

**STATE WATER RESOURCES CONTROL BOARD
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE
AUGUST 19, 2014**

ITEM 7

SUBJECT

CONSIDERATION OF A PROPOSED RESOLUTION TO APPROVE CLEAN WATER STATE REVOLVING FUND (CWSRF) PROGRAM FINANCING FOR THE CITY OF DIXON (CITY) FOR THE DIXON WASTEWATER TREATMENT FACILITY IMPROVEMENTS PROJECT (PROJECT), CWSRF PROJECT NO. C-06-8001-120

DISCUSSION

The City owns and operates the City's Wastewater Treatment Facility (WWTF) and its sewer collection system. The WWTF consists of the headworks, nine facultative ponds and four polishing ponds. The ponds are unlined and have a total surface area of approximately 120 acres. Treated wastewater is disposed using eight percolation ponds with a total surface area of 160 acres. The WWTF also has 120 acres of land application area, but the fields have not been used since 2009.

The WWTF is under the jurisdiction of the Central Valley Regional Water Quality Control Board (Regional Water Board). Discharge requirements for the WWTF are regulated by Waste Discharge Requirement (WDR) Order 94-187. Beginning in 1996, the Regional Water Board has taken several enforcement actions against the City for non-compliance. These actions include issuance of Cease and Desist Orders (CDOs), Notices of Violations (NOVs), Administrative Civil Liability Orders (ACLO) and fines. The City has made capacity improvements to the WWTF as well as several inflow/infiltration improvements in its collection system to address some of the violations. The City, however, has not taken sufficient action to fully comply with CDO No. R5-2005-0078 (2005 CDO) due in part to a ratepayer initiative that prevented approval of a bond issue intended to fund the majority of the planned compliance projects. Measure L, a ballot measure which passed in November 2006 by 58 percent of the City's voters repealed the sewer rate increase enacted by the City Council in May 2006. Measure L removed the finance mechanism to support the sale of revenue bonds. The Regional Water Board issued ACL Complaint No. R5-2008-0501, and the City was fined \$220,000 for non-compliance with WDR 94-187 and the 2005 CDO.

In September 2008, the Regional Water Board issued CDO No. R5-2008-0136 (2008 CDO). The 2008 CDO rescinded the 2005 CDO and established a new compliance schedule. It also provided site-specific numeric groundwater limits and final effluent limits. The limitation is the higher of either the background concentration or the applicable water quality limit for protection of the beneficial uses of groundwater. Although the City's assessment of background groundwater quality has shown that the City caused pollution for chloride, sodium, electrical conductivity (EC), total dissolved solids (TDS) and boron, the 2008 CDO only includes effluent limits for sodium and chloride. The Regional Water Board determined that compliance with the sodium and chloride effluent limits will in turn lower the concentrations of EC and TDS to levels which should be protective of the agriculture beneficial use of groundwater. The interim performance-based effluent limits for sodium and chloride were set at the maximum observed effluent concentration. The 2008 CDO, however, did not include effluent limits for boron but allowed the City to submit additional information to determine whether or not a revised WDR will

require control measures for boron. The 2008 CDO requires the City to implement salinity source control and make WWTF improvements to comply with WDR Order 94-187. The City implemented source control programs including a ban on water softeners. Between October 2010 and November 2012, the City spent \$650,000 in a water softener buyback program which removed more than 600 self-regenerating water softeners. Although these efforts have reduced chloride and TDS concentrations in the influent to some extent, WWTF improvements are still needed to comply with the CDO. As stated in the *Salinity Source Control Effectiveness Report* submitted pursuant to the 2008 CDO, the WWTF needs maintenance and upgrades to reduce effluent salinity. Due to the large area of the current pond treatment system, evaporation increases the salt concentration in the effluent that percolates to the groundwater. The City determined that by replacing the current pond treatment system with an activated sludge treatment process, evaporation losses will be reduced. This in turn will minimize the impact of the City's discharge to the underlying groundwater. In a letter dated January 30, 2013, the Regional Water Board extended the compliance deadline for final effluent limits to October 31, 2014. The Regional Water Board also stated in Attachment A of the letter that implementing the activated sludge treatment system will likely be interpreted as the best practical treatment or control for all constituents of concern. The Project will enable the City to achieve compliance with the 2008 CDO and WDR Order 94-187.

