

DRAFT STAFF REPORT

AUTHORIZE THE EXECUTION OF AN INSTALLMENT SALE AGREEMENT BETWEEN THE CITY OF STOCKTON AND THE CALIFORNIA STATE WATER RESOURCES CONTROL BOARD UNDER THE CLEAN WATER ACT STATE REVOLVING FUND PROGRAM IN THE AMOUNT OF \$46,800,000 TO ASSIST IN THE FINANCING OF THE PLANNING, DESIGN, AND CONSTRUCTION OF THE REGIONAL WASTEWATER CONTROL FACILITY MODIFICATIONS PROJECT AND AUTHORIZE AND DIRECT ADDITIONAL ACTIONS WITH RESPECT THERETO

RECOMMENDATION

It is recommended that the Stockton City Council adopt a resolution authorizing the execution of an installment sale agreement (SRF Loan) between the City of Stockton and the California State Water Resources Control Board under the Clean Water Act State Revolving Fund (SRF) Program in the amount of \$46,800,000 to assist in the financing of the planning, design, and construction of the Regional Wastewater Control Facility (RWCF) Modifications Project (CIP No. M16022).

It is also recommended that the City Manager be authorized to increase the funding appropriations based on the loan amount and take appropriate and necessary actions to carry out the purpose and intent of this resolution.

Summary

Utility infrastructure is commonly debt financed due to the significant costs and the long-term life of the assets being placed into service. The Municipal Utilities Department Wastewater Capital Improvement Program (CIP Program) had a total proposed CIP Program budget of \$462.5 million between FY 2020 and FY 2028, of which \$170.7 million is anticipated to be paid “pay-as-you-go” cash-funded. The balance of \$291.8 million will be funded through the issuance of debt.

The Wastewater Utility rate study adopted in 2019 assumed market rate municipal bonds would be sold to finance the debt portion of the CIP program. However, the plan was always to seek other lower cost alternatives. These lower cost alternatives included the Water Infrastructure Finance and Innovation Act Loan Agreement (WIFIA Loan) that was approved by the City Council in September 2020 and the proposed SRF Loan. The WIFIA and SRF loans provide lower interest rates than those available in the municipal bond market.

The RWCF Modifications Project is currently in the construction phase. City staff has been pursuing SRF financing since 2015. The MUD and City Finance staff, along with the City’s Municipal Advisor and Bond Counsel, have negotiated the terms of the SRF Loan Agreement. The interest rate is anticipated to be 0.90% for a term of 30 years after the SRF Loan proceeds are fully drawn. The last draw is currently anticipated in FY 2024 so debt service will begin in FY 2025 and the final maturity is anticipated to be FY 2054. These are estimates based on the amortization provided by the State Water Resources Control Board. (Attachment A)

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DISCUSSIONBackground

The RWCF Modifications Project (Project) consists of key upgrades to the RWCF to comply with permit-required effluent limits, in addition to replacing equipment and processes that are 40 to 70 years old and beyond their useful life. Upon completion of the Project, the RWCF will be modernized and able to expand to support the community initially through 2035 with ability to expand through 2045 and beyond.

On November 15, 2016, by Resolution No. 2016-11-15-1503, City Council authorized the execution of a Progressive Design-Build Contract with the joint venture of AECOM/W.M. Lyles for Phase 1 design services for the Project. The scope of work for Phase 1 provided a 65 percent design completion level and developed a guaranteed maximum price for Phase 2. Due to financing considerations, Phase 2 was split into two services, Phase 2A, and Phase 2B.

On March 26, 2019, by Resolution 2019-03-26-0802, Council approved and adopted Phase 2A of the Project, which advances the design to a 90 percent completion level.

On May 21, 2019, the City Council, by Resolution 2019-05-21-1506, approved implementation of a new Wastewater Utility rate structure to be implemented over a five-year period. These rates were necessary to ensure adequate revenues for completion of the City's extensive wastewater capital improvement plan and to repay all proposed obligations issued to finance the Project. The 2019 Wastewater Rate Study and associated Plan of Finance assumed 100% financing from a combination of Bond Anticipation Notes (BANs) and municipal bonds. This was based on issuing bonds to generate the funds necessary to meet the cash flow needs identified in the rate study.

The BANs provided interim funding while the MUD staff and Finance Staff sought lower cost alternatives. The MUD staff and Finance staff plan to draw the entire amount of \$108,000,000 and use \$10.5 million of additional fund balance to redeem the BANs on or before their maturity date of June 1, 2022. The anticipated SRF Loan will provide additional capital to continue the Project. It is also anticipated that municipal bonds will be issued on or around June 2022 and a final series of bonds will be issued in late FY 2024. There are currently no borrowing plans beyond 2024 and it is anticipated that the balance of the CIP will be "pay-as-you-go" cash funded through FY 2028.

On July 30, 2019, Council approved and adopted Resolution 2019-07-30-1402-01 authorizing the WIFIA loan application and Resolution 2019-07-30-1403 awarding Phase 2B of the Progressive Design-Build Contract for the final design, permitting, construction and engineering services during construction of the Project.

