

City of Oak Harbor
City Council Agenda Bill

Bill No. 5.a.i
Date: April 19, 2016
Subject: Clean Water Facility Project
Update by City Staff

FROM: Engineering Department

INITIALED AS APPROVED FOR SUBMITTAL TO THE COUNCIL BY:

- ⊙ Bob Severns, Mayor
- ⊙ Doug Merriman, City Administrator/Finance Director
- ⊙ Nikki Esparza, City Attorney, as to form

RECOMMENDED ACTION

Review the Clean Water Facility (CWF) Project Update attached.

BACKGROUND / SUMMARY INFORMATION

City Council requested Regular Meeting updates on the CWF Project.

LEGAL AUTHORITY

FISCAL IMPACT

PREVIOUS COUNCIL / BOARD / CITIZEN INPUT

ATTACHMENTS

1. [Report 4.19.16](#)
2. [Bond Rating Announcement](#)
3. [Financing Scenario - Refinance SRF Loans](#)

City of Oak Harbor
**Clean Water
 Facility Project**



CITY COUNCIL PROJECT UPDATE – April 19, 2016

The following is a snapshot of project activities and milestones, as well as anticipated upcoming activities and risks being monitored for the Oak Harbor Clean Water Facility Project. These updates are provided to City Council on a bi-weekly basis.

RECENT ACTIVITIES AND MILESTONES (PREVIOUS TWO WEEKS)

- Site Preparation Package B (Deep Excavation)
 - Completed installing the PSE underground powerline
 - Continued installation of tiebacks
 - Continued excavation to foundation elevation
- City Council Approved GMP #7 –Deep Foundation
- Held vendor outreach meeting on April 12
- Windjammer Park Integration Plan
 - Citizen Advisory Group meeting #4 and Open House held on March 29th

ANTICIPATED/UPCOMING ACTIVITIES AND MILESTONES (NEXT SIX WEEKS)

- Site Preparation Package B
 - Finish tie back installation
 - Continued excavation of cofferdam
 - Micropile installation
 - Bond sale schedule for April 19th
- Windjammer Park Integration Plan
 - Citizen Advisory Group meeting #5 on May 5th

CLEAN WATER FACILITY DESIGN STATUS

Item	Description	Progress %
Facility Design – Process Structures	Carollo Engineers completed the 90% design drawings for the process structures associated with the treatment plant.	90%
Facility Design – Biosolids Building	Design of the Biosolids building is at approximately 60%.	60%
Facility Design – Admin/Maintenance	Design of the Admin, Maintenance and Community room are at approximately 30%.	30%

CONSTRUCTION PACKAGE STATUS

Item	Description	Progress %
Site Preparation Package B	The design for the deep excavation package is complete. Construction has begun.	Completed
Site Preparation Package C	Preliminary work has begun on Site Preparation Package C. Work will include micro-piles in the bottom of the deep excavation and installation of a tower crane	Completed
Concrete Package	Design of the concrete structures for the Membrane Bioreactors and Aeration Basins has been completed. GMP #7 has been approved by Council.	Completed

PERMIT ACQUISITIONS STATUS

Pending Permits	Description
<ul style="list-style-type: none"> Foundation permit Site Plan Amendment 	<ul style="list-style-type: none"> Site Prep C – Micropiles – The design team has applied for a foundation permit. The design team submitted the revised the site plan submittal to reflect Concept B.

CONSTRUCTION STATUS

Item	Description	Estimated Completion
GMP #2 (Outfall Construction)	The subcontractor has completed their work. We are currently finalizing the paperwork for this phase of work.	Final Closeout
GMP #3 (Site Preparation A)	The subcontractor has completed their work and the contract is being closed out.	Completed
GMP #4 (Site Preparation B)	Construction activities have begun – Driving sheet piles completed. Excavation and tie backs have started.	May 2016
GMP #6 (Site Preparation C)	Reviewing shop drawings and preparing micropile installation	July 2016
GMP #7 (Deep Foundation Concrete)	Reviewing shop drawings and preparing concrete construction	May 2017

