

**STATE WATER RESOURCES CONTROL BOARD
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE
MAY 15, 2012**

ITEM 3

SUBJECT

CONSIDERATION OF A RESOLUTION TO APPROVE A CLEAN WATER STATE REVOLVING FUND (CWSRF) PRELIMINARY FUNDING COMMITMENT (PFC) FOR THE VALLEY CENTER MUNICIPAL WATER DISTRICT (DISTRICT), WOODS VALLEY RANCH WATER RECLAMATION FACILITY (WVRWRF) EXPANSION (PROJECT), CWSRF PROJECT NOs. C-06-7454-110, 7454-120, & 7454-130.

DISCUSSION

The District is located approximately 20 miles north of the City of San Diego within an unincorporated area of northern San Diego County, within the jurisdiction of the San Diego Regional Water Quality Control Board (San Diego Water Board). The District is proposing to construct new sewer collection pipelines, treatment plant upgrades, and seasonal storage of the treated effluent for disposal on an adjacent golf course. The Project will offer an alternative wastewater treatment solution over the use of existing and future on-site disposal systems (i.e. septic tanks) that are contaminating the high groundwater within the District's South Village service area.

On March 26, 2012, the Assistant Deputy Director of the Division of Financial Assistance (Division) issued a Facilities Plan Approval (FPA) for the District's Project, and the District has concurred. The Project, however, has two unique aspects. First, the District currently does not have a dedicated source of funds for repayment of the financing agreement. The District is proposing to form a new assessment district for the repayment of the CWSRF financing, and the chances that voters will approve the assessment district will be higher if a PFC is approved in advance of the assessment proceedings. A PFC provides the community with a sense of security and the District support for incurring the costs of establishing the necessary repayment source. Second, the District is requesting financing to buy reserve capacity from the developer that originally constructed the WVRWRF.

Division staff found that the Project is listed on the CWSRF Program Priority List (PPL) as Project No. C-06-7454-110. However, the Project conflicts with Section IX.E.2 of the CWSRF Policy governing the internal management of the CWSRF Program. Accordingly, the proposed Resolution would: (1) grant a waiver of Section IX.E.2 of the CWSRF Policy by approving a PFC before the District has adopted the dedicated source of repayment with conditions regarding disbursement of funds, and (2) clarify that financing the purchase of a portion of the capacity that was built into the WVRWRF and other common facilities constructed by a developer is a buy-in cost in accordance with Section IX.G.1(n) of CWSRF Policy and not a refinancing cost.

The District submitted a draft dedicated source of revenue resolution that, when adopted, will dedicate the South Village service area annual assessment installments and net revenues of the District. These projected revenue sources would generate at least 110 percent of the annual debt service for the repayment of the proposed CWSRF financing agreement. The District intends to provide the adopted dedicated source of revenue resolution and the Proposition 218 legal opinion after the assessment is approved.

The District provides water and wastewater services to the Valley Center area. The District owns and operates the WVRWRF, which currently serves the Woods Valley Ranch subdivision and a golf course. The WVRWRF currently has a treatment capacity of 70,000 gallons of wastewater per day (gpd), however, the developer that constructed the WVRWRF incorporated additional future treatment capacity into several of the components within the facility. The permitted waste discharge limit of the WVRWRF was previously increased to 147,000 gpd based on the District's expectation that a new subdivision (Orchard Run) within the District's South Village Service area would be constructed; however, that did not occur. At this time, it is unknown whether the Orchard Run subdivision will participate in the proposed Project (also known as the Phase 2 project).

The major land use in the District is large residential parcels with isolated areas zoned for higher density residential and limited commercial/industrial development. Except for these isolated areas, wastewater treatment in the District is achieved through on-site waste disposal facilities (i.e. septic tank and leach field systems). However, these on-site waste disposal facilities are contaminating the high groundwater within the District, and it is doubtful that use of such facilities can accommodate build-out within the District's service area.

