



COUNTY OF SAN MATEO
Inter-Departmental Correspondence
Public Works



Date: December 20, 2013

Board Meeting Date: January 28, 2014

Special Notice / Hearing: None

Vote Required: Majority/4/5ths (ATR)

To: Honorable Board of Supervisors

From: James C. Porter, Director of Public Works

Subject: Crystal Springs / El Cerrito Trunk Sewer Transmission Line Improvement Project

RECOMMENDATION:

- A. Acting as County of San Mateo and the Governing Board of the Crystal Springs County Sanitation District, adopt Resolutions authorizing:
1. The President of the Board of Supervisors to execute an agreement between the Crystal Springs County Sanitation District and the County which will provide a \$8,720,050 loan to the Crystal Springs County Sanitation District to pay its proportionate share of costs associated with improvements to the Crystal Springs/El Cerrito trunk sewer transmission lines; and
 2. The County Manager or his designee to execute an amendment to the Sanitary Sewage agreement between the Town of Hillsborough, City of San Mateo, Crystal Springs County Sanitation District, and County of San Mateo for costs associated with construction of the Crystal Springs/El Cerrito trunk sewer transmission lines with any non-substantive additions, clarifications and other changes as the County Manager, or his designee, deems necessary or advisable after consultation with County Counsel.
- B. Resolution authorizing an Appropriation Transfer Request in the amount of \$17,440,100, transferring \$8,720,050 from Non-Departmental ERAF Reserves to Loans from Other Funds, and making corresponding appropriations in the Crystal Springs County Sanitation District budget, for payment of the Crystal Springs County Sanitation District's proportionate share of the Crystal Springs/El Cerrito trunk sewer project costs.

BACKGROUND:

On July 18, 1989, acting as the County of San Mateo (County) and the Governing Board of the Crystal Springs County Sanitation District (District), your Board entered into a Sanitary Sewage Agreement (1989 Agreement) with the Town of Hillsborough (Hillsborough), and the City of San Mateo (San Mateo). The 1989 Agreement set forth the parties' respective rights and obligations for the use and ownership of sewage conveyance and treatment facilities jointly used by the four agencies.

In 2009, the California Regional Water Quality Control Board issued a Cease and Desist Order R2-2009-0020 (CDO) to Hillsborough, San Mateo, and the District due to sewage overflows emanating from, among other places, the Crystal Springs/El Cerrito Trunk Sewer (Trunk Sewer). The CDO requires that the three parties improve performance and capacity of the sewer facilities within their jurisdictions. Some of the sewer facilities identified in the CDO are subject to the 1989 Agreement; specifically, the Trunk Sewer, and improvements must be completed by September 2015.

On September 28, 2010 your Board adopted Resolution No. 071055 that approved execution of an amendment to the 1989 Agreement (Amendment No. 1). Amendment No. 1 committed the County and District to paying their respective shares of the anticipated cost for the environmental study and design for the Trunk Sewer Improvements within Hillsborough and San Mateo. The Amendment included a total cost of \$1,400,000 with the County's and District's shares being \$84,000 (6%) and \$518,000 (37%), respectively.

On April 23, 2013 your Board adopted Resolution No. 072459 that approved execution of an amendment to the 1989 Agreement (Amendment No. 2). Amendment No. 2 committed the County and District to paying their respective shares of the anticipated cost to complete the environmental study and design for the Trunk Sewer Improvements within Hillsborough and San Mateo. Amendment No. 2 included a total cost of \$2,032,299 with the County's and District's shares being \$121,938 (6%) and \$751,951 (37%), respectively.

On July 23, 2013 your Board adopted District sewer service rates for FY 2013-14 to support the operation and maintenance of the District facilities. The rates also support loan or bond payments by the District for their share of costs associated with the Trunk Sewer Improvement projects. The payment amounts included in the rates were based on the premise that financing would be obtained by the downstream agencies and the District would not be required to qualify and obtain a loan on its own.

DISCUSSION:

The Trunk Sewer is a jointly used facility, as defined in the 1989 Agreement, which carries sewage collected from the County's Tower Road facilities, the De Anza Boulevard area in San Mateo, the District, and portions of Hillsborough to San Mateo facilities and eventually to San Mateo's Wastewater Treatment Plant. In 2010 the District, the County, Hillsborough, and San Mateo jointly commissioned a Sewer System Flow Monitoring and Hydraulic Modeling Study (Study) to determine the proportional

share of sewage flows generated from each agency's sewage area during dry and wet weather. The Department reviewed the Study and recommended that the wet weather flow percentages be used as the basis for the proposed cost allocations for the Trunk Sewer Improvements as reflected in both Amendments.

