

DATE ISSUED: November 28, 2001

REPORT NO. 01-259

ATTENTION: Honorable Mayor and City Council  
Docket of December 3, 2001

SUBJECT: Otay Mesa Trunk Sewer, Phase II  
Participation Agreement

### SUMMARY

Issue - What action should the City Council take to provide wastewater conveyance capacity in the Otay Mesa Community?

Manager's Recommendation - Authorize the City Manager to enter into a Participation Agreement with Pardee Construction Company to provide planning, design and construction services for the Otay Mesa Trunk Sewer Phase II.

Fiscal Impact - The total estimated cost of this agreement with Pardee Construction Company is \$36,483,992. This project will be phased. Funding for Phases 1 and 2, master planning through design, including land acquisition, in the amount of \$6,357,940, is requested at this time. Additional funding of \$30,126,052 will be requested through a separate Council action as noted in this report. The cost of this project, plus interest, will be recovered from users who will benefit from the Otay Mesa Trunk Sewer Phase II through a Cost Reimbursement District. An agreement for consultant services to determine the assessment and to initiate the Cost Reimbursement Agreement will be requested through a separate Council action.

### BACKGROUND

For many years, Developers have been planning certain residential, commercial and industrial projects within the City of San Diego's Otay Mesa Community Area. The Otay Mesa Sewer Master Plan was completed on April 9, 1984, and amended three times. The last amendment is dated August 5, 1988. The Sewer Master Plan recommends facility sizes for the ultimate wastewater needs of the Otay Mesa Community area, including the construction of two trunk sewers to support the build out of the Otay Mesa community. The first trunk sewer was completed in 1985. The second trunk line, named the Otay Mesa Trunk Sewer, is now needed to provide sewer capacity to allow further development in the Otay Mesa area. Because of site topography, the entire eight mile sewer must be constructed prior to the first connection. No one Developer has the resources to front fund a project of such magnitude, and, as a result, current planned projects are incapable of fulfilling the Tentative Map requirements to provide adequate sewage conveyance capacity needed to protect public health.

Consequently, it is imperative that new sewer infrastructure be constructed so that planned and future development can proceed in an orderly fashion. Without the trunk sewer, a construction moratorium is imminent because we will reach a point where the sewage line can not accommodate further growth, and economic growth in the Otay Mesa Community area will cease. A moratorium will result in lost business opportunities, stagnant employment growth, and a decline of residents buying homes in the community. Since both the City and the Developers will benefit from the design and construction of the Otay Mesa Trunk Sewer Phase II, it is desired that the improvements be in place so that the Developers' projects may proceed.

## DISCUSSION

Prior to commencing with any improvements, the 1988 sewer master plan must be reassessed and validated by preparing an updated sewer planning study which takes into consideration any change in zoning, approved developments and future development. Three proposed trunk sewer alignments will be developed from the sewer planning study. Each alignment will be evaluated for environmental and economic feasibility. Once a preferred alignment is selected, the design will be completed, and construction will follow.

To expedite the design and construction of the Otay Mesa Trunk Sewer Phase II, City staff recommends that we contract with one of the Developers to cause the planning, design and construction of the eight miles of sewer main and appurtenant facilities by utilizing a Participation Agreement. This Developer will be responsible for contributing its fair share of the project. Also, the City shall reimburse the Developer for all funds that exceed its fair share of the total cost of the improvements, in accordance with the terms for reimbursement of costs as set forth in the Participation Agreement. City staff will review and approve every phase of the project to ensure that the work complies with applicable regulatory and City standards and to assure that all potential users and their needs are accommodated by the project.

Pardee Construction Company, which is one of the larger developers in the region, has been identified as the Developer to perform this work for the following reasons. First, Pardee has a significant interest in the completion of this trunk sewer, due to the many projects it has in the Otay Mesa Community area. Second, Pardee desires the Otay Mesa Trunk Sewer Phase II to be completed sooner rather than later so it can timely realize the economic benefits from the land it holds in the community. Also, by expediting the project, other Developers owning land in the area will also benefit because they will be able to proceed with their projects as well. Third, Pardee has offered to perform this work. Finally, by utilizing Pardee's services to plan, design and build the project, the City expects the total expenditures to be lower because Pardee, as a contributing stakeholder, will be motivated to minimize costs.

To recover the expenses for the Otay Mesa Trunk Sewer Phase II project, the City is creating a Cost Reimbursement District to obtain fees from those parties who are identified in the Otay Mesa Master Plan as beneficiaries of this project. The City has commenced the process of retaining the Independent Assessment Engineer who will determine the fair share that developers must contribute for the planning, design, construction and interest of this trunk sewer. In anticipation of the Cost Reimbursement District, developer projects have been conditioned to pay their fair share of the Otay Mesa Trunk Sewer, or to design and build the trunk sewer. Based

on the actual costs of the project, staff will recommend a Cost Reimbursement District, to be presented to Council as a future item, which will reimburse the City for the capital expenditures related to the Otay Mesa Trunk Sewer. It is anticipated that the project costs, plus interest, will be recovered within the twenty year term of the Cost Reimbursement District, and in accordance with the laws and regulations governing such districts.

For these reasons, it is to the City's advantage to engage Pardee as the Developer to complete the planning, design and construction of the Otay Mesa Trunk Sewer Phase II project.

#### FISCAL IMPACT

The total estimated project cost is \$36,483,992. Funds are available in Sewer Fund CIP # 40-930.0, Otay Mesa Trunk Sewer Phase II. Phases 1 and 2, which include planning and design, total \$6,357,940. Funding for construction will be brought back to Council as a separate action, pending approval of the preferred alignment, compliance with environmental requirements and procurement of all necessary permits.

It is contemplated that this action will ultimately be financed with tax-exempt securities and the funds herein sought would be reimbursed with proceeds from the sale of such securities. It is anticipated that the Sewer Revenue Fund would, over time, be reimbursed through the Cost Reimbursement Agreement.

ALTERNATIVES

1. Do nothing. Do not design or build the Otay Mesa Trunk Sewer Phase II. This alternative is not recommended because it would inhibit future development on Otay Mesa and the resulting economic growth for the community area.
2. Do not enter into this agreement with Pardee Construction Company to provide planning and design services for the Otay Mesa Trunk Sewer Phase II, but proceed with the City's design and construction process for this project. This alternative is not recommended.

Since Pardee is motivated to complete the project in a timely fashion, it can better utilize its resources to complete the project more quickly than the City's design and construction process. Otherwise, a construction moratorium may result, inhibiting economic growth for the Otay Mesa Community.

Respectfully submitted,

Tina P. Christiansen, A.I.A. Development Services Director		
Scott Tulloch, Director Metropolitan Wastewater Department		Approved: George I. Loveland Senior Deputy City Manager

TULLOCH/DQG/oc

Note: The attachment is not available in electronic format. A copy is available in the Office of the City Clerk.

Attachment: Location Map