



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: October 13, 2009

TO: Mayor and Councilmembers

FROM: Water Resources Division, Public Works Department

SUBJECT: Joint Participation Agreement For Cachuma Operation And Maintenance Board Bond Issuance To Finance Improvements To The South Coast Conduit

RECOMMENDATION: That Council:

- A. Adopt, by reading of title only, A Resolution of the Council of the City of Santa Barbara Authorizing the Execution and Delivery of a Joint Participation Agreement with the Cachuma Operation and Maintenance Board, and Authorizing Certain Other Actions Related Thereto; and
- B. Authorize the City Administrator to execute an Indemnification Agreement by and between the Cachuma Operation and Maintenance Board, Goleta Water District, City of Santa Barbara, Carpinteria Valley Water District, and the Santa Ynez Water Conservation District, Improvement District No. 1 (ID No. 1), provided the agreement is in a form acceptable to the City Attorney.

DISCUSSION:

The Cachuma Operation and Maintenance Board (COMB) is a joint powers authority that operates infrastructure that supplies water from Cachuma Lake to the South Coast. The City is a member of COMB, with Council Member Das Williams as the current Board Member representing the City. The other member agencies are the Goleta Water District, the Montecito Water District, the Carpinteria Valley Water District, and ID No. 1.

The assets maintained and operated by COMB are owned by the U.S. Bureau of Reclamation (USBR). The City and other COMB members make payments to COMB, both for the repayment to USBR for the cost of constructing the facilities, and for the cost of operating and maintaining the facilities. At this time, a number of significant capital projects are needed to rehabilitate or augment existing USBR facilities. COMB staff has proposed to seek financing for a group of projects shown on the attached list.

The most significant project is the construction of a parallel pipeline to convey water from the South Portal of the Tecolote Tunnel to the point where the Corona Del Mar Treatment Plant draws water for the Goleta Water District. This parallel line will restore the original design capacity of the South Coast Conduit, which was reduced when improvements were made at the Corona Del Mar Treatment Plant. It will also provide system redundancy, allowing one pipe to be out of service for inspection, maintenance or repair.

This parallel pipeline project has been accepted for \$3.2 million in Proposition 50 grant funding. Matching funds for the Proposition 50 grant funding will be available from the bond proceeds.

BUDGET/FINANCIAL INFORMATION:

Over the past several years, COMB has had an annual capital program that averages about \$1.5 million per year. In order to keep member agency payments approximately equivalent to recent budgets and still be able to fund the proposed significant capital projects, the amount of debt funding being sought is sized to keep the debt service at about \$1 million per year. This will allow some level of annual funding for additional smaller capital projects that can be budgeted and completed annually. COMB intends to issue not-to-exceed \$20,000,000 of revenue bonds to finance the projects. Participating South Coast COMB member agencies will pay the annual debt service to COMB in the same allocations as they currently pay. The City's share of the principal amount of the revenue bonds to be issued by COMB will not exceed \$7,176,000. This approach will allow the member agencies to see relatively flat COMB budgets. In five years, repayment to the USBR for the construction of Bradbury Dam and the Tecolote Tunnel will be complete, so annual costs to member agencies will decrease. COMB anticipates that the capital program may increase at that time to address additional work not included in the financing.

Montecito Water District has decided not to participate in the bond financing of the capital projects. Instead, they will pay their portion of the expenditures as they are incurred. Each participating South Coast COMB member agency (Goleta Water District, Carpinteria Valley Water District and the City of Santa Barbara) will enter into a Joint Participation Agreement (JPA) with COMB. The JPA is the financing document that obligates each member agency to make debt service payments to COMB from net revenue of the Water Fund. In the City's case, because the debt is considered parity debt to other Water Fund bonds and contracts, a rate covenant requires the City to fix and collect rates and charges from the Water Fund which will be sufficient to yield net revenue (as defined in the JPA) during each fiscal year, equal to 125% of the City's annual debt payment. Orrick, Herrington & Sutcliffe LLP, the City's bond counsel, has assisted the City Attorney's Office in negotiating revisions to the JPA to ensure that the JPA and the City's debt service obligation will not affect the City's ability to issue future debt payable from the Water Fund.

