



ARLINGTON COUNTY, VIRGINIA

<p style="text-align: center;">County Board Agenda Item Meeting of September 13, 2008</p>
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DATE: August 22, 2008

SUBJECT: Authorize the County Manager to approve bonds to finance the upgrades and expansion of the Water Pollution Control Plant (“WPCP”) identified in the Department of Environmental Services Master Plan 2001 Update (“DES WPCP MP01”).

C. M. RECOMMENDATIONS:

1. Approve the attached Resolution by roll call vote authorizing the County Manager to approve long-term fixed rate bonds of up to \$50.0 million to finance the improvements identified in MP01.
2. Appropriate up to \$50.0 million to be received from bonds to provide funding for MP01.
3. Authorize the County Manager and the Director of Management and Finance to negotiate any changes to the bond agreements that are to the benefit of the County with the approval of the County Attorney.

ISSUE: Should Arlington County issue bonds to the Virginia Department of Environmental Quality Water Facilities Revolving Loan Fund (“VRLF”) as one of the financing mechanisms to continue reconstruction of the WPCP? The loans will fund portions of previously executed construction contracts.

SUMMARY: Staff recommends utilizing VRLF long-term financing for MP01 project costs to the maximum extent possible due to its low interest rates. Staff applied for funding in July 2007 and received notification from the DEQ in December 2007 that the County was authorized for loans in the aggregate amount of \$50.0 million. Pursuant to the sale of VRA bonds at the end of July 2008, the interest rate has been set at 3.55 percent. If approved, this bond issuance would be

<p>County Manager: _____</p>

<p>County Attorney: _____</p>

<p>Staff: Larry Slattery, Department of Environmental Services, Water Pollution Control Bureau, Robert Griffin, DES, Victoria Greenfield, DES, Elizabeth Craig, DES, Jean Wilson, DMF</p>

the fourth bond issuance under the VRLF, as shown in the table below. All proceeds from prior VRLF bond issues are expected to be depleted by September 2008. The VRLF loans are one of the largest funding sources for MP01 along with a \$96 million grant from DEQ Water Quality Improvement Fund (“WQIF”), the Inter-jurisdictional (IJ) partners for their proportionate share of MP01 upgrade costs, as well as County General Obligation bonds.

Summary of VRLF Financing 2004 through 2008

Loan Number	Loan Closing	Amount
1	Jun 2004	\$100 million
2	Jun 2007	4 million
3	Jun 2007	76 million
4	Oct 2008	50 million
Total		\$230 million

BACKGROUND: In January 2003, the County Board endorsed the WPCP MP01 to enable the County to meet current and future capacity demands in the most environmentally appropriate manner. The capital improvements outlined by MP01 provided for redundancy and increased capacity sufficient for existing and future flows estimated to meet needs out to the years 2015-2020. The MP01 projects will provide a positive environmental impact for Four Mile Run, the Potomac River, and the Chesapeake Bay. Additionally, the projects address external wet-weather bypasses, upgrade aging infrastructure, and improve reliability, odor control, and plant security.

Consent Order VA-0025143 was entered into on March 23, 2005 with the DEQ State Water Control Board to address weather related external bypasses and to set a compliance schedule to complete the construction of the various phases of the MP01 (reference County Board meeting November 16, 2004). The consent order affirms the County’s prior commitment to performing this work in a timely manner as well as places the County in priority status for obtaining low cost funds from the VRLF, and provides partial relief from regulatory action concerning bypasses.

In 2007, the County executed a grant agreement with the DEQ Water Quality Improvement Fund to pay for portions of the construction associated with reducing effluent nitrogen concentration. The grant places the County in priority status for obtaining low cost funds from the VRLF. The current allowable level is 8 mg/l for total nitrogen on an annual average basis, and the County is committed to meet a level of 3.0 mg/l when construction is complete.