In November 2013, the City submitted a Report of Waste Discharge (ROWD) to the Regional Water Board to comply with the 2008 CDO. Using the information in the ROWD, the Regional Water Board prepared a tentative WDR and a companion CDO. These will be considered for adoption at the August 7-8, 2014 Regional Water Board meeting, and, if adopted, will rescind WDR Order No. 94-187 and CDO No. R5-2008-0136. The companion CDO will extend the compliance date for the new effluent limits. The Project is expected to meet the proposed CDO. Furthermore, of all the alternatives considered, the activated sludge treatment process was chosen because it can best adapt to future permit requirements.

On April 22, 2014, the City Council adopted Resolution 14-061 increasing the City's monthly sewer user charges under the Proposition 218 guidelines. These charges are in effect as of the first billing cycle immediately following the adoption of the resolution. The City Council also adopted Resolution 14-062 pledging net sewer revenues for the repayment of the CWSRF loan. The City intends to use the proceeds of the CWSRF loan to finance the improvements to the City's WWTF. The increases in sewer user charges are necessary in order for the City to comply with Regional Water Board requirements.

The Solano County Taxpayer's Association (SCTA) circulated two referenda petitions demanding that the City either rescind Resolution Nos. 14-061 and 14-062 or submit them to the voters for adoption or rejection. Approximately 18 percent of the City's registered voters signed the petitions. On June 10, 2014, City election officials rejected the petition to repeal Resolution 14-061 due to a procedural defect. Furthermore, the City Council members took no action with regards to the petition on Resolution 14-062 on the basis that the referendum constituted an invalid interference with the administrative acts of the City. On July 14, 2014, the City Council, on its own motion and pursuant to its independent authority pursuant to Elections Code 9222 considered whether to submit an initiative to the voters regarding the sewer rate increases. The City Council voted to reject this motion on a 3-2 vote.

This agenda item recommends approving a CWSRF financing agreement for \$28.5 million to the City. The funds will be used to replace the City's treatment ponds with a secondary activated sludge treatment process. Other improvements to the WWTF include a new pump station, headworks, laboratory/administration building, and solids handling facility. The Project also includes the removal and disposal of approximately 2,000 tons of sludge that has

accumulated in the existing treatment ponds. Furthermore, the Project will upgrade the WWTF piping and pumping capacities throughout the plant and disposal area.

ENVIRONMENTAL IMPACT

State Water Board staff conducted an environmental review, reviewed the environmental documents, and determined that the Project will not result in any significant adverse water quality impacts.

The City is the lead agency under the California Environmental Quality Act (CEQA), and has complied with CEQA and CEQA Guidelines. The City prepared an Initial Study/Mitigated Negative Declaration (IS/MND) for the Project. The IS/MND was distributed to the public and circulated through the State Clearinghouse (No. 2014012034) from January 14, 2014 through February 12, 2014. The City received three (3) comment letters. The City responded to all comments and appropriately revised the IS/MND.

The City adopted the IS/MND and a Mitigation Monitoring and Reporting Program (MMRP), and approved the Project on March 11, 2014. The City filed a Notice of Determination (NOD) with the Solano County Clerk on March 21, 2014 and the Governor's Office of Planning and Research (OPR) on April 3, 2014.

On June 5, 2014, the State Water Board sought comments from the United States Department of Homeland Security, Federal Emergency Management Agency (FEMA) regarding the Project's potential to adversely impede or redirect flood flows. On June 16, 2014 FEMA sent a letter advising compliance with both local and federal floodplain management building requirements.

On May 21, 2014, the State Water Board sought comments from the United States Department of the Interior, Fish and Wildlife Service, Migratory Bird Office regarding the Project's potential to adversely affect migratory birds. No comments have been received to date from USFWS.

State Water Board staff will file an NOD with the OPR following funding approval.

FISCAL IMPACT

A credit review was completed to analyze the City's ability to enter into a financing agreement for the amount of \$28,500,000 for construction and allowances. The credit review provides recommendations regarding the maximum CWSRF financing amount, financing terms, financial capacity and reserve fund requirement of the financing agreement.

