



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: December 21, 2006 REPORT NO: 06-195
ATTENTION: Council President and City Council
SUBJECT: Water System Improvements
REFERENCE: Resolution No. R-301521
Water System Financing Report dated December 20, 2006

REQUESTED ACTION: Accept this report.

STAFF RECOMMENDATION: Accept this report.

SUMMARY: Proceeds from the sale of Water Revenue Notes, Series 2007A (the Notes) are needed in order to fund the continuation of improvements to the water system initiated under financing programs in previous years. Details of the Notes are discussed in a companion staff report from the Debt Management Department.

FISCAL CONSIDERATIONS: Debt service for the Notes is estimated at approximately \$2.2 million per year which will be paid from the water rate increase that went into effect on July 1, 2006.

PREVIOUS COUNCIL and/or COMMITTEE ACTION: None

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: None

KEY STAKEHOLDERS AND PROJECTED IMPACTS: Residents of San Diego will see continued improvements to that the Water System and on-going compliance with the State Department of Health Services (DHS) Compliance Order.

BACKGROUND

On April 30, 2002, the City Council approved a series of five consecutive annual six percent increases to water rates. The last approved water rate increase went into effect on July 1, 2006. The City Council also approved actions leading to the issuance of \$287 million of Subordinated Water Revenue Bonds (the Bonds) on October 8, 2002. The proceeds from the Bonds were used for a variety of capital improvements to the City's Water System to comply with a DHS Compliance Order, meet EPA requirements for enhanced drinking water treatment systems,

program receive 70% bond funding and 30% cash funding. The bond funds were exhausted in March 2006 and projects initiated since that date have been funded entirely with cash. Such projects include the Miramar Water Treatment Plant – Contract A funded for \$22.2 million on October 10, 2006 and the Rancho Bernardo Reservoir funded for \$8.4 million on November 28, 2006 which also required the use of the \$5 million CIP Reserve that now needs to be replenished. The capital improvement projects initiated under the Bonds and those funded with cash require continued funding. On June 12, 2006, the City Council adopted Resolution No. R-301521 stating the City’s intention to reimburse eligible water expenditures from the issuance of future water fund debt.

DISCUSSION

Under normal circumstances, new bonds would have been issued about the time the previous bond funds were exhausted. However, the City has been unable to access the public debt markets. The City has deferred seeking new debt in the expectation that public market borrowing would be available, and instead used cash from the last rate increase and reserves to continue work on the most essential capital projects. However, the Water Department has reached a point where it will be unable to continue ongoing projects and is in jeopardy of falling out of compliance with the DHS Compliance Order without additional capital funds. Therefore, the Water Department is requesting financing in an amount not to exceed \$57 million to cover the Water System Capital Improvements Program until long term financing can be obtained. The projects funded from the Notes are listed in Attachment A. Part of the bond issue will reimburse prior expenditures, both from the end of FY 2006 and from FY 2007 up to the date of issuing the bonds. This amount is estimated at approximately \$23.3 million. These funds will be reprogrammed back into the CIP to fund the cash portion of future projects and to replenish the CIP reserve.

This financing is intended to fund the Water Department’s capital improvement needs until early FY 2008. The debt service for the Notes is available from previously approved water rates. In order for projects funded with the Notes to continue to completion, additional financing will be required. The Water Department estimates that CIP expenditures for FY 2008 through FY 2011 will total approximately \$600 million. Financing for this program is expected to come from a long term bond issue of approximately \$280 million in early FY 2008 and a subsequent bond issue of approximately \$260 million in FY 2010. In order to fund these future CIP expenses and the additional debt that will need to be issued, future rate increases will be required. The Water Department has conducted a Cost of Service Study to identify the rate increases needed for future years. The resulting rate proposals are being presented as a separate issue.

J. M. Barrett
Water Department Director

R. F. Haas
Deputy Chief of Public Works

Attachment A: CIP Projects

Estimated Use of Bond Funds for CIP Projects

Primary CIP	Sub CIP	TITLE	Reimbursement of Costs Before January 1, 2006	Bonding for Costs After January 1, 2006	CIP Project Use of Bond Funds
733100	AA - Corrosion Control		0	12,762	12,762
733610	AA - Meter Boxes		0	58,334	58,334
709420	AA - Pooled Contingencies - RWDS		79,162	220,955	300,117
733310	AA - Pooled Contingencies - Water		736,064	2,189,731	2,925,795
739000	AA - Pressure Reduction Facility		0	6,381	6,381
709490	AA - Reclaimed Water Extension		86,800	236,355	323,155
739100	AA - Seismic Upgrades				
739101	Fault Crossing Retrofits to Large Pipelines		24,413	185,500	209,913
739103	Landslide/Liquefaction Pipeline Mitigation		33,592	496,300	529,892
732770	AA - Standpipes and Reservoirs		0	61,355	61,355
730830	AA - Water Main Replacements		352,796	4,900,000	5,252,796
732630	AA - Water Pump Station Rehabilitations		86,800	236,355	323,155
732613	Alvarado WTP Expansion Phase 2		3,010,673	1,238,664	4,249,337
732613	Alvarado WTP Ph 3 Rehab Floc/Sed Basins		0	280,000	280,000
732613	Alvarado WTP Ph 4 Ozone		0	1,120,000	1,120,000
733170	Barrett Reservoir Outlet Tower Upgrade		112,745	612,284	725,029
733410	Black Mountain Rd. Pipeline (Potable Segment)		1,003	0	1,003
709540	North City Reclamation System				
709557	Black Mountain North Villages		9,452	0	9,452
709541	Black Mountain Rd. PL (Reclaimed) Design-Build		3,553	699	4,252
709543	Black Mountain Ranch RW Storage Tank		11,834	0	11,834
709542	Black Mountain Road Gap RW Pipeline Project		188	0	188
709556	Camino Del Sur RW P/L- Participation Agreement		0	90,030	90,030
709555	Camino Del Sur RW Project- E&CP Road Improvement		276	345,334	345,610
709545	Carmel Valley Reclaimed Water Pipeline		82,671	25,731	108,402
709548	Los Penasquitos Canyon Recycled Water Project		3,581	0	3,581
709553	Pacific Highlands RWP (Participation agreement)		74,181	229,207	303,388