With County Board direction to proceed with the MP01 work, staff sought the lowest cost financing available. In December 2002, staff engaged Public Financial Management (PFM), the County’s Financial Advisor, to identify and compare funding sources. Because interest rates under the VRLF program are approximately 100 basis points lower than what the County could obtain in the financial markets, the County’s objective is to maximize funding through VRLF.

The Virginia General Assembly created the VRLF in 1986 to provide long-term, low-cost financing to local governments for wastewater treatment improvements. The Federal Water Quality Act of 1987 established a State Revolving Fund Capitalization Grant Program. Federal Capitalization Grants are awarded to states for deposit in a State Water Pollution Control Revolving Loan Fund. States are required to provide a 20% funding match in order to receive the annual Federal Capitalization Grants. Virginia deposits the federal grants and its matching funds into the VRLF and, in turn, loans the funds to local governments at below-market rates. As principal and interest is repaid, the money is then re-loaned for additional projects. The VRLF is administered by DEQ Capital Assistance Program, with financial management services provided by the Virginia Resources Authority. The monies are borrowed similar to a construction loan with drawdown amounts based on actual, DEQ-approved contractor invoices. When the drawdown of loan funds is complete, the loan converts to a 20-year term.

The WPCP treats a portion of the wastewater for its three IJ partners (Fairfax County and the City of Falls Church and the Alexandria Sanitation Authority), which contribute a contractually stipulated pro-rata share to the upgrade portion of the MP01 and non-expansion capital. They presently reserve 6.8 million gallons per day (MGD) of the Plant's 30-MGD rated capacity.

It is anticipated that the VRLF loans will be applied for annually during the MP01 duration. The DEQ Capital Assistance Program prefers annual funding requests so that they can better meet the needs of all the municipal projects throughout the state. The final annual funding amount for each jurisdiction is determined by several criteria and is subject to competition for funding statewide.

DISCUSSION: The MP01 total cost is currently projected at \$568 million. The project was 55 percent complete at the end of July 2008, and is expected to be completed in the spring of 2011. The current financing plan assumes that VRLF bonds will account for approximately 51% of the overall funding, including \$60 million in 2010 and 2011 requests for VRLF funding. The County has an agreement with the Virginia Department of Environmental Quality for a WQIF grant in the amount of \$96 million. At this time it is difficult to project how much of this grant will be funded, based on competing projects throughout the Commonwealth and budgetary issues, but the County is anticipating that at least \$63 million, or 11 percent of the project funding will come from this source. In addition to uncertainties regarding the WQIF grant, in the event that circumstances change regarding the availability of VRLF funding, bonds issued or to be included on bond referenda total \$126 million, in order to assure that adequate funding is in place to complete the MP01 projects.

Summary of MP01 Funding Sources

Funding Source	Amount	Percentage of Costs
VRLF	\$290 million	51%
WQIF	63 million	11%
Interjurisdictional Partners	89 million	16%
GO Bonds	126 million	22%
Total	\$568 million	100%

The financial impact on County ratepayers is minimized by securing funding from the IJ partners and the WQIF Grant (combined portion of approximately 28 percent of total project costs), as well as by reduced interest costs using the VRLF program, as the 3.55 percent interest rate represents significant savings over traditional general obligation or revenue bonds. General obligation bonds in the amount of \$27.4 million were included in the 2008 bond issue to fund project costs that are not covered by the \$50 million VRLF funds over the next year.

The requirement for advance notice of a public hearing has been satisfied by the advertised appearance on the County Board's agenda prior to the meeting date.

FISCAL IMPACT: This VRLF bond issue will fund up to \$50.0 million of MP01 construction costs. The VRLF bond issue will result in debt service cost savings due to a lower interest rate relative to GO or revenue bond debt.

The cost of the MP01 project is included in the annual projections for the Water Sewer Rate. Rate increases are projected to range from 10%-15% per year for several years for funding of all Utilities Fund projects and operating expenses.

Attachments