The proposed Project will serve a subset of the District's service area known as the South Village service area. The Project will be split into three segments. The first segment will consist of constructing approximately five miles of low pressure wastewater collection lines ranging from 2 to 6 inches in diameter (CWSRF No. 7454-110). The second segment will expand the treatment capacity of the existing WVRWRF from 70,000 gpd to 157,500 gpd to accommodate additional residents in the South Village service area (CWSRF No. 7454-120). The third segment will construct wet weather storage basins with an approximate capacity of 19 acre-feet (CWSRF No. 7454-130) to hold recycled water to meet the San Diego Water Board's requirements for inland discharge plants. As part of the third segment, approximately 600 linear feet of recycled water distribution pipe and a small pumping facility consisting of at least two-75 gallons per minute vertical turbine pumps will be installed.

In addition, as part of the proposed Project, the District requests financing to purchase a portion of the capacity built into the WVRWRF and other common facilities (i.e. access road, administration building etc.) constructed by the developer. Purchasing this capacity from the developer is consistent with the Water Reclamation Facilities Agreement between the Developer and the District, and will be more economical than constructing a new facility.

Division staff conducted a Tier II environmental review, reviewed the environmental documents provided by the District, and determined that the Project will not result in any significant adverse water quality impacts.

The District is the lead agency under the California Environmental Quality Act, and prepared an Environmental Impact Report (EIR; State Clearinghouse No. 2007101049) for the South Village Wastewater Master Plan, which includes the Project and a larger Ultimate Service Area Expansion (The District will prepare additional environmental documents to fully address the Ultimate Service

Area Expansion, which is not part of the Project.) The District certified the final EIR, adopted a Mitigation Monitoring and Reporting Program and a Statement of Overriding Consideration for significant unavoidable agricultural impacts associated with the proposed West Site location for the seasonal storage pond, and approved the Project on April 7, 2008. The District filed a Notice of Determination with the San Diego County Clerk and the Governor's Office of Planning and Research on April 10, 2008.

The District prepared an addendum to the EIR to address updates to the South Village Master Plan Report and Project changes, including relocating the seasonal storage pond on two parcels along Charlan Road and modifying the treatment process configuration. The District determined that the Charlan Road seasonal storage pond will not result in any significant unavoidable environmental impacts, and thus, the Statement of Overriding Consideration is not applicable to the revised Project. No new significant environmental impacts were identified. The District certified the addendum to the EIR and approved the revised Project and the South Village Master Plan Report update on January 18, 2011, and filed a Notice of Determination with the San Diego County Clerk on January 20, 2011, and the Office of Planning and Research on January 24, 2011.

The Project area is located in the draft North County Multiple Species Conservation Program (NCMSCP) Subarea Plan. There are no regional biological corridors or linkages in the Project area. The nearest biological linkage is the Moosa Creek linkage located approximately two miles northwest of the Project area. None of the listed special-status species or critical habitat in the draft NCMSCP Subarea Plan were identified in the Project area. However, portions of the Project area are located in the pre-approved mitigation area of the draft NCMSCP Subarea Plan. The District will comply with the NCMSCP Subarea Plan requirements (when approved) by mitigating impacts to vegetation communities accordingly.

The District consulted with the United States Department of the Interior Fish and Wildlife Service and the California Department of Fish and Game; both agencies had no concerns for the revised Project. The District will implement mitigation measures to ensure less than significant biological resources impacts. Therefore, no impacts to federal special-status species are anticipated.

Division staff will file a Notice of Determination with the Office of Planning and Research following funding approval.

FISCAL IMPACT

Applicant's Finances:

A credit review analyzed the District's ability to enter into a financing agreement for the combined amount of \$13,497,000 for construction and allowance costs. The credit review provided recommendations regarding the financing agreement terms, maximum CWSRF financing amount, financial capacity and reserve fund requirements for the financing agreement.

The District's estimated 2011 median household income is \$80,121, approximately 136 percent of the State of California median household income. The estimated 2011 population of the District is 8,904. The District does not qualify as a disadvantaged community.

