Plant and Clean Water Financing Authority (SJSC)

The City and the City of San Jose jointly own the San Jose/Santa Clara Water Pollution Control Plant (Plant). The Plant provides wastewater treatment services to the City, to the City of San Jose, and to seven other tributary agencies. The City of San Jose is the administering agency for the Plant. The San Jose/Santa Clara Clean Water Financing Authority (Authority) was created in 1981 to provide financing for capital improvements to the Plant.

In 1959, the City and the City of San Jose entered into an agreement to construct and operate the Plant. Under the terms of the agreement, the cities own an undivided interest in the Plant and share in the capital and operating costs on a pro rata basis, determined in part by the ratio of each city's assessed valuation to the sum of both cities assessed valuations. Such percentages are determined annually and applied to the capital and operating costs of the Plant, determined on an accrual basis. The City's portion of ownership interest in the net assets of the Plant was approximately 16.2% as of June 30, 2006 and 16.57% for fiscal year 2004-05. The City's share in the operating and maintenance and capital replacement costs for the Plant is further reduced by the shares required by other "tributary agencies". This is approximately 12.5% net for FY 2006-07 (based on FY 2005-06).

<u>South Bay Water Recycling Program</u>

The South Bay Water Reclamation Program (SBWRP), a regional water reclamation program, is part of an action plan adopted by the Regional Water Quality Control Board (RWQCB) which limits the Plant on the amount of effluent discharged into San Francisco Bay in order to prevent conversion of salt marsh and destruction of endangered species habitat. Flow limits are not included in the current (2003-2008) 5-year permit from the RQWCB.

According to the approved action plan, SBWRP was required to reclaim 21.10 million gallons per day (MGD) of plant effluent for nonpotable use by November 1, 1997, (Phase I) and an additional 24.30 MGD by December 31, 2000 (Phase 2). The action plan also requires assessment of alternatives for potable reuse, including a potable pilot plant to be coordinated with the Santa Clara Valley Water District. In addition to a habitat preservation, the project reduces the mass trace contaminates discharged to the San Francisco Bay and provides a reliable source of water to offset potable water demands.

The SBWRP distribution system includes approximately 120 miles of pipe, a nine million-gallon reservoir, a transmission pump station, and two booster pump stations. These facilities were constructed between 1996 and 1998 at a capital cost of approximately $141 million funded by the tributary agencies, grants and bond proceeds. The City's share of Phase I costs was approximately $20.07 million.

CAFR

CITY OF SANTA CLARA

Pledged Revenue Coverage

Electric Revenue Bond

Fiscal Years 1997 Through 2006

(In Thousands)

Table 13

Fiscal Year Ending June 30		Gross Revenue (1)	Direct Expense (2)	Rate Stabilization Fund	Net Revenue Available For Debt Service	Debt Service Principal	Debt Service Interest	Debt Service Letter of Credit Fees	Debt Service Total	Coverage (3)
1997		$188,885	$153,579	$0	$35,306	$5,865	$8,807	$421	$15,093	2.34
1998		197,413	149,429	0	47,984	7,240	8,369	649	16,258	2.95
1999		216,317	141,237	0	75,080	9,460	6,827	464	16,751	4.48
2000		234,024	142,870	0	91,154	9,208	6,684	788	16,680	5.46
2001		413,253	168,113	0	245,140	10,065	6,516	182	16,763	14.62
2002	(4)	258,167	184,865	0	73,302	48,290	4,355	230	52,875	1.39
2003	(5)	218,456	176,274	0	42,182	16,995	5,180	166	22,341	1.89
2004		208,058	174,753	0	33,305	5,160	8,433	261	13,854	2.40
2005		218,849	158,883	0	59,966	5,840	10,389	262	16,491	3.64
2006	(6)	248,008	213,362	0	34,646	11,080	11,216	266	22,562	1.54

Notes:

(1) Gross revenue includes operating and nonoperating revenues less equity in joint ventures plus capitalized interest earnings less interest earnings on collateralized escrow securities.

(2) Direct expense include operating expenses less depreciation and amortization and contribution-in-lieu to the General Fund, uncapitalized interest expense (other than revenue bonds) and letter of credit fees.

(3) The required coverage is 1.25

(4) In fiscal Year 2001-02 Principal includes the cost of retiring the 1998 Taxable Bonds for $39.72 million.

(5) In fiscal year 2002-03 Principal includes the cost of advanced refunding of the 1991 B Revenue Bonds for $

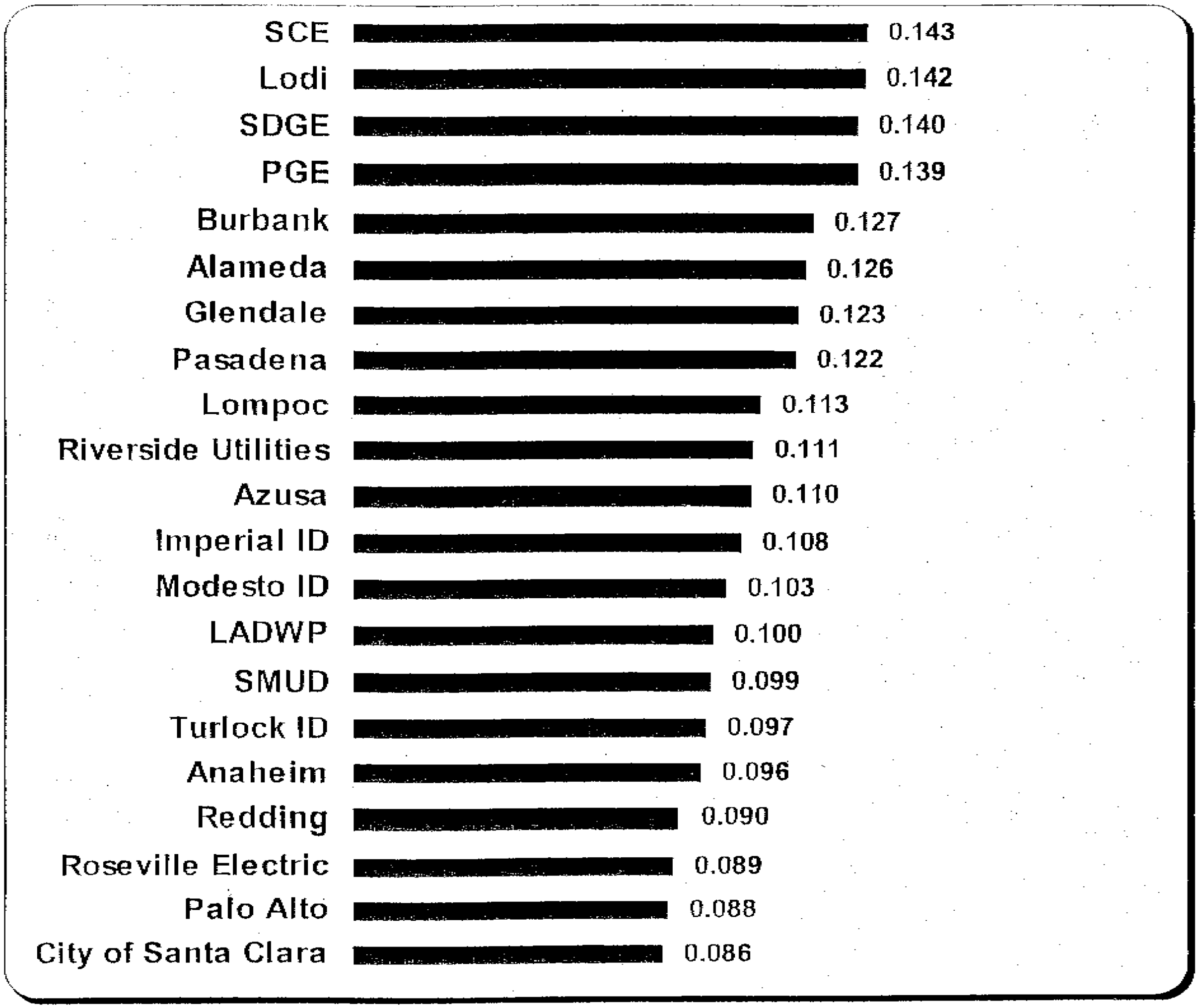
(6) In fiscal year 2005-06 Gross Revenue also includes $21.5 million fund transfer from Cost Reduction Fund tc Enron settlement cost. Direct expense includes Enron's net settlement cost of $21.5

Source: City of Santa Clara

CAFR 2005-2006

California Utilities
Expected 2007 Average System Rates Per KWh

(In $/KWh)



Source: Calif. Municipal Rates Group Survey, May 9, 2006.

