



# City of Sunnyvale

## Agenda Item-No Attachments (PDF)

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### **REPORT TO COUNCIL**

#### **SUBJECT**

Approve Three Resolutions Enabling the City of Sunnyvale to Submit an Application to the State of California for up to \$160 million in Clean Water State Revolving Funds to Fund the City of Sunnyvale - Headworks and Primary Treatment, Phase 1(A) Project

#### **BACKGROUND**

The City has embarked on the most significant single public works program in its history, the rebuild of its aged Water Pollution Control Plant, which is responsible for the treatment of sewage from all of Sunnyvale and a small area inside the Cities of Cupertino and San Jose. Named the "Sunnyvale Clean Water Program", current cost estimates for this program are slightly over \$450 million over approximately fifteen to twenty years.

In the planning phase for many years now, the program is now underway in design for the primary treatment facilities and headworks, which are the facilities that handle the incoming sewage, and begin the initial treatment process. Throughout the planning process, staff has included a placeholder in the City's Wastewater Management Fund long-term financial plan that estimates annual debt service associated with this program. This assumption has been based on a standard utility revenue bond financing.

Upon evaluating financing alternatives, staff identified that more favorable financing is available for a portion of the program through the State of California Clean Water Revolving Fund. In order to apply for this funding (the State has indicated that the City's funding request will be approved) Council must adopt three resolutions, which are further described below.

#### **EXISTING POLICY**

Council Fiscal Policy 7.11 Enterprise Fund Policies, 1.1b.1 Capital improvements associated with the existing infrastructure of a utility should be primarily funded from two sources: rate revenue and debt financing.

Council Fiscal Policy 7.11 Enterprise Fund Policies, 1.1b.3 Local, state and federal funding sources, such as grants and contributions, should be pursued for utility -related capital improvement projects consistent with City priorities.

#### **ENVIRONMENTAL REVIEW**

A Mitigated Negative Declaration for the Primary Treatment Facility Project was prepared in accordance with the California Environmental Quality Act (CEQA) and adopted by the Sunnyvale City Council on May 5, 2015. In addition, a Program Environmental Impact Report (PEIR) for the Sunnyvale Water Pollution Control Plant Master Plan is currently being prepared and is estimated to be completed in 2016.

## **DISCUSSION**

The State Division of Financial Assistance (DFA) administers the implementation of the State Water Resources Control Board's (State Water Board) financial assistance programs, which include loan and grant funding for construction of municipal sewage and water recycling facilities. The Clean Water State Revolving Fund (CWSRF) Program provides low-interest loans (less than 2%) for a term of 30 years for water quality improvement projects. The Sunnyvale Clean Water Program is eligible for planning/design and construction CWSRF funding and, due to the drought and corresponding financing incentives to develop alternative water supplies, may be eligible for even lower interest financing because it produces recycled water.

The City is currently preparing to submit a detailed Financial Application Package for the first phase of the program, construction of the primary treatment facilities and head works. The total estimated cost of the first phase is approximately \$130 million. For application purposes, staff is proposing to apply for a maximum of \$160 million to ensure that the first phase is fully covered. Staff will evaluate funding options for the remainder of the project phases as they come up for design and construction in the future, and will apply for additional CWSRF funding if available and cost effective.

As part of the application package, the City must submit three resolutions adopted by the City Council. They are the Reimbursement Resolution, the Authorizing Resolution and the Pledged Revenues and Funds Resolution.

### **Reimbursement Resolution**

This resolution allows for the City to request reimbursement for funds advanced for the project prior to the issuance of the revolving fund loan. This allows the project to move forward without delay, while still receiving the benefits of the low interest financing.

### **Authorizing Resolution**

In order to submit the various packages of the application and complete the administrative process of obtaining funds, the City Council must authorize a designee to act on its behalf. This resolution delegates that authority to the City Manager or her designee.

### **Pledged Revenues and Fund Resolution**

This resolution identifies the funding source that will be pledged to pay the ongoing obligations established through a financing agreement with the State. In this case, the funding source is revenues from the Wastewater Management Fund as defined in the resolution.

It is also important to note that the City issued bonds for improvements to the wastewater system in 2010. As part of that issuance, future state loans were contemplated and can be issued on parity (meaning the new debt will not be senior to the old) with the City's 2010 Wastewater Revenue Bonds.

## **FISCAL IMPACT**

There is no fiscal impact from adopting these resolutions. It is anticipated that even in the current favorable rate environment, the very low rates obtained through the CWSRF Loan Program has the potential to save the City's rate payers twenty million dollars or more over the life of the loan when compared to a traditional public market financing. Taking this approach is the lowest cost option for financing the first significant phase of this project. Additionally, as the program has become more tightly defined through the master planning process, the projected cost has been adjusted upwards.

Use of this cheaper financing alternative will help to mitigate the impact on rate payers.

### **PUBLIC CONTACT**

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's website.

### **RECOMMENDATION**

Approve Three Resolutions Enabling the City of Sunnyvale to Submit an Application to the State of California for up to \$160 million in Clean Water State Revolving Funds to Fund the Rehabilitation of the City of Sunnyvale Water Pollution Control Plant

Prepared by: Timothy J. Kirby, Assistant Director of Finance

Reviewed by: Grace K. Leung, Director, Department of Finance

Reviewed by: John Stufflebean, Director, Environmental Services Department

Reviewed by: Kent Steffens, Assistant City Manager

Approved by: Deanna J. Santana, City Manager

### **ATTACHMENTS**

1. Reimbursement Resolution
2. Authorizing Resolution
3. Pledged Revenues Resolution