



THE CITY OF SAN DIEGO

Report to the City Council

DATE ISSUED: February 07, 2017 REPORT NO: 17-016

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

SUBJECT: Clean Water SRF loan to the Sewer Revenue Fund for Pump Station 2 Power Reliability and Surge Protection construction project

REQUESTED ACTION:

1. Increase the Clean Water State Revolving Fund loan amount requested for the Pump Station 2 Power Reliability and Surge Protection construction project to \$70,000,000 from \$43,000,000 as authorized in prior Ordinance No. 20549, adopted 8/3/15.
2. Authorize the Mayor and/or designee to implement the Clean Water State Revolving Fund loan, execute the loan documents and take other necessary actions to enable the City to facilitate the funding of the Pump Station 2 Power Reliability and Surge Protection project.
3. Declaring that the City intends and reasonably expects to reimburse project costs incurred prior to the issuance of the Clean Water State Revolving Fund financing or approval by the State Water Resources Control Board.
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 this project.

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 (EPA) 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.

Construction loans carry an interest rate fixed at loan closing; the most recent CWSRF rate is 1.7%. The repayment term is 30 years with annual payments to be made from the Wastewater System. 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 subject project on behalf of the Wastewater System. The City will attempt to replicate this allowance with all other project loan applications going forward.

The Debt Management Department is requesting an incremental increase for the existing PS2 construction project CWSRF application from \$43,000,000 to \$70,000,000. This increase in project cost is due to increased scope as well as increased raw material and construction costs. Additional scope items are as follows: Generator failure probability analysis study; feasibility analysis to increase size of diesel generators; ventilation study for prevention of recirculation of engine exhaust; conversion of the second floor of existing switchgear building into offices and associated Americans with Disabilities Act improvements and building permits; and additional design required to comply with new MS4 Stormwater Permit. Additional factors that may have contributed to the higher bid are as follows: Site constraints and lack of space available for construction and staging; coordination with large variety subs/trades (building, mechanical, electrical, control systems, etc.); multiple mobilizations/demobilizations throughout the construction phases (demolition, grading, building improvements (existing & new)); and highly specialized large equipment that is complex/unique to the site and must be custom designed at the higher power/pumping demands.

Project Overview

Pump Station 2 Power Reliability and Surge Protection Project

The PS2 is the largest pump station and an integral component to the successful operation of the Metropolitan Wastewater System. The station receives wastewater flows from the North Metro Interceptor which serves the northern San Diego region and the South Metro Interceptor which serves the southern communities of San Diego. The station pumps this wastewater to the Point Loma Wastewater Treatment Plant for treatment before disposal into the ocean.

The EPA guidelines recommend that the station be equipped with two separate and independent sources of power either from two separate utility substations or from a single utility substation with plant-based generators to provide 100% of the power requirement. The pump station's present electrical configuration does not comply with the EPA guidelines. The estimated total cost of the PS2 project is \$70,000,000. The SWRCB has approved the prior \$43,000,000 loan application subject to closing requirements; we expect to execute the

Agreement during Q2 2017. The State has agreed to receive a separate application for the incremental amount of \$27,000,000.

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:

CWSRF construction loans carry an interest rate fixed at closing; the most recent CWSRF interest rate is 1.7%. CWSRF financing agreements are treated as "Parity Obligations" whereby repayment will be in the same lien position as the Sewer Revenue Fund's 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.

Repayment of the PS2 construction loan includes the interest-only payment during construction (estimated at 42 months), followed by a 30-year repayment term beginning one year from project completion. Interest will accrue on all disbursements as of the date of each disbursement.

Based on a financing amount of \$70,000,000 for the PS2 project, annual debt service (interest only) during the construction period is estimated to be up to \$272,000 in FY18, \$724,200 in FY19, \$969,000 in FY20 and \$1,190,000 in FY21. Once construction is complete, annual debt service is estimated at \$2,900,000 over the 30 year repayment period. Costs will be budgeted in the Wastewater System.

Reimbursement Resolution:

Payments for various construction project costs are expected to occur prior to receipt of loan disbursements subject to the Installment Purchase Agreement. The City then expects to reimburse itself periodically. In order to do that, the City must adopt a reimbursement resolution in accordance with section 1.150-2 of Treasury Regulations ("Regulations"). By adopting a reimbursement resolution the City will satisfy the Official Intent Requirement under the Regulations and be able to reimburse construction project costs using funds available from the Installment Purchase Agreement with SWRCB. Adoption of the reimbursement resolution will not obligate the City to expend any funds; it merely enables the City to reimburse itself for all qualified construction project expenses the City fronts while completing the construction project.

EQUAL OPPORTUNITY CONTRACTING INFORMATION (if applicable):

NA

PREVIOUS COUNCIL and/or COMMITTEE ACTIONS:

Ordinance No. 20549, adopted August 8, 2015, authorized the Mayor or his representative to submit an application for financing assistance from the SWRCB for the PS2 project in an amount up to \$43,000,000.

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