Silicon Valley Power
CITY OF SANTA CLARA

SVP vs PG&E Average Rates

(Updated: January 1, 2007)

Class of Service	SVP Rates Post 2006 Increase ($/kWh)	PG&E Rates ($/kWh)	SVP Lower ($/kWh)	SVP Lower (%)
Residential (SVP D-1 vs PG&E E-1)	$0.085	$0.164	$0.079	**48%**
Small Commercial (SVP C-1 vs PG&E A-1)	$0.124	$0.169	$0.045	**27%**
Large Commercial (SVP CB-1 vs PG&E A-10S)	$0.092	$0.145	$0.053	**37%**
Small Industrial (SVP CB-1 vs PG&E E-19S)	$0.092	$0.130	$0.038	**29%**
Large Industrial (SVP CB-3 vs PG&E E-20P)	$0.082	$0.107	$0.025	**23%**

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Note: SVP includes 2006 - 10.25% rate increase.
PG&E figures do not include local user taxes typically 5%

Silicon Valley Power
CITY OF SANTA CLARA

Silicon Valley Power
Expected Open Market Purchases

From SVP filing in CEC Docket 06-IEP-1J dated January 31, 2007

	Total Req Gwh	From market Gwh	From market %
FY07-08	3109	241	8%
FY08-09	3167	276	9%
FY09-10	3215	319	10%
FY10-11	3263	444	14%
FY11-12	3312	457	14%
FY12-13	3362	502	15%

50 - 100 MW

219 GwH → 25 MW @ 100%

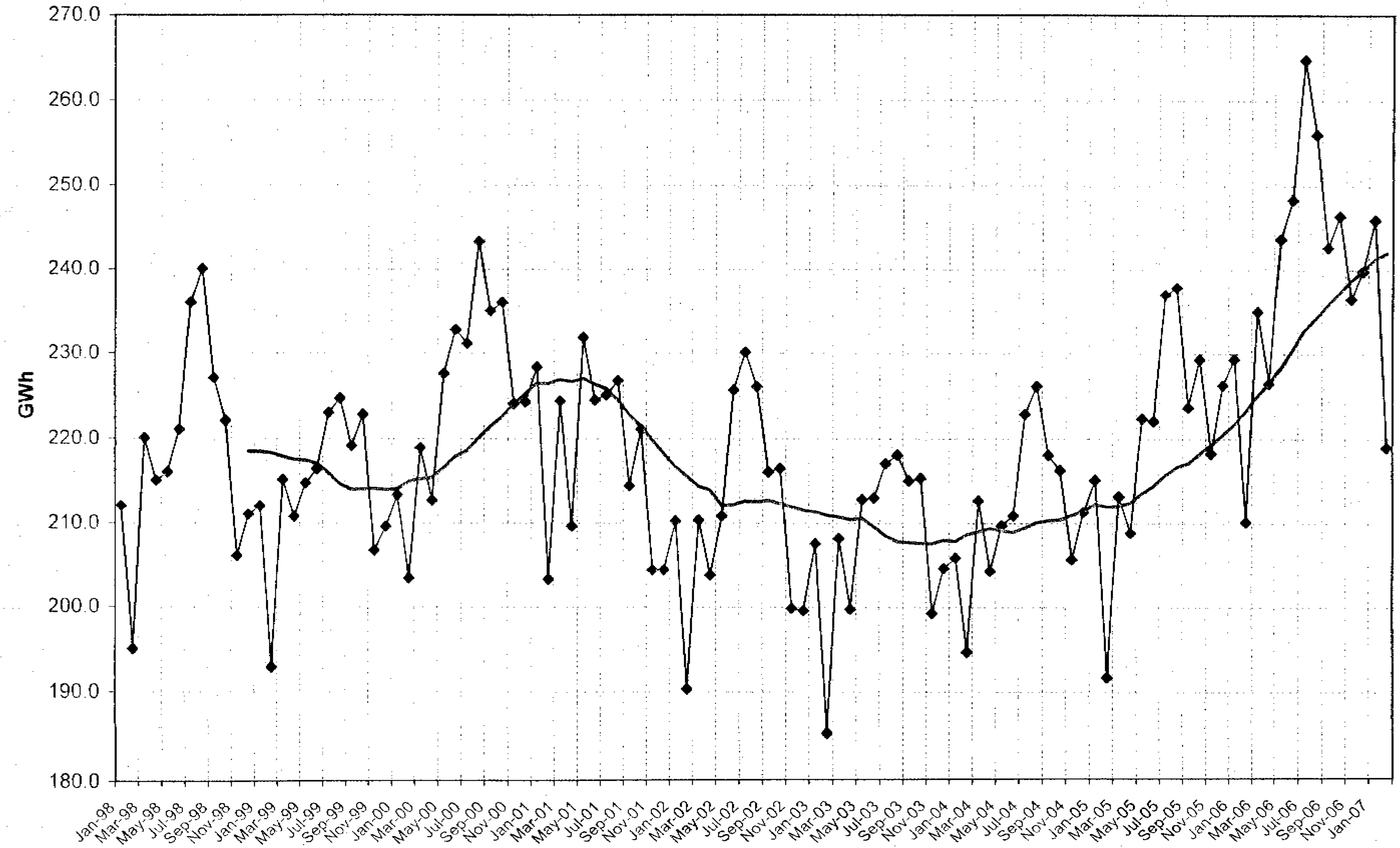
Energy needs will grow ~~from~~ and will require us to buy 8% to 15% of our energy needs from the market.

We have sufficient capacity but not the sufficient energy at the current time.