COST AND FUNDING STATUS

Major Cost Item	Cost Estimate	Description
GMP #1 (MBR/UV)	\$2,775,455.58 (includes sales tax)	Awarded by City Council on 12/2/2014 Includes Membrane Bioreactor and Ultra Violet Disinfection equipment procurement and design support. Does not include installation costs.
GMP #2 (Outfall)	\$2,164,488 (includes sales tax)	Awarded by City Council on 4/21/15 Construction of a new outfall from approximately the waterfront trail out into Oak Harbor Bay.
GMP #3 (Site Prep A)	\$908,872 (includes sales tax)	Approved by City Council 6/16/15. Preliminary site excavation and archaeological investigation. Preliminary results indicate this work will come in under budget or be delayed until Site Preparation Package B.
GMP #4 (Site Prep B)	\$5,109,549 (includes sales tax)	Site Preparation Package B will include utility relocates, minor demolition at the existing RBC Plant, stone column installation, sheet pile installation and deep excavation. City Council approved GMP #4 on October 20.
GMP #5 (Biosolids Dryer)	\$2,028,222	Bio-solids handling options were presented to City Council at a Special Workshop held on September 30 th . A Resolution and GMP #5 regarding a biosolids dryer were approved at the October 20 th City Council Meeting.
GMP #6 (Site Prep C)	\$4,311,589	Site Preparation Package C will includes installation of micro-

		piles, preparation for a tower crane and extension of the outfall to the site.
GMP #7 (Deep Foundation)	\$10,169,937	The Deep Foundation package includes the concrete construction to bring the Membrane building to grade and other construction activities.
Overall Project	TBD	90% design documents have been received by the City. Hoffman initiated cost estimates. Staff presented the updated cost estimate to City Council at a workshop on September 30th with options regarding biosolids handling and including a community/training room. 90% design for the non- process buildings is expected in August.

Funding: Pending	Description
2017 CWSRF - WWTP Construction	On January 21, 2016 we received news that the CWF is on the 2017 proposed funding list for an additional \$42,632,742 in SRF Loans at an interest rate of 1.6%. The final approved list comes from the state legislature and typically occurs around July.
Bonds	The City is actively pursuing issuance of bonds.
Rates	Ordinance 1760 was passed by City Council on March 15, 2016. Staff will continue to evaluate rates as the project progresses.
Funding: In hand	Description
2016 CWSRF – WWTP Construction	The City has been allocated \$15,631,311 at a reduced interest rate of 1.9% for 20 years and an additional \$463,154 forgivable principal for hardship and green project reserve. An additional \$4,586,846 in Centennial Grant has also been obtained.
2015 CWSRF – Outfall Design and Construction	The City has received \$3,200,000 in low interest loans from DOE for design and construction of the new outfall for the wastewater treatment plant. The loan is for 20 years at 2.7% interest.
2015 CWSRF – WWTP Design	The City has received \$8,260,000 in low interest loans for design of the new wastewater treatment plant. The loan is for 20 years at 2.7% interest.
2016 CWSRF – WWTP Construction	The City has been allocated \$15,631,311 at a reduced interest rate of 1.9% for 20 years and an additional \$463,154 forgivable principal for hardship and green project reserve. An additional \$4,586,846 in Centennial Grant was also offered.
Department of Commerce Grant	The City has received a \$2,500,000 grant from the Governors Capital Improvement Program. Staff has applied for grant reimbursement
Bond Anticipation Note	Staff has secured interim financing through US Bank to bridge the gap between CWSRF reimbursements and the issuance of revenue bonds. We are anticipating a \$10,000,000 short term loan (6 months) at 0.64% interest.
Reserves	The sewer fund has been accumulating reserves that have been earmarked for this project.

COMMUNICATIONS AND OUTREACH STATUS

Upcoming activities or In-Progress activities	Description
Project communications	The project team continues to implement the project communications plan

plan	through weekly e-mail updates, drop-in times at the construction site, project signage and regular mailers at major milestones.
Windjammer Park Integration Plan	The project team is preparing for the Fifth Citizen Advisory Group meeting to be held on May 5th.