After allowing for the operations and maintenance costs at \$36,950,621 in fiscal year 2010/11, for the District, the net revenues available for debt service are \$370,719. When the standby charges and the projected assessment funds are added, the estimated total available for debt service is \$1,231,019.

The District has one outstanding debt, the 1993 Refunding Revenue Bond, issued for \$1.4 million with a current balance as of June 30, 2011 of approximately \$165,000. The Bond will mature in July of 2012. Parity debt may be issued if the Bond is not in default and if net revenues equal at least 1.00 times the annual debt service.

The District plans to pledge the South Village annual assessments and net revenues of the District to the repayment of the proposed financing agreement. The District plans to put the assessment to a vote in November 2012.

A financing agreement in the amount of \$13,497,000 for a term of 20 years at an estimated interest rate of 2.20 percent will have an annual debt service of \$841,449. When added to the existing debt service of \$103,883, the total will be \$945,332. When compared to the net revenues of the District plus the projected annual assessments, the result would be debt service coverage of 1.30 times. This exceeds the CWSRF policy requirement that debt service be covered at least 1.10 times by the dedicated source of revenue and the Bond covenant that debt service be covered at least 1.00 times.

Revenues and expenses of the District are summarized below:

Fiscal Year	2006/07	2007/08	2008/09	2009/10	2010/11
Operating Revenues	\$40,956,262	\$36,480,524	\$35,355,240	\$35,521,669	\$34,359,565
Tax & Assessments	\$2,667,856	\$2,810,946	\$2,764,166	\$2,595,610	\$2,513,255
Investment Income	\$1,003,835	\$898,899	\$476,566	\$220,489	\$132,978
Non-Operating Revenues	\$551,038	\$256,550	\$192,882	\$208,413	\$315,542
Total Revenues	\$45,178,991	\$40,446,919	\$38,788,854	\$38,546,181	\$37,321,340
Operating Expenses	\$39,038,976	\$35,312,680	\$36,379,582	\$37,467,652	\$36,950,621
Net Available for Debt Service	\$6,140,015	\$5,134,239	\$2,409,272	\$1,078,529	\$370,719
South Village Special Assessment Revenues	\$0	\$0	\$0	\$0	\$860,300
Total Dedicated Revenue	\$6,140,015	\$5,134,239	\$2,409,272	\$1,078,529	\$1,231,019
Existing Debt Service*	\$108,791	\$105,289	\$99,470	\$100,929	\$103,883
Proposed Debt Service**	\$0	\$0	\$0	\$0	\$841,449
Total Debt Service	\$108,791	\$105,289	\$99,470	\$100,929	\$945,332
Debt Service Coverage	56.44	48.76	24.22	10.69	1.30

*The existing debt will be paid in full in July 2012, making the debt service coverage 1.46.

**Proposed debt shown for comparative purposes. Proposed debt service is scheduled to begin in September 2013.

The District will be required to establish a reserve fund in an amount equal to one year's annual debt service from available cash to be maintained in a restricted fund for the term of the financing agreement. A reserve fund in the amount of one year's debt service is maintained so that in the event of non-payment, there are funds available to make the payment. It is the belief of Division staff that the District is more than capable of funding a reserve fund equal to one year's annual debt service prior to the construction completion date of the project.

Based on the Division's review of the District's finances, the District qualifies for a PFC for the maximum amount of \$13,497,000.

Clean Water State Revolving Fund Finances:

(as of 04/03/2012)	SFY	SFY	SFY	SFY	SFY
	2011-12	2012-13	2013-14	2014-15	2015-16
Beginning Balance:	\$432,604,699	\$244,075,736	(\$30,434,653)	(\$64,280,165)	\$79,086,212
Estimated Repayments	\$222,133,150	\$232,133,150	\$242,133,150	\$252,133,150	\$262,133,150
Debt Service on Revenue Bonds	(\$30,228,204)	(\$27,714,204)	(\$23,821,829)	(\$20,966,279)	(\$19,356,506)
Estimated Capitalization Grants	\$68,764,114	\$97,036,800	\$28,800,000	\$28,800,000	\$28,800,000
Local Match Credits	\$3,388,414	\$2,554,104	\$853,177	\$891,958	\$1,008,300
Est. SMIF Interest:	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000
<u>Estimated Disbursements</u>	(438,086,437)	(\$526,603,120)	(261,579,107)	(\$116,545,586)	(\$37,853,808)
Subtotal	\$260,075,736	\$22,982,467	(\$42,549,263)	\$81,532,078	\$315,317,348
Pending Preliminary Funding Commitments	Estimated Disbursements				
Mission Springs Water District, #4250-310 (02/23/2012)		(\$5,159,683)			
City of San Clemente, #4516-110 (10/17/2011)		(\$7,422,003)	(\$4,948,002)		
City of San Diego, #4905-120 (02/10/2012)		(\$2,460,000)	(\$1,728,200)		
South Bayside System Authority, #5216-120 (11/10/2011)	(\$13,000,000)	(\$19,000,000)	(\$4,329,000)		
City of Redding, #5380-110 (11/15/2011)	(\$500,000)	(\$11,500,000)	(\$600,000)		
Santa Clarita Valley Sanitation District, #7045-110 (01/23/2012)	(\$2,500,000)	(\$2,250,000)			
City of Yuba City, #7113-110 (02/21/2012)		(\$750,000)	(\$3,050,000)	(\$900,000)	
Valley Center MWD, #7454-110 (11/08/2011)		(\$437,268)	(\$1,083,204)	(\$180,528)	
Valley Center MWD, #7454-120 (11/08/2011)		(\$4,003,166)	(\$4,095,996)	(\$1,365,338)	
Valley Center MWD, #7454-130 (11/08/2011)		(\$435,000)	(\$1,896,500)		
	\$244,075,736	(\$30,434,653)	(\$64,280,165)	\$79,086,212	\$315,317,348

Notes:

- Estimated repayments include repayments from existing and future financing.
- Estimated disbursements include disbursements remaining on executed financing and planned disbursements on projects with preliminary funding commitments. Local match credits are the anticipated funds that will be contributed for local match financing included in "Estimated Disbursements."
- The State Water Board approved the sale up to \$300 million in revenue bonds on September 22, 2005 in Resolution No. 2005-0064

The District submitted a draft dedicated source of revenue resolution that, when adopted, will dedicate the South Village service area annual assessment payments and the net revenues of the District. The combined revenue sources are projected to generate at least 110 percent of the annual CWSRF debt service for the repayment of the proposed financing agreement.

At this time the boundary of the assessment district has not been established. Based on the District's analysis, a minimum participation of 350 Equivalent Dwelling Units is necessary for a cost-effective project. If the assessments are approved, then the District will provide the adopted dedicated source of revenue resolution and a Proposition 218 legal opinion.

The Schedule of System Obligations submitted by the District indicates that the District has outstanding 1993 Refunding Revenue Bonds held by California Bank and Trust, which will be repaid in full by July 2012.

The District also has Assessment District 96-1 limited obligation improvement bonds used to refund expansion costs to the Lower Moosa Canyon Water Reclamation Facility. These are secured solely by the unpaid assessments levied on properties within AD 96-1. None of the properties in the proposed South Village Assessment District are located within AD 96-1.

The District has submitted a legal opinion confirming that the Project is not subject to the election requirements or debt limitations in the District's Ordinance 171.

The District has not provided a legal opinion on access and ownership of Project property because it has not secured the rights to the property required for the seasonal storage. The land for the seasonal storage will not be secured until after the State Water Board approves the PFC. An option contract for purchase of one of the parcels constituting the seasonal storage site has been obtained, and a letter of interest has been obtained from the property owner of the other site. Once the PFC is approved, the District will move forward to acquire the property prior to entering into the financing agreement.

The District's legal counsel has provided a letter stating that there is no pending or anticipated litigation, contractual or ratepayer/taxpayer disputes or adverse findings by outside auditors (including commercial and governmental auditors, grand juries, or other similar entities acting in a formal capacity) that may detrimentally affect the Assessment Revenues, the ability of the District to agree to or pay the CWSRF financing or manage and implement the project financed by the CWSRF Program.

