

Memo

To: Bill Brandon, City Manager
From: William Larkin IV, Interim Public Works Director
CC: City Council
Date: 8/31/2009
Re: Relocation of backyard sewer mains project update.

STATE REVOLVING FUND LOAN

There are two types of State Revolving Fund (SRF) loans for which the City's project is eligible. The first is a normal construction loan. For this type of loan final plans, specifications, and estimates must be completed by November 1st to provide time for the Department of Ecology staff to review the plans prior to the December 1st deadline for submittal of the loan application.

The second type is what Ecology calls a Step 4 loan. This type of loan can be for both design and construction. The deadline for this loan application also is December 1st, but requires no previous design effort.

It is staff's intent to apply for both types of loan. The application for the normal construction loan will be in an amount of about 5.4 million dollars, and will be for the construction of that portion of the project for which JWM&A is preparing final design documents.

We have not yet been able to negotiate a satisfactory design agreement with BHC Consultants for the final design of a sewer in Alameda Avenue. Therefore, because of the time constraints we propose to include this design work in the Step 4 application.

The Step 4 application will be in an amount of about 5 million dollars and will be for the design and construction of the new sewer mains necessary to abandon the backyard main between Alameda and Buena Vista Avenues, and new sewers in Summit and Farallone Avenues north of Princeton Street.

Both loans have a 20 year term. Neither loan has a local match requirement.

Ecology has indicated the loan applications will be available later this month.

DESIGN STATUS

A professional services agreement with Jerome W. Morrisette & Associates for the final design of portions of the overall project was approved at the August 14th Council meeting. The work covered by this agreement must be completed by November 1st in order to comply with the submittal requirements for the SRF loan.

The design being performed by Hammond, Collier & Wade-Livingstone Associates will not be part of the SRF construction loan application and, therefore, is scheduled to be completed by the end of this year.

If a satisfactory agreement can be negotiated with BHC Consultants, a professional services agreement for the design of new sewers in Alameda Avenue, Spring Street, and a short segment of Buena Vista Avenue will be presented to the Council at a later date.

All of the above design work will be accomplished within the funds available for the design effort from the Public Works Trust Fund Pre-Construction Loan and the City Real Estate Excise Tax funds committed to the project.

PUBLIC WORKS TRUST FUND STATUS

Last week I provided a policy statement adopted by the Public Works Board regarding the ability of an agency with a 5-year Pre-Construction loan to convert it to a 20-year loan. The one significant condition that must be met to accomplish this conversion is to have 30% of the construction funds available. The construction cost of the project which is being designed using PWTF loan funds is estimated to be 7.5 million dollars. Therefore, to accomplish the conversion we must have 2.25 million dollars available for construction. If we are successful in obtaining a State Revolving Fund Loan for the 6.7 million dollars being requested we would satisfy the 30% condition.

We may not be able to make the conversion before the first principal payment on the PWTF loan is due on July 1, 2010. We will not be able to execute a loan agreement for the SRF funds until August 2010. However, we will know in June whether or not we are successful in obtaining a SRF loan. An absolute guarantee of the loan will not occur until the legislature has approved the project list. Once we know our project is on the list of projects to be funded we will contact the Public Works Board before June and let them know we have been selected to receive the SRF loan, and request that the Board consider our inclusion on the project list as having met the requirement of obtaining 30% of the construction funding.

SIDE SEWER SERVICE RELOCATIONS

SRF loan funds can be used to provide loans to private property owners for the cost of relocating their side sewer services from the rear to the front of their properties. However, to be able to use SRF funds to provide such loans, the City must obtain easements for and agree

to own and maintain the side sewers. Whether or not the City desires to accept the responsibility for maintaining the side sewer services is a decision the City Council needs to make. The basic options to owning and maintaining the side sewers is to use bond funds to provide loans for this work, at an interest rate of around 4.5%, or to simply require the property owner to pay for the work at an average cost of \$7,500 - \$9,000.

If the decision is made to own and maintain the side sewers, staff would require that 6-inch diameter side sewers be constructed from the point of connection to the existing side sewer to the new sewer main. A 6-inch diameter side sewer using modern nearly jointless materials would be basically maintenance free. Cleanouts would be installed at the property line, and at any change of direction of the side sewer.

One question that I may have an answer to by Monday's study session, is can the requirement that the City own and maintain the side sewers be eliminated at the end of the loan term. The answer to this question will be an important consideration in the Council's decision on the side sewer issue.

PROJECT FINANCING

The interest rate for a SRF loan is based on 60% of the average tax exempt municipal bond interest rate. Bond counsel has indicated municipal bond rates are generally between 4.25% and 4.5%. Based on a municipal bond rate of 4.5%, the SRF interest rate would be 2.7%.

The SRF loan requires that within six years the City develop a reserve equal to one year's debt service to guarantee payment of the loan. For a 5.4 million dollar loan, that reserve would be approximately \$350,000.

If we are successful in changing the term of the PWTF Pre-Construction Loan to a 20 year loan, then the debt service on the PWTF loan and a 5.4 million dollar SRF loan, and the revenue required to develop the required reserve for the SRF loan, would require a \$4.00 per month sewer rate increase above the \$10 per month presently designated for the project.

If we also were to be successful in obtaining a Step 4 SRF loan, an additional rate increase would be required to meet the debt service and reserve requirements for that loan.

SEWER SYSTEM PLAN UPDATE

Later this year staff will recommend that the City's Sewer System Plan be updated. It was originally developed in 2001 and formally adopted in early 2002. A requirement of the PWTF loan program is that the last update of a system plan be no older than six years. To be able to apply for a PWTF loan in May of 2010 our System Plan update needs to be completed by that date.