PROJECT CONTACT INFORMATION

Web

www.oakharborcleanwater.org

Email

treatmentplant@oakharbor.org

General phone (24-hour)

360-914-7000

Project team contact information

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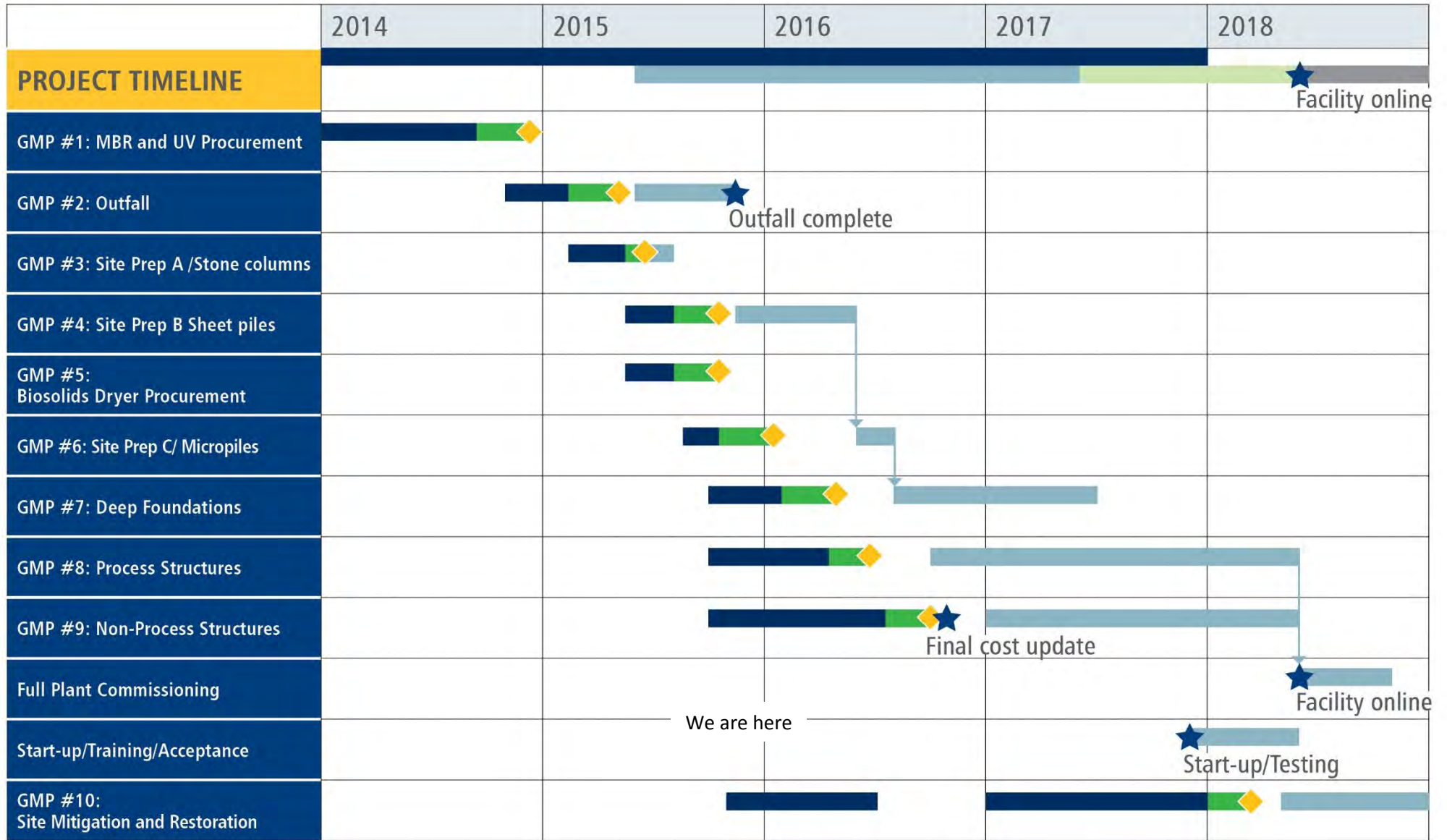
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Schedule



RatingsDirect®

Summary:

Oak Harbor, Washington; Water/Sewer

Primary Credit Analyst:

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Summary:

Oak Harbor, Washington; Water/Sewer

Credit Profile

US\$25.0 mil rev bnds ser 2016 due 10/01/2047

Long Term Rating

A+/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'A+' long-term rating to Oak Harbor, Wash.'s 2016 waterworks utility revenue bonds. The outlook is stable.

