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Santa Cruz City Council approves \$128 million loan for water system upgrades

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5–6 minutes

SANTA CRUZ — The Santa Cruz City Council on Tuesday voted to authorize the city of Santa Cruz to enter into a loan agreement with the United States Environmental Protection Agency for the amount of \$127.7 million for water system improvement projects.

The projects that the water department would fund using the federal WIFIA loan include rehabilitation and replacement to the Graham Hill Water Treatment Plant, Newell Creek Pipeline, university tank No. 4 and aquifer storage and recovery improvements.

According to Santa Cruz Water Department Director Rosemary Menard, acquiring the loan to fund the various projects will help bolster and prepare the water supply infrastructure for the impacts of climate change, present and future.

“We clearly have adverse impacts of climate on a number of aspects of our infrastructure both on the dry side and the wet side that we are trying to address,” said Menard at the City Council meeting Tuesday. “We are a big business, with our operating budget and our capital budget, and we obviously have situations where we need to have flexibility to adapt to changing circumstances.”

During recent storms, the [Newell Creek Pipeline](#) — the main artery supplying water from Loch Lomond Reservoir to the Graham Hill

Water Treatment Plant — was shut down due to storm damage and required emergency repairs. Similar fixes were required in 2017, 2019 and 2020. One of the proposed projects that will receive funding from the loan includes replacing about 4.4 miles of the original pipeline, built in the 1960s, from inside Henry Cowell State Park, where its been repeatedly damaged, and aligning it with Graham Hill Road.

At the meeting Tuesday, Menard pointed out that using the loan to fund the projects instead of paying upfront allows the water department to spread the financial burden brought on by the improvements and replacements over time so that current rate payers don't see a massive increase in the short-term.

“The infrastructure we are investing in is very long-lived,” said Menard. “It wouldn't be fair or reasonable for just the current rate payers to pay the whole bill, so debt financing the vast majority of this infrastructure reinvestment is really important to sharing those costs over time.”

The loan comes through the U.S. Environmental Protection Agency's [WIFIA program](#), which was established by the 2014 Water Infrastructure Finance and Innovation Act. The intent of the WIFIA program is to invest in water infrastructure projects by providing long-term, low-cost supplemental loans.

However, the WIFIA loan would only pay for about 49% of the total cost of the four projects. Additional funding will have to be acquired from conventional market rate debt, grants and the [Drinking Water State Revolving Loan Fund](#), which is also facilitated through the Environmental Protection Agency.

The Graham Hill Water Treatment plant facility improvement project alone has an estimated cost of \$158 million, according to the staff presentation, and combined with the \$41 million needed for the Newell Creek Pipeline replacement and realignment, \$6 million for

the replacement of 400,000 gallon university tank No. 4 and about \$95 million needed to expand aquifer storage and recovery, the estimated price tag for all the projects would be around \$300 million.

“When completed, these projects will build resilience, improve supply reliability, improve water quality, increase operational flexibility to balance the demands of meeting water supply needs and also instream flows,” said Menard. “And replace critical infrastructure that’s reached the end of its useful life.”

After public comment, where water rates were brought up, Councilmember Sandy Brown asked Menard to clarify what the loan would mean in terms of [rates](#) for water customers. Menard pointed out that the projects’ financing had already been considered and factored into the current rate structure.

“Actually, our long range financial plan looked out 15 years and took the major capital reinvestments that needed to be done and spread those out over that period of time,” said Menard. “We have a long range view of what it’s going to take, and out of that financial plan comes the five-year estimated revenue requirements that are added to the operating revenue, that will, along with the strategy of debt financing, versus pay-as-you-go, becomes the basis for the rate revenue that we need to generate.”

The [motion](#) to authorize the city to enter the loan agreement for \$127.7 million with the U.S. Environmental Protection Agency was then passed by a unanimous vote with all councilmembers present.