



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: April 4, 2007

REPORT NO: 07-057

ATTENTION: Council President and City Council
Docket of April 9, 2007

SUBJECT: Metropolitan Wastewater System Improvements

REFERENCE:

REQUESTED ACTION: Accept this report.

STAFF RECOMMENDATION: Accept this report.

SUMMARY: Proceeds from the sale of privately financed Sewer Revenue Bonds, Series 2007 (the Notes) are needed in order to fund the continuation of improvements to the sewer system in accordance with the Partial Consent Decree and Proposed Final Consent Decree. 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 [\$10.5M] million per year which will be paid from the rate increases effective May 1, 2007. The 2007 Notes will have interest payments over the term of the note with principal to be repaid at final maturity.

PREVIOUS COUNCIL and/or COMMITTEE ACTION: None

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: None

KEY STAKEHOLDERS AND PROJECTED IMPACTS: Citywide Sewer Customers and Participating Agencies will receive continued improvements to the aging sewer system infrastructure and on-going compliance with the Environmental Protection Agency.

BACKGROUND:

City Council approved increasing sewer service charges by 6% for Fiscal Years 1991 through 1995 and for Fiscal Years 1997 and 1998. City Council again approved increasing all sewer service charges by 5% for three consecutive years, Fiscal Years 1999 through 2001. The emphasis of these increases was on the maintenance, repair, upgrade and expansion of the Metropolitan Treatment System in order to ensure compliance with the Ocean Pollution Reduction Act (OPRA) and the Stipulated Order in *United States v. City of San Diego* (Case No. 88-1101-B). Major accomplishments during this timeframe include the completion of the North City Water Reclamation Plant, South Bay Water Reclamation Plant, Metropolitan Biosolids Center, South Bay Ocean Outfall, Wastewater Operations Management Network, and major upgrades to the interceptor system and the Point Loma Wastewater Treatment Plant. As the Metropolitan

Wastewater Department (MWWD) approached the completion of the major upgrades to the Metropolitan Treatment System, the emphasis shifted to the Municipal Collection System, which consists of nearly 3,000 miles of pipeline and 80 pump stations.

In October, 2001, City Council approved increasing sewer system customer revenues by 7.5% for four consecutive years, Fiscal Years 2002 through 2005. The majority of this increase funded the Stipulated Order (City Manager's Report No. 01-209) and the Partial Consent Decree with the remaining revenues ensuring continued compliance with the requirements of the Clean Water Act, OPRA, the State Ocean Plan, and the National Pollutant Discharge Elimination System Permit.

Financing:

The City Council approved the following public bond issuances since 1993 for the upgrade to the Metropolitan Treatment System:

- \$250 million Sewer Revenue Bonds, Series 1993
- \$350 million Sewer Revenue Bonds, Series 1995
- \$250 million Sewer Revenue Bonds, Series 1997A and Series 1997B
- \$315.4 million Sewer Revenue Bonds, Series 1999A and Series 1999B

In addition, MWWD entered into the following State Revolving Fund Loans:

- \$8.0 million for the Point Loma Central Boilers – executed 12/20/99
- \$12.7 million for the Point Loma Digesters - executed 12/21/99
- \$40.5 million for the South Bay Water Reclamation Plant – executed 12/11/00
- \$16.0 million for the Point Loma Maintenance Building Expansion, South Bay Reclamation Sewers and Pump Station Package A and B – executed 2/08/01
- \$3.0 million for the South Bay Water Reclamation Plant – executed 2/07/01
- \$9.7 million for the Point Loma Digesters C1 & C2 – executed 1/22/02
- \$12.1 million for the Environmental Monitoring Lab – signed 2/14/03 and executed 11/28/05
- \$4.7 million for the Point Loma 4th Sludge Pump Modifications Project – executed 11/09/06

In 2003, MWWD was scheduled to issue \$505.5 million in bonds, a portion of which would refund prior issuances, to fund rehabilitation and replacement of sewer pipe over several fiscal years to meet the continued federal and state compliance requirements. However, this issuance was cancelled and in June, 2004 MWWD received a \$152 million loan from Bank of America (BoFA) of which \$144.4 million is outstanding as of April 1, 2007. This allowed the department to continue working on the Partial Consent Decree, enabling completion of 200 miles of pipe replacement and rehabilitation through June 30, 2007. In addition, MWWD did not receive any rate increases in Fiscal Year 2006, and the CIP program has been substantially reduced in order to stay within current revenues.

