



THE CITY OF SAN DIEGO

Report to the City Council

DATE ISSUED: March 8, 2016

REPORT NO: 16-021

ATTENTION: Honorable Council President Sherri Lightner and Members of the City Council

SUBJECT: State Water Board Drinking Water State Revolving Fund Financing Agreements for various Water Fund projects

REQUESTED ACTION:

1. Authorize the Mayor and/or designee to execute, for and on behalf of the City of San Diego, State Water Board Drinking Water State Revolving Fund (DWSRF) Financing Agreements, Amendments, Reimbursement Claims, Final Release Forms, and take related actions;
2. Authorize the Mayor and/or designee to dedicate revenues from its Water Utility Fund rates, charges and assessments on parity with all other parity obligations of the Water Utility Fund, in an amount sufficient to repay the DWSRF for the Projects. This dedication shall remain in full force and effect until such Financing Agreements are fully discharged, unless modification or change of such dedication is approved by the State Water Board. If for any reason, said resources of revenue prove insufficient to satisfy the debt service of the DWSRF financing agreements, sufficient funds shall be raised through increased water rates, user charges, or assessments or any other legal means available to meet these financing obligations and to operate and maintain these Projects.
3. Authorize the Chief Financial Officer or designee to apply for, accept, appropriate and expend up to \$38,617,469 for the Pacific Beach Pipeline South project; \$18,800,000 for the 69th and Mohawk Pump Station project; \$10,700,000 for the University Avenue Pipeline Replacement project; \$22,200,000 for the Morena Reservoir Outlet Tower Upgrade project; \$5,505,386 for the Lower Otay Outlet Tower project; and \$114,000,000 for the Miramar Clearwell Improvements project in DWSRF funds for reimbursement to the Water Utility Fund, contingent upon the City Comptroller certifying that the funds are available and contingent upon the financing being secured.
4. Authorize the financing of \$38,617,469 for the Pacific Beach Pipeline South project; \$18,800,000 for the 69th and Mohawk Pump Station project; \$10,700,000 for the University Avenue Pipeline Replacement project; \$22,200,000 for the Morena Reservoir Outlet Tower Upgrade project; \$5,505,386 for the Lower Otay Outlet Tower project; and \$114,000,000 for the Miramar Clearwell Improvements project.

5. Authorizing an ordinance stating that: (a) the Director of Public Utilities or designee is hereby authorized and directed to sign and file, for and on behalf of the Public Utilities Department, a financial assistance application for a financing agreement from the State Water Board for each of the six projects: Pacific Beach Pipeline South, 69th and Mohawk Pump Station, University Avenue Pipeline Replacement, Morena Reservoir Outlet Tower Upgrade, Lower Otay Outlet Tower, and Miramar Clearwell Improvements; (b) the Chief Financial Officer or designee is hereby authorized to sign the DWSRF program financing agreements for each of the six projects and any amendments thereto, and provide the assurances, certifications and commitments required therefor; (c) the City Engineer or designee is hereby authorized to represent the Public Utilities Department in carrying out the City of San Diego's responsibilities under the financing agreement, including approving and submitting certified disbursement requests (including Claims for Reimbursement) or other required documentation, compliance with applicable state and federal laws, and making any other necessary certifications; (d) the City does hereby dedicate and pledge its net water revenues and its Water Utility Fund to payment of the DWSRF financing for each of the six projects. The City commits to collecting such revenues and maintaining such fund(s) throughout the term of such financing and until the City has satisfied its repayment obligation thereunder unless modification or change is approved in writing by the State Water Board. So long as the financing agreement(s) are outstanding, the City pledge hereunder shall constitute a lien in favor of the State Water Board on the foregoing fund(s) and revenue(s) without any further action necessary. So long as the financing agreement(s) are outstanding, the City commits to maintaining the fund(s) and revenue(s) at levels sufficient to meet its obligations under the financing agreements(s). If for any reason, the said source of revenues proves insufficient to satisfy the debt service of the DWSRF obligation, sufficient funds shall be raised through increased water rates, user charges, or assessments or any other legal means available to meet the DWSRF obligation and to operate and maintain each of the six projects; (e) and the authority granted hereunder shall be deemed retroactive. All acts authorized hereunder and performed prior to the date of this Resolution are hereby ratified and affirmed. The State Water Board is authorized to rely upon this Ordinance until written notice to the contrary, executed by each of the undersigned, is received by the State Water Board. The State Water Board shall be entitled to act in reliance upon the matters contained herein, notwithstanding anything to the contrary contained in the formation documents of the City of San Diego or in any other document.