The estimated 2013 median household income (MHI) for the City is \$64,546, approximately one-hundred and ten percent (110%) of the State of California MHI. The City does not qualify as a disadvantaged community.

The most recent monthly sewer rate increase was adopted under Proposition 218 guidelines on April 22, 2014. Current residential sewer rates are \$27.11 per month. The rates are scheduled to increase annually through April 1, 2017 when the rate will be \$48.62 per month. After allowing for operations and maintenance costs (O&M) budgeted for \$1,538,000 for fiscal year 2016/17, the net revenues are projected to be \$2,530,295. The City has two outstanding debts totaling \$1,367,680 with annual debt service of \$214,294. Parity debt may be issued if the net revenues of the Sewer Enterprise Fund equal at least 1.25 times the total debt service.

Security and Source of Financing Repayment:

The City shall dedicate the net revenues of the Sewer Enterprise Fund to the repayment of the proposed financing agreement.

A financing agreement for the amount of \$28,500,000 with a twenty year term and an estimated interest rate of 1.90 percent will have debt service of \$1,726,192. When added to the existing debt service of \$214,294, the maximum debt service will be \$1,940,486. When compared to net revenues, the result is debt service coverage of 1.30. This exceeds the CWSRF Policy requirement that net revenues be at least 1.10 times the total debt service; and the 2012 Umpqua Bank 2012 Sewer Refunding Revenue Bonds requirement that net revenues be at least 1.25 times the total debt service.

Comparative Revenues and Expenses Analysis:

Revenues and expenses for the Sewer Enterprise Fund for the past three fiscal years and the budget projections for fiscal year 2013/14 through 2016/17 are summarized below:

City of Dixon - Sewer Enterprise Fund

Fiscal Year	Audited 2010/11	Audited 2011/12	Audited 2012/13	Budget 2013/14	Projections 2014/15	Projections 2015/16	Projections 2016/17*
Operating Revenues	\$2,251,653	\$2,584,760	\$2,693,822	\$2,234,000	\$2,565,000	\$2,982,000	\$3,802,000
Interest Income	\$22,143	\$15,720	\$0	\$17,915	\$14,032	\$11,607	\$9,295
Connection Fees	\$0	\$0	\$0	\$0	\$200,000	\$202,500	\$205,000
Miscellaneous Income	\$1,338	\$436,362	\$432,310	\$109,875	\$49,000	\$50,000	\$52,000
Total Revenues	\$2,273,796	\$2,600,480	\$2,693,822	\$2,251,915	\$2,828,032	\$3,246,107	\$4,068,295
Operating Expenses	\$1,312,436	\$1,399,923	\$1,231,821	\$1,245,604	\$1,288,175	\$1,299,000	\$1,538,000
Net Revenues	\$961,360	\$1,200,557	\$1,462,001	\$1,006,311	\$1,539,857	\$1,947,107	\$2,530,295
Existing Debt Service	\$197,472	\$331,623	\$175,111	\$210,668	\$210,668	\$214,294	\$214,294
Proposed Debt Service	\$0	\$0	\$0	\$0	\$0	\$0	\$1,726,192
Total Debt Service	\$197,472	\$331,623	\$175,111	\$210,668	\$210,668	\$214,294	\$1,940,486
Debt Service Coverage	4.87	3.62	8.35	4.78	7.31	9.09	1.30

