



THE CITY OF SAN DIEGO

Report to the City Council

DATE ISSUED: February 07, 2017

REPORT NO: 17-003

ATTENTION: Honorable Council President Myrtle Cole and Members of the City Council

SUBJECT: Clean Water SRF loans to the Water Utility Fund for Pure Water planning and design projects: North City (NC) Morena Blvd Pump Station & Pipeline; NC Pure Water Facility; and NC Pure Water Pipeline

REQUESTED ACTION:

1. Authorize the Mayor and/or designee to implement the Clean Water State Revolving Fund planning and design loan, execute the loan documents and take other necessary actions to enable the City to facilitate the funding of the Pure Water (Water System) North City Morena Boulevard Pump Station & Pipeline project for an amount up to \$3,000,000.
2. Authorize the Mayor and/or designee to implement the Clean Water State Revolving Fund planning and design loan, execute the loan documents and take other necessary actions to enable the City to facilitate the funding of the Pure Water (Water System) North City Pure Water Facility project for an amount up to \$35,400,000.
3. Authorize the Mayor and/or designee to implement the Clean Water State Revolving Fund planning and design loan, execute the loan documents and take other necessary actions to enable the City to facilitate the funding of the Pure Water (Water System) North City Pure Water Pipeline to Miramar project for an amount up to \$6,800,000.
4. Declaring that the City dedicates and pledges the net revenues of its water enterprise and the Water Utility Fund for repayment of any and all Clean Water State Revolving Fund financing for these projects.

STAFF RECOMMENDATION:

Approve the requested actions.

EXECUTIVE SUMMARY OF ITEM BACKGROUND:

State Revolving Fund Overview

State Revolving Funds (SRFs) are financing vehicles administered by state agencies, which lend to municipalities for eligible clean water and drinking water projects. Borrowers benefit from low borrowing costs for eligible projects. In the State of California, the Division of Financial Assistance within the State Water Resources Control Board (SWRCB) manages the SRFs.

The Clean Water State Revolving Fund is available for the projects specified below and was established by the 1987 Clean Water Act Amendment. This Act provides for annual appropriation of funds from the United States Environmental Protection Agency to individual State SRFs. States match federal grants with a minimum 20% program contribution.

Projects eligible for CWSRF financing include planning, design, and construction of wastewater treatment plants, sewer collectors and interceptors, combined sewers, septic to sewer conversions, storm water reduction and treatment, as well as water reclamation facilities. Additionally, CWSRF may fund nonpoint source projects and estuary conservation and management.

The CWSRF is a low-interest loan program offered through the SWRCB. The Water System has historically sought funding from the CWSRF program for certain eligible projects since it carries the lowest cost relative to alternatives. The CWSRF program is a finite resource dependent on continued recapitalization of the fund from State and Federal sources. The CWSRF program provides an average of \$400,000,000 in annual funding to various local agency applicants. The City is submitting planning and design (P&D) loan applications for the subject Pure Water projects and plans to submit construction loan applications once the required technical and environmental information is available. The Water System has already issued Commercial Paper Notes to fund a portion of P&D for Pure Water, Water System only. Note the proposed application is supplementing the Commercial Paper Notes as a lower cost of financing. If the City is not approved for P&D loans, alternate funding sources, including the Commercial Paper Program or paygo funds may be utilized to cover P&D expenditures that are pro-rated costs of the Water Utility Fund toward the Pure Water projects.

P&D loans do not accrue interest during the P&D phase (up to 3 years) and are intended to be refinanced with long term construction financing. Each CWSRF loan application is assessed by the SWRCB based upon program policy, State project priorities and borrower's credit considerations. Generally, the terms and conditions of the program are non-negotiable. However, the City recently negotiated with the State to release requirement of a restricted debt service reserve account for the Pump Station 2 project on behalf of the Sewer Revenue Fund. The City will attempt to replicate this allowance with each project loan application going forward.

