



City of Biggs

**Agenda Item Staff Report for the
next regular City Council Meeting
February 27, 2012, 6:00pm**

**To: Honorable Mayor
And Members of the City Council**

Date: February 21, 2012

From: Steve Speights, PE – City Engineer

Subject: Wastewater Treatment Plant Financing Options

Summary:

Staff has identified five options for financing the planned improvements to the City Wastewater Treatment Plant. Staff is asking for Council direction on which option to pursue. Each option will provide long-term financing for the project, but there are cost differences between each option. The discussion provided below is based on estimated costs, an estimated time to begin and end construction, and preliminary discussions with the financing sources. All options will require a sewer rate increase to provide monies to pay back the loans. The program will likely change as costs are fine-tuned and loan/grant terms provided.

The program anticipates construction starting at the end of next year and ending at the end of 2015.

Requested Action:

Staff requests that after review and discussion, the City Council choose a preferred financing option, and direct staff to proceed.

Background

In preparing applications for funding the upcoming improvements to the wastewater treatment plant (WWTP), staff has identified four issues that require Council direction.

Improvements to the WWTP are intended to change plant effluent discharge from the Lateral "K"/Hamilton Slough agricultural drain, to using the effluent to irrigate cropland. The previous improvement to increase treatment within the existing treatment plant and continue discharge to Lateral "K" has already gone through an environmental assessment. That environmental assessment is still valid for the on-site work of the new land disposal option, but is not sufficient for the offsite property acquisition and associated improvements and irrigation/farming operation. Because of the timing for the additional environmental work and processing, we have proposed a two phase project design and construction project. One project of about \$3.2 million will be for the onsite work and the second of about \$4.8 million for the property acquisition and offsite work.

The prior funding application to USDA was for the entire project cost. USDA's response was to request breaking the project into two phases. The current approach complies with that request. We have identified an additional source of funding at potentially a very favorable interest rate. Because of the City's median income and required sewer rates, the State Revolving Fund (SRF) will extend loan terms of 1.1% over 30 years. The typical USDA rate is about 2.5% over 30 years. However, the SRF will not fund property acquisition.

- The first Council direction needed is whether to apply for a combination of loan/grant from USDA and loan from SRF, or continue with only USDA. Option 1 on the attached summary demonstrates the cost of the USDA only option versus Option 2, which is a combination. Both options only have rate increases to match loan repayment. The combination results in savings of about \$1.3 million over the USDA only for the life of the loan.
- The second Council direction needed is when and how much to raise sewer rates. Option 3 in the attached summary proposes raising rates in four equal steps over the next four years, with the first increase in October 2012. Subsequent increases would be in October of succeeding years until the last increase in 2015. Raising rates sooner than required by loan repayment (which starts at end of each construction phase) adds about \$260,000 to project revenue and reduces the loan amount. The savings is about \$320,000 over the life of the loan.
- The third Council direction needed is whether to repay the Sewer Improvement Fund and the General Fund Reserve for the cost incurred to date, about \$400,000. Options 1, 2, and 3 assume the City Funds get reimbursed from the project. Staff is suggesting reimbursement to the Sewer Improvement Fund of about \$200,000, and the City contributing \$200,000 of the already spent monies to the project. Option 4 demonstrates the impact of this choice. The net effect is to reduce the cost over the 30-year life of the loan by about \$15,000, and to end the project with about \$200,000 in the Sewer Improvement Fund, available for collection system improvements, and no reimbursement to the General Fund Reserve.
- The fourth Council direction needed is whether to continue funding the WWTP improvement project out of City funds or to seek a bridge loan for those costs to be incurred until a permanent funding program is in place. The permanent financing (USDA Grant/Loan & SRF Loan) would pay off the bridge loan with the first draw. There is approximately \$500,000 that is needed over the next year to advance the project to the point where the permanent financing is in place. This is primarily for engineering design, environmental, property acquisition activity, and City legal/admin costs. The City funding would be in the form of a loan from the electric utility reserve, which would be paid back with the first draw from the permanent financing. The cost of a bridge loan in the amount of \$500,000 is about \$45,000 in interest, fees and City incurred cost for application and processing. Option 5 shows the effect of the bridge loan cost added to the project. The net effect is to add about \$50,000 to the cost over the 30 year loan.