Fiscal Impact on the CWSRF Program

(as of 07/16/2014)	SFY	SFY	SFY	SFY	SFY
	2014-15	2015-16	2016-17	2017-18	2018-19
Beginning Balance:	\$361,819,680	\$242,822,667	\$134,358,586	\$229,786,972	\$458,953,777
Estimated Repayments	\$238,343,644	\$248,343,644	\$258,343,644	\$268,343,644	\$278,343,644
Debt Service on Revenue Bonds	(\$14,713,300)	(\$14,323,300)	(\$13,808,100)	(\$9,980,925)	(\$7,600,725)
Estimated Capitalization Grants	\$100,277,000	\$28,800,000	\$28,800,000	\$28,800,000	\$0
Local Match Credits	\$1,257,521	\$1,257,521	\$624,323	\$0	\$0
Est. SMIF Interest:	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000
Estimated Disbursements	(\$435,063,323)	(\$353,088,465)	(\$163,784,795)	(\$53,564,662)	(\$20,774,379)
Subtotal	\$253,421,222	\$155,312,067	\$246,033,659	\$464,885,029	\$710,422,317
Pending Preliminary Funding Commitments					
City of Farmersville, #7895-110 (06/25/2014)	(\$1,077,733)	(\$3,456,334)	(\$2,149,814)		
City of Dixon, #8001-120 (07/01/2014)	(\$5,509,998)	(\$9,542,224)	(\$7,346,670)	(\$3,736,666)	(\$2,364,442)
City of Woodland, #8001-110 (07/16/2014)	(\$3,508,446)	(\$7,373,856)	(\$6,320,448)	(\$2,194,586)	
Delta Diablo Sanitation District, #8007-110 (07/16/14)	(\$502,378)	(\$581,067)	(\$429,755)		
Ending balance	\$242,822,667	\$134,358,586	\$229,786,972	\$458,953,777	\$708,057,875
<ul style="list-style-type: none"> • Estimated repayments include repayments from existing and future financing. • Estimated disbursements include disbursements on executed financing and disbursements on projects with pending financing agreements. • Local match credits are the funds that will be contributed for local match financing included in "Estimated disbursements". • Excludes Principal Forgiveness funds. 					

REGIONAL BOARD IMPACT

The proposed financing agreement will help the City comply with the 2008 CDO issued by the Regional Water Board and the tentative WDR and companion CDO scheduled for consideration at the August 7-8 2014 Regional Water Board meeting.

POLICY ISSUE

Should the State Water Board approve the Resolution to:

1. Approve the CWSRF financing agreement for a maximum of \$28,500,000 for the Project?
2. Condition this approval, as determined by the environmental review, with the following:
 - a. The City shall comply with the applicable mitigation measures of the March 2014 MMRP, including but not limited to the following: AIR-1 for air quality; BIO-1 through BIO-7 for biological resources; CUL-1 through CUL-2 for cultural resources; HAZ-1 for hazards and hazardous materials; and HYD-1 for hydrology and water quality.
 - b. Per the June 16, 2014 concurrence letter from FEMA to the State Water Board, the City shall ensure compliance with the federal and local floodplain management building requirements identified therein.

3. Condition this approval, as determined by the Agency's credit review, with the following:
 - a. The City shall pledge the net revenues of the Sewer Enterprise Fund for repayment of the proposed CWSRF financing agreement. This pledged revenue fund (source) shall be subject to lien and pledge as security for the Obligation;
 - b. The proposed financing agreement shall be issued on parity with the 2012 Refunding Revenue Bond, and the existing General Fund debt;
 - c. The recipient shall maintain sewer rates and charges sufficient to generate net revenues equal to at least 1.25 times the total annual debt service;
 - d. The recipient may not incur future senior debt. Recipient's future debt may be issued on parity with CWSRF debt if policy conditions are met. (Policy 1X, 4C); and
 - e. The City shall establish a restricted reserve fund, held in the Sewer Enterprise Fund, equal to one year's debt service prior to the construction completion date of the project. The restricted reserve fund shall be maintained for the full term of the finance agreement and shall be subject to lien and pledge as security for the Obligation.
4. Condition the disbursement of construction funds contingent on the City's submittal of a Water Conservation Plan or proof that the City is signatory to the Memorandum of Understanding with the California Urban Water Conservation Council.

STAFF RECOMMENDATION

The State Water Board should adopt the proposed Resolution with the conditions noted above.

State Water Board action on this item will assist the Water Boards in reaching Goals 2 and 4 of the Strategic Plan Update: 2008-2012

Goal 2. Improve and protect groundwater quality in high-use basins by 2030.

Goal 4. Comprehensively address water quality protection and restoration, and the relationship between water supply and water quality, and describe the connections between water quality, water quantity, and climate change throughout California's water planning processes.