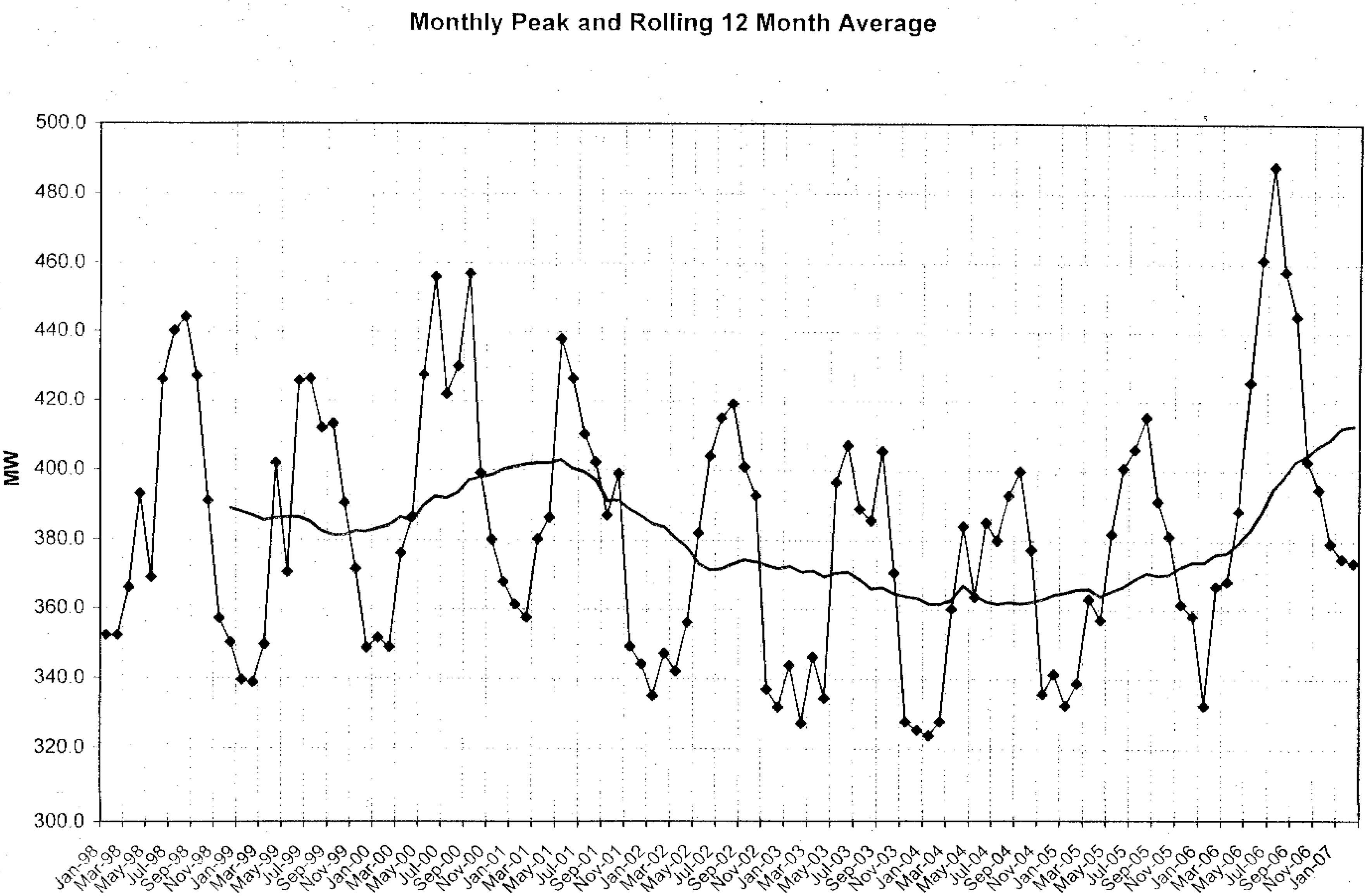
Silicon Valley Power
Energy Sales

Monthly Energy and Rolling 12 Month Average

40



Silicon Valley Power
Peak Demand



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Silicon Valley Power Recorded Load

THT 3/23/2007

Silicon Valley Power Recorded Load at Scott and Kifer																									
	Recorded 2007		Forecast Used In Budget FY06-07		Recorded 2006		Recorded 2005		Recorded 2004			Recorded 2003			Recorded 2002			Recorded 2001		Recorded 2000		Recorded 1999		Recorded 1998	
Month	Energy GWh	Peak MW	Energy GWh	Peak MW	Energy GWh	Peak MW	Energy GWh	Peak MW	Energy GWh	Energy Per day	Peak MW	Energy GWh	Energy Per day	Peak MW	Energy GWh	Energy Per day	Peak MW	Energy GWh	Peak MW	Energy GWh	Peak MW	Energy GWh	Peak MW	Energy GWh	Peak MW
Jan	245.9	375.0	219.9	339.8	229.3	332.3	215.1	332.3	205.8	6.64	323.7	207.5	6.69	343.7	210.2	6.78	335.0	228.3	361.2	213.3	351.4	212.0	339.4	212.0	352.0
Feb	218.9	373.8	196.8	347.7	210.1	366.8	191.7	338.7	194.7	6.71	327.7	185.3	6.62	327.2	190.3	6.80	347.0	203.2	357.4	203.3	348.7	192.9	338.6	195.0	352.0
Mar			219.7	374.1	235.0	368.3	213.2	363.1	212.7	6.86	360.1	208.1	6.71	346.1	210.3	6.78	342.0	224.3	380.2	218.8	376.1	215.1	349.4	220.0	366.0
Apr			216.0	369.1	226.4	388.5	208.8	356.9	204.2	6.81	384.0	199.7	6.66	334.4	203.7	6.79	356.0	209.6	386.4	212.7	386.6	210.7	401.8	215.0	393.0
May			230.3	395.6	243.6	425.6	222.3	381.9	209.7	6.76	363.6	212.8	6.86	396.6	210.8	6.80	382.0	231.8	437.8	227.5	427.3	214.7	370.6	216.0	369.0
Jun			230.1	415.2	248.3	461.2	222.0	400.7	210.9	7.03	385.0	213.0	7.10	407.2	225.6	7.52	404.0	224.4	426.4	232.7	455.9	216.4	425.6	221.0	426.0
Jul			245.4	422.2	264.7	487.8	237.0	406.2	222.8	7.19	380.0	217.0	7.00	389.0	230.1	7.42	415.0	225.0	410.4	231.1	421.9	222.9	426.2	236.0	440.0
Aug			247.5	432.3	256.0	457.9	237.8	415.4	226.1	7.29	392.9	218.0	7.03	385.6	226.0	7.29	419.0	226.7	402.2	243.2	429.9	224.6	412.0	240.0	444.0
Sep			233.6	408.7	242.6	444.6	223.6	391.3	218.0	7.27	399.7	215.0	7.17	405.5	216.0	7.20	400.9	214.4	387.0	235.0	456.9	219.0	413.2	227.0	427.0
Oct			240.1	399.2	246.4	402.79	229.3	381.3	216.2	6.97	377.4	215.3	6.95	370.7	216.4	6.98	392.7	221.0	398.9	236.0	399.0	222.7	390.5	222.0	391.0
Nov			225.4	367.8	236.5	394.8	218.2	361.5	205.6	6.85	335.6	199.2	6.64	327.6	199.8	6.66	336.9	204.3	349.0	224.0	380.0	206.7	371.6	206.0	357.0
Dec			233.1	376.6	239.8	379.4	226.2	358.0	211.3	6.82	341.3	204.5	6.60	325.3	199.5	6.44	331.8	203.1	344.0	224.2	367.9	209.6	348.6	211.0	350.0
Total / Peak			2738.9	432.3	2,878.7	487.8	2,645.2	415.4	2,537.9		399.7	2,495.4		407.2	2,538.7		419.0	2,616.1	437.8	2,701.8	456.9	2,567.2	426.2	2,621.0	444.0

Fiscal Year Ending June 30													
FY Energy, GWh	2,764.9	2,573.1	2,506.9	2,514.2		2,545.4		2,715.1		2,613.8		2,603.7	
FY Peak, MW					407.2		410.4		456.9		455.9		444.0
FY Increment over previous year				(31.2)		(169.70)		101.28		10.09			
FY Increment as % over previous year		2.6%	-0.3%	-1.2%		-6.3%		3.9%		0.4%			
CY Increment as % over previous year			1.7%										

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Public Power/North America
Credit Update

Silicon Valley Power
(Santa Clara, Calif.)

Ratings

Security Class	Current Rating	Previous Rating	Date Changed
$235 Million Sub. Electric Revenue Bonds	A	NR	2/24/98

NR – Not rated.

Rating Watch.. None
Rating Outlook....................................... Stable

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Profile
SVP is an enterprise fund of the city of Santa Clara, Calif., and provides service to more than 50,000 customers. Reflecting SVP's heavily high-tech customer base, a full 87% of revenues are contributed by the industrial sector. SVP is an integrated utility; with 49% owned generation (including JPAs) and 51% purchased power. In 2005, SVP's energy was derived from coal (23%), nuclear (1%), natural gas (30%), large hydro (24%) and other renewable sources (22%).

Key Credit Strengths
- Competitive electric rates.
- Solid financial profile bolstered by sizable cash reserves.
- Reasonable power supply strategy.
- Supportive relationship with the city council.

Key Credit Concerns
- Increased natural gas exposure.
- Future rate increases will be needed to alleviate cost pressures.
- Industrial customer concentration.
- Sizable off-balance-sheet obligations.

