



CITY OF SAN MATEO

City Hall
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Agenda Report

Agenda Number: 24

Section Name: {{section.name}}

File ID: {{item.tracking_number}}

TO: City Council
FROM: Drew Corbett, City Manager
PREPARED BY: Finance Department
MEETING DATE: April 04, 2022

SUBJECT:
Clean Water Program Costs – State Revolving Loan Approval

RECOMMENDATION:
Adopt a Resolution to approve documents and actions relating to a San Mateo-Foster City Public Financing Authority State Revolving Fund Loan.

BACKGROUND:
The City of San Mateo (City) and the City of Foster City/Estero Municipal Improvement District (District) are co-owners of a wastewater treatment plant (WWTP) operated by the City of San Mateo. Ownership and operation are governed pursuant to an operating joint exercise of powers agreement. Under that agreement, as amended, the City pays 75.12% of the capital costs associated with WWTP improvements.

In 2009, the Regional Water Quality Control Board issued a Cease and Desist Order requiring the City, the Town of Hillsborough and the Crystal Springs County Sanitation District to take specific actions to eliminate the occurrence of sanitary sewer overflows. In order to comply with the 2009 Cease and Desist Order, the City developed a preliminary 10-year Integrated Wastewater Master Plan (Clean Water Program) calling for a major upgrade to the WWTP and improvements to the City's collection system. Current estimated costs for all improvements are approximately \$988.6 million. The City's share is \$836.7 million, of which \$343.7 million is for collection and \$493 million is for the WWTP. The \$493 million includes the shares attributable to Hillsborough (\$29.6 million), the Crystal Springs County Sanitation District (\$13 million), and the County of San Mateo (\$728,000) (collectively, the Regional Customers). The Regional Customers will repay the City over time for their respective shares via an annual capacity charge.

The City and the District will require financing to complete these improvements. The City and the District established the San Mateo-Foster City Public Financing Authority (Authority) in 2016 to facilitate the financing of both agencies' capital contributions to the WWTP upgrade project. The Authority may be used by either member to facilitate any capital financing.

The following table shows current estimated Clean Water Program sources and uses of funds.

Clean Water Program Estimated Sources and Uses of Funds			
	San Mateo ¹	Foster City	Total
Sources			
WWTP WIFIA Loan	\$ 203,953,949	\$ 64,830,907	\$ 268,784,857
Basin 2/3 WIFIA Loan	\$ 76,571,942	\$ -	\$ 76,571,942
SRF Loan ³	\$ 103,955,600	\$ 33,044,400	\$ 137,000,000
2019 Revenue Bonds ²	\$ 282,771,726	\$ 40,131,009	\$ 322,902,735
Cash	\$ 169,542,657	\$ 13,863,454	\$ 183,406,110
Total Sources	\$ 836,795,874	\$ 151,869,771	\$ 988,665,645
Uses			
Program Management	\$ 70,403,469	\$ 9,655,058	\$ 80,058,528
Misc. Collection	\$ 158,109,420	\$ -	\$ 158,109,420
Basin 2&3 Collection	\$ 160,884,463	\$ -	\$ 160,884,463
Other WWTP	\$ 37,537,775	\$ 11,932,145	\$ 49,469,919
WWTP - WIFIA	\$ 409,860,748	\$ 130,282,568	\$ 540,143,315
Total CIP	\$ 836,795,874	\$ 151,869,771	\$ 988,665,645
Notes:			
¹ Includes Subregional Customers			
² Includes Original Issue Discount			
³ Excludes Capitalized Interest			

Plan of Finance

The plan of finance consists of six funding sources: (1) loans to each city for the WWTP from the United States government under the Water Infrastructure Finance and Innovation Act loan program administered by the EPA (WIFIA Loan); (2) another WIFIA loan to the City only for the basins 2 and 3 portion of the collection system improvements; (3) construction notes that will fund construction draws in lieu of direct draws on the WIFIA Loan and which will be repaid with a single draw on the WIFIA Loan in 2025; (4) free cash flow produced by each city's sewer enterprise; (5) a loan from the State of California issued under the State's Revolving Fund (SRF) loan program; and (6) revenue bonds secured by each city's respective sewer enterprise revenues. The first financing was revenue bonds issued in 2019. The City's share of those funds for the WWTP were fully expended by July 2021. The City has closed both WIFIA Loans and the construction notes that provide interim financing for the WIFIA loans. The State Revolving Fund (SRF) loan will be its next source of funding. After the SRF loan closes, no additional debt financing is expected to be necessary. The balance of the Clean Water Program is expected to be paid for with cash reserves.