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By adopting the Resolution, the City will also be approving an Appendix to the COMB Official Statement that contains the City's disclosures and the continuing disclosure requirements. The Appendix is not attached to this report, but is available in both the Mayor's Office and the Office of the City Clerk.

The capital projects proposed to be funded with the bond proceeds will be operated and maintained for the benefit of the four South Coast COMB member agencies. As has historically been the case, because ID No. 1 will receive no benefit from the projects, it will incur no payment obligations under the revenue bond or otherwise be responsible in any way for the projects funded with the proceeds.

The COMB governing documents require unanimous approval of all the member agencies for this type of transaction. Therefore, although ID No. 1 and Montecito are not participating in the bond issuance, their approval of the bond is required. As a condition of ID No. 1's approval, ID No. 1 has requested that the participating member agencies indemnify and hold it harmless from any and all obligations or liabilities related to the revenue bond or the projects funded with the bond proceeds. The City Attorney's Office and the City's bond counsel have reviewed the agreement and recommend its approval by Council provided that the participating South Coast member agencies also approve language added to each JPA that defines and limits the indemnification obligation between the South Coast members.

Goleta Water District has approved the JPA. Montecito Water District has approved the bond issue but will not be participating in the debt payment. Carpinteria Valley Water District did not approve the Resolution or JPA and will be discussing the matter further at their October 14, 2009 meeting. If all member agencies approve the bond issuance and all participating members adopt the Resolution to approve the JPA, COMB will consider approval of the legal documents and sale of the bonds.

The Finance Committee recommended that Council adopt the Resolution on August 18, 2009.

ATTACHMENT: List of Capital Improvement Projects

PREPARED BY: Rebecca Bjork, Water Resources Manager/mh

SUBMITTED BY: Christine F. Andersen, Public Works Director

APPROVED BY: City Administrator's Office

List of Capital Improvement Projects

Cachuma Operation and Maintenance Board Capital Program

- (1) Construction of an additional section of pipeline and improvements to South Coast Conduit to increase operational flexibility, reliability and capacity.
- (2) Rehabilitation of South Coast Conduit crossings over Mission Creek and two other streams in Santa Barbara County between Glen Annie Reservoir and Carpinteria Reservoir.
- (3) Installation of isolation valves in order to allow segregated sections of South Coast Conduit to be shut down for future repair and maintenance.
- (4) Rehabilitation of a portion of South Coast Conduit lower reach laterals, air release outlets and blowoff drains to improve reliability and protect against corrosion.
- (5) Improvements to Lauro Reservoir, Barker Pass and Sheffield Tunnel vent structures to accommodate refined hydraulic capacity and surge suppression and reduce potential for flooding damage to private property.
- (6) Implementation of a program to locate and map South Coast Conduit from Goleta to Carpinteria, accurately define the pipeline right-of-way, identify and prevent encroachments onto South Coast Conduit easement and develop a comprehensive facilities Geographic Information System.
- (7) Rehabilitation of South Coast Conduit at creek crossings identified as having been exposed due to erosion.
- (8) Rehabilitation of a portion of South Coast Conduit laterals, air release outlets and blowoff drains to improve reliability and protect against corrosion.
- (9) Improvements to control station piping to remove of redundant valves and piping and install hydraulically efficient meters and automated control valves.
- (10) Replacement of two Venturi meters with a single sonic-type meter which will increase reliability, increase the accuracy of flow measurement, and reduce head loss.
- (11) Installation of air release and vacuum valves on South Coast Conduit in Sheffield Tunnel.
- (12) Reconstruction and reconfiguration of Glen Annie Turnout Weir to increase length, improve reliability, reduce undersirable head loss and facilitate maintenance of the turnout.
- (13) Conduct structural inspection and analysis of Lake Cachuma Intake Tower using modern codes and computer analyses to assess seismic risk.
- (14) Conduct assessment of Lake Cachuma Intake Tower gate operability problems due to submergence and trapped debris or corrosion.