June 9, 2006

Fitch Ratings Summary Credit Update June 9, 2006

■ Rating Rationale
Silicon Valley Power's (SVP) 'A' rating is derived from its competitive retail rates and diverse power supply, which is sufficient to meet the utility's load requirements for several years. Additional support is provided by the utility's ample cash reserves of $400 million, as of May 2006. SVP's cash balances are equivalent to 865 days operating cash, a strong liquidity position relative to the utility's risk profile. Further credit strengths include SVP's good working relationship with the city of Santa Clara, Calif., characterized by a low general transfer policy, capped at 5% of retail revenues, and a highly coordinated joint customer outreach and business development strategy.

The rating also considers the utility's heavy industrial load, reflecting the high-tech economic base in Santa Clara; as well as the recent recovery in retail industrial sales following the significant economic slowdown earlier this decade. While total system energy sales are still below 2001 levels, SVP has experienced 7% system load growth in the most recent 12 months and forecasts steady and moderate future load growth. Constructively, Fitch Ratings also recognizes that despite the loss of sales through the economic downturn, SVP maintained reasonable direct debt-service coverage levels of above 1.75 times (x).

The primary factors for maintaining the existing rating, and the revision in Rating Outlook to Stable from Positive, include cost pressures attributed to currently elevated natural gas prices and uncertainty regarding the timing of future retail rate increases to sufficiently maintain margins and liquidity at levels that Fitch believe would support a higher rating. Although SVP has managed its natural gas exposure through a sound risk management program, SVP projects additional budget shortfalls in the near term, even when considering the $18 million in supplemental revenue generated from two 5% rate increases effective this year. While SVP has sufficient cash reserves to fund the budget shortfalls for some time, a clear policy has not been formalized to stabilize revenue requirements, assuming gas prices remain elevated. Accordingly, to the extent SVP is able to manage its elevated operating expenditures over the next few years, finalize its ultimate target for its various revenues, confirm the timing of future rate increases and maintain solid financial metrics, its relative credit position could improve from the current 'A' level.

■ Recent Developments
In March 2005, the utility brought the 147-megawatt (mw) Donald Von Raesfeld (DVR) natural gas-fired power plant into commercial operation. The DVR unit was constructed to compensate for a reduction in low-cost Western Area Power Administration (WAPA) and Bonneville Power Administration (BPA) purchase power

deliveries. Accordingly, SVP is now meeting more than 38% of its power supply needs with natural gas-fired generation; up from about 8% historically. Management estimates that this has resulted in a $50 million per year increase in operating expenditures, at natural gas prices in the more than $7/million British thermal unit (mmBtu) range. This cost uplift is a credit risk for SVP, as the utility does not maintain a fuel-adjustment surcharge to automatically pass through fuel price changes. However, base rates are reviewed at least annually to determine the appropriate revenue requirement.

Management and Governance

Management has a proven history of pursuing operating strategies that are generally conservative and balanced. In response to planned competition, the utility significantly reduced net power costs and in the process, built up substantial cash reserves. Management has taken prudent steps to limit market exposure and practices extensive customer outreach, working very closely with key customers in addressing their power needs. Accordingly, management also negotiated pricing arrangements with its largest industrial customers to shield the utility and its existing customers financially in the event of the loss of a major account.

Oversight of the utility, including the establishment of rates and charges, is exercised through the seven-member city council. The city council members are elected citywide for staggered four-year terms. The electric utility director and other senior management are appointed by and report to the city manager. It should be noted that prior to 2005, SVP did not need to adjust its revenue requirements to account for fuel price volatility. As such, Fitch will be closely monitoring management and the city council's timing of future rate increases to sufficiently maintain margins and appropriate liquidity for the rating category.

Service Territory and Demographics

SVP serves the entire city of Santa Clara, with 48,470 customer accounts and an estimated total population of 104,306. Santa Clara is located in the heart of California's Silicon Valley, approximately 45 miles south of San Francisco. The regional economy is based on the high-tech industry. Per capita income is well-above state and national levels, a reflection of a highly educated and skilled workforce. The service territory also includes Santa Clara University, with a student population of nearly 5,000 undergraduate and 3,500 graduate candidates.

Kilowatt-Hour Sales by Customer Class
(%, Fiscal Year Ended June 30, 2005)

Residential	9.40
Commercial	3.60
Industrial	86.20
Other	0.80
Total	100.00

Source: Company reports.

The local economy has historically been highly sensitive to fluctuations in the high-tech market. For example, in 2004 at the latter end of the recent economic downturn, unemployment in Santa Clara was 6.7%, above the state average of 5.8%. During the Internet boom in 2000, by contrast, unemployment was below-average at 3.2% compared to the 5.0% state average. Fitch notes, however, that the recent downturn in the high-tech sector has had little effect on local home prices. Median household income was almost double the state average in 2004, as the city is a highly desirable residential area.

The 10 largest electric customers in terms of kilowatt-hour (kwh) sales accounted for 42.8% of total kwh sales and 36.4% of revenues in 2005 (not public data). Intel Corporation and Applied Materials, Inc. are the two largest employers in Santa Clara. As of June 2004, each company employed more than 5,000 people. Accordingly, the loss of either of these two customers would negatively affect the city's tax base as well as employment levels in Santa Clara.

Although peak demand and total kwh sales have declined since 2000, Fitch notes that the utility's demand growth has been neutral when assessed over a longer period of time. Management reports that monthly sales growth has averaged approximately 7% higher above the past year. Going forward, the utility currently projects annual sales growth of 3%–4% through 2008; moderating to 1%–2% annually from that point onward.

Power System

SVP has 680 mw of available generating capacity with a 401-mw peak demand. The utility's capacity is met through SVP-owned generating facilities (primarily from the DVR natural gas fired power plant), the WAPA and take-or pay commitments with various joint-power agencies (JPAs), including M-S-R Public Power Agency (MSR) and the Northern California

Power Agency (NCPA). SVP's JPA commitments with NCPA, MSR and the Transmission Agency of Northern California (TANC) together constitute approximately $612 million of off-balance-sheet debt.

Natural Gas Exposure

SVP's power supply shifted from predominantly hydro-based to predominantly gas-based due to a reduction in SVP's allocation of low-cost WAPA power, effective December 2005. Approximately 13% of SVP's need will be served by WAPA power, down from 42% previously. At currently elevated natural gas prices, in the $7/mmBtu range, Fitch notes that power generated from DVR averages approximately $71/megawatt-hour (mwh), compared to $25/mwh for WAPA. As such, management projects additional budget shortfalls in the near term. However, should gas prices continue to decline, which Fitch is not anticipating, SVP's projected shortfall could moderate.

Risk Management

SVP engages in a conservative and formalized risk-management program. The utility takes a multiyear gas and electricity procurement hedging approach and manages its exposure to margin or performance requirements by maintaining an $85 million line of credit with Bank of America N.A. Wholesale market activity is generally limited to surplus capacity or when SVP is able to take advantage of regional market differentials by utilizing its firm transmission rights from the Pacific Northwest and Southwest to capture margins from purchases and sales of electricity. SVP posted trading margins of $5 million in 2005. Additionally, Fitch believes that SVP's recent effort to develop generation resources close to the utility's load center helps mitigate concerns about potential transmission congestion and allows SVP more control over its own electric and fuel resources.

■ Rate Competitiveness

SVP has historically maintained very competitive retail rates across all rate classes. According to management, Santa Clara maintains the lowest combined water, sewer and electric rates in the Bay Area by as much as 40%–50% less.

Prior to deregulation, SVP froze its retail rates and did not need to adjust rates prior to the recent run-up in natural gas prices and loss of WAPA power. SVP's cost advantage over Pacific Gas & Electric (PG&E) is substantial. When considering SVP's recent and planned rate increases and the revenue requirements that PG&E has publicly stated, Fitch expects that SVP's retail rates will remain below those of PG&E going forward.

Regional Retail Rate Comparison

(Cents/Kilowatt-Hour)

Utility	2005	1999
Pacific Gas & Electric	12.80	9.86
Modesto Irrigation District	7.70	5.51
Palo Alto Utilities	7.90	4.60
Roseville Electric	8.00	7.19
Sacramento Municipal Utility District	9.30	7.60
Silicon Valley Power	7.80	7.80

Source: California Municipal Rates Group Survey, July 2005.