Hillsborough and San Mateo have managed the environmental study and design work for the Trunk Sewer Improvements within their respective jurisdictions. The previously executed amendments provided funding from the parties to allow Hillsborough and San Mateo to complete the environmental study and design for their projects. The design for each project is nearing completion and the next phase is construction. It is critical that the construction funding be put in place prior to Hillsborough and San Mateo seeking bids for the projects. Amendment No. 3 primarily establishes the framework for payments to be made by the four parties to Hillsborough or San Mateo for the construction of the Trunk Sewer Improvements. The Amendment also stipulates that each party shall be responsible for funding their respective portion of the project and that each party will deposit 25% of their proportionate share of the cost prior to advertisement for bids. The final costs paid by each party will be based on the actual construction, inspection, and construction administration costs.

The Department has communicated to your Board and the property owners, within the District, the District's financial obligations for sewer system improvements through the sewer service rate setting process. The projects and financial obligations of the CDO are significant and have had a substantial impact on the sewer rates required to support the District requirements.

The estimated total cost, including environmental and design work, to construct the Trunk Sewer Improvements is currently \$27,000,000. Based on this estimate the County's and District's total project costs would be \$1,620,000 (6%) and \$9,990,000 (37%), respectively. The prior amendments committed the County and District to a portion of these costs, leaving the remaining estimated financial commitment by the County and District to be \$1,414,062 and \$8,720,049, respectively.

The District has been setting sewer rates based on the premise and understanding that both downstream projects would be financed by the agency whose jurisdiction the project was located in and the District would make payments to the downstream agency. However, the financing picture has changed and the District is expected to pay as-you-go or finance the District's portion of the costs independent of the other jurisdictions. Hillsborough intends to apply for a State Revolving Fund Loan to finance their proportionate shares of their project and San Mateo's project. San Mateo does not intend to finance their shares of both projects through bonds or loans, but will pay with available funds.

Based on the anticipated cost of construction, the District would have needed to raise the annual sewer rate by \$300 per equivalent residential unit (1 dwelling unit) from \$1,350 to \$1,650 to qualify for a State Revolving Fund loan. Based on this magnitude of rate increase coupled with the protest levied by the property owners in the past over

rate increases, this option does not seem feasible. The current sewer rates are structured to allow the District to pay their proportionate share of the downstream projects based on the downstream agencies obtaining the financing.

The District is seeking a loan from the General Fund to provide the funds for the District to make payments to Hillsborough and San Mateo. The proposed loan is for 20 years at an interest rate equal to the interest rate paid on pooled reserves in the County Treasury. Loan payments will be made from the revenues that the District receives (primarily sewer service charges). The loan provides that the District can accelerate payments if other revenues or funds become available to the District, and the loan allows the District to draw funds pursuant to invoices received from Hillsborough and San Mateo.

Payments made to Hillsborough and San Mateo for the County's share of the Trunk Sewer Improvement projects' cost may be paid from the County's Non-Departmental Reserves as invoices are received.

County Counsel has reviewed and approved the Resolutions, Agreement, and Amendment as to form.

Approval of these actions contribute to the Shared Vision 2025 outcome of a Collaborative Community by continuing the partnership with other agencies to provide for effective sewage transmission lines for our communities.

FISCAL IMPACT:

Amendment No. 1 and 2 set forth each party's proportional responsibility for the environmental review and design work for the Trunk Sewer Improvements mandated by the CDO. Amendment No. 3 includes the anticipated cost for construction for the Trunk Sewer Improvements and will be funded as follows:

| Agency | Amendment No. 1 | Amendment No. 2 | Amendment No. 3 | Total |
|-------------------------------------|------------------------|------------------------|------------------------|---------------------|
| County (Tower Road Facilities) (6%) | \$84,000 | \$121,938 | \$1,414,062 | \$1,620,000 |
| District (37%) | \$518,000 | \$751,951 | \$8,720,049 | \$9,990,000 |
| City of San Mateo (6%) | \$84,000 | \$121,938 | \$1,414,062 | \$1,620,000 |
| Town of Hillsborough (51%) | \$714,000 | \$1,036,472 | \$12,019,528 | \$13,770,000 |
| Totals | \$1,400,000 | \$2,032,299 | \$23,567,701 | \$27,000,000 |

The ATR includes funding for the District's portion of construction costs in accordance with Amendment No. 3 and enables the District to make payments on the General Fund Loan pursuant to the Loan Agreement. The District's loan payments will be funded through the sewer service charges collected from the property owners within the District and are estimated to be approximately \$529,800 per year. The partial payment

anticipated in FY 2013-14 is \$132,000. The County's share of the cost will be financed from the County's Non-Departmental Reserves.