



Council Meeting Staff Report

October 30, 2018

Agenda No.:	A.
Indexes (Council Goals):	BCC - N/A
Presenters:	Bob Westervelt
Legislative File:	OR0826-18b

Title

Incorporated County of Los Alamos Code Ordinance No. 687, An Ordinance Authorizing the Incorporated County of Los Alamos to Enter Into a Loan Agreement and Promissory Note With the New Mexico Environment Department for the Purpose of Obtaining Loan Funds for the Construction of a New Wastewater Treatment Facility, Declaring the Necessity for the Loan, Restricting the Use of the Loan Funds Solely for the Project, and Pledging Loan Will be Payable from the Revenues of the Wastewater System

Recommended Action

I move that Council adopt Incorporated County of Los Alamos Ordinance No. 687, An Ordinance Authorizing the Incorporated County of Los Alamos to Enter Into a Loan Agreement and Promissory Note With the New Mexico Environment Department for the Purpose of Obtaining Loan Funds for the Construction of a New Wastewater Treatment Facility, Declaring the Necessity for the Loan, Restricting the Use of the Loan Funds Solely for the Project, and Pledging Loan Will be Payable from the Revenues of the Wastewater System and ask staff to assure that it is published in summary form.

Utilities Manager Recommendation

The Utilities Manager recommends that Council adopt the ordinance as presented.

Board, Commission or Committee Recommendation

The Board of Public Utilities recommends that Council adopt the ordinance as presented.

Body

For the past two or more years the DPU and BPU have been discussing and planning for the necessary replacement of the White Rock Treatment Facility, which, built in 1965, is already operating beyond its design life expectancy. Several actions have been taken to ensure the utility is financially capable of proceeding with this badly needed project.

In January/February 2018 the BPU and Council enacted an ordinance and resolution authorizing transfer of excess cash reserves from the Gas fund to the Wastewater fund. \$2.5 million was transferred and in February those funds were used to pay down the balance of the outstanding loan that was used for construction of the Los Alamos Wastewater Treatment Plant. In August 2018 an ordinance was adopted for approval of refinancing that loan for a slightly longer term, and at a lower rate, further improving the financial position of the utility. That refinancing paperwork has been submitted to the State and is expected to be completed in October or early November.

NMED is offering long term financing for projects such as this at a 2-3/8 percent annual interest rate and will finance the project for up to thirty-five years. In May the Board considered financing options for the new plant. While total cost of a longer term is slightly higher, annual cash flow is significantly improved by extending. After considering the various alternatives, the Board elected to pursue the thirty-year repayment schedule for the loan. This ordinance authorizes and effects that financing option.

Per the most recent engineering estimate, the White Rock Wastewater Treatment Plant construction project was budgeted for \$1.52M for engineering in FY19 and \$13M for construction in FY20. Recent industry projections indicate final costs may be somewhat higher. Please refer to the attached memorandum by Jack Richardson for discussion and analysis of these indications. It should be noted that Mr. Richardson's memo discusses a previous proposed project scope that included work at the Los Alamos Wastewater Treatment Plant. In the interest of cost control, the LA Plant work will be deferred until after the White Rock plant is completed. A value engineering study will also be completed as part of the Engineer's scope of work in another attempt at cost reduction. Overall, staff is confident that the \$17M loan amount should be more than sufficient for the project needs.

While we are still hopeful that final construction bids will come in at or near the \$14.4M budgeted amount, staff feels it would be prudent to ensure funding availability for a higher cost project. Our original approval from NMED was for a loan amount of \$17.7 M, and current financial projections indicate debt service on that amount would have been possible, due in large part to cost savings through refinancing of the LA Plant loan, and reasonable extension of the terms of both loans. Staff is recommending authorization to proceed with a loan amount not to exceed \$17M and with a term length of 30 years. The final loan amount, of course, would only be the amount required to complete the project, and any project cost over the existing budget authority would need to be reviewed and approved by both Board and Council, but as proposed the financing would already be in place upon such approvals.

Alternatives

Several alternative financial scenarios were presented and discussed by the Board at the May, 2018 regular meeting. Any of those scenarios could be reconsidered as an alternative to the proposal presented here.

Fiscal and Staff Impact/Planned Item

With the current interest rates and the planned thirty-year term, the financial impact of this loan would be debt service payments of \$798,743.40 if the entire \$17M was drawn. Debt service on the planned loan amount of \$14.4M would be \$681,281.14.

Attachments

- A - Incorporated County of Los Alamos Ordinance No. 687
- B - CWSRF Project Description
- C - Engineer's Memorandum Regarding Potential Cost Escalation Due to Tariffs
- D - Notice of Public Hearing