■ Financial Summary and Outlook

SVP presently maintains more than $400 million of unrestricted cash, equivalent to 865 days cash on hand. This unusually strong liquidity position has enhanced the utility's ability to manage market risks and its capital planning process and was an important factor when Fitch assigned SVP a Positive Rating Outlook in 2003. For fiscal-year 2005, the utility posted adequate direct debt-service coverage of 1.79x and coverage of full obligations of 1.14x, adjusted for off-balance-sheet obligations to NCPA, MSR and TANC.

With the expectation that cash reserves will be drawn to partially fund the current operating deficit, management proposed a new liquidity target of $185 million–$245 million (equivalent to 450 days cash), which is a reasonable level for the system's risk profile. It should be noted that in Fitch's view, the use of cash balances to fund capital projects or debt-reduction opportunities is a preferred cash policy, as compared to the use of reserves to fund operating deficits. Accordingly, to the extent SVP is able to manage its elevated operating expenditures over the next few years and maintain solid financial metrics, its relative credit position may improve.

■ Security Provisions

The senior lien is closed and the senior-lien obligations are not rated by Fitch. The subordinated indenture provides SVP with greater financial and covenant flexibility by reducing or eliminating various security elements, such as debt-service reserve requirements and additional bonds tests.

Pledge

A pledge on the subordinated net revenues of the electric utility and other funds pledged under the indenture.

Net Revenues

The revenues of the electric system plus the rate-stabilization fund, investment income, monies received from the sale of assets, recovered stranded cost charges and any other unrestricted funds.

Rate Covenant

Subordinated net revenues shall be at least 1.0x the amount of debt service on all bonds and parity debt for the fiscal year. Any unrestricted funds used to comply with the rate covenant must be deposited by the city in the subordinated net reserve fund at the time of such determination. The city may utilize a surety bond in lieu of a bond reserve fund.

Additional Bonds Test

No test.

Debt-Service Reserve Requirement

No reserve is required.

Financial Summary — Silicon Valley Power

($000s, As of June 30)

	2005	2004	2003	2002
Cash Flow (x)				
Debt-Service Coverage	1.79	5.64	2.08	2.58
Coverage of Full Obligations	1.00	1.63	1.06	1.24
Debt/Funds Available for Debt Service	12.0	6.3	5.2	3.9
Liquidity				
Days Cash on Hand	865	1,001	838	810
Leverage				
Equity/Capitalization (%)	71.0	69.9	83.0	79.6
Other (%)				
General Fund Transfer/Revenue	5.64	5.7	5.7	5.6
Variable-Rate Debt/Capitalization	9.5	10.2	7.0	7.5
Income Statement				
Total Operating Revenues	183,136	180,586	181,771	185,222
Total Operating Expenses	192,930	169,314	194,309	197,441
Operating Income	(9,794)	11,272	(12,538)	(12,219)
Funds Available for Debt Service	22,896	44,436	25,558	37,791
Adjustment for Purchased Power	52,137	45,324	53,851	52,272
General Fund Transfer	10,337	10,245	10,292	10,320
Total Annual Debt Service	12,785	7,883	12,264	14,662
Balance Sheet				
Unrestricted Funds	423,151	431,755	419,287	411,996
Restricted Funds	22,902	102,048	14,421	27,116
Total Cash	446,053	533,803	433,708	439,112
Total Debt	275,123	280,310	132,287	148,308
Equity and/or Retained Earnings	672,812	650,887	646,640	578,005

Source: Company reports.

STANDARD & POOR'S RatingsDirect

RESEARCH

Santa Clara, California; Utility, Retail Electric

Publication date: 30-Dec-2005
Primary Credit Analyst: Leo Carrillo, San Francisco (1) 415-371-5077; leo_carrillo@standardandpoors.com
Secondary Credit Analyst: Swami Venkataraman, CFA, San Francisco (1) 415-371-5071; swami_venkataraman@standardandpoors.com

Credit Profile

AFFIRMED

$97.425 mil. Santa Clara Subord Lien Elec (MBIA)	AAA/A(SPUR)
OUTLOOK:	STABLE

Rationale

The 'A' underlying rating (SPUR) on the subordinate revenue bonds of Santa Clara Electric (doing business as Silicon Valley Power or SVP) reflects the municipal electric utility's historically strong cash flow coverage, very large cash reserves, conservative contingency planning, competitive retail rates, and a diverse resource mix of owned generation and purchase power contracts. Offsetting factors include natural gas exposure, as well as load cyclicality and competitive pressures associated with a largely industrial retail base.

The 'A' rating reflects the following credit strengths:

- The city's ability and willingness to adjust retail rates, as demonstrated most recently by the adopted consecutive, semiannual 5% rate increases now before the city council for its consideration;
- Competitive rates averaging 7.7 cents per kilowatt-hour (kWh) in fiscal 2005;
- Strong historical cash flow coverage, with debt service coverage of 1.9x and fixed charge coverage of 1.2x after general fund transfers in fiscal 2005;
- Strong liquidity and very strong cash reserves of about $418 million (about 832 days' cash on hand), including $272 million in the cost reduction fund, as of June 30, 2005;
- Low capital requirements, with a five-year capital plan of $33 million for fiscals 2006 to 2010, and no plans for additional bond financing.

Credit concerns include:

- Weak projected cash flow coverage in 2006 and 2007, due to management's desire to draw down a modest portion of its very large cash reserves to levelize retail rates;
- Retail sales cyclicality and competitive pressures associated with a heavily industrial retail base, which provided 84% of retail revenues in 2005; and
- Increased power supply costs and natural gas exposure, due to the replacement of reduced hydroelectric supplies from the Western Area Power Administration (WAPA) with market purchases and owned combined cycle generation.

The bonds are secured by a pledge of net system revenues. As of June 30, 2004, SVP had about $286 million in direct debt, consisting of about $50.6 million, or 18%, of senior lien bonds and $235.4 million, or 82%, of subordinate lien bonds. The senior lien was closed in 1998.

SVP is a vertically integrated municipal utility with 49,694 customers located in a 19-square-mile area in

S&P Ratings Summary
Credit Update Dec 30, 2005

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the City of Santa Clara. SVP's business profile is characterized by its rate-setting authority (2005 rate increase first since 1994), a diverse resource portfolio, competitive retail rates (7.7 cents per kWh in 2005), a heavily industrial retail base (84% of retail revenues in fiscal 2005), significant customer concentration (top 10 customers accounted for 40% of retail revenues in fiscal 2005), and a sizable wholesale operation (48% of total revenues in fiscal 2005).

In December 2005, SVP adopted two successive 5% rate increases, effective on Jan. 1 and July 1, 2006, to address increasing operating and debt service costs in 2006. Despite the fact that the increase will likely be insufficient to cover these expenses, SVP management proposed the rate increase to the Santa Clara City Council, which establishes rates, in conjunction with a plan to gradually draw down its substantial cash reserves to subsidize retail rates in 2006 and beyond.

While the application of large cash reserves to soften rate increases is acceptable practice, Standard & Poor's is concerned that the degree of subsidization is aggressive, given that debt service coverage is projected to be less than 1x in fiscal 2006. Importantly, SVP has sufficient cash reserves under management's current rate design to subsidize retail rates for several years and still maintain strong liquidity.

SVP recently replaced an expiring allocation of WAPA power with new combined-cycle generation, which significantly increased the utility's gas exposure and average power supply costs but also diversified the city's power supply mix. SVP's firm allocation of WAPA power expired on Dec. 31, 2004, reducing deliveries by about 70%. WAPA power had been SVP's lowest cost resource, averaging less than $20 per megawatt-hour (MWh), which is significantly less than gas-fired generation costs under nearly all plausible gas price scenarios. The substitution of gas for hydro generation resulted in power supply mix of 39% gas, 28% hydroelectric, 15% geothermal, and 13% coal. The new plant, a dual-unit 147-MW combined cycle facility, was placed in service in March 2005. SVP's preliminary gas procurement strategy calls for a combination of spot market purchases and long-term contracts with various tenors and pricing modes.

