Title:  Pledge of Revenue for Drinking Water State Revolving Fund (DWSRF) Financing Repayments for the Accelerated Meter and Pipe Replacement Program

Location:  Citywide

Recommendation:  Pass a Resolution pledging water user rate revenues in the Water Enterprise Fund and authorizing other actions for a DWSRF Loan Agreement (not to exceed $174 million) for the Accelerated Meter and Pipe Replacement Program.

Contact:  Bill Busath, Director, (916) 808-1434; Susan Goodison, Business Services Manager (916) 808-8995; Daniel Choe, Supervising Financial Analyst (916) 808-5988; Michele Gray-Samuel, Capital Finance & Grant Manager (916) 808-6645, Department of Utilities

Presenter:  None

Attachments:
1-Description/Analysis
2-Resolution
3-DWSRF Interest Rate
Description/Analysis

**Issue Detail:** The Drinking Water State Revolving Fund (DWSRF) is a federally funded, state-administered program designed to help ensure safe drinking water by providing low interest loans to publicly owned water systems. DWSRF offers very low interest rates ensuring the best use of rate payer dollars. Obtaining funding through the DWSRF will support the successful completion of the Accelerated Meter and Pipe Replacement program (also referred to as the Accelerated Water Meter Program) by the end of 2020 in accordance with the City Council Resolution No. 2015-0056. Accordingly, the City is applying for funding through the DWSRF program.

To ensure DWSRF applicants meet all requirements as stipulated under the program, the DWSRF requires that certain resolutions be submitted as part of the funding application package. Once the funding package is completed and submitted, the State Water Board reviews the project budget, audited annual financial reports, and other financial information to ensure that the City has an adequate financial capacity to operate and maintain its system, including the proposed project.

If a loan is approved, the DWSRF program requires a pledge of revenue and funds for the repayment of the loan.

**Policy Considerations:** Applying for the DWSRF Loan funding is consistent with past practices to help fund projects that protect and enhance the City’s water system.

**Economic Impacts:** None.

**Environmental Considerations:** On May 4, 2017, the City Council approved the environmental review for the Accelerated Water Meter Program as a Subsequent Project under the Master Environmental Impact Report for the 2035 General Plan, pursuant to the California Environmental Quality Act (CEQA). The current activity facilitates funding for the program. No further environmental review is required.

**Sustainability:** The project is consistent with the City’s Sustainability Master Plan goal by enabling the Department of Utilities to continue to provide water conservation awareness.

**Commission/Committee Action:** Not Applicable.

**Rationale for Recommendation:** Adopting this resolution meets the requirements of the DWSRF loan program and will allow the City to successfully enter into an agreement once application review is completed and approved.
Financial Considerations: It is anticipated that the DWSRF Agreement for funding the Accelerated Meter and Pipe Replacement Program will provide for a loan in an amount not-to-exceed $174 million. Under the current terms of the DWSRF program, this amount would be repaid over a 20-year repayment period. The current interest rate for the DWSRF program is 1.7 percent. The interest rate is determined annually and calculated at 50 percent of the average interest rate paid by the State on general obligation bonds issued in the prior calendar year. Sufficient revenues exist to pay the debt service on this funding and comply with debt service coverage requirements for this and other debt obligations for the water program.

Upon the Agreement execution, staff recommends creating funds required for the proper accounting and management of loan proceeds and establishing revenue and expenditure budgets for the DWSRF loan in an amount not to exceed $173,141,875 in the Residential Water Metering Program Project (Z14010000).

Local Business Enterprise (LBE): Not applicable

Background: Assembly Bill 2572, enacted in 2004, mandated the installation of water meters on all water service connections by January 1, 2025. In response, the City developed a water meter implementation program to meet this requirement. The program encompassed the installation of 105,000 water meters and replacement of 188 miles of water main pipelines.

In 2014, the State experienced severe drought conditions, triggering significant measures by the City and other water purveyors to reduce water use. On February 24, 2015, the City Council adopted Resolution No. 2015-0056, which approved revised guidelines to accelerate the installation of water meters, enhancing the City’s ongoing water conservation measures and better enabling the City to promote water conservation by its customers through consumption-based billing.

Financial analysis determined that an optimum mix of bond, cash, loan, and grant funding would be necessary to successfully implement the accelerated meter program.

Established by an amendment to the federal Safe Drinking Water Act in 1996, the Drinking Water State Revolving Fund (DWSRF) loan program provides low-interest loans and technical assistance to public water systems for infrastructure improvements to correct system deficiencies and improve drinking water quality for the health, safety, and welfare of all Californians. Funded by the U.S. Environmental Protection Agency, the DWSRF program was previously overseen by the California Department of Public Health. Transferred to the State Water Resources Control Board in July 2014, its Division of Financial Assistance now administers the DWSRF Program. The State Water Resources Control Board’s interest rate
for Drinking Water State Revolving Fund financing is 50 percent of California's average general obligation bond rate obtained by the State Treasurer.