City Council and the Stockton Public Financing Authority also approved Resolution 2019-07-30-1401 on July 30, 2019, authorizing the issuance and sale of short-term

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BANs financing. The BANs were issued on October 22, 2019, in the amount of \$118,510,000 at an interest rate of 1.40%. The BANs mature on June 1, 2022, are interest only payments until maturity and are callable beginning June 1, 2021, and any date thereafter without penalty.

The City began its SRF loan application in 2015 and continued to provide requested documents to the State Water Resources Control Board, including:

- General Package Form
- Financial Package Form
- Technical Package Form
- Environmental Package Form
- Final Budget Approval Form (which included the 65% design and cost estimate)
- 2019 Rate Study and rate adoption documentation

The City received environmental clearance for the SRF Loan on October 5, 2020 and has been actively responding to State Water Resources Control Board inquiries and negotiating the SRF Loan terms.

Present Situation

Concurrent with the planning and design work under the progressive design-build contract for the Project, the MUD staff and City Finance staff, along with the City's Municipal Advisor and Bond Counsel, negotiated the terms of the SRF Installment Sale Agreement (Attachment B) that governs all the specific terms and conditions of the SRF Loan, including interest rate, maturity, redemption, payment terms, ongoing fees and default provisions. This document is in the form required by the State Water Resources Control Board.

In addition, the City has received low interest financing from the previously approved WIFIA Loan (1.20%) and combined with the proposed SRF Loan (0.90%), the potential savings to the City's rate payers are substantial.

Staff reviewed the recommended Plan of Finance with the Water Advisory Group on October 6, 2021, and the Council Water Committee on October 14, 2021. If approved, financing provided by the SRF Loan will provide a much more favorable interest rate than can be realized with the issuance of municipal bonds.

FINANCIAL SUMMARY

There is no impact to the City's General Fund. The installment payments payable by the City are used to repay the SRF loan under the Installment Sale Agreement. The SRF Loan will be secured by Net System Revenues (gross revenues minus operations and maintenance charges) of the Wastewater System. The obligation will be on parity with,

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or have equal rights to, the Net System Revenues with the Stockton Public Financing Authority, Wastewater Revenue Refunding Bonds, Series 2014 outstanding in the amount of \$47,950,000 and the BANs. The proceeds of the WIFIA Loan are anticipated to be drawn in the amount \$108,000,000 and will be used, when combined with \$10,510,000 cash, to pay off the BANs. It is anticipated that the MUD will be paying certain fees and expenses for the City's Finance staff. These fees and expenses are anticipated to be paid from other wastewater funds and will not be financed in the SRF Loan. Sufficient funding is available in the Wastewater RWCF Modification Project #UW16022. Below is the estimated cost for fees and expenses:

City of Stockton SRF Loan	Budget:
Estimated Costs of Issuance (One-Time Paid by the MUD)	
Bond Counsel:	\$25,000.00
Municipal Advisor (Hourly):	\$5,000.00
Total:	\$30,000.00

As mentioned earlier, the Stockton Public Financing Authority anticipates issuing an additional series of bonds later this fiscal year or early next that will be used to provide additional funding towards the CIP Program. In addition, to complete the financing component of the Plan of Finance, the Authority anticipates issuing a final series of bonds in FY 2024. There are no borrowing plans from FY 2024 through FY 2028 and the balance of the capital improvement program is anticipated to be "pay-as-you-go" cash funded.

There is no impact to the General Fund, or any other unrestricted fund, from this action.

SB 450 COMPLIANCE (GOOD FAITH ESTIMATES)

In compliance with state law (Government Code 5852.1), a good faith estimate related to the SRF Loan is outlined below. The good faith estimates have been provided to the City by the Municipal Advisor. The estimate is based on the currently proposed interest rate of the SRF Loan.

- **Principal Amount:** The estimated aggregate principal amount of the SRF Loan is \$46,800,000
- **True Interest Cost:** The estimated true interest cost of the SRF Loan, which means the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the SRF Loan, is 0.78196%.
- **Finance Charge:** The estimated finance charge for the SRF Loan, which means the sum of all fees paid to third parties is \$30,000.

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- Amount of Proceeds to be Received: The estimate of the amount of proceeds to be received by the City and the Authority from the SRF Loan is \$46,800,000.
- Total Payment Amount: The estimated total payment amount, which means the sum of all payments on the SRF Loan of \$53,534,773.94 plus the finance charges for the SRF Loan not paid with the proceeds of the SRF Loan in the amount of \$30,000.00 equals \$53,564,773.94.

The preceding estimates are good faith estimates only. The actual figures may differ due to:

- Differences between assumptions regarding the date of the closing of the SRF Loan
- The final amortization of the SRF Loan which depends on when Project draws are completed
- The final interest rate of the SRF Loan.

Attachment A: Sample SRF Loan Amortization Provided by the State Water Resources Control Board

Attachment B: Installment Sale Agreement