Debt service coverage after general fund transfers was strong in fiscal 2005 at 1.9x, but could fall below 1x in 2006, excluding the effects of recognizing cash reserve draws as revenues. Fixed-charge coverage was an adequate 1.2x in fiscal 2005, but may also decline below 1x. Such declines in cash flow coverage, if realized, could create downward pressure on the ratings.

Debt leverage was moderate as of June 30, 2005, with a debt-to-total capital ratio of about 30% for balance sheet debt and 56% after adjusting for approximately $535 million in off-balance-sheet obligations related to SVP's participation in the Northern California Power Agency, MSR Public Power Agency, and the Transmission Agency of Northern California. Variable-rate debt accounted for a moderate 19% of total adjusted debt, although the utility's very large cash reserves serve as a hedge against rising interest rates.

Liquidity

Liquidity is very strong, with cash reserves of $418 million (or nearly three years of operating cash), including $272 million in the cost reduction fund, as of June 30, 2005. In addition, SVP maintains an $85 million committed line of credit, dedicated to providing liquidity support to SVP's trading operation. SVP reduced the credit facility to $85 million from $100 million in 2003. Liquidity is expected to remain very strong, due to management's strong contingency planning and stated commitment to maintain strong cash levels to mitigate potential operating risks, including: adverse wholesale power and gas price movements, higher transmission costs, low hydro conditions, plant construction cost overruns and delays, and future rate competition. The utility plans to maintain a high level of cash reserves, even after internally financing most recurring capital expenditures for the transmission system.

Outlook

The stable outlook reflects the city's December 2005 adoption of two 5% rate increases, effective in January and June 2006, and presumed willingness to consider in 2006 additional rate increases if fiscal 2006 cash flow coverage, excluding withdrawals from SVP reserves, is below 1x. The outlook assumes that SVP will continue to re-evaluate its procurement and hedging strategies to limit the effects of commodity exposures on future financial performance.

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A structural imbalance between rate revenues and operating costs is not consistent with the utility's 'A' rating, and if realized in fiscal 2006, could result in a negative outlook, especially if the city declines to consider additional rate increases in order to achieve at least 1x cash flow coverage on an ongoing basis. Despite Standard & Poor's concerns regarding SVP's financial performance in fiscal 2006 and beyond, SVP's ability and willingness to meet its debt service obligations is assured, given the SVP's very large cash reserves and the city's demonstrated commitment to maintaining its credit quality both at the city level (implied GO rating of 'AA') and at its utility.

Accounting

SVP reports its financial statements with a fiscal year ending June 30 in accordance with U.S. GAAP and Governmental Accounting Standards, as issued by the U.S. comptroller general. The utility's last audited financial statements, dated June 30, 2004, received an unqualified opinion by SVP's independent auditor, Maze & Associates, in the most recent annual audited period. Maze & Associates is a local firm providing audit, consulting, and accounting to nearly 100 small- and medium-sized municipalities and special districts in Northern California.

SVP routinely enters into energy trading contracts, but as an enterprise fund of a municipal government entity, SVP is not required to recognize unrealized gains and losses on such contracts. SVP is not subject to accounting pronouncements applicable to financial derivative contracts, whether they qualify as effective hedges or not, and therefore the valuation of such contracts do not have a material effect on SVP's financial results. In addition, SVP is not subject to Section 404 of the Sarbanes-Oxley Act.

Standard & Poor's has made several adjustments to SVP's reported financial information to reflect off-balance sheet (OBS) obligations, such as purchase power obligations and operating leases, although SVP had no operating leases as of June 30, 2004. For each OBS obligation, Standard & Poor's calculates an amount for debt, interest expense, and depreciation and includes these amounts in the calculation of its adjusted ratios. In the case of SVP's purchase power obligations, Standard & Poor's has imputed as an OBS debt obligation SVP's proportionate share of related debt, which SVP estimated to be approximately $534 million as of June 30, 2004.

Legal Provisions

Legal provisions for the subordinate lien bonds are weak, with an additional bonds test and rate covenant multiple of only 1x. Subordinated net revenues are defined loosely to include: revenues; rate stabilization money; and, for a period not later than 2010, other unrestricted funds--primarily money from the cost reduction fund, provided the city council so designates. The rate covenant and additional bonds test require that subordinated net revenues equal just 1x the amount of debt service on parity obligations. The additional bonds test requires that no event of default exists at the time of issuance of any parity obligations. Additionally, the bond reserve requirement is equal to half of maximum annual debt service (MADS), provided the city has additional unrestricted funds, excluding the cost-reduction fund, also equal to half of MADS. The city may credit a surety, LOC, or insurance policy to meet the series 1998 reserve requirement.

The much stronger senior indenture rate covenant requires the utility to maintain net revenues in the past 12 months, after payment of the transfer to the city's general fund and after payment for capital extensions and improvements, of at least 1.25x debt service. A debt service reserve must be maintained for the senior lien debt equal to the maximum annual debt service, assuming an interest rate of 9% on any adjustable rate bonds. The senior lien was closed with the issuance of the series 1998 bonds.

Business Profile

SVP's business risk profile score is a '5' on Standard & Poor's 10-point scale (with '1' representing the least risk), reflecting the municipal utility's rate-setting authority, conservative management policies, a diversified resource portfolio, competitive rates, and long-term service territory growth prospects. The business profile score also reflects the challenges of an industry-heavy retail base (industrial customers accounted for 84% of retail gross revenues in fiscal 2005), significant customer concentration (top 10 customers accounted for 40% of retail revenues), and a sizable wholesale operation (48% of total revenues). Retail load is affected by the cyclical nature of SVP's service territory economy, but the extent of this variability appears to be moderate.

Financial Policy

SVP management adheres to a set of informal financial policies and targets, which together represent a moderate appetite for financial risk and have helped to sustain the financial stability. The city's previous accumulation of significant cash reserves is testament to the city's conservative approach to contingency planning. The cost reduction fund, the utility's largest contingency reserve, was funded at $272 million as of June 30, 2005. The utility's policy on general fund transfers also supports credit quality in that the city limits such transfers to 5% of the sum of gross retail revenues and net (as opposed to "gross") wholesale revenues, which are conservatively excluded from the city's financial projections. One notable weakness is the absence of a minimum debt service coverage target, which allows management a high degree of flexibility to support operating deficits with cash reserves, or an equity capitalization target. The utility's variable-rate debt target of 25%, reduced from 33%, is considered moderate, given the system's very large cash reserves.

STANDARD & POOR'S RatingsDirect

RESEARCH

BULLETIN: Rating On Santa Clara Electric, CA's Bonds Unaffected By Enron Settlement

Publication date: 13-Mar-2006
Primary Credit Analyst: Leo Carrillo, San Francisco (1) 415-371-5077; leo_carrillo@standardandpoors.com

SAN FRANCISCO (Standard & Poor's) March 13, 2006--Standard & Poor's Ratings Services said today that the $36.5 million settlement reached between the City of Santa Clara, Calif. and Enron Corp. would not affect its 'A/Stable' underlying rating on revenue bonds of the city's electric utility, Santa Clara Electric (doing business as Silicon Valley Power or SVP).

Under the settlement, Santa Clara will make a $36.5 million payment to Enron, which has agreed to grant the city a $4 million unsecured bankruptcy claim and to drop the lawsuit that Enron filed in 2002 seeking $147 million in damages related to the company's early termination of two long-term power sales contracts with SVP. The city had disputed Enron's right to terminate the contracts in the first place. The settlement is subject to approval by the Federal Energy Regulatory Commission and the Enron bankruptcy court.

While the payment is substantial, SVP will still have very strong cash reserves even after making the settlement payment. As of Jan. 31, 2006, Silicon Valley Power's unaudited cash reserves were approximately $353 million, or about 700 days' cash, excluding bond and project funds.