6. Authorizing an ordinance stating that: (a) the City hereby states its intention and reasonably expects to reimburse expenditures paid prior to the issuance of the Obligations or the approval by the State Water Board of each of the Project Funds; (b) the reasonably expected maximum principal amount of the Project Funds are: \$38,617,469 for Pacific Beach Pipeline South project; \$18,800,000 for the 69th and Mohawk Pump Station project; \$26,000,000 for the University Avenue Pipeline Replacement project; \$22,200,000 for the Morena Reservoir Outlet Tower Upgrade project; \$5,505,386 for the Lower Otay Outlet Tower project; and \$114,000,000 for the Miramar Clearwell Improvements; (c) this ordinance is being adopted no later than 60 days after the date on which the City will expend monies for the construction portion of the project costs, to be reimbursed with Project Funds; (d) each City expenditure will be of a type properly chargeable to a capital account under general federal income tax principles; (e) to the best of our knowledge, the City is not aware of previous adoption of official intents by the City that have been made as a matter of course for the purpose of reimbursing expenditures and for which tax-exempt obligations have not been issued; (f) this ordinance is adopted as official intent of the City in order to comply with

Treasury Regulation §1.150-2 and any other regulations of the Internal Revenue Service relating to the qualification for reimbursement of project costs and; (g) all the recitals in this ordinance are true and correct and the City so finds, determines and represents.

STAFF RECOMMENDATION:

Approve the requested actions and adopt the ordinances.

EXECUTIVE SUMMARY OF ITEM BACKGROUND:

The Public Utilities Department is submitting applications to the State Water Board for Drinking Water State Revolving Fund (DWSRF) financing for the following six projects: Pacific Beach Pipeline South, 69th & Mohawk Pump Station, University Avenue Pipeline Replacement, Morena Reservoir Outlet Tower Upgrade, Lower Otay Outlet Tower, and Miramar Clearwell Improvements.

The Pacific Beach Pipeline South project (S12015) will replace approximately 7.8 miles of existing 8-inch, 12-inch, 16-inch, and 24-inch water mains and appurtenances installed as early as 1951; associated water services, and fire hydrants. It also includes the demolition of the abandoned Pacific Beach Reservoir and will upgrade/relocate a pressure reducing station. Construction of this project will be combined with the Pacific Beach Pipeline South sewer main replacement project. The estimated total cost of the Pacific Beach Pipeline South project is \$42,874,125. The State Water Board will fund \$38,617,469 of the total project cost.

The 69th Street & Mohawk Pump Station project (S12011) will replace old pipelines and install new pipelines that are proposed along Mohawk, 67th, 68th, and 69th Streets, El Cajon Boulevard, and College Grove Drive. The project scope includes the replacement of the existing 69th and Mohawk Pump Station, installation of 1,300 linear feet of new pipelines, and replacement and upsizing of 5,460 linear feet of existing pipelines for a total length of 6,760 linear feet of new or replaced pipelines. The pipelines will be 4-8 feet deep with a trench width of approximately 2-4 feet. The estimated total project cost is \$18,800,000. The State Water Board will fund the full amount.

The University Avenue Pipeline Replacement project (S11021) consists of replacing existing 20-inch, 24-inch, 30-inch and 36-inch cast iron main with 16-inch PVC pipe. The Project limits are from the intersection of Polk Avenue and Oregon Street to the intersection of West Lewis Street and Stephens Street for the University Avenue Pipeline; a portion of Park Boulevard Pipeline at the intersection of Robinson and Park Boulevard; the Robinson Pipeline from west of Park Boulevard up to Fifth Avenue; and the Fifth Avenue Pipeline from north of Robinson Avenue up to Washington Street. The length of the cast iron replacement is approximately 22,862 feet. Since the passage of Ordinance O-20207 in October 2012, the project costs have increased to \$26,000,000 due to City design guideline changes and Caltrans requirements as identified below:

1. Caltrans did not allow the City to replace the existing pipeline which is affixed to the side of the Robinson Avenue Bridge. Since the existing pipeline cannot be replaced, it is necessary to add a new tunnel at highway 163 and Robinson Avenue.
2. The City design guidelines have changed for large size pipelines. The City will be using 16-inch PVC for this project and as a result will need 5 feet of cover (backfill over the pipe) instead of 3 feet of cover.
3. Additional ADA work was added to the project.
4. Additional new fire hydrants were added to replace the old ones.

The requested action will increase the City's financing amount by \$10,700,000 to \$26,000,000 through the existing agreement with State Water Board for the University Avenue Pipeline Replacement project. The State Water Board will fund the full amount.

The Morena Reservoir Outlet Tower Upgrade project (S00041) will replace the existing, seismically inadequate, outlet tower with a new one constructed of reinforced concrete. The project also improves maintenance access for City staff by installing a pedestrian bridge between the tops of the dam and new tower. The hundred year old existing outlet tower, constructed with unreinforced masonry will also be demolished and the existing outlet tunnel enlarged, providing a way to meet Department of Health, Division of Safety of Dams (DSOD) regulations to both drain the lake in 120 days and be able to lower it 10% within ten days of a major seismic event. The estimated total project cost is \$22,200,000. The State Water Board will fund the full amount.

The Lower Otay Outlet Tower (S12018) will be seismically retrofitted (structurally upgraded) to meet today's seismic codes. The area around the tower will also be dredged in order to remove sediment build up around the foundation, providing the ability to draft water at lower lake levels from the Lower Otay Lake to the Otay Water Treatment Plant. The estimated total project cost is \$5,505,386. The State Water Board will fund the full amount.