Cash – Pay-go financing, which carries no interest charge, is the least expensive way to finance capital projects. The City's municipal advisors have developed a cash flow and debt financing financial projection model to estimate the optimal combination of loans (WIFIA and SRF), revenue bonds, and cash for the City's share of the WWTP and its collection system capital needs. Free cash flow not necessary for reserves and the collection system will be applied to WWTP capital costs. This amount is expected to be approximately \$169.5 million through 2027.

Revenue Bonds – The Authority sold \$270 million in revenue bonds in 2019 for Clean Water Program costs. The City's share of proceeds from that bond issue was \$282.7 million (which includes the original issue premium). Of that amount, \$20 million was applied to pay off a sewer enterprise State Street Bank line of credit, \$18.2 million to reimburse the sewer enterprise for prior capital expenditures, \$166.4 million was made available for collection capital costs, and \$78.1 million was made available for WWTP capital costs. The WWTP 2019 Bond funds were fully expended by July 2021.

WIFIA Loan (WWTP) – The City and the District were invited to submit a loan application for WWTP funding in an aggregate amount not to exceed \$277.2 million under the WIFIA loan program administered by the EPA for the WWTP

upgrade costs. The City's maximum loan authorization under this program for the WWTP is \$210,339,360. The City does not expect it will need the full loan authorization. This loan closed in November 2021. Instead of drawing on the loan for construction, the City (through the JPA) sold interim notes in July 2021 and is using note proceeds to fund construction. The WIFIA loan will be used to pay off the notes in 2025. Note proceeds for the WWTP are expected to be fully expended by July/August 2022. The City expects to begin draws on the SRF loan in August/September 2022.

WIFIA Loan (Collection) – The City also secured a WIFIA loan in the maximum amount of \$85,140,000 for collection projects. This loan closed in December 2021. As with the WWTP, the City will draw on interim note proceeds for these projects and use the WIFIA loan to repay the notes. Project costs have declined since the loan was authorized and the City does not expect to draw on the full loan authorization.

Construction Notes – Because the interest cost on the interim construction notes was less than the interest cost on the WIFIA Loans, rather than use draws on the WIFIA Loan to fund construction, the Authority sold short-term interim construction notes to fund amounts that would have been drawn on the WIFIA loans. The notes closed in July 2021. The notes will repaid with draws on the WIFIA Loans.

SRF Loan – The City and the District applied to the State of California for a low-interest loan under the State Revolving Loan Fund (SRF) program and were approved for a maximum loan amount of \$137,000,000. The City's share of that loan is \$103,955,600. Funding from that loan will be used mostly in fiscal year 2022-23, with some draws in fiscal year 2023-24. The interest cost on the SRF loan will be at ½ of the State's general obligation bond rate and is significantly lower than what the City can obtain in the municipal bond market. The expected rate on the SRF loan will be 1.60%. The City will borrow interest during the construction period ("capitalized interest"). This amount is in addition to the figure cited above. The maximum authorization under this loan is \$110,000,000.

The following table shows the estimated sources and uses of funds for the City's sewer enterprise capital improvement program. To avoid double counting, the interim construction notes are not reflected in the table.

