



THE CITY OF SAN DIEGO  
**REPORT TO THE CITY COUNCIL**

DATE ISSUED: February 26, 2009 REPORT NO: 09-016  
ATTENTION: Council President and City Council  
Agenda of March 9, 2009  
SUBJECT: Metropolitan Wastewater System Improvements  
REFERENCE:

REQUESTED ACTION: Accept this report.

STAFF RECOMMENDATION: Accept this report.

SUMMARY:

Proceeds from the sale of Public Facilities Financing Authority of the City of San Diego Sewer Revenue Bonds, Series 2009A (the 2009A Bonds), anticipated to be the first in a series of potential bond issuances, are needed for the following: refund the \$223.8 million in outstanding Series 2007 privately financed Notes due May 15, 2009; and fund the continuation of improvements to the sewer system in accordance with the Final Consent Decree and other priority Capital Improvement Program (CIP) projects of \$145 million. Subsequent financing tranches are anticipated to refund all or a portion of the existing outstanding public bond obligations, if economic.

FISCAL CONSIDERATIONS:

Refer to the report to City Council on the Wastewater System – Sewer Bonds and Sewer Refunding Bonds.

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 and Consent Decree mandates.

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 79 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.

Finally, in February 2007, City Council approved increasing sewer system customer revenues by 8.75% on May 1<sup>st</sup> for Fiscal Years 2007 and 2008, and by 7% for Fiscal Years 2009 and 2010. The proceeds from the first two increases have been used for a variety of improvements to the City's Wastewater System, ensuring compliance with the Final Consent Decree and continued compliance with the requirements outlined above.

#### 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

The City Council also approved the following private financings primarily to improve the Municipal system:

- \$152 million loan from Bank of America, Series 2004
- \$223.8 million Sewer Revenue Note, Series 2007 (refunded the outstanding FY2004 Bank of America private financing of \$144.4 million and the difference provided new proceeds for CIP)

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
- \$3.0 million for the South Bay Water Reclamation Plant – executed 2/07/01

- \$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
- \$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
- \$4.8 million for the Point Loma 4<sup>th</sup> Sludge Pump Modifications Project – executed 11/19/06
- \$13.3 million for the Point Loma Digesters S1 and S2 Upgrade – executed 3/07/07

In June, 2004 MWWD received a \$152 million loan from Bank of America (BoFA) which 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. MWWD did not receive any rate increases in Fiscal Year 2006, therefore the CIP program was substantially reduced in order to stay within available revenues.

In 2007, City Council approved the issuance of a two-year Sewer Revenue Note to refund the Bank of America loan and finance additional components of the Wastewater System, including reimbursement for eligible CIP expenditures for past projects. It is anticipated that the proceeds of these notes will be expended by May 2009. These notes mature on May 15, 2009, and the principal of \$223.8 million becomes due and payable. A portion of the proceeds from the proposed 2009A Bonds will be utilized to refund these notes.

#### DISCUSSION:

Prior to Fiscal Year 2009, the City was not able to access the public bond market due to a suspended credit rating and lack of current financial statements. However, as the City has worked diligently on becoming current with their audited financial statements, the City released audited financial statements through Fiscal Year 2007, had their credit ratings reinstated and re-entered the public bond market in January 2009 with the issuance of the Water Revenue Bonds. As such, in mid-2009, MWWD anticipates re-entering the public bond market with the Public Facilities Financing Authority of the City of San Diego Sewer Revenue Bonds, Series 2009A (the “Series 2009A Bonds.”) The proposed financing plan contemplates one or more bond offerings which will begin with Series 2009A. It is anticipated that the Series 2009A Bonds will refund the \$223.8 million in outstanding privately placed short-term notes (the “2007A Notes”), provide new funding to meet Consent Decree mandates and other priority projects (listed in Attachment A). Subsequent tranches of financing will refund all or a portion of the existing outstanding public bond obligations.

The City is currently operating under a Final 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) which terminates on July 1, 2013. The Decree holds the City 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 operations and maintenance needs of the wastewater system. 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.

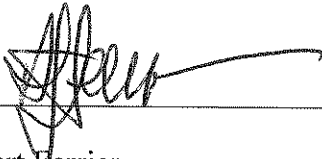
Following is the list of needs in the rate case that will ensure compliance with the Final Consent Decree for Fiscal Years 2009 through 2013:

- Replace aging infrastructure, estimated at \$752 million which includes specific projects required by the Final Consent Decree, pay-go costs and the reimbursement of prior eligible Capital Improvement Program expenditures:
  - \$362 million for pipeline replacement and rehabilitation
  - \$201 million for trunk sewer rehabilitation
  - \$83 million for treatment plants
  - \$44 million for municipal sewer pump stations
  - \$24 million for large sewer pump stations
  - \$38 million for other projects, primarily the Metro Facilities Control System Upgrade, Wet Weather Storage Facility, and Annual Allocation - CIP Contingencies

The projects to be funded with the \$145 million of new proceeds are listed in Attachment A.