Estimated Use of Bond Funds for CIP Projects

Primary CIP	Sub CIP	TITLE	Reimbursement of Costs Before January 1, 2006	Bonding for Costs After January 1, 2006	CIP Project Use of Bond Funds
	709554	Mira Sorrento Place RW Pipeline	590	0	590
733470		CIP Program Management	1,733	95,666	97,399
733140		San Diego Flow Control & Pump Station 17 (SD 17)	12,533	28,937	41,470
733430		Lower Otay Reservoir - Emergency Outlet Improvmt	81	3,828	3,909
709105		Miramar Pipeline Improvements - Phase III & IV	127,161	9,768	136,929
732840		Miramar Water Treatment Plant - Contract A	15,560,540	9,510,682	25,071,223
732844		Miramar WTP Contract B - Floc/Sedimentation Basins	436,354	2,159,108	2,595,462
732846		Miramar WTP Contract C - Ozone Equip/Install	3,500	1,558,666	1,562,166
732842		Miramar WTP Early Start Improv Phase 2	1,346	0	1,346
732843		Miramar WTP SDFCF 24, 25, 26	76,463	322,000	398,463
732500		Otay WTP Clearwell Storage	18,542	0	18,542
732860		Otay Second Pipeline Improvements			
732869		Otay Second Pipeline - Alta View Pipeline Replacement	75,087		75,087
732866		Otay 2nd Pipeline - Cast Iron Replacement Phase	41,020	104,154	145,173
732863		Otay Second Pipeline - Cathodic Protection Phase	20,888		20,888
732865		Otay 2nd Pipeline - Cathodic Protect Otay Ranch	1,805	1,604	3,410
732864		Otay 2nd Pipeline - Isolate Service Sweetwater	18,674	24,581	43,256
732868		Otay 2nd Pipeline - North Encanto Replacement	2,831	0	2,831
732850		Otay WTP Upgrades Phase 1	166,377	744,188	910,565
732852		Otay WTP Upgrades Phase 2 (CLO2)	279,375	532,000	811,375
733280		Rancho Bernardo Reservoir Rehabilitation	111,518	2,220,750	2,332,268
733420		Rancho Penasquitos Pump Station	61,131	1,771,914	1,833,044
759320		Groundwater Asset Development Program			
759324		San Pascual Brackish Groundwtr Desal Demo Ph III	43,616	742,389	786,005

Estimated Use of Bond Funds for CIP Projects

Primary CIP	Sub CIP	TITLE	Reimbursement of Costs Before January 1, 2006	Bonding for Costs After January 1, 2006	CIP Project Use of Bond Funds
732490	732490	South San Diego Pipeline No. 2	480	0	480
733480	733480	Telemetry Control System (SCADA) - Phase 2	64,162	0	64,162
709530		Torrey Pines Rd/La Jolla Blvd Main Replacement	289		289
709532		Torrey Pines Rd/La Jolla Blvd WMR Phase 2	558,890	0	558,890
709534		La Jolla Shores Dr. 16" Water Main Repl.	3,346	57,141	60,487
759310		Water Dept. Security Upgrades			
759312		Water Dept. Security Upgrades - Alvarado	152,579	19,259	171,838
759316		Water Dept. Security Upgrades - Encl PS	266,687	259,000	525,687
759311		Water Dept. Security Upgrades - Miramar	126,146	238,709	364,856
759317		Water Dept. Security Upgrades - Non-Encl PS	2,666	0	2,666
759313		Water Dept. Security Upgrades - Otay	4,495	0	4,495
759314		Water Dept. Security Upgrades - Regulators	3,734	0	3,734
759315		Water Dept. Security Upgrades - Reservoirs & Dams	154,882	245,000	399,882
759318		Water Dept. Security Upgrades - Tank Standpipe Res	146,893	245,000	391,893
759319		Water Dept Security Upgrades - Pipelines (30 in. and larger)	2,343	0	2,343
Total			23,258,540	33,440,322	56,698,862