The 1999 bond sewer funds were exhausted in March, 2001 and the Bank of America loan was exhausted in 2005 (See Attachment A). Projects initiated since the loan was exhausted have been funded entirely with cash, Federal grants or State Revolving Fund loans. The City Council adopted resolutions R-296834 and R-301521 on July 22, 2002 and June 12, 2006 respectively, stating the City's intention to reimburse

eligible wastewater expenditures from the issuance of future MWWD debt. Additionally, on February 26, 2007, City Council approved increasing sewer system customer revenues by 8.75% effective May 1, 2007 and May 1, 2008 and 7% effective May 1, 2009 and May 1, 2010.

DISCUSSION:

The City is currently operating under a Partial Consent Decree in the consolidated cases of *United States v. City of San Diego* (Case No. 03-CV-1349K) and *Baykeeper v. City of San Diego* (Case No. 01-CV-0550B) in order to continue rehabilitation and replacement efforts. The Partial Consent Decree expires on June 30, 2007. If the City has not obtained the funding necessary to approve and lodge a Final Consent Decree with the Court by June 30, 2007, it is likely the stay of litigation will be lifted and the cases will proceed to trial. In the Proposed Final Consent Decree, the City is responsible for the replacement and rehabilitation of 250 miles of sewer pipeline, including 17 specific trunk sewers; the upgrade of 12 sewer pump stations; and meeting the ongoing O&M needs of the wastewater system. Continued deferral of these critical infrastructure projects will put the system at risk of collection and treatment system failures, increased sewage spills, violation of regulatory permits, and potential fines or other enforcement actions from regulatory agencies.

The following is the list of needs in the rate case:

- Replace aging infrastructure, estimated at \$648 million which includes specific projects required by the Proposed Final Consent Decree, pay-go costs and the reimbursement of prior eligible Capital Improvement Program (CIP) expenditures:
 - \$277 million for pipeline replacement and rehabilitation
 - \$197 million for trunk sewer rehabilitation
 - \$82 million for treatment plants
 - \$32 million for municipal sewer pump stations
 - \$15 million for large sewer pump stations
 - \$45 million for other projects, primarily the Metro Facilities Control System Upgrade, Wet Weather Storage Facility, and Annual Allocation - CIP Contingencies
- Pay the debt service on future sewer revenue bond issuances, estimated to be approximately:
 - \$10.5 million annually for 2007 issuance of up to \$210 million (includes \$144.4 million to redeem the outstanding 2004 BofA loan)
 - \$22.0 million annually for 2008 issuance of \$272.0 million (includes \$210.0 million to redeem the 2007 Notes)
 - \$7.7 million annually for 2009 issuance of \$96 million
 - \$12.0 million annually for 2010 issuance of \$148 million
 - \$11.9 million annually for 2011 issuance of \$147 million

MWWD is requesting private bond financing which is scheduled for May 2007. The estimated bond proceeds are approximately \$210 million and will be used to cover MWWD's Capital Improvement Program for FY 2007 and FY 2008 and redeem the outstanding BofA loan. The projects to be funded from the Notes are listed in Attachment B. Part of the bond issue will reimburse prior expenditures of \$41.8 million up to the date of issuing the bonds. These monies will be used to cash-fund portions of future projects.

This financing is intended to fund MWWD's most critical capital improvement needs until the department can enter the public bond market in 2008. In order to fund future programs, additional debt will need to be issued and future rate increases are anticipated to sustain compliance with the Proposed Final Consent Decree.



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Metropolitan Wastewater Department Director



R.F. Haas
Deputy Chief of Public Works

- Attachment A. Bank of America Loan Expenditures
 B. FY 2007 Private Placement (Reimbursement and New Projects)