Meeting Date: 12-6-05

AGENDA REPORT

Agenda Item # 5.B

City of Santa Clara, California

Santa Clara
All-America City
2001

APPROVED
Rgs Council
12-6-05
date Res 2285

City of Santa Clara Agenda Report Dec 6, 2005

DATE: November 29, 2005

TO: City Manager for Council Action

FROM: Junona A. Jonas, Director of Electric Utility

SUBJECT: Adoption of a Resolution Amending Rate Schedules for Electric Utility Service for All Classes of Customers

EXECUTIVE SUMMARY:

At its November 1, 2005 meeting, City staff introduced to the City Council a draft resolution to increase rates for electric utility service for all classes of customers by 5% effective January 2006 and by an additional 5% effective July 2006, made a presentation in support of such increases, and requested the Council to direct City Manager to bring that resolution, along with any recommended changes, back to Council at its December 6 meeting. Electric Utility staff has also discussed the proposed increases, including the reasons for the proposed increases, with the Citizens Advisory Committee, the Energy Task Force, Chamber of Commerce representatives, numerous individual customers and media representatives. Formal notice required by Section 54999 of the California Government Code has been given to school districts and state agencies operating in Santa Clara. With few exceptions, customer comments have been understanding and positive.

As set forth in the November 1, 2005 presentation, the primary reason for the proposed increases is the cost increase triggered by the loss of low-cost energy from Western Area Power Administration (WAPA) and Bonneville Power Administration (BPA) due to the expiration of certain power purchase and exchange agreements, and the need to replace that low-cost energy with energy from higher-cost sources. As a result of the cost increases, Electric Department revenues do not cover operating costs. The adopted Budget for fiscal year 2005-06 for the Electric Department reflects an estimated $14.1 million revenue shortfall. When the 2005-06 figures are updated for the effect of recent, dramatically higher natural gas prices, the 2005-06 revenue shortfall is now estimated to be about $35 million. Estimated revenue shortfalls in following years are similarly affected.

To cover a portion of these revenue shortfalls, staff proposes a 5% rate increase applicable to all classes of customers, to be effective January 1, 2006 and a 5% rate increase to be effective July 1, 2006. On an annualized basis, these increases will produce additional revenue of approximately $18 million per year, which would reduce, but not eliminate, the above-referenced shortfall of $35 million. The balance of the shortfall would be funded from the Cost Reduction Fund (CRF). Use of the CRF to cushion the impact of cost increases is fully consistent with the Strategic Plan for the Electric Department as adopted by the City Council in 1996. However, the CRF cannot be used to offset cost increases indefinitely. Staff will continue to monitor costs and revenues and to assess whether recommendations for future rate increases may be necessary. To the extent funds must be transferred from the CRF to cover revenue shortfalls, the City's bond indenture requires Council action by Resolution. Because neither the exact amount nor timing of funds to be transferred is known at this time, staff intends to bring the required Resolution to Council for approval at the appropriate time.

In addition, staff proposes to simplify the presentation of electric bills by eliminating the requirement to allocate bills into illustrative "unbundled" cost components. The "unbundled" rate presentation adopted by Council in 1998 was responsive to the electric industry restructuring environment as exemplified by AB1890, and was significantly more complicated than the prior format. This complexity is not necessary under current market conditions. By itself, this change would not affect the amount of any customer bill, but would make the bills easier to understand.

Further, staff believes that it is no longer appropriate to show the Grid Management Charge (GMC) as a separate item on customers' bills. Staff proposes to incorporate the GMC into the energy charge in the respective rate schedules, and to eliminate the GMC as a separate line item on customers' bills. The reason for this change is that the costs reflected in the GMC are now included in City's transmission service agreement with the California Independent System Operator (CAISO). This agreement replaced the City's transmission service agreement with PG&E. GMC-related costs, which were previously regarded as additive to PG&E transmission costs, are now an integral part of the City's bill for transmission services from the CAISO. Due to these changes, staff believes that it is no longer appropriate to identify these costs separately.

Staff also proposes that rates and charges be increased on a uniform percentage basis because the underlying cost increases triggering this rate increase proposal are incurred on behalf of all customers and thus should be shared by all customers. However, to reduce the impact of these rate increases on lower-income customers, staff recommends that the income level for customers to qualify for the Rate Assistance Program be increased from the current 60% of the State Median Income Level to 80% of the State Median Income Level. The State Median Income Level is the basis for qualification in the Rate Assistance Program, and has replaced the federal poverty standard referenced in the Staff's November 1 report.

ADVANTAGES AND DISADVANTAGES OF ISSUE:
The proposed rate increase will produce revenues of approximately $18 million on an annualized basis to help offset cost increases resulting from expiration of certain WAPA and BPA contracts, and the loss of low-cost energy received under those contracts. Such increase furthers the overarching City objective that its enterprise funds, including the Electric Department, remain fiscally sound. A further advantage is that the City has sufficient funds in the CRF to absorb the balance of these cost increases and can avoid the need for a larger rate increase at this time. The primary disadvantage is that the City will not recover its full operating costs through these rate increases, requiring the use of the CRF.

ECONOMIC/FISCAL IMPACT:
The overall fiscal impact of the proposed rate increases and use of cash from the CRF is to keep the Electric Department in sound financial condition, while continuing to maintain residential, commercial and industrial rate levels significantly below electric rates in adjacent communities.

RECOMMENDATION:
That Council approve and adopt the Resolution amending Rate Schedules for utility service applicable to all classes of customers to:

1. increase electric rates and charges in each Rate Schedule by five percent (5%) beginning January 2006 (Bill Cycle 524) and by an additional five percent (5%) beginning July 2006 (Bill Cycle 530);
2. incorporate the separately stated Grid Management Charge (GMC) into the energy charges in each Rate Schedule;

3. eliminate the existing, separately stated GMC Rate Schedule; and
4. simplify each Rate Schedule and customer bills by removing the requirement to allocate billing totals into illustrative cost components.

APPROVED:

John C. Ronkema
Alunona A. Jonas
Director of Electric Utility

Jennifer Sparacino
Jennifer Sparacino
City Manager

Documents Related to this Report:
1) Resolution adopting rate increase
2) Rate Schedules to be effective January 1, 2006
3) Rate Schedules to be effective July 1, 2006

RESOLUTION NO. 6106

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SANTA CLARA ESTABLISHING RATE STABILIZATION FUND RESERVE ACCOUNT FOR THE ELECTRIC UTILITY

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SANTA CLARA, CALIFORNIA (the "City"), as follows:

WHEREAS, the City has issued various series of electric revenue bonds, secured by net revenues (the "Net Revenues") of the City's electric utility (the "Electric Utility"); and

WHEREAS, pursuant to the provisions of an Indenture of Trust, dated as of July 1, 1985, between the City and Bank of America National Trust and Savings Association (the "1985 Indenture"), the City made certain covenants relating to the level of charges to be set for Electric Utility services, and the ratio of Net Revenues of the Electric Utility to debt service on the bonds issued under the 1985 Indenture and bonds issued on a parity therewith (together, the "Electric Utility Bonds"); and

WHEREAS, under Section 714 of the 1985 Indenture, the City has covenanted to fix, prescribe and collect rates, fees and charges in connection with the Electric Utility service so as to yield Net Revenues, after adjustments provided in Section 714, equal to one hundred twenty-five percent (125%) of debt service on the Electric Utility Bonds (the "Rate Covenant"); and

WHEREAS, Section 714 of the 1985 Indenture provides that the manner and method of compliance with the provisions of the Rate Covenant shall be and remain in the sole discretion of the City Council; and

WHEREAS, the City has, for purposes of the 1995-1996 Fiscal Year Budget, treated a certain portion of the Operating Cash of the Electric Utility as, in effect, a rate stabilization fund, and included amounts in Operating Cash as Net Revenues for purposes of complying with the provisions of the Rate Covenant; and

WHEREAS, the purpose of a rate stabilization fund is to stabilize rates charged to the Electric Utility customers; and

WHEREAS, in order to include amounts in Operating Cash in a rate stabilization account as Gross Revenues, and therefore comply with the Rate Covenant, it is necessary to formalize the creation of a rate stabilization fund reserve, and to set certain restrictions on the use of moneys contained therein.