The rating is based on our view of the city's strong enterprise risk profile and very strong financial risk profile.

The strong enterprise risk profile reflects our view of the city's:

- Stable and diverse customer base with good income indicators,
- Moderate rates that are reviewed annually with preapproved rate increases for the sewer fund through 2018, and
- Good operational management with ample water supply although the city has some financial and operational risk related to the new wastewater treatment plant project.

The very strong financial risk profile reflects our view of the city's:

- Good projected coverage when debt service stabilizes in the outer years,
- Very strong liquidity that we expect to persist through the outlook period, and
- Good overall financial management.

The 2016 waterworks utility revenue bond proceeds will be used to provide funding for the City of Oak Harbor's new wastewater treatment plant and are secured by net revenue of the waterworks utility, which consists of both the water and wastewater systems of the city and any Utility Local Improvement District (ULID) assessments. Bond provisions are, in our view, adequate and credit neutral, and include a rate covenant and additional bonds test of 1.25x annual debt service. The city does not intend to fund a reserve for the 2016 bonds, but given the city's strong liquidity we do not consider this a credit weakness.

Enterprise Risk Profile

The City of Oak Harbor is located on Whidbey Island in Island County, which is located in northern Puget Sound, approximately 90 miles north of Seattle. Major employers in the area include Naval Air Station (NAS) Whidbey Island, Boeing, and local governmental entities. Income indicators are, in our view, good with median household effective buying income (EBI) at 107% of the national level in 2014. Unemployment rates in the county have historically been higher than the state and national rates. As of January 2016, unemployment in Island County stood at 6.7% compared with the state's 6.3% and the nation's 5.3%.

The customer base is primarily residential and very diverse. As of fiscal 2015, the sewer system had 5,943 customers (77% residential), while the water system had 5,998 customers (75% residential). Total accounts for both the water and the wastewater systems have remained essentially unchanged over the past five years. When combined, the top 10 leading water and sewer customers represent about 9.5% of operating revenue. The top customer, NAS Whidbey Island, represents about 6% of combined revenue and about 3.7% of sewer revenue. Management reports that when the new wastewater treatment plant project is complete, the Navy will no longer be a sewer customer. However, the city expects that the resulting decrease in operating expenses will offset the loss in revenue.

For water service, residential customers pay a base rate that depends on meter size and a three-tiered volumetric rate. Based on our benchmark monthly use of 800 cubic feet, we calculate a monthly water bill of \$61.20. A flat rate of \$64.75 is levied for sewer service, and the city has adopted annual sewer rates through fiscal 2018, with increases of 20% for fiscal 2017 and 15% for fiscal 2018. When combined and annualized, rates represent about 2.9% of median household EBI. Given the county's relatively moderate poverty rate, we view the rates as affordable, which provides the city with future rate settling flexibility.

The majority of the city's water (about 99.7%) is purchased from the City of Anacortes, which obtains its water supply from the Skagit River. The agreement with Anacortes extends through 2025, and management expects no issues with renewing. The remainder of the water supply comes from city-owned wells. Through the funding provided by this bond issue, the city is pursuing the building of a new wastewater treatment plant to replace the existing Seaplane Base Sewage Lagoon facility. According to management, the outfall had failed at the existing plant and the plant is nearing the end of its useful life. As a result of the outfall failure, the city is sending its flows to NAS Whidbey Island for treatment. The new plant will employ membrane bioreactor technology and will have capacity to treat 1.9 million gallons per day, which is ample for the current average maximum flows of about 0.6 mgd. At the completion of the new facility, the existing plant will be abandoned and demolished.

