



STAFF REPORT

May 11, 2022
File Number 0600-10

SUBJECT

APPROVAL TO EXECUTE A WATER INFRASTRUCTURE FINANCE AND INNOVATION ACT (WIFIA) LOAN FOR THE LAKE WOHLFORD DAM REPLACEMENT PROJECT

DEPARTMENT

Utilities Department, Construction and Engineering Division

RECOMMENDATION

Request the City Council take the following actions:

- 1) Adopt Resolution No. 2022-03, approving execution of a loan agreement in an amount not to exceed \$66,000,000 from the U.S. Environmental Protection Agency, Water Infrastructure Finance and Innovation Act (“WIFIA”) Program for construction costs associated with the Lake Wohlford Dam Replacement Project.
- 2) Authorize the Mayor, or his designee, to execute all documents related to this transaction.

It is requested that the Escondido Joint Powers Authority adopt Resolution No. EJPFA 2022-01, authorizing the execution and delivery of a WIFIA Loan Agreement, a WIFIA Note, an Installment Purchase Agreement, and certain documents and other matters in connection therewith (water system).

Staff Recommendation: Approval (Utilities: Christopher W. McKinney)

Presenter: Angela Morrow, Deputy Director of Utilities

FISCAL ANALYSIS

The estimated cost of construction of the Lake Wohlford Dam Replacement Project is \$88.5 million dollars, an amount much greater than the 2012 preliminary cost estimate of \$30 million dollars. The cost of environmental mitigation for the project is estimated to be about \$3.5 million. For purposes of this authorization, the construction costs, plus environmental permitting and mitigation costs, design costs, and a 15% allowance for contingency, produces a total project cost as high as \$132.9 million. Staff does not anticipate that the total project cost will be as high as indicated; however, contingencies have been added to accommodate potential unforeseen issues during construction. Project cost estimates are conservative because once the loan closes, the amount of the loan cannot be increased.

In 2013, the City of Escondido (“City”) was awarded a Proposition 1E, Round 1 Stormwater Flood Management Grant from the State of California Department of Water Resources in an amount up to \$14.9 million for construction of the Lake Wohlford Dam Replacement Project, which will provide for a portion



CITY of ESCONDIDO

STAFF REPORT

of the project costs. The grant has a 50% match requirement which must be met with non-state (local or federal) funds.

In January 2021, the City applied to the Federal Emergency Management Agency's ("FEMA's") Building Resilient Infrastructure and Communities ("BRIC") program for the Wohlford Dam Replacement Project. In July 2021, the City was notified that the Project was not selected for a BRIC grant.

The requested loan is provided through the U.S. Environmental Protection Agency ("EPA"), Water Infrastructure Finance and Innovation Act Program. The WIFIA loan cannot exceed 49% of reasonable anticipated total eligible project costs. Eligible project costs include costs related to: planning; design; environmental documentation, permitting and mitigation; construction; construction management and inspection; and project contingencies. The remaining 51% of project costs must be provided by non-federal (state and local) funds.

The proposed WIFIA loan amount is currently estimated to be \$65,147,348 with a maturity date of July 1, 2062, approximately 35 years starting at the estimated substantial completion of construction date of July 30, 2027. This amount assumes a 15% project-level contingency and could be reduced if construction bid costs are lower. The loan agreement will include a one-time opportunity after substantial completion is reached to shorten the maturity if the City so chooses.

The interest rate for WIFIA loans is equal to the yield on U.S. State and Local Government Securities ("SLGs") relative to the projected weighted average life of the loan plus 1/100th of a percent. The rate changes on a daily basis, and the rate as of March 30, 2022, was 2.72 percent, based on a projected 25.5 year weighted average term. As a condition of closing, the City will be required to deliver a final rating opinion letter from a nationally recognized statistical rating agency. The final rating letter must be a public rating and should specifically evaluate the WIFIA loan's default risk and contemplate the full life of the WIFIA loan.

At this rate and term, and assuming that the City does not make any principal pre-payments, the total amount repaid over 35 years will be approximately \$107.89 million (\$65.15 million in principal, \$42.74 million in interest). The City will make payments under the Agreement solely from revenues of the City's water system in excess of operation and maintenance costs. Such payments will be on parity with existing water system obligations, including the 2019A and 2019B bond issues, two State Revolving Fund loans, and two IBank loans. Payments under the Agreement are not an obligation of the General Fund or other City funds other than the Water Fund.

Annual debt service payments on this loan will be approximately \$2.9 million, subject to the final loan amount and interest rate at closing. In FY 2021, the Water Fund debt coverage ratio was 2.30, in excess of the debt coverage required by the Water Fund's bond covenants (1.20). The debt service payments required by the WIFIA loan would have reduced the Water Fund debt coverage to 2.14 if loan payment



CITY *of* ESCONDIDO

STAFF REPORT

had been due at that time. While the new proposed debt will decrease the debt coverage ratio, the ratio will remain well in excess of the required minimum.