NOW, THEREFORE, BE IT FURTHER RESOLVED BY THE CITY COUNCIL OF

Resolution 6106 Jan 16, 1996

THE CITY OF SANTA CLARA, CALIFORNIA, as follows:

SECTION 1: Creation of Rate Stabilization Fund Reserve.

The Council hereby ratifies the creation of a separate account in the Electric Utility to be known as the "Rate Stabilization Fund Reserve". This account shall initially be funded in an amount equal to Twenty-five Million Dollars ($25,000,000.00), which amount shall be transferred from Operating Cash from prior Fiscal years, effective on the date of this Resolution. From time to time the City may deposit in the Rate Stabilization Fund Reserve from Net Revenues such amounts as the City shall determine. The City may withdraw amounts from the Rate Stabilization Fund for inclusion in gross revenues for any Fiscal year, or for any of the other purposes set forth in Section 514 of the 1985 Indenture. All interest or other earnings on deposit in the Rate Stabilization Fund Reserve shall be withdrawn therefrom at least annually and accounted for as Gross Revenues in the Electric Utility Account pursuant to the provisions of the 1985 Indenture. Notwithstanding the foregoing, no deposit of Net Revenues in the Rate Stabilization Fund Reserve may be made to the extent such Net Revenues were included in an Independent Public Accountant's certificate submitted in accordance with Section 208 of the 1985 Indenture.

SECTION 2: Indenture References. The Resolution is being adopted pursuant to the Rate Covenant, and in particular, the last sentence of Section 714 of the 1985 Indenture.

SECTION 3: Definitions. All capitalized terms not defined herein shall have the meanings ascribed thereto in the 1985 Indenture.

SECTION 4: Severability.

It is hereby declared to be the intention of the City Council that the sections, paragraphs, sentences, clauses, and phrases of this resolution are severable, and if any phrase, clause, sentence, paragraph, or section of this Resolution shall be declared unconstitutional or otherwise invalid by a valid judgment or decree of a court of competent jurisdiction, such unconstitutionality or invalidity shall not affect any of the remaining phrases, clauses, sentences, paragraphs, and sections of this Resolution hereby adopted.

SECTION 5. This Resolution shall take effect upon adoption.

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*   *   *   *

I HEREBY CERTIFY THE FOREGOING TO BE A TRUE COPY OF A RESOLUTION PASSED AND ADOPTED BY THE CITY COUNCIL OF THE CITY OF SANTA CLARA, CALIFORNIA, AT A REGULAR MEETING THEREOF HELD ON THE 16th DAY OF January, 1996, BY THE FOLLOWING VOTES:

AYES: COUNCIL MEMBERS: Arno, Ash, DeLozier, Gillmor, Mahan, Procunier and Mayor Nadler

NOES: COUNCIL MEMBERS: None

ABSENT: COUNCIL MEMBERS: None

ABSTAINED: COUNCIL MEMBERS: None

ATTEST: J. E. Boccignone
J. E. BOCCIGNONE
City Clerk
City of Santa Clara

[I:\DATA\WP\RESOLUTI\RATESTAB.05]

7/24/01
Agenda Item 5A - attachment

City of Santa Clara Attorney's Opinion July 19, 2001
with Agenda Report July 24, 2001

EXHIBIT M

INTEROFFICE MEMORANDUM
Santa Clara City Attorney's Office

DATE: July 19, 2001

TO: Ronald E. Garratt, Assistant City Manager

FROM: Roland D. Pfeifer, Assistant City Attorney

RE: Proposal for $12.5 million loan from the City's utility enterprise funds to fund a loan for construction of a major league baseball stadium in the City of Santa Clara

BACKGROUND

An association made up of a group of area residents, called the Santa Clara Stadium Association (the "Association") has proposed a plan for financing the construction of a baseball stadium to be located near Great America Parkway and Tasman in the City of Santa Clara which could be used as a home for the current Oakland A's baseball franchise. One element of the financing package proposed by the Association includes a $12.5 million loan from the City's utility enterprise funds ($10 million for the Electric Utility and $2.5 million from the Water/Sewer Utility). The loan proceeds would be used for unspecified expenses related to the construction of a stadium and would be repaid to the City through future special utility rate designed to recover the cost of stadium lighting, construction and pay back of the loan over a thirty (30) year period.

QUESTION

Can the City legally loan $12.5 million from the City's utility enterprise funds to assist the Association to finance a portion of the construction costs for a major league baseball stadium?

SHORT ANSWER

No. Any loan made from the cash in the utility enterprise funds used toward the construction of a major league baseball stadium would violate Section 1320 of the City of Santa Clara's Charter §1320, (entitled, "Utilities Fund"). This provision restricts the use of utility funds to particular uses, which are specifically outlined in subsections (a)-(f) of Charter §1320.

ANALYSIS

The City charter specifically precludes the use of "Utility Funds" for purposes other than those set forth in the charter. Section 1320 of the Charter reads as follows:

> "Sec. 1320. **Utilities fund.**
>
> Receipts from the utilities operated by the City shall be paid into the City Treasury and maintained in a separate utilities fund for such

> utilities. Expenditures from such fund shall be made for the following purposes *only* for such utilities in the order named, viz:
>
> (a) For the payment of operating expenses, pension charges and proportionate payments to such compensation and other insurance and accident reserve funds as the City or the City Council may establish;
>
> (b) For repairs and maintenance;
>
> (c) For the payment of interest and sinking funds on bonds issued for acquisition, construction or extensions;
>
> (d) For the payment of not to exceed five percent of the gross receipts from such utilities to the general fund of the City in payment for services rendered; subject, however, to such limitations as may be contained in any resolution or indenture heretofore adopted providing for the issuance of revenue bonds for the acquisition, construction or improvement of such utilities, which bonds are now outstanding or may hereafter be issued under such existing resolution or indenture;
>
> (e) For extensions and improvements;
>
> (f) For the establishment of a sinking fund within the utilities fund for the replacement of utilities property in the minimum amount of two million five hundred thousand dollars ($2,500,000).
>
> The City Council shall cause records to be kept of the receipts and expenditures of each utility and of credits and debits of each utility in the aforementioned utilities fund. The City Council may, however, order expenditures from the utilities fund for any utility even though that utility has no credit in the utilities fund, provided only that the balance in the utilities fund is greater than the proposed expenditure. (As Amended, 1967 Statutes, Senate Concurrent Resolution 35; Chapter 61; Amendment ratified 11-4-80)" (Emphasis added.)

An "enterprise fund" is defined as a fund which accounts for services furnished to the general public and which is financed primarily by charges for such services. Activities which may be accounted for in enterprise funds are limited to those designated in the Charter.

It is the opinion of this office that the City cannot make a loan from the utility enterprise funds to finance the construction of a stadium. The use of the utility enterprise funds in such a manner would be outside the scope of the public utility's ordinary activities and would therefore be an inappropriate use of such funds. By placing the word "only" in §1320 of the Charter, the drafters intended to limit the uses of Utilities Funds solely to those applications which are enumerated in the Charter. Had drafters intended to allow the City to use such enterprise funds for non-utility uses, the Charter provisions would not have been so exclusive.

In addition, maintenance of an enterprise fund implies a higher degree fiduciary responsibility on the part of the City to maintain and restrict the use of such funds. Enterprise funds create a fiduciary obligation in the City to assure the utility customers that the funds which are received from the sale of services and commodities by the utilities are used solely to meet the monetary obligations incurred by the utilities for salaries, repair and maintenance expenses, improvement costs or to retire the utility's debt service which was incurred to finance acquisition, construction and/or extension of the utility systems.

CONCLUSION

The City Charter restricts the use of Enterprise Funds/Utility Funds. A loan of such funds to be used for the construction of non-utility related expenditures would violate Section 1320 of the City Charter.

Roland D. Pfeifer

ROLAND D. PFEIFER
Assistant City Attorney

Read and Concur:

Michael R. Downey

MICHAEL R. DOWNEY
City Attorney

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