The Miramar Clearwell Improvements project (S11024) will involve replacement of the existing Clearwells with 2 new rectangular Clearwells and a combined capacity of 58.3 MGD and overflow level for 712 feet. This project will include a new security guard facility with entrance security surveillance equipment. Once complete, a photovoltaic system will be installed (1 Megawatt peak output) to reduce the cost of electricity at the Miramar Water Treatment Plant. The estimated total project cost is \$114,000,000. The State Water Board will fund the full amount.

The DWSRF is a low interest financing program with a fixed loan interest rate estimated at 1.6%. The repayment term is 20 years with annual payments to be made from the Water Utility. For the total loan request for the six projects listed above, the annual repayment obligation is estimated to be \$13,269,877. 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 DWSRF program offers interest rates lower than the 20-year long term bonds. As such, the Water Utility relies on the DWSRF program for all eligible projects and supplements this loan mechanism in combination with the bond program.

Each DWSRF loan application is assessed and negotiated by the State Water Board based upon program policy and borrower's credit considerations. The Public Utilities and Debt Management departments expect to negotiate DWSRF loan terms that are acceptable to both the State Water Board and the City, including an interest rate cap for multi-phase projects, debt service reserve requirements, coverage covenants, and repayment terms. The financing agreements will be executed when all terms are finalized.

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

Goal # 2: Work in partnership with all of our communities to achieve safe and livable neighborhoods.

Objective # 3: Invest in infrastructure.

FISCAL CONSIDERATIONS:

Repayment of the loan includes the interest only payment during construction, followed by a 20-year repayment term beginning no later than one year from project completion.

Assuming a 1.6% interest rate over a 20-year term for each DWSRF financing agreement (except University Avenue which assumes a rate of 2.085%), following is the estimated annual debt service for each project:

Based on a financing amount of \$38,617,469 for the Pacific Beach Pipeline South project, the annual debt service in FY18 is \$79,490 ramping up to \$2.3 million for 20 years after the estimated project completion in March 2020.

Based on a financing amount of \$18,800,000 for the 69th and Mohawk Pump Station project, the annual debt service in FY18 is \$49,562 ramping up \$1.1 million for 20 years after the estimated project completion in March 2019.

Based on a financing amount of \$26,000,000 for the University Avenue Pipeline Replacement project, the annual debt service in FY17 is \$169,988 ramping up to \$1.6 million for 20 years after the estimated project completion in July 2018.

Based on a financing amount of \$22,200,000 for the Morena Reservoir Outlet Tower Upgrade project, the annual debt service in FY18 is \$25,428 ramping up to \$1.3 million for 20 years after the estimated project completion in March 2019.

Based on a financing amount of \$5,505,386 for the Lower Otay Outlet Tower project, the annual debt service in FY18 is \$27,572 ramping up to \$322,748 for 20 years after the estimated project completion in July 2018.

Based on a financing amount of \$114,000,000 for the Miramar Clearwell Improvements project, the annual debt service in FY18 is \$296,091 ramping up to \$6.7 million for 20 years after the estimated project completion in March 2020.

Currently, DWSRF financing is based on a 20-year term and at an interest rate of 1.6%. The actual debt service impact would depend on the timing of the capital improvement project execution. By entering into the DWSRF financing agreements, the City will commit to maintain the funds and revenues at sufficient levels to meet its' obligations under the financing agreements. Also, DWSRF financing agreements are treated as "Parity Obligations" whereby repayment will be on the same lien as the Water System's senior bond obligations. The City also dedicates net revenues of the Water Utility Fund for repayment of DWSRF financing on the aforementioned projects, which is the same source of repayment for other outstanding parity and subordinate bond obligations, and outstanding DWSRF obligations of the Water System.

EQUAL OPPORTUNITY CONTRACTING INFORMATION (if applicable):

This agreement is not subject to the City's Equal Opportunity Contracting (San Diego Ordinance No. 18173, Sections 22.2701 through 22.2708) and Non Discrimination in

Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517); however, future, contracts or agreements associated with this action will be subject to the City's Equal Opportunity Contracting requirements.

PREVIOUS COUNCIL and/or COMMITTEE ACTIONS:

Ordinance No. 20207 for the University Avenue Pipeline Replacement Financing Agreement passed in October 2012.

Additionally, the following ordinances were passed for the State Water Board DWSRF loan applications: Ordinance No. 20387 for the University Avenue Pipeline Replacement project passed in July 2014; Ordinance No. 20548 for the Pacific Beach Pipeline South project passed in August 2015; and Ordinance No. 20546 for the 69th and Mohawk Pump Station project passed in August 2015. However, due to the merger of the California Department of Public Health with the State Water Resources Control Board, new ordinances are needed for these Financing Agreements to reflect the State Water Board's current language requirements.

COMMUNITY PARTICIPATION AND OUTREACH EFFORTS:

Not applicable.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

The key stakeholders are the City of San Diego and Water ratepayers who would benefit from the debt service savings created by financing the aforementioned projects with low-interest DWSRF loans compared to financing with fixed rate bonds.

Respectfully submitted,

Halla Razak
Director of Public Utilities

Paz Gomez
Deputy Chief/Chief Operating Officer