



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: September 16, 2014

TO: Mayor and Councilmembers

FROM: Water Resources Division, Public Works Department

SUBJECT: Introduction Of Ordinance Authorizing Approval Of Clean Water State Revolving Fund Installment Sale Agreement For Air Process Improvement Project

RECOMMENDATION:

That Council introduce and subsequently adopt, by reading of title only, An Ordinance of the Council of the City of Santa Barbara Authorizing the Approval and Execution by the Public Works Director of an Installment Sale Agreement in Connection With the Air Process Improvement Project Clean Water State Revolving Fund Project No. 7857-110.

DISCUSSION:

BACKGROUND

The El Estero Wastewater Treatment Plant (El Estero) processes approximately 8 million gallons of wastewater each day. El Estero was originally constructed in 1952; however, a majority of its current infrastructure was constructed in 1978 to meet 1972 Clean Water Act requirements.

Although subsequent capital improvements have been completed in past years, El Estero has had longstanding issues with highly variable secondary effluent quality, operational inflexibility, and energy inefficiency. The facility was originally designed as a high-rate activated sludge treatment system, resulting in a low solids retention time. Without nitrification, this system has not produced reliable secondary effluent quality adequate for use in the facility's downstream tertiary filtration process. In addition, there have been occasional secondary effluent permit violations resulting from complications with this high-rate activated sludge treatment system.

Council has previously awarded contracts to Brown and Caldwell to prepare both planning and preliminary design reports for the final design for the refurbishment and improvement of the El Estero secondary treatment system.

PROJECT DESCRIPTION

This project, to be constructed with the loan proceeds, consists of modifications to convert El Estero's secondary treatment process from a high-rate activate sludge treatment system to a step-feed biological nutrient removal system. The project will replace the mechanical and electrical components for the secondary treatment process and modify the concrete tankage to provide for regular secondary treatment process at a nitrifying solids retention time, and achieving as much denitrification as possible. This conversion will greatly improve secondary effluent quality for subsequent filtration and/or ocean disposal.

INSTALLMENT SALE AGREEMENT

On March 5, 2013, the City Council authorized the City Administrator to apply for State Revolving Funds to pay for a substantial portion of the costs of the Air Process Improvement Project.

On June 3, 2014, City Council adopted Resolution No. 14-032, pledging the Wastewater Fund Net System Revenue and Wastewater Fund to pay the Clean Water State Revolving Fund loan for the Air Process Improvement Project. In so doing, the City has committed to collect such revenue and maintain such funds throughout the twenty-year term of the financing until the City has satisfied its repayment obligation. As long as the financing is outstanding, the City's pledge of Wastewater Fund Net System Revenue constitutes a lien in favor of the Water Resources Control Board.

On August 21, 2014, the City received the final Installment Sale Agreement for a 20-year loan in the maximum amount of \$20,000,000, at an interest rate of 1.9%. The City must establish rates and charges in amounts sufficient to generate net revenues equal to at least 1.20 times the total annual debt service. The City must establish a restricted reserve fund, held in the Wastewater Fund, equal to one year's debt service prior to the construction completion date of the project. The restricted reserve fund must be maintained for the full term of the loan and is subject to lien and pledge as security for the obligation. Unlike the City's other state revolving fund loans, this loan is structured as an "installment sale agreement", similar to a certificate of participation financing structure. In this transaction, the City "sells" the project asset to the State, the State, in exchange, pays the City for the project with the loan proceeds, the State then "sells" the project back to the City and the City repays the State through debt service.

The City anticipates receiving executed loan documents in late October, 2014. City staff has reviewed the Installment Sale Agreement documentation provided by the State and recommends that Council approve the introduction and subsequent adoption of this Ordinance.

BUDGET/FINANCIAL INFORMATION:

This project was anticipated, and Council's approval and authorization for execution of the Installment Sale Agreement for this project will provide the funding source needed to successfully complete the design and construction of this Air Process Improvement project.

SUSTAINABILITY IMPACT:

This project's construction will improve water quality for both recycled water production and treated effluent discharge into the ocean. These process improvements also will provide more energy efficient equipment at El Estero, resulting in reduced electrical energy costs.

At previous Water Commission board meetings, held since 2012, the Water Commissioners have unanimously voted to concur with all staff recommendations related to this project's CWSRF financing application process.

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SUBMITTED BY: Rebecca J. Bjork, Public Works Director

APPROVED BY: City Administrator's Office