



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: February 14, 2017

TO: Mayor and Councilmembers

FROM: Water Resources Division, Public Works Department

SUBJECT: Authorization To Apply For Two State Revolving Fund Loans: One For Reimbursement of Increased Desalination Plant Costs And One For The Construction Of A Water Desalination Conveyance Pipeline

RECOMMENDATION: That Council:

- A. Introduce and subsequently adopt, by reading of title only, A Resolution of the Council of the City of Santa Barbara Amending Resolution No. 15-047 Stating The City's Intent to Reimburse Expenditures Paid Prior to Either the Issuance of Obligations or the Approval by the State Water Resources Control Board of the Project Funds for Reactivation of the Charles E. Meyer Desalination Plant; and
- B. Adopt, by reading of title only, A Resolution of the Council of the City of Santa Barbara Authorizing the City Administrator to Execute and Deliver to the State Water Resources Control Board a Safe Drinking Water State Revolving Fund Loan Application for a Water Desalination Conveyance Pipeline.

DISCUSSION:

This item is requesting authorization from Council for two separate State Revolving Fund (SRF) Loan applications. The first is an application to amend the current SRF Loan that is financing the Desalination Plant (Desal Plant) to increase the total amount the City is able to borrow up to \$106,000,000. The authorization provides funding for unforeseen costs incurred during construction of the Desal Plant and provides funds should the City determine to expand the plant. The funds provided under the SRF Loan Amendment will be available at the same low interest rate of 1.66% as provided by the current loan. The authorization does not obligate the City to borrow the full amount, but rather includes the option for funding an expansion to meet the City's needs if dry weather persists, or if additional capacity is necessary to satisfy a Water Supply Agreement with the Montecito Water District (MWD), assuming an agreement is reached. Repayment of the Loan is based on the actual amount borrowed, not on the authorization.

The second loan will provide low interest funding for a conveyance pipeline to move desal water from the Desal Plant to the Cater Water Treatment Plant.

This conveyance pipeline will allow the City to better utilize desal water throughout the City and, if a Water Supply Agreement is entered into, would be required to provide water to MWD. The City has completed preliminary design and has determined the most appropriate alignment of the 24-inch conveyance pipeline, which would start at the Desal Plant on Yanonali Street and end at the intersection of Garden and Mission Streets. At Mission Street, the conveyance pipeline would tie into an existing 24-inch transmission pipeline that would allow the water to be distributed to MWD and throughout the City. Final design is currently underway with a goal of bidding the project in late summer 2017.

The preliminary cost estimate to complete the conveyance pipeline, including preliminary and final design and construction, is \$12 million. The City wishes to pursue a Safe Drinking Water SRF loan to finance this conveyance pipeline to allow working capital to remain free for ongoing operations, maintenance, and repair. SRF loans have historically offered very attractive low interest rates of approximately 2 percent. Typically, SRF loans take up to a year to secure, but based on our recent loan application for the Desal Plant and preliminary discussions with SRF loan staff, we are hopeful that this process will be shorter. Design is underway and staff is working towards securing a loan that would allow the City to move forward with construction of this project as early as fall 2017. There is no obligation associated with applying for a SRF loan.

Background on Desal Plant Costs for Overruns and Expansion

In August, 2015, Council authorized a design/build/operate agreement with IDE Americas, Inc., (IDE), to reactivate the Desal Plant. At that time, the total cost to reactivate the Plant was estimated to be \$55 million. Staff has returned to Council three times, most recently on January 10, 2017, to increase the Change Order authority for the Project to cover unforeseen issues necessary to complete the Project. The projected cost to complete the Project is \$71 million. Cost increases to date have been backed by Water Fund reserves in anticipation of increasing the amount of the SRF Loan.

In addition, the City has asked IDE for cost proposals for the expansion of the plant from 3,125 acre-feet per year (AFY) to 7,500 AFY. If severe drought conditions continue or if a water sales agreement is entered into between the City and the Montecito Water District, plant expansion may be required. Staff has received preliminary construction costs from IDE for a variety of expansion options. These options are under review and staff is working to develop total cost for the various options. Staff anticipates the cost for expansion to 7,500 AFY could be up to \$35 million. Staff will be returning to Council soon for a full discussion.

In order to increase the amount of the loan, the City must adopt a resolution stating its intention to finance those costs.

BUDGET/FINANCIAL INFORMATION:

The following summarizes the Project costs to date and anticipated costs associated with an expansion of the Plant:

ITEM	COSTS
Original Loan Costs	\$55,000,000
Increase in Loan Needed	\$16,000,000
Subtotal	\$71,000,000
Anticipated Expansion Cost	\$35,000,000
Total Loan Amount	\$106,000,000

The \$106 million total cost summarized in the table and in the resolution does not represent a required commitment by the City to borrow those funds, but rather the maximum funds that the City might reasonably consider. Until the City makes a decision on whether or not to expand the facility, the loan amount would reflect the current \$71 million approved by Council.

Initial discussions with the State Water Resources Control Board (SWRCB) staff about increasing the amount of the SRF Loan have been positive and sufficient funding is available to cover the loans. Upon approval of the attached resolutions, staff intends to submit all the required information over the next few months to the SWRCB. Final approval of both loans will be predicated on the City's adoption of water rates that support repayment. With water supplies in flux through March 2017, staff is recommending finalizing water rates after more is known about our water supply situation. The current schedule for water rate adoption is anticipated to be August 2017, with final SRF loan approval in fall 2017.

At its meeting on January 19, 2017, the Water Commission voted 5-0-0 in support of the staff recommendation.

PREPARED BY: Joshua Haggmark, Water Resources Manager/LS/cmw

SUBMITTED BY: Rebecca J. Bjork, Public Works Director

APPROVED BY: City Administrator's Office