Engineering and Financial Feasibility Study (Wastewater Bond Report)

In anticipation of the 2009A Bonds, the Wastewater Department contracted with Malcolm Pirnie, an engineering consultant firm, to conduct an Engineering and Financial Feasibility Report. The purpose of this report is for an independent review of the feasibility of the planned bond issuances. Malcolm Pirnie conducted a review and evaluation of the Wastewater Department's capital improvement program, an institutional analysis, a review and evaluation of the operation and maintenance policies and programs, a detailed review of the historical revenues and expenses of the Wastewater Department for Fiscal Years 2004 through 2008, and a thorough review of the Department's projected revenues and expenses for Fiscal Years 2009 through 2013. Their report will be presented to the City Council as part of the Preliminary Official Statement.



Robert Berrier  
Assistant Director of Metropolitan Wastewater  
Department



Jim Barrett  
Director of Public Utilities

Attachment: A. Capital Improvement Program Schedule

ATTACHMENT A

**Metropolitan Wastewater**  
**Estimated Use of 2009A Bond Funds for CIP Projects**  
(In Thousands)

CIP NO.	CIP TITLE	PROJECT TYPE	ANTICIPATED AMOUNT OF 2009A PROCEEDS
<b>Metro Projects</b>			
46-119.0	ANNUAL ALLOCATION-PT. LOMA TREATMENT PLANT & RELATED	Treatment Plant	149
46-501.0	POOLED CONTINGENCIES	Miscellaneous	611
45-943.0	POINT LOMA - GRIT PROCESSING IMPROVEMENTS	Treatment Plant	133
42-913.0	ANNUAL ALLOCATION-METRO BIOSOLIDS CENTER	Treatment Plant	720
45-956.0	ANNUAL ALLOCATION - METRO SYSTEMS OPERATION CENTER	Miscellaneous	57
41-926.0	ANNUAL ALLOCATION-METRO SYSTEMS PUMP STATIONS 1 & 2	Metro Large Pump Station	5,067
42-926.0	ANNUAL ALLOCATION-NORTH CITY WATER RECLAMATION PLANT	Treatment Plant	188
45-932.0	ANNUAL ALLOCATION-SOUTH BAY WATER RECLAMATION PLANT	Treatment Plant	70
42-934.0	ALVARADO LAB ROOF	Miscellaneous	144
46-187.0	ENVIRONMENTAL MONITORING & TECH SERVICES LAB	Miscellaneous	-
46-965.0	ENVIRONMENTAL MONITORING & TECH SERVICES LAB BOAT DOCK	Miscellaneous	1,117
45-966.0	METRO FACILITIES CONTROL SYSTEM UPGRADE	Miscellaneous	4,216
45-984.0	MBC BIOSOLIDS STORAGE SILOS	Treatment Plant	1,801
45-982.0	MBC CENTRATE COLLECTION UPGRADES	Treatment Plant	1,493
45-983.0	MBC DEWATERING CENTRIFUGES REPLACEMENT	Treatment Plant	111
45-989.0	MBC ODOR CONTROL FACILITY UPGRADES	Treatment Plant	353
45-981.0	MBC STANDBY CENTRIFUGE FEED FACILITIES	Treatment Plant	1,111
45-988.0	MBC WASTEWATER FORCEMAIN EXTENSION	Treatment Plant	-
41-942.0	NCWRP - SLUDGE PS UPGRADE	Treatment Plant	221
45-993.0	NCWRP - EDR ENCLOSURE	Miscellaneous	448
45-964.0	NORTH CITY RAW SLUDGE / POINT LOMA CATHODIC PROTECTION	Treatment Plant	-
46-502.0	POOLED CONTINGENCY	Miscellaneous	-
46-218.0	PT. LOMA DIGESTER S1 AND S2 UPGRADES	Treatment Plant	-
45-915.0	PUMP STATION 2 ONSITE STANDBY POWER	Metro Large Pump Station	632
42-910.6	SOUTH BAY WATER RECLAMATION PLANT	Treatment Plant	-
42-930.0	SBWRP DEMINERALIZATION PH 1&2	Treatment Plant	12
45-940.0	WET WEATHER STORAGE FACILITY	Miscellaneous	188
	<b>TOTAL METRO</b>		<b>18,842</b>