Upon City Council approval, the Debt Management Department will be submitting P&D loan applications to the SWRCB for CWSRF financing for the following three Pure Water phase one projects on behalf of the Water System. The subject loan applications will be limited to P&D costs; application for construction funds will occur at a later date. The P&D estimates are as of January 2017 and are provided by the Public Utilities Department: North City Morena Blvd Pump Station & Pipeline [\$3,000,000]; North City Pure Water Facility [\$35,400,000]; and the North City Pure Water Pipeline to Miramar [\$6,800,000]. The combined requested amount of \$45,300,000 is based on projected Water System portion of the program expenditures in FY18 with a contingency for cost changes of 10%. The timing of the loan execution and draw of funds from the approved loans will vary and are dependent on the individual project timelines. The proposed loan applications will help fund the projected P&D costs of the following projects:

Project Overview

The Pure Water project is comprised of multiple individual projects allocated among either the Water System or Wastewater System. Cost estimates provided by Public Utilities Department as of January 2017 indicate total planning and design cost for the entire project of \$120,133,696, comprised of \$73,975,814 allocated to the Water System and \$46,157,881 dedicated to the Wastewater System. The current applications for planning and design loans, totaling \$45,300,000, represent the FY18 costs plus a 10% contingency for cost changes.

These estimates are subject to change as the scope for phase one of the Pure Water Project is refined.

North City Morena Blvd Pump Station & Pipeline

The North City Morena Blvd Pump Station will be located within the proximity of Friars Road and Interstate 5 (I-5). This pump station will collect wastewater flows from four pipelines, the North Mission Valley Interceptor, Morena Boulevard Interceptor, Morena Boulevard Trunk Sewer, and East Mission Bay Trunk Sewer. Flows will be conveyed to the NCWRP through a 10.4 mile force main. This pump station will provide an average of 32 mgd of wastewater, augmenting the current wastewater flow to the NCWRP.

This component of the Project also entails the design and construction of a brine line from the Reverse Osmosis process at the North City Pure Water Facility, which will be combined with centrate and conveyed back by gravity via a 10.4-mile pipeline to the Morena Pump Station area and discharge it to a sewer downstream of the Morena Boulevard diversion structures. The brine will then be conveyed to Pump Station No. 2 where it will be sent to the Point Loma Wastewater Treatment Plant or treated at the future Central Area Water Reclamation Plant. The brine pipeline and force main will reside in the same corridor. The total estimated planning and design cost of this project is \$4,800,000, \$2,700,000 of which is scheduled to occur in FY18. \$3,000,000 represents the FY18 costs plus a 10% contingency for cost changes.

North City Pure Water Facility

To treat the reclaimed water from the NCWRP to potable reuse standards, the City will build a 30-mgd NCPWF that will meet the intent of the draft Surface Water Augmentation regulations currently under development by the State Division of Drinking Water (DDW). Approximately 3 mgd of additional purified water will also be produced for blending with the NCWRP Title 22 effluent to satisfy the non-potable reuse demands and for plant water needs. The site for the NCPWF is a City-owned 8.7-acre site located across the street from the existing NCWRP, on the north side of Eastgate Mall. This component of the Project includes site improvements; an operations, maintenance and administration building; and a new advanced water purification facility, including various treatment processes, chemical feed systems, transfer pumping between processes, instrumentation and controls. Production of purified water involves a number of advanced water treatment processes. The basic process configuration includes Ozone treatment and biological activated carbon filters, Microfiltration and Reverse Osmosis, followed by Ultraviolet Light disinfection and an Advanced Oxidation Process. The total estimated planning and design cost of this project is \$42,800,000, \$32,000,000 of which is scheduled to occur in FY18. \$35,400,000 represents the FY18 costs plus a 10% contingency for cost changes.