DRAFT

STATE WATER RESOURCES CONTROL BOARD RESOLUTION NO. 2014-

TO APPROVE CLEAN WATER STATE REVOLVING FUND (CWSRF) PROGRAM FINANCING FOR THE CITY OF DIXON (CITY) FOR THE DIXON WASTEWATER TREATMENT FACILITY IMPROVEMENTS PROJECT (PROJECT), CWSRF PROJECT NO. C-06-8001-120

WHEREAS:

1. The State Water Resources Control Board (State Water Board), on May 7, 2013, amended the "*Policy for Implementing the Clean Water State Revolving Fund*" (Policy);
2. The Project is listed on the CWSRF Project List;
3. The Project is considered controversial because the City has received significant opposition from the public to its wastewater rates;
4. The City is the lead agency under the California Environmental Quality Act (CEQA), and has complied with CEQA and CEQA Guidelines by preparing an Initial Study/Mitigated Negative Declaration (IS/MND) for the Project;
5. Adequate public participation was provided through the CEQA review process. The IS/MND was circulated through the State Clearinghouse (No. 2014012034) from January 14, 2014 through February 12, 2014 for public review and comment;
6. The City adopted the IS/MND and a Mitigation Monitoring and Reporting Program, and approved the Project on March 11, 2014;
7. The City filed a Notice of Determination for the IS/MND with the Solano County Clerk on March 21, 2014 and the Governor's Office of Planning and Research on April 3, 2014;
8. Per the June 16, 2014 concurrence letter from the United States Department of Homeland Security, Federal Emergency Management Agency to the State Water Board, the City shall ensure compliance with the federal and local floodplain management building requirements identified;
9. The Project will have no potential to adversely affect migratory birds; and
10. The City's environmental documents provided an adequate disclosure of the environmental relationships of all water quality aspects of the Project. Mitigation measures and design measures incorporated into the Project will avoid or substantially reduce other potentially significant environmental impacts. The Project will not result in any significant adverse impacts to water quality;

THEREFORE BE IT RESOLVED THAT:

The State Water Board:

1. Approves up to \$28,500,000 in CWSRF construction/implementation financing for the City's Project.

DRAFT

2. As determined by the environmental review, the following documents shall be incorporated into the financing agreement by reference, and the City shall comply with the conditions therein:
 - a. The letter dated June 16, 2014, from the United States Department of Homeland Security, Federal Emergency Management Agency (FEMA) to the State Water Board regarding Floodplain Management (Executive Order 11988) consultation for the City of Dixon Wastewater Treatment Facility Improvements Project, Dixon, Solano County, California. The City will make no changes in the Project, construction area, or special conditions, without obtaining prior approval from the State Water Board and FEMA. The Recipient understands that it is prohibited from making any such changes without those approvals.
 - b. The March 2014 Mitigation Monitoring and Reporting Program, including but not limited to the following mitigation measures:
 - AIR-1 for air quality,
 - BIO-1 through BIO-7 for biological resources,
 - CUL-1 through CUL-2 for cultural resources,
 - HAZ-1 for hazards and hazardous materials, and
 - HYD-1 for hydrology and water quality.
3. Condition this approval, as determined by the City's credit review, with the following:
 - a. The City shall pledge the net revenues of the Sewer Enterprise Fund for repayment of the proposed CWSRF financing agreement. This pledged revenue fund (source) shall be subject to lien and pledge as security for the Obligation;
 - b. The proposed financing agreement shall be issued on parity with the 2012 Refunding Revenue Bond, and the existing General Fund debt;
 - c. The recipient shall maintain sewer rates and charges sufficient to generate net revenues equal to at least 1.25 times the total annual debt service;
 - d. The recipient may not incur future senior debt. Recipient's future debt may be issued on parity with CWSRF debt if policy conditions are met. (Policy 1X, 4C); and
 - e. The City shall establish a restricted reserve fund, held in the Sewer Enterprise Fund, equal to one year's debt service prior to the construction completion date of the project. The restricted reserve fund shall be maintained for the full term of the finance agreement and shall be subject to lien and pledge as security for the Obligation.

D R A F T

4. Condition the disbursement of construction funds contingent on the City's submittal of a Water Conservation Plan or proof that the City is signatory to the Memorandum of Understanding with the California Urban Water Conservation Council.

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 August 19, 2014.

Jeanine Townsend
Clerk to the Board