Based on the very low and competitive interest rate, staff has determined that it would be fiscally prudent to seek DWSRF funding for successful implementation of the accelerated meter program.
RESOLUTION NO. 2017-____

Adopted by the Sacramento City Council

May 30, 2017

AUTHORIZING A PLEDGE OF REVENUE AND FUNDS AND OTHER ACTIONS FOR DRINKING WATER STATE REVOLVING FUND LOAN FOR ACCELERATED METER INSTALLATION AND PIPE REPLACEMENT PROGRAM

BACKGROUND

A. The City of Sacramento (the “City”), acting through its Department of Utilities (the “Department”), is committed to producing and providing high-quality water to its customers.

B. In 2005, the Department began one of the most significant capital-improvement projects in its history: undertaking and completing, by 2025, the installation of water meters on more than 80% of the City’s water-service connections, thereby converting its customers to a metered rate as required by a state mandate (Statutes 2004, chapter 884 (A.B. 2572)).

C. In response to ongoing drought conditions, the City Council moved to accelerate the Project deadline from 2025 to 2020 (City Resolution No. 2015-0056). This project is commonly known as the Accelerated Water Meter Project, or, alternatively, as the Accelerated Meter Installation and Pipe Replacement Program (the “Project”).

D. The City seeks financing for the Project from the Drinking Water State Revolving Fund (the “DWSRF”) managed by the State Water Resources Control Board (the “SWRCB”).

E. On August 23, 2016, the Sacramento City Council adopted Resolution No. 2016-0300 which authorized and directed the City Manager or the City Manager’s designee to file a DWSRF financial assistance application with the SWRCB, to execute the DWSRF financial assistance agreement that covers the planning, design, and construction of the Project (the “Agreement”), and to take actions necessary administer the Agreement.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

Section 1. If the Agreement is executed, the City Manager (or the City Manager’s designee) is hereby authorized and directed to create funds required for the proper accounting and management of loan proceeds and establish revenue and expenditure
budgets for the DWSRF loan in an amount not to exceed $173,141,875 in the Residential Water Metering Program Project (Z14010000).

Section 2. The City and U.S. Bank National Association are parties to an Indenture that is dated as of March 1, 2013, and relates to the City’s Water Revenue Bonds, Series 2013 (as supplemented from time to time in accordance with its terms, the “Indenture”). The provisions of this section 2 are subject in all respects to the prior pledge of System Net Revenues (as defined in the Indenture) and the other terms in the Indenture. The City hereby dedicates and pledges its net water revenues (as defined in the Agreement) to payment of the DWSRF financing for the Project. The Department commits to collecting those revenues throughout the term of the DWSRF financing and until the Department has satisfied its repayment obligations unless a modification is approved in writing by the SWRCB. So long as the Agreement is outstanding, the Department’s pledge under this resolution will constitute a lien in favor of the SWRCB on the net water revenues without any further action. So long as the Agreement is outstanding, the Department commits to maintaining the net water revenues at levels sufficient to meet its obligations under the Agreement. If for any reason, the net water revenues prove insufficient to pay debt service on the DWSRF financing and to operate and maintain the Project, the City shall pursue all available lawful means of raising sufficient funds, including increased water rates, user charges, and assessments.

Section 3. The authority granted by this resolution is retroactive. All acts authorized by this resolution but performed before the date of this resolution are hereby ratified and affirmed. The SWRCB may rely upon this resolution until the SWRCB receives the City’s written notice to the contrary, signed by each member of the City Council who voted aye on this resolution.

Section 4. This resolution takes effect when adopted.
California Drinking Water State Revolving Fund

Interest Rate History

<table>
<thead>
<tr>
<th>YEAR</th>
<th>RATE*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>1.7000%</td>
</tr>
<tr>
<td>2016</td>
<td>1.6000%</td>
</tr>
<tr>
<td>2015</td>
<td>1.6630%</td>
</tr>
<tr>
<td>2014</td>
<td>2.0850%</td>
</tr>
<tr>
<td>2013</td>
<td>1.7875%</td>
</tr>
<tr>
<td>2012</td>
<td>2.0933%</td>
</tr>
<tr>
<td>2011</td>
<td>2.3035%</td>
</tr>
<tr>
<td>2010</td>
<td>2.5707%</td>
</tr>
<tr>
<td>2009</td>
<td>2.5017%</td>
</tr>
<tr>
<td>2008</td>
<td>2.3086%</td>
</tr>
<tr>
<td>2007</td>
<td>2.2836%</td>
</tr>
<tr>
<td>2006</td>
<td>2.2923%</td>
</tr>
<tr>
<td>2005</td>
<td>2.4517%</td>
</tr>
<tr>
<td>2004</td>
<td>2.6000%</td>
</tr>
<tr>
<td>2003</td>
<td>2.3400%</td>
</tr>
<tr>
<td>2002</td>
<td>2.3900%</td>
</tr>
<tr>
<td>2001</td>
<td>2.5132%</td>
</tr>
<tr>
<td>2000</td>
<td>2.3200%</td>
</tr>
</tbody>
</table>

*The State Water Resources Control Board’s interest rate for Drinking Water State Revolving Fund financing is 50 percent of California’s average general obligation bond rate obtained by the State Treasurer for the previous calendar year.