## ATTACHMENT A

**Metropolitan Wastewater**  
**Estimated Use of 2009A Bond Funds for CIP Projects**  
(In Thousands)

CIP NO.	CIP TITLE	PROJECT TYPE	AMOUNT OF 2009A ANTICIPATED PROCEEDS
<b>Muni Projects</b>			-
46-106.0	ANNUAL ALLOCATION - SEWER PUMP STATIONS	Muni Pump Stations	304
46-206.0	ANNUAL ALLOCATION - ACCELERATED PROJECTS	Miscellaneous	2,719
44-001.0	ANNUAL ALLOCATION - SEWER MAIN REPLACEMENTS	Trunk Sewer	30,878
46-194.0	ANNUAL ALLOCATION - TRUNK SEWER REHABILITATIONS	Trunk Sewer	3,631
46-195.0	BELT STREET TRUNK SEWER	Trunk Sewer	-
40-927.0	CENTRE CITY SEWER IMPROVEMENTS	Trunk Sewer	-
40-910.2	CHOLLAS VALLEY TRUNK SEWER	Trunk Sewer	-
46-195.6	EAST POINT LOMA TRUNK SEWER	Trunk Sewer	4,165
46-205.0	HARBOR DRIVE TRUNK SEWER REPLACEMENT	Trunk Sewer	-
46-139.2	HOME AVENUE TRUNK SEWER CONTRACT III	Trunk Sewer	-
46-194.2	LA JOLLA/PACIFIC BEACH TRUNK SEWER	Trunk Sewer	16
46-140.0	NORTH MISSION VALLEY TRUNK SEWER	Trunk Sewer	-
46-142.0	SEWER PUMP STATION 24	Muni Pump Stations	-
46-200.0	SEWER PUMP STATION 30A RELOCATION	Muni Pump Stations	-
46-602.0	SEWER PUMP STATION 41 REHAB	Muni Pump Stations	5,192
46-601.6	SEWER PUMP STATION #45	Muni Pump Stations	-
45-936.0	SOUTH SYSTEM CANYON ACCESS	Trunk Sewer	-
46-197.0	SORRENTO VALLEY TRUNK SEWER RELOCATION	Trunk Sewer	14
40-931.0	SOUTH MISSION VALLEY TRUNK SEWER (Includes Sublets 409311 thru 409313)	Trunk Sewer	7,459
46-928.0/1	SOUTH PACIFIC HWY TRUNK SEWER	Trunk Sewer	-
46-193.0	ANNUAL ALLOCATION - CIP CONTINGENCIES	Miscellaneous	-
46-050.0	ANNUAL ALLOCATION - PIPELINE REHABILITATION	Pipelines	51,550
45-975.0	ANNUAL ALLOCATION - DEVELOPER PROJECTS	Miscellaneous	-
40-933.0	ANNUAL ALLOCATION - MWWDD TRUNK SEWERS	Trunk Sewer	6,592
41-927.0	ANNUAL ALLOCATION - PS 64, 65, PQ, EMG	Muni Pump Stations	-
46-505.0	ANNUAL ALLOCATION - UNSCHEDULED PROJECTS	Miscellaneous	1
46-196.6	BALBOA TRUNK SEWER (Specific Cyn TS - Grp 1)	Trunk Sewer	-
45-938.0	BEACH AREA LOW FLOW STORM DRAIN DIVERS.	Pipelines	-
46-195.0	BELT STREET TRUNK SEWER	Trunk Sewer	-
46-136.0	CARMEL VALLEY T.S. E/O I-5	Trunk Sewer	-
46-169.0	EAST MISSION GORGE FORCE MAIN REHAB.	Pipelines	520
46-197.9	LAKE MURRAY TRUNK SWR IN CYN (Spec. Cyn - Grp 2)	Trunk Sewer	9,826
46-195.8	MIRAMAR ROAD TRUNK SWR IN CYN (Spec. Cyn - Grp 1)	Trunk Sewer	-
46-196.9	MONTEZUMA TRUNK SWR IN CYN (Spec. Cyn - Grp 1)	Trunk Sewer	-
40-930.0	OTAY MESA TRUNK SEWER	Trunk Sewer	-
46-602.6	SEWER PUMP STATION 79	Muni Pump Stations	-
41-929.0	PUMP STATION UPGRADES (Includes Sublets 419321 thru 419323)	Muni Pump Stations	3,247
41-939.0	PUMP STATION 84 UPG & PS 62 ABANDONMENT	Muni Pump Stations	-
46-197.6	USIU TRUNK SEWER (Specific Cyn TS - Grp 2)	Trunk Sewer	44
<b>TOTAL MUNI</b>			<b>126,158</b>
<b>TOTAL METRO</b>			<b>18,842</b>
<b>TOTAL MUNI</b>			<b>126,158</b>
<b>TOTAL 2009A BOND PROCEEDS AMOUNT</b>			<b>145,000</b>