North City Pure Water Pipeline

The North City Pure Water Pipeline will convey flows generated from the North City Pure Water Facility and pumped by the Pure Water Pump Station 8.5 miles with subaqueous discharges in Miramar Reservoir. The pipeline will be constructed primarily within street and roadway right-of-way starting south on Eastgate Mall, head east onto Miramar Road, tunneled east crossing Caltrans Interstate 15, east through a private property, north along Business Park Avenue and Carroll Canyon Road, east along Hoyt Park Drive and Meanley Drive, continued northeast through a private property easement, and terminate in the

Miramar Reservoir after a tunnel under Scripps Lake Drive. The pipeline is designed as a 48-inch cement mortar lined and tape coated steel pipeline that transitions into a 48-inch HDPE subaqueous pipeline with HDPE branches and orifices fitted with duckbill valves to disperse and diffuse flow in Miramar Reservoir. A key component of the pipeline is the Dechlorination Facility located upstream of the subaqueous pipe. The dechlorination facility utilizes sodium bisulfite to remove chlorine residual from the Pure Water prior to discharge into Miramar Reservoir. The total estimated planning and design cost of this project is \$11,600,000, \$6,200,000 of which is scheduled to occur in FY18. \$6,800,000 represents the FY18 costs plus a 10% contingency for cost changes.

CITY STRATEGIC PLAN GOAL(S)/OBJECTIVE(S):

Goal # 1: Provide high quality public service.

Objective # 1: Promote a customer-focused culture that prizes accessibility, consistent, and predictable delivery of services.

FISCAL CONSIDERATIONS:

If the loan applications are approved by the SWRCB, in accordance with the loan criteria, repayment of the Pure Water P&D loans will be deferred and combined with future construction financing for these projects, which the department plans to secure from various sources in late 2017. The current estimated construction start for the above listed projects is FY19 with the estimated end to be FY22. P&D funds may be drawn for up to 3 years at zero interest. It is the intention to repay the P&D loans in full prior to the start of the construction period or refinance the loans with SRF construction loans or bonds. If not refinanced by the time construction begins, the SWRCB allows for a 10 year repayment term at the prevailing CWSRF interest rate, which most recently was 1.7%.

CWSRF financing agreements are treated as "Parity Obligations" whereby repayment will be in the same lien position as the Water Utility Fund's outstanding senior obligations. The City is also required to dedicate net revenues of the Water Utility Fund for repayment of CWSRF financing on the aforementioned projects, which is the same source of repayment for other outstanding parity and subordinate bond obligations, and outstanding CWSRF obligations of the Water Utility Fund. The City will be required to maintain aggregate debt service coverage ratio of 1.1x for the Water System and agree to a rate covenant to maintain Water System rates to support this coverage level.

Based on a financing amount of \$3,000,000 for the North City Morena Blvd Pump Station & Pipeline project, the annual debt service in FY18 is zero. If the project is not refinanced with long-term construction financing, CWSRF provides option to repay the P&D loan over 10 years beginning at the start of construction resulting in annual debt service of \$300,000 to be budgeted in the Water Utility Fund.

Based on a financing amount of \$35,400,000 for the North City Pure Water Facility project, the annual debt service in FY18 is zero. If the project is not refinanced with long-term construction financing, CWSRF provides option to repay the P&D loan over 10 years beginning at the start of construction resulting in annual debt service of \$3,800,000 to be budgeted in the Water Utility Fund.

Based on a financing amount of \$6,800,000 for the North City Pure Water Pipeline to Miramar project, the annual debt service in FY18 is zero. If the project is not refinanced with long-term construction financing, CWSRF provides option to repay the P&D loan over 10

EQUAL OPPORTUNITY CONTRACTING INFORMATION (if applicable):

NA

PREVIOUS COUNCIL and/or COMMITTEE ACTIONS:

NA

COMMUNITY PARTICIPATION AND OUTREACH EFFORTS:

NA

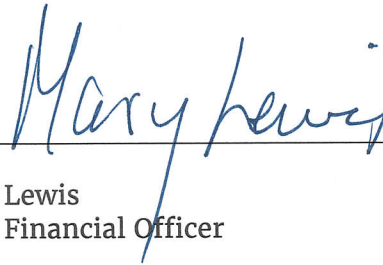
KEY STAKEHOLDERS AND PROJECTED IMPACTS:

The key stakeholders are the City of San Diego and Water ratepayers who would benefit from the aforementioned projects with low-interest CWSRF loans.

Respectfully submitted,



Lakshmi Kommi
Debt Management Director



Mary Lewis
Chief Financial Officer