Option 4 results in the lowest cost of the project over the life of the loan, i.e. payment of principal and interest, and requires the smallest rate increase. Option 4 includes a combined USDA grant and loan and a loan from the SRF. It also includes a contribution of \$200,000 of City General Fund monies, but reimburses the Sewer Improvement Fund about \$200,000. Option 4 requires the City to continue funding the project with a loan from the electric utility reserve and not using a bridge loan.

Option Summary Spreadsheet

Option	1	2	3	4	5	
Project Cost	\$ 7,987	\$ 7,987	\$ 7,987	\$ 7,987	\$ 7,987	
Interest during project	\$ 114	\$ 126	\$ 114	\$ 123	\$ 124	
Cost of Outside Bridge loan					\$ 45	5% @1yr
Total Cost	\$ 8,101	\$ 8,113	\$ 8,101	\$ 8,110	\$ 8,156	
City Contribution				\$ 200	\$ 200	
USDA Loan 1	\$ 2,353					2.5% @30 yrs
USDA Grant 1	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	
USDA Loan 2	\$ 3,748	\$ 800	\$ 800	\$ 800	\$ 800	2.5% @30 yrs
USDA Grant 2	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	
SRF Loan		\$ 5,313	\$ 5,038	\$ 4,856	\$ 4,899	1.1% @30 yrs
Rate Revenue			\$ 263	\$ 255	\$ 257	
Total Revenue	\$ 8,101	\$ 8,113	\$ 8,101	\$ 8,110	\$ 8,156	
Current Monthly Rate	\$ 34.72	\$ 34.72	\$ 34.72	\$ 34.72	\$ 34.72	
Monthly Rate			\$ 42.10	\$ 41.88	\$ 41.93	
Rate Increase Start Date			10/1/2012	10/1/2012	10/2/2012	
Monthly Rate			\$ 49.47	\$ 49.05	\$ 49.14	
Rate Increase Start Date			10/1/2013	10/1/2013	10/2/2013	
Monthly Rate	\$ 49.96		\$ 56.84	\$ 56.21	\$ 56.36	
Rate Increase Start Date	10/1/2014		10/1/2014	1/1/2014	1/2/2014	
Monthly Rate	\$ 70.47	\$ 65.45	\$ 64.21	\$ 63.39	\$ 63.58	
Rate Increase Start Date	10/1/2015	10/1/2015	10/1/2015	10/1/2015	10/1/2015	
Total Principal and Interest	\$ 8,690.4	\$ 7,384.5	\$ 7,061.3	\$ 6,847.0	\$ 6,897.8	

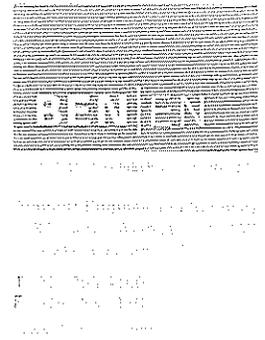
Recommendation

Staff recommends Council provide direction to pursue Option 4 as described above.

Fiscal Impact

See summary included in Background above for fiscal impact of the various options.

EXHIBIT A: Scope of Services



Client: City of Biggs
Consultant: Bennett Engineering Services Inc
Project: SRF Application
Date: February 21, 2012

TASK 1. California State Revolving Fund Application

- Subtask 1.1.** Gather information from City staff needed for application including legal authority document, applicant authorization resolution, legal descriptions, MOU for water conservation and adopted program, Urban Water Management Plan, water metering compliance document, and documentation on source of net revenues.
- Subtask 1.2.** Prepare application package for submission to SRF including project descriptions, exhibits, ROW documents, project schedule, and loan payback calculation documentation.
- Subtask 1.3.** Process the application through SRF
- Subtask 1.4.** Meetings
 - Subtask 1.4.a** Meeting and correspondence with City staff to gather information for application
 - Subtask 1.4.b** Meetings and correspondence with SRF
 - Subtask 1.4.c** Meetings with City staff and Council

Items Not Included in This Scope of Work

- Anything associated with the sewer rate increase (218 hearing, schedule of rate increases)

DELIVERABLES:

- Application package filed with SRF