PREVIOUS ACTION

On September 16, 2020, the City Council: 1) adopted Resolution No. 2020-137, assuring that if an award is received from the Federal Emergency Management Agency's ("FEMA's") Building Resilient Infrastructure and Communities ("BRIC") program, the City of Escondido would provide the necessary non-federal matching funds; 2) directed staff to move forward with the construction of a new, replacement dam; and 3) directed staff to proceed with Letters of Interest and to apply, if invited, for a WIFIA loan and FEMA BRIC grant.

BACKGROUND

Lake Wohlford Dam ("Dam") was constructed with earth and rock in 1895 as part of Escondido's local water system. In 1925, the dam was raised to its current height using a slurry hydraulic fill process. In 2007, during a routine seismic evaluation of the dam, the California Division of Safety of Dams ("DSOD") determined that the newer, hydraulic fill section of the dam has the potential to liquefy and fail in the event of a large earthquake with magnitude greater than 7.5.

In response to these potential seismic concerns, the City immediately lowered the water level of Lake Wohlford so that the maximum level of the lake does not exceed the level of the original, seismically-sound rock structure. The lake has been operated at this level until the present day and continues to provide recreational opportunities and local water storage.

A design for a new, replacement dam to be constructed just downstream of the existing dam was completed. Design development included a lengthy review process involving the DSOD, the Federal Energy Regulatory Commission ("FERC"), and a panel of dam experts convened to oversee the dam design process. The Project elements include: (a) dam construction downstream of the existing dam; (b) new spillway construction; (c) new outlet tower construction; and (d) partial demolition of the existing dam.

On October 13, 2020, the City submitted a Letter of Interest in response to the EPA's 2020 Notice of Funding Availability for the WIFIA Program for funding for the Lake Wohlford Dam Replacement Project. On January 8, 2021, the City was notified that the Project was selected to apply for a WIFIA loan. The City submitted a complete application for WIFIA assistance on April 28, 2021.

The benefits of financing through the WIFIA Program include:

- Fixed interest rate established at closing
- No penalty for prepayment
- No matching fund requirement
- Can be used in conjunction with state funding



CITY of ESCONDIDO

STAFF REPORT

- Low-cost, long-term loans, up to 35-year repayment
- Customized repayment schedules
- Repayment of principal delayed until after substantial completion of the Project
- Technical assistance

WIFIA staff are currently conducting the National Environmental Policy Act (“NEPA”) environmental review process for the Project. The WIFIA loan cannot close until the NEPA review process has been completed. The City is seeking approval of the WIFIA Loan at the present time as the WIFIA program will be implementing new requirements that conform to the Build America Buy America Act (“BABAA”) beginning on May 14, 2022. Current cost estimates are based on the Project’s conformance with the existing American Iron and Steel (“AIS”) Requirements. Precise regulatory requirements and/or exceptions for WIFIA loans to comply with BABAA have not yet been established, however City staff believes that compliance with BABAA at this stage of design/development could cause significant delays and cost increases, and create uncertainty in the event some materials related to the Project cannot be sourced in compliance with BABAA. EPA staff informed the City that any WIFIA term sheet executed, and loan agreement approved prior to May 14, 2022, would not be subject to BABAA.

To carry out the funding, the City has retained the firms of CSSG Advisors Incorporated, as Municipal Advisor; and Stradling Yocca Carlson & Rauth as Bond Counsel.

The following documents, as referred to within Resolutions No. 2022-03 and EJPFA 2022-01 are to be approved:

WIFIA Term Sheet. The WIFIA Term Sheet provides the terms and conditions of the WIFIA transaction. (See Attachment “1”)

WIFIA Loan Agreement. Under the WIFIA Loan Agreement, the Financing Authority agrees to issue a Note to the EPA in order to repay the loan from the EPA. The WIFIA Loan Agreement includes the terms and conditions of the WIFIA transaction as set forth in the term sheet as well as representations, warranties and covenants of the City and the Financing Authority, a description of the flow of funds that will be applied to repay the borrowing and a description of events of default and remedies under the WIFIA transaction. Important covenants in the WIFIA Loan Agreement include the City’s covenant to set water system rates and charges at levels that are sufficient to repay the obligation and the terms and conditions under which the City can issue additional water system debt. (See Attachment “2”)

Installment Purchase Agreement. The Installment Purchase Agreement establishes the obligation of the City to repay the moneys borrowed under the Note from pledged water system revenues. Under the Installment Purchase Agreement, the Financing Authority will sell the capital improvements (the reconstructed Wohlford Dam) to the City in exchange for installment payments payable by the City, which installment payments will be assigned by the Financing Authority to the EPA to repay the Note. (See Attachment “3”)



CITY *of* ESCONDIDO

STAFF REPORT

WIFIA Note. The WIFIA Note is a promissory note that evidences the Financing Authority's obligations to repay the loan. (See Attachment "4")

The above referenced documents will be in final form subsequent to the loan closing.

RESOLUTIONS

- A. Resolution No. 2022-03
- B. Resolution No. 2022-03 Exhibit "A"
- C. Resolution No. EJPFA 2022-01
- D. Resolution No. EJPFA 2022-01 Exhibit "A"

ATTACHMENTS

- A. Attachment "1" - WIFIA Term Sheet
- B. Attachment "2" – WIFIA Loan Agreement
- C. Attachment "3" – Installment Purchase Agreement
- D. Attachment "4" – WIFIA Note