

**Meeting Date:** 8/23/2016

**Report Type:** Consent

**Report ID:** 2016-00630

**Title: Drinking Water State Revolving Loan Fund (DWSRF) Authorization for the Accelerated Meter and Pipe Replacement Program**

**Location:** Citywide

**Recommendation:** Pass 1) a Resolution authorizing the City Manager or the City Manager's designee to submit an application for Drinking Water State Revolving Fund (DWSRF) Loan Financing with the aggregated principal amount not to exceed \$264 million and carry out any subsequent actions related to the application and loan approval; and 2) a Resolution authorizing the City Manager or the City Manager's designee to declare the City's "official intent" to reimburse certain expenditures for the Accelerated Meter and Pipe Replacement Program from the proceeds of the DWSRF.

**Contact:** Bill Busath, Director of Utilities (916) 808-1434; Susan Goodison, Business Services Manager (916) 808-8995; Michele Gray-Samuel, Program Specialist Grant Manager, (916) 808-6645, Department of Utilities

**Presenter:** None

**Department:** Department Of Utilities

**Division:** Fiscal Operations

**Dept ID:** 14001611

**Attachments:**

1-Description/Analysis

2-Background

3-Authorizing Resolution

4-Reimbursement Resolution

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### **City Attorney Review**

Approved as to Form

Michael W. Voss

8/15/2016 4:07:11 PM

### **Approvals/Acknowledgements**

Department Director or Designee: Bill Busath - 7/7/2016 12:58:48 PM

## Description/Analysis

**Issue Detail:** The Drinking Water State Revolving Fund (DWSRF) is a federally funded, state administered program designed to help ensure safe drinking water by providing low interest loans to publicly owned water systems. DWSRF offers very low interest rates ensuring the best use of rate payer dollars. Obtaining funding through the DWSRF will support the successful completion of the Accelerated Meter and Pipe Replacement program by the end of 2020 in accordance with the City Council Resolution No. 2015-0056. Accordingly, the City is applying for funding through the DWSRF program.

To ensure DWSRF applicants meet all requirements as stipulated under the program, the DWSRF requires that certain resolutions be submitted as part of the funding application package. Once the funding package is completed and submitted, the State Water Board reviews the project budget, audited annual financial reports, and other financial information to ensure that the City has an adequate financial capacity to operate and maintain its system, including the proposed project.

If a loan is approved, the DWSRF program requires the applicant's designee to be authorized to execute the loan funding agreement and administer the agreement by approving and submitting disbursement requests and other required documentation that comply with applicable state and federal laws.

**Policy Considerations:** Applying for the DWSRF Loan funding is consistent with past practices to help fund projects that protect and enhance the City's water system.

**Economic Impacts:** None.

**Environmental Considerations:** The Community Development Department, Environmental Planning Services Division has reviewed the proposed activity and determined that it is exempt from review under the California Environmental Quality Act (CEQA) under Sections 15301 and 15303 of the CEQA Guidelines. The project, resulting from the action, consists of the minor alteration of existing public utilities involving negligible or no expansion of use (CEQA Guidelines Section 15301); and the installation of new water meters (equipment) (CEQA Guidelines Section 15303) that will not result in a significant environmental impact.

**Sustainability:** The project is consistent with the City's Sustainability Master Plan goal by enabling the City to continue to provide water conservation awareness.

**Commission/Committee Action:** Not applicable.

**Rationale for Recommendation:** Adopting these resolutions will allow the City to apply for the DWSRF loan funding for the water meter installation program and execute the loan agreement if approved.

**Financial Considerations:** It is anticipated that the DWSRF Agreement for funding the Accelerated Meter and Pipe Replacement Program will provide for a loan amount not-to-exceed \$264 million. Under the current terms of the DWSRF program, this amount would be repaid over a 20-year repayment period. The current interest rate for the DWSRF program is 1.7 percent. The interest rate is determined annually and calculated at 50 percent of the state general obligation bond rate. The interest rate will be set at the time of loan approval. Sufficient revenues exist to pay the debt service on this funding and comply with debt service coverage requirements for this and other debt obligations for the water program.

**Local Business Enterprise (LBE):** Not applicable.

## Background

Assembly Bill 2572, enacted in 2004, mandated the installation of water meters on all water service connections by January 1, 2025. In response, the City developed a water meter implementation program to meet this requirement. The program encompassed the installation of 105,000 water meters and replacement of 188 miles of water main pipelines.

In 2014, the State experienced severe drought conditions, triggering significant measures by the City and other water purveyors to reduce water use. On February 24, 2015, the City Council adopted Resolution No. 2015-0056, which approved revised guidelines to accelerate the installation of water meters, enhancing the City's ongoing water conservation measures and better enabling the City to promote water conservation by its customers through consumption-based billing.

Financial analysis determined that an optimum mix of bond, cash, loan, and grant funding would be necessary to successfully implement the accelerated meter program.

Established by an amendment to the federal Safe Drinking Water Act in 1996, the Drinking Water State Revolving Fund (DWSRF) loan program provides low-interest loans and technical assistance to public water systems for infrastructure improvements to correct system deficiencies and improve drinking water quality for the health, safety, and welfare of all Californians.