Sources of Funds (1)	2015 - 2020	2021	2022	2023	2024	2025	2026	2027	Total
2019 Bonds	103,976,031	100,196,147	54,561,817	24,037,731	-	-	-	-	282,771,726
2021 Note	-	12,429,177	169,986,632	76,982,256	21,127,827	-	-	-	280,525,892
2021 Note Redemption	-	-	-	-	-	-	(280,525,892)	-	(280,525,892)
2021 City Note/WIFIA Collection Loan	-	-	-	-	-	-	76,571,942	-	76,571,942
2021 City Note/WIFIA WWTP Loan	-	-	-	-	-	-	203,953,949	-	203,953,949
SRF Loan	-	-	-	92,500,688	11,454,912	-	-	-	103,955,600
Cash	73,059,907	-	-	9,116,452	40,538,349	28,173,878	13,042,746	5,611,324	169,542,657
Total Sources	177,035,939	112,625,324	224,548,449	202,637,127	73,121,088	28,173,878	13,042,746	5,611,324	836,795,874
Uses of Funds (1)	2015 - 2020	2021	2022	2023	2024	2025	2026	2027	Total
Basin 2/3 Collection Project	31,189,572	36,679,226	40,543,516	40,283,812	12,188,337	-	-	-	160,884,463
Other Collection Projects	38,297,991	6,480,442	8,391,092	33,515,349	35,232,223	20,625,324	10,450,268	5,116,731	158,109,420
WWTP Project	66,240,668	64,153,236	169,986,632	123,155,281	20,628,463	3,063,656	170,585	-	447,398,522
Program Management	41,307,707	5,312,419	5,627,209	5,682,685	5,072,065	4,484,897	2,421,893	494,594	70,403,469
Total Uses	177,035,939	112,625,324	224,548,449	202,637,127	73,121,088	28,173,878	13,042,746	5,611,324	836,795,874

(1) Fiscal Year Ended June 30

REQUIRED APPROVALS

The resolution before the City Council consents to the Authority entering into a SRF loan agreement in the maximum amount of \$145,000,000, which includes an allowance for capitalized interest, with the State of California, and approves a Financing Agreement that documents a loan from the Authority to the City, which loan will be pledged to the State and which will provide the Authority a source of revenue to repay its loan from the State.

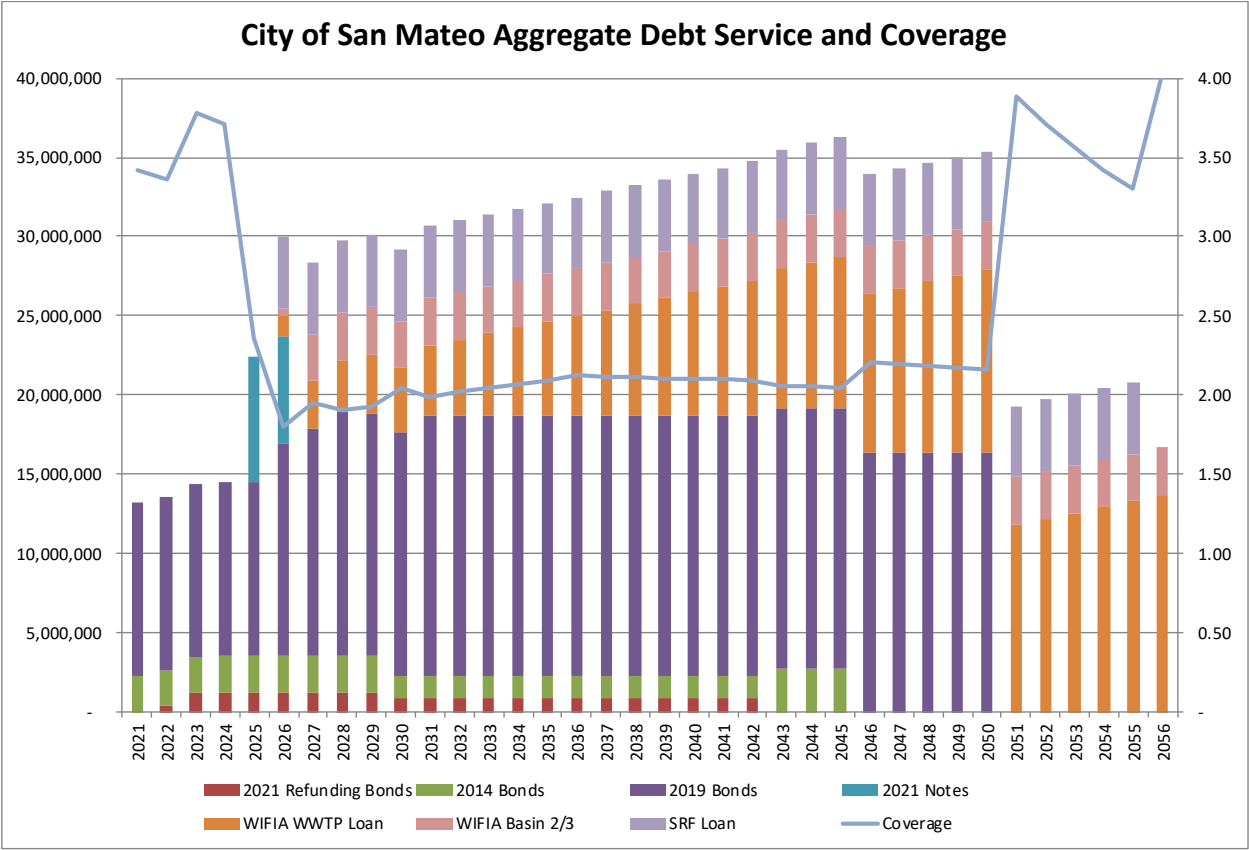
BUDGET IMPACT:

The SRF loan will cause the sewer enterprise to assume additional debt service payments. This debt is necessary to fund a portion of the City's share of WWTP capital costs. The SRF loan will be repaid over 30 years with level debt service, beginning in fiscal year 2025-26. The interest rate on the SRF Loan is currently estimated at 1.60%, which is lower than what the City could obtain in the municipal bond market.

The following chart shows the expected debt service profile of the sewer enterprise and debt service coverage. The

stacked bars represent debt service, with different debt issues identified by color, and the line shows debt service coverage over the projection period. Actual results will differ from projected results, and the farther out in time projections extend, the less reliable they tend to be.

San Mateo Sewer Enterprise Projected Debt Service and Debt Service Coverage



To pay operating and maintenance expenses, and pay debt service on the City’s share of the 2019 Bonds, on the City’s WIFIA loans, and on the City’s share of future debt necessary to complete the Clean Water Program, sewer rates will need to increase annually through 2023 faster than the projected rate of inflation in operation and maintenance costs. After 2025, it is expected that a nominal increase of only 3 percent will be sufficient keep the enterprise on an even financial keel. No decisions have been made on sewer rate increases for fiscal year 2023-24 and fiscal year 2024-25, although modest rate increases in these years will likely be necessary to offset the expected higher operating costs associated with the new WWTP facility. The following table shows current estimated required sewer revenue increases. Sewer rate increases have already been approved through fiscal year 2022-23. These increases should be sufficient to fund the City’s share of the Clean Water Program.

Fiscal Year	Rate Increase	Status
2018-2019	14%	Approved
2019-2020	14%	Approved
2020-2021	13%	Approved
2021-2022	13%	Approved
2022-2023	12%	Approved
2023-2024	0%	No Decision ⁽¹⁾
2024-2025	0%	No Decision ⁽¹⁾
2026-2036	3%	Projected

(1) 0% is a placeholder only. A WWTP operating cost study will determine recommended rate increases for these years and beyond.

ENVIRONMENTAL DETERMINATION:

This SRF loan is not a project subject to the California Environmental Quality Act (CEQA), because it is a government fiscal activity which does not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment. (CEQA Guidelines Section 15378(b)(4).) The City prepared a Final Programmatic Environmental Impact Report (Final PEIR) in accordance with CEQA (SCH No. 2015032006). The PEIR was certified by Council on June 6, 2016. In accordance with CEQA, the Final PEIR serves as the primary environmental compliance document for implementation of the CWP. The City prepared Addenda to the Final PEIR that were approved on July 16, 2018 (Addendum 1) and April 15, 2019 (Addendum 2).

NOTICE PROVIDED

All meeting noticing requirements were met.

ATTACHMENTS

Att 1 - Proposed Resolution

STAFF CONTACT

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