Based on our operational management assessment, we assign the city a score of '2' on a six-point scale on which '1' is the strongest. This indicates, in our view, that operational and organizational goals are generally well aligned, even if some challenges exist. In general, we view the city as having ample water supply and expected wastewater treatment capacity. However, there are some financial and operational risks related to the design and construction of the new wastewater treatment plant. Management also reports that it participated in the Local Government Financial Performance pilot program, which serves to track the financial health of local government entities, and is regularly involved in maintaining the presence of NAS Whidbey Island. Rates are reviewed annually and we view the adoption of multiyear approved rate increases as a strong practice.

Financial Risk Profile

Prior to this bond issue, the combined water and wastewater system had minimal debt resulting in all-coverage levels in excess of 4x over the past three years when including the capital payments to Anacortes as fixed costs. Based on management's projections, we estimate that coverage will fluctuate in the near term as the city's debt burden reaches its maximum of \$4.2 million to \$5.4 million for the next 20 years depending on the city's decision on its debt structuring. In the current projection, we may see insufficient coverage of about 0.9x in fiscal 2018 largely as a result of

the timing of the state revolving fund (SRF) loan amortization schedule, although the exact timing is uncertain. Management expects to fund a rate stabilization reserve to manage the coverage during this period. With the preapproved rate increases for the sewer fund, we expect coverage to eventually stabilize to a good 1.2x to 1.5x in the outer years.

The combined water and wastewater system's unrestricted cash has been very strong over the past three years. At the end of fiscal 2014, the system had about \$19.7 million in unrestricted cash, which represented over 2.5 years of operating expenses. Based on unaudited fiscal 2015 data, we expect cash to increase to nearly \$32.4 million, or more than four years of operating expenses. Based on the city's funding plan for its capital improvement program (CIP), we expect cash to be maintained at a very strong level through the two-year outlook horizon. Depending on the final project cost and the funding secured, management reports that it may spend down \$5 million to \$10 million of cash reserves.

Over the next five years, the city expects to spend about \$95.7 million on capital projects with \$89.7 million coming from bond proceeds and loans. The city has received indication that the state expects to be able to award the anticipated \$58.5 million in SRF loans for the project. However, in the event that the funding does not occur, the city is prepared to issue additional debt to fund the project. In addition to the SRF loans, the city expects to issue \$7 million to \$10 million of new debt to finance portions of the water CIP.

Based on our financial management assessment (FMA), we assign Oak Harbor a score of '2' on a six-point scale on which '1' is the strongest. A good FMA indicates our view that practices are good but not comprehensive. The government maintains many best practices deemed critical to supporting credit quality, particularly within the finance department. These practices, however, may not be institutionalized or formalized in policy, may lack detail or long-term elements, or may have little recognition by decision makers outside of the finance department. The good FMA includes monthly reporting of intra-year financials and annual reviews of long-term financial and capital plans. The city has also adopted comprehensive and prescriptive investment, liquidity, and debt management policies.

Outlook

The stable outlook reflects our expectation that the waterworks utility will meet its projected coverage metrics given the preapproved rate increases for the sewer fund that were made in preparation for the additional leverage. Although the city anticipates some additional debt for the water system and possibly for the wastewater plant project, depending on any loan or grant funding shortfalls, we expect the city to take the necessary actions to maintain at least good coverage when the financing plan becomes more certain. The city's stable and diverse customer base provides additional stability to the credit.

Upside scenario

Although we do not anticipate doing so during the outlook period, we may raise the ratings if the city is able to meet and exceed its financial projections such that it sustains a track record of financial performance that is comparable with that of higher-rated peers.

Downside scenario

If the city does not meet its financial projections or if cost overruns on the new wastewater treatment cause the city financial distress, we may lower the ratings.