The District plans to submit an updated letter, addressing all pledged revenues and Project properties prior to the disbursement of any funds.

Implementation of the District's Project will require several agreements to be in-place prior to the issuance of the CWSRF financing agreement, including:

- A wastewater service agreement with each property owner participating in the Project to define the terms and conditions for allocation of wastewater capacity for providing the proportionate share of funds and petitioning for the formation of the assessment district; and
- Modification of the existing Recycled Water Agreement with the Woods Valley Ranch Golf Course to increase the total amount of recycled water delivered to the Golf Course.

Water Code Section 10631.5 requires that the Department of Water Resources (DWR) determine if an urban water supplier is implementing water-demand management measures described in Water Code Section 10631. The District submitted the required documentation to DWR on April 23, 2010, and requested that DWR make an eligibility determination. On April 26, 2010, DWR determined the District to be in compliance, and, therefore, eligible to receive water management grant funds.

As of January 1, 2010, Water Code Section 529.5 requires an urban water supplier that applies for financial assistance from the state for a wastewater treatment project, drinking water treatment project, or water use efficiency project, or a permit for a new or expanded water supply, to demonstrate that the applicant meets the water metering requirements of Water Code Division 1, Chapter 8, Article 3.5. The District certified, on March 1, 2010, that it complies with these water metering requirements.

POLICY ISSUE

Should the State Water Board:

1. Approve a PFC for the District's Project prior to a dedicated source of revenue resolution with the condition that disbursement of funds will not be made until after the source of repayment is dedicated and the Division staff has determined that the source is adequate?
2. Clarify that the purchase of capacity at the WVRWRF from the developer is an eligible buy-in cost, in accordance with Section IX.G.1(n), and should not be considered refinancing?
3. Approve a CWSRF financing agreement amount of \$13,497,000 for the proposed Project, including a 20-year repayment period, with the first repayment due one year after completion of construction?
4. Condition this approval by withdrawing the CWSRF PFC if the District does not sign the initial agreement by January 30, 2013, in accordance with Section IX (K) of the Policy and allow Division staff the discretion to approve up to a 120-day extension for good cause?

REGIONAL WATER BOARD IMPACT

The San Diego Water Board issued Waste Discharge Requirements (WDR) Order No. 98-09, for treatment of wastewater at the WRF. Completion of the proposed Project will require the District to obtain an amendment to the WDRs to increase the permitted discharge capacity.

STAFF RECOMMENDATION

The State Water Board should adopt the proposed Resolution.

State Water Board action on this item will assist the Water Boards in reaching Goal 1 of the Strategic Plan Update: 2008-2012 to (1) Implement strategies to fully support the beneficial uses for all 2006-listed water bodies by 2030.

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STATE WATER RESOURCES CONTROL BOARD RESOLUTION NO. 2012-

APPROVE OF A CLEAN WATER STATE REVOLVING FUND (CWSRF) PRELIMINARY FUNDING COMMITMENT (PFC) FOR THE VALLEY CENTER MUNICIPAL WATER DISTRICT (DISTRICT), WOODS VALLEY RANCH WATER RECLAMATION FACILITY (WVRWRF) EXPANSION (PROJECT), CWSRF PROJECTNOS. C-06-7454-110, 7454-120, & 7454-130.

WHEREAS:

1. The State Water Resources Control Board (State Water Board), on March 17, 2009, adopted the amended "*Policy for Implementing the CWSRF for Construction of Wastewater Treatment Facilities*" (Policy);
2. The Project is a non-routine and non-controversial project that is not consistent with the policies, regulations, and agreements the State Water Board has adopted for implementation of the CWSRF Program;
3. The Project is listed on the CWSRF Program Priority List;
4. On March 26, 2012, the Division of Financial Assistance (Division) approved the Facilities Plan for the District's Project, and the District agreed with the Division's approval;
5. Water Code Section 5103, Statement of Diversion and Use, does not apply to the District;
6. An independent credit review was completed on June 7, 2011, followed by an updated internal credit analysis completed on January 27, 2012, recommending a credit limit of \$13,497,000 for the Project;
7. The District has submitted a draft dedicated source of revenue resolution that, when adopted, will dedicate the South Village service area annual assessment payments and the District's net revenues to generate at least 110 percent of the annual debt service for the repayment of the proposed CWSRF financing agreement;
8. The District has agreed to adopt the dedicated source of revenue resolution after the State Water Board approves this PFC and the Project participants approve the assessment district;
9. The District meets the definition of an Urban Water Supplier as defined in Water Code Section 10617. The District has prepared and submitted an Urban Water Management Plan to the Department of Water Resources (DWR) in accordance with Water Code Section 10644;
10. Water Code Section 10631.5 requires that DWR determine if an urban water supplier is implementing water-demand management measures described in Water Code Section 10631. The District submitted the required documentation to DWR on April 23, 2010, and requested that DWR make an eligibility determination. On April 26, 2010, DWR determined the District to be in compliance and therefore eligible to receive water management grant funds;

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11. The District certified, on March 1, 2010, that it is in compliance with the water metering requirements of Water Code Division 1, Chapter 8, Article 3.5;
12. The District is the lead agency under the California Environmental Quality Act and prepared an Environmental Impact Report (EIR; State Clearinghouse No. 2007101049) for the South Village Wastewater Master Plan, which includes the Project and a larger Ultimate Service Area Expansion;
13. The District certified the final EIR, adopted a Mitigation Monitoring and Reporting Program and a Statement of Overriding Consideration for significant unavoidable agricultural impacts associated with the proposed West Site seasonal storage pond location for the Project, and approved the Project on April 7, 2008. The District filed a Notice of Determination with the San Diego County Clerk and the Governor's Office of Planning and Research on April 10, 2008;
14. The District prepared an addendum to the EIR to address Project changes and provide updates to the South Village Master Plan Report. The Project changes include relocating the seasonal storage pond on two parcels along Charlan Road and modifying the treatment process configuration. The District determined that the Charlan Road seasonal storage pond will not result in any significant unavoidable environmental impacts, and thus, the Statement of Overriding Conditions is not applicable to the Project. No new significant environmental impacts were identified;
15. The District certified the addendum to the EIR and approved the revised Project and the South Village Master Plan Report update on January 18, 2011, and filed a Notice of Determination with the San Diego County Clerk on January 20, 2011, and the Office of Planning and Research on January 24, 2011;
16. The EIR, the addendum to the EIR, and the supporting documents submitted by the District provided an adequate disclosure of the environmental relationships of all water quality aspects of the Project. The Project will not have any significant additional adverse water quality impacts; and
17. The District has agreed to implement the specified mitigation measures and obtain the necessary permits and approvals related to those mitigation measures.

THEREFORE BE IT RESOLVED THAT:

The State Water Board:

1. Approves a PFC for the District's Project prior to a dedicated source of revenue resolution with the condition that disbursement of funds will not be made until after the source of repayment is dedicated and the Division staff has determined that the source is adequate;
2. Clarifies that the purchase of capacity at the WVRWRF from the developer is an eligible buy-in cost, in accordance with Section IX.G.1(n), and should not be considered refinancing;

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3. Approves a CWSRF financing agreement amount of \$13,497,000 for the proposed Project, including a 20-year repayment period at an interest rate of one half the general obligation bond rate obtained by the State Treasurers Office as of the date of the PFC, with the first repayment due one year after completion of construction; and
4. Conditions this approval by withdrawing the CWSRF PFC if the District does not sign the initial agreement by January 30, 2013, in accordance with Section IX (K) of the Policy and allow Division staff the discretion to approve up to a 120-day extension for good cause.

CERTIFICATION

The undersigned, Clerk to the Board, does hereby certify that the foregoing is a full, true, and correct copy of a resolution duly and regularly adopted at a meeting of the State Water Resources Control Board held on May 15, 2012.

Jeanine Townsend
Clerk to the Board