



Agenda Memorandum

Agenda Item – {{section.number}}.D.

City Council Study Session
June 17, 2024

Subject: Update on Westminster Drinking Water Facility Project Costing and Financing Plan (1 hour)

Prepared By: Larry Dorr, Deputy City Manager & CFO
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Recommended City Council Action:

Receive an update on the Westminster Drinking Water Facility Project Costing and Financing Plan and provide direction to the Staff on the issuance of Utility Enterprise Revenue Bonds.

Summary Statement:

- On April 24, 2023, City Council authorized the construction of a replacement drinking water facility project on Westminster Boulevard.
- On May 23, 2023, City Council directed Staff to evaluate the suitability of federal loan programs along with the City's Utility Enterprise Bonds (Revenue Bonds) for financing the replacement Drinking Water Facility Project.
- On April 1, 2024, Staff presented City Council due diligence research relative to the merits of three primary financing options for Council review and direction: Utility Enterprise Revenue Bonds, financing through the Water Infrastructure Finance and Innovation Act of 2014 (WIFIA) and financing through the State Revolving Fund (SRF).
- City Council guided Staff to pursue financing with Utility Enterprise Revenue Bonds and report back on the financial cost and utility rate implications comparing 20, 30, and 40-year bond terms.
- On May 31, 2024, Public Works and Utilities (PWU) received 60 percent design documents for the 14.7 million gallon per day (MGD) treatment facility. The engineering firm, general contractor, and a third-party independent cost estimating firm are currently pricing the project

and will provide Staff an updated cost estimate in August 2024.

- Financial markets are currently favorable and securing revenue bonds now is beneficial to the City, eliminating the risk of costlier financing in the future.

Fiscal Impact:

\$240,000,000

Source of Funds:

\$190,000,000 in Utility Enterprise Revenue Bonds

\$50,000,000 in cash reserves

Policy Issue(s):

Does City Council agree with funding the replacement Drinking Water Facility Project with a Financing Plan that finances the Project with \$190,000,000 in Utility Enterprise Revenue Bonds and \$50,000,000 in cash reserves, for a total estimate of \$240,000,000?

Alternative(s):

City Council could choose not to approve the Financing Plan. This is not recommended as Staff has researched alternative financing options and the Staff recommendation provides the most cost-effective financing to complete the Project. The City does not have adequate funds available to complete the Project with cash reserves. The proposed financing plan provides intergenerational equity, meaning that both current and future ratepayers will pay for the project.

Background Information:

On April 24, 2023, City Council authorized the construction of the replacement Drinking Water Facility Project on Westminster Boulevard, which consists of three separate projects:

- 1) a new drinking water facility;
- 2) a raw water supply line; and
- 3) finished water and sanitary sewer lines.

Subsequently, PWU and Finance Staff evaluated the suitability of federal loan programs for financing the replacement Drinking Water Facility along with Revenue Bonds while simultaneously working with the design consultant to provide a cost-efficient facility.

On April 1, 2024, Staff presented City Council the due diligence research relative to the three primary financing options. At that meeting, City Council directed Staff to pursue Revenue Bonds to finance the Project by evaluating the cost and rate implications of 20-year, 30-year, and 40-year bond terms. On May 31, 2024, PWU Staff received the engineer's 60 percent design documents and is currently having the general contractor perform an updated cost estimate that will be completed in August. Staff will also receive a cost estimate from the engineering design team and has hired a professional cost estimation firm to provide an independent cost estimate that will be used to compare the

engineering and contractor's cost estimates.

The recently received 60 percent design documents are for the 14.7 MGD treatment plant on the Westminster Boulevard site. The Raw Water Supply Line design documents are at the 90 percent level and the Finished Water and Sanitary Sewer design documents are at the 30 percent level.

The proposed replacement Drinking Water Facility Project reflects the change from the original concept of Water 2025 for a 30 MGD treatment facility to a 14.7 MGD treatment facility, determined in August 2022. At that time, the revised facility configuration resulted in an estimated \$100 million savings. Since 2022, inflationary pressures continue to drive up the cost of the redesigned plant and, in December 2023, further redesign efforts were undertaken to reduce the projected cost of the 14.7 MGD plant. A graph in the presentation shows the inflationary impact and cost comparison of the 30 MGD and 14.7 MGD treatment facilities over the past two years.

To date, the City has invested approximately \$52 million in cash in the replacement Drinking Water Facility, which is comprised of \$32 million for the land acquisition and \$20 million spent on consultant design services. The estimated remaining cost for the construction of the facility along with the raw and finished utility lines is \$240 million. The proposed Financing Plan will be funded with \$50 million in cash balances accrued for the project, with the remaining \$190 million to be financed with Revenue Bonds. Modeling 20-, 30-, and 40-year bond structures resulted in the ability to maintain utility rate increases no greater than 4.5 percent with a 30-year revenue bond structure. A 20-year bond structure would require a rate increase greater than 4.5 percent for each year between 2025 and 2028. A 40-year bond structure would result in higher overall interest cost but would facilitate a 2025 rate increase less than 4.5 percent. Staff recommends the 30-year structure to maintain consistent rate increases at 4.5% or less.

The Financing Plan structure secures the funding necessary to complete the replacement Drinking Water Facility Project and earn interest income above the interest cost on the Revenue Bonds. Similar to the financing obtained for the replacement Municipal Court Project, the financial capital markets favor issuing long-term debt at an overall lower cost than the investment earnings. This anomaly in the financial markets – referred to as an inverted yield curve - allows the City to earn interest revenue greater than the interest paid on the debt while the project is under construction. The project interest rate to be paid on 30-year Revenue Bonds is 4.50 percent and the current average interest earnings rate on the City's investments in Local Government Investment Pools is 5.38 percent, thus the City earns 0.88 percent more than the bond interest cost. This favorable condition effectively provides the opportunity for the City to issue debt without an interest cost before the proceeds are fully spent.

Finance and PWU Staff recommend the most cost-effective financing for the replacement Drinking Water Facility Project is issuing 30-year Utility Enterprise Revenue Bonds and using the cash balance in the capital project reserve. If City Council approves this Financing Plan, Staff will prepare the necessary legislative action items for approval to issue the Revenue Bonds at a future City Council regular meeting.

This memorandum identifies the most cost-effective financing plan for the replacement Drinking Water Facility Project by supporting the City's Strategic Plan goal to maintain and invest in resilient infrastructure that creates the highest return for safety, community connectivity, enjoyment of life, and local economic success.

Respectfully submitted,

Jody Andrews

Jody L. Andrews
Acting City Manager

Attachments:

Drinking Water Facility Costing Update and Financing Plan Presentation