



THE CITY OF SAN DIEGO

Report to the City Council

DATE ISSUED: February 07, 2017 REPORT NO: 17-006

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

SUBJECT: Clean Water SRF loans to the Wastewater System for Pure Water planning and design projects: North City (NC) Morena Blvd Pump Station; NC Water Reclamation Plant Expansion; and NC MBC

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 (Wastewater System) North City Morena Boulevard Pump Station and Pipeline project for an amount up to \$9,800,000.
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 (Wastewater System) North City Water Reclamation Plant Expansion project for an amount up to \$9,900,000.
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 (Wastewater System) North City Metropolitan BioSolids Center Improvements project for an amount up to \$6,200,000.
4. Declaring that the City dedicates and pledges the net revenues of its wastewater enterprise and the Sewer Revenue 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 reduced 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 (CWSRF) 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 Sewer Revenue Fund (Wastewater 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. If the City is not approved for P&D loans, alternate funding sources such as paygo funds will be utilized to cover P&D expenditures that are pro-rated costs of the Wastewater System 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 Wastewater System. The City will attempt to replicate this allowance with each project loan application going forward.

Upon City Council approval, Debt Management will submit P&D loan applications to the SWRCB for CWSRF financing for the following three Pure Water projects on behalf of the Wastewater 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 cost estimates are as of January 2017 and are provided by the Public Utilities Department: North City Morena Blvd Pump Station and Pipeline [\$9,800,000], North City Water Reclamation Plant Expansion (NCWRP) [\$9,900,000], North City Metropolitan BioSolids Center (MBC) Improvements [\$6,200,000]. The combined requested amount of \$25,900,000 is based on projected Wastewater System expenditures in FY18 with a contingency to allow 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

Pure Water San Diego:

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 Utility and \$46,157,881 dedicated to the Wastewater System. The current applications for planning and design loans, totaling \$25,900,000, 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 and 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 24.5 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 North City Pure Water Facility (NCPWF) which will convey brine 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 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 \$15,500,000, \$8,900,000 of which is scheduled to occur in FY18. \$9,800,000 represents the FY18 costs plus a 10% contingency for cost changes.

North City Water Reclamation Plant Expansion

One of the projects that is being proposed under the Pure Water program is the expansion of the existing NCWRP. The NCWRP treats wastewater from several San Diego Communities and distributes recycled water for irrigation and industrial purposes in the northern San Diego region. As part of the Pure Water Program implementation, the NCWRP will undergo an expansion which will allow the plant to treat up to 52 million gallons per day (mgd), continue serving recycled water to customers, and provide tertiary-treated water to the future NCPWF so it can produce 30 mgd of pure water. This project also includes the design of a pump station and pipeline which will be constructed at the north end of the NCWRP and convey tertiary-treated flows produced at the NCWRP to the NCPWF. The total estimated planning and design cost of this project is \$18,900,000, \$9,000,000 of which is scheduled to occur in FY18. \$9,900,000 represents the FY18 costs plus a 10% contingency for cost changes.

North City MBC Improvements

The MBC is the City's regional biosolids facility which receives and processes solids from both the NCWRP and the Point Loma Wastewater Treatment Plant. As part of the Pure Water Program, the NCWRP will be expanded to 52 mgd. Due to the expansion of the NCWRP, the MBC will experience higher flows than it is currently receiving. Thus, to accommodate the additional flows, upgrades and improvements of MBC will be necessary.

Improvements at MBC will include expanding the existing grit removal system; replacement of the existing thickening centrifuges (a total of six new larger centrifuges will be installed) and installation of associated sludge feed pumps, polymer feed pumps, sludge digester feed pumps; upgrades to anaerobic digesters including replacement of recirculation pumps, mixing pumps, and axial mixing pumps, construction of new biogas laterals and upgrade of the digester gas-handling equipment, installation of larger biogas blowers to replace existing and upsizing blower discharge laterals, installation of a new biogas flare, installation of a larger gas line to supply cogeneration or a header to the new cogeneration facility, and installation of a larger gas header to the flares; improvements to the sludge

dewatering system which entails the installation of new sludge feed pumps and polymer feed pumps to replace existing units, installation of new centrate pumps at the centrate pump station; improvements to the chemical handling systems, and extension of utilities. The total estimated planning and design cost of this project is \$6,500,000, \$5,700,000 of which is scheduled to occur in FY18. \$6,200,000 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. 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 Sewer Revenue Fund outstanding senior obligations. The City also dedicates net revenues of the Sewer Revenue 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 Sewer Revenue Fund. The City also agrees to an aggregate debt service coverage ratio of 1.1x.

Based on a financing amount of \$9,800,000 for the Pure Water North City Morena Blvd Pump Station and Pipeline project, the annual debt service in FY18 is \$0. 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 estimated \$1,000,000 to be programmed in the Wastewater System.

Based on a financing amount of \$9,900,000 for the Pure Water NCWRP project, the annual debt service in FY18 is \$0. 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 \$1,000,000 to be programmed in the Wastewater System.

Based on a financing amount of \$6,200,000 for the Pure Water North City MBC 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 \$680,000 to be programmed in the Wastewater System.

EQUAL OPPORTUNITY CONTRACTING INFORMATION (if applicable):

Contracts or agreements associated with this action are subject to the City's Equal Employment Opportunity Outreach Program (San Diego Ordinance No. 18173, Section 22.2701 through 22.2708) and Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517).

PREVIOUS COUNCIL and/or COMMITTEE ACTIONS:

Resolution No. 304316, adopted November 13, 2008, authorized the Mayor or his representative to submit applications for financial assistance from the SWRCB for wastewater projects.

COMMUNITY PARTICIPATION AND OUTREACH EFFORTS:

NA

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

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

Respectfully submitted,

Lakshmi Kommi
Debt Management Director

Mary Lewis
Chief Financial Officer