Funded by the U.S. Environmental Protection Agency, the DWSRF program was previously overseen by the California Department of Public Health. Transferred to the State Water Resources Control Board in July 2014, its Division of Financial Assistance now administers the DWSRF Program.

Because of the very low and competitive interest rate, staff has determined that it would be fiscally prudent to seek DWSRF funding for successful implementation of the accelerated meter program.

## RESOLUTION NO. 2016-\_\_\_\_\_

Adopted by the Sacramento City Council

August 23, 2016

### AUTHORIZING THE DRINKING WATER STATE REVOLVING FUND LOAN AND CERTAIN OTHER ACTIONS IN CONNECTION WITH THE LOAN

#### BACKGROUND

- A. The City of Sacramento (the “**City**”), acting through its Department of Utilities (the “**Department**”), is committed to producing and providing high-quality water to its customers.
- B. In 2005, the Department began one of the most significant capital-improvement projects in its history: undertaking and completing, by 2025, the installation of water meters on more than 80% of the City’s water-service connections, thereby converting its customers to a metered rate as required by a state mandate (Statutes 2004, chapter 884 (A.B. 2572)). This project is commonly known as the Accelerated Meter Installation and Pipe Replacement Program (the “**Project**”).
- C. In response to current drought conditions, the City Council moved to accelerate the Project deadline from 2025 to 2020 (City Resolution No. 2015-0056).
- D. The City has several critical capital-improvement projects that are in keeping with the City’s Sustainability Master Plan goals to help improve water conservation and the long-term reliability of the region’s water supply.
- E. The Department seeks financing for the Project from the Drinking Water State Revolving Fund (the “**DWSRF**”) managed by the State Water Resources Control Board (the “**SWRCB**”).

#### BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

**Section 1.** The City Manager (or the City Manager’s designee) is hereby authorized and directed to do the following for and on the City’s behalf:

- (a) To sign and file with the SWRCB a financial-assistance application for a DWSRF-financing agreement that covers the planning, design, and construction of the Project (the “**Agreement**”).
- (b) To provide the assurances, certifications, and commitments required for the Financial Assistance Application, including executing a Financial Assistance Agreement from the SWRCB and any amendments to that agreement.

- (c) To administer the Agreement by approving and submitting disbursement requests and other required documentation, to comply with applicable state and federal laws, and to make any other necessary certifications.

**CERTIFICATION**

AYES:

NOES:

ABSENT:

**CERTIFICATION**

I do hereby certify that the foregoing is a full, true, and correct copy of a resolution duly and regularly adopted at a meeting of the Sacramento City Council held on August 23, 2016.

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*(Name, Signature, and Seal of the Clerk or Authorized Record Keeper of the Governing Board of the Agency)*

## RESOLUTION NO. 2016-\_\_\_\_\_

Adopted by the Sacramento City Council

August 23, 2016

### DECLARATION OF OFFICIAL INTENT TO REIMBURSE CERTAIN EXPENDITURES FROM PROCEEDS OF AN OBLIGATION (DRINKING WATER STATE REVOLVING FUND)

#### BACKGROUND

- A. The City of Sacramento (the “**City**”), acting through its Department of Utilities (the “**Department**”), desires to finance the costs of a project commonly known as Accelerated Meter Installation and Pipe Replacement Program (the “**Project**”).
- B. The City intends to finance the Project or portions of the Project with the proceeds of a State Revolving Fund Loan from the State of California (the “**Project Funds**”) acting through the State Water Resources Control Board (the “**SWRCB**”). The reasonably expected maximum principal amount of the Project Funds is \$264,000,000.
- C. The SWRCB may provide the Project Funds with proceeds from the sale of obligations, the interest upon which is excluded from gross income for federal income-tax purposes (the “**Obligations**”).
- D. The City expects to pay, from advances of its available moneys, certain capital expenditures in connection with the Project before either the issuance of the Obligations or the SWRCB’s approval of the Project Funds (the “**Original Expenditures**”).
- E. The City intends to use a portion of the Obligations to reimburse itself for the moneys advanced on and after the date of this resolution to pay the Original Expenditures.
- F. Section 1.150-2 of the United States Treasury Regulations (“**Section 1.150-2**”) requires the City to declare its reasonable “official intent” to reimburse itself with the proceeds of the Obligations for the Original Expenditures.

#### BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

**Section 1.** The City Council finds that the statements in the Background are true.

**Section 2.** The City Council hereby declares its official intent to use proceeds of the Obligations to reimburse itself for the Original Expenditures.

**Section 3.** All of the Original Expenditures will be of a type properly chargeable to a capital account under general federal income-tax principles.

**Section 4.** This resolution is adopted solely for purposes of establishing compliance with the requirements of Section 1.150-2 and any other regulations of the Internal Revenue Service relating to the qualification for reimbursement of Project costs.

**Section 5.** This resolution takes effect when adopted.

AYES:

NOES:

ABSENT:

**CERTIFICATION**

I do hereby certify that the foregoing is a full, true, and correct copy of a resolution duly and regularly adopted at a meeting of the Sacramento City Council held on August 23, 2016.

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*(Name, Signature, and Seal of the Clerk or Authorized Record Keeper of the Governing Board of the Agency)*