Related Criteria And Research

Related Criteria

- USPF Criteria: Rating Methodology And Assumptions For U.S. Municipal Waterworks And Sanitary Sewer Utility Revenue Bonds, Jan. 19, 2016
- USPF Criteria: Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29, 2011
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- U.S. State And Local Government Credit Conditions Forecast, Jan. 11, 2016
- U.S. Municipal Water And Sewer Utilities 2014 Sector Outlook: Learning To Do More With Less, Jan. 9, 2014

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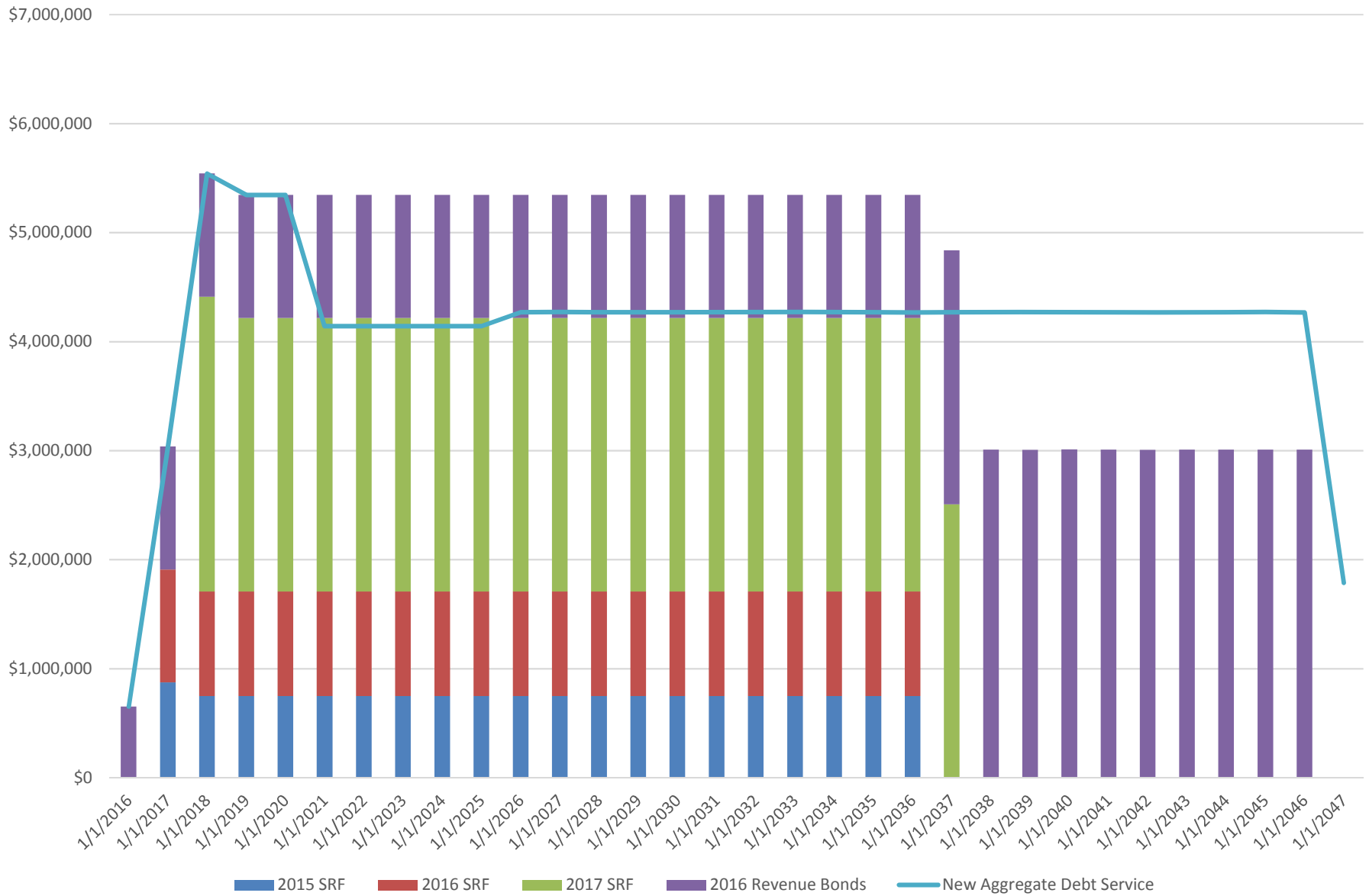
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City of Oak Harbor - Projected Sewer System Debt Service Scenario: SRF Reamortization and Revenue Bond Refunding



City of Oak Harbor - Projected Sewer System Debt Service
 Scenario: 30-Year SRF Loans with 30-Year Revenue Bond (Level DS)

