

**STATE WATER RESOURCES CONTROL BOARD
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE
OCTOBER 21, 2014**

ITEM 7

SUBJECT

CONSIDERATION OF A PROPOSED RESOLUTION TO AUTHORIZE THE DEPUTY DIRECTOR OF THE DIVISION OF FINANCIAL ASSISTANCE (DIVISION) TO PROVIDE CLEAN WATER STATE REVOLVING FUND (CWSRF) PROGRAM FINANCING FOR THE WOODLAND-DAVIS CLEAN WATER AGENCY (AGENCY) FOR THE DAVIS WOODLAND WATER SUPPLY/WATER QUALITY IMPROVEMENT PROJECT (PROJECT), CWSRF PROJECT NO. C-06-7873-110

DISCUSSION

The Agency is a joint powers authority formed by the City of Davis (Davis) and the City of Woodland (Woodland) in September 2009 to implement the Project. The University of California-Davis (UC Davis) has supported both cities' efforts to bring Sacramento River water to the region since 1994, and on June 28, 2014, UC Davis exercised its option to participate in the Project by signing a contract with the Agency.

Davis and Woodland each operate their own wastewater collection systems and treatment plants. Both cities are under the jurisdiction of the Central Valley Regional Water Quality Control Board, Sacramento office (Sacramento Central Valley Regional Water Board).

In accordance with Waste Discharge Requirements Order No. R5-2013-0127 (National Pollutant Discharge Elimination System [NPDES] Permit No. CA0079049), Davis Wastewater Treatment Plant is permitted to discharge up to 7.5 million gallons per day (MGD) to Willow Slough Bypass and the Conway Ranch Toe Drain, both tributaries to the Yolo Bypass within the Sacramento River watershed. In March 2010, the Sacramento Central Valley Regional Water Board issued Time Schedule Order (TSO) No. R5-2010-0029-01. In September 2010 and October 2013, the Sacramento Central Valley Regional Water Board issued amendments to the TSO under Order Nos. R5-2010-0098 and R5-2013-0129, respectively. The TSO includes interim effluent limitations for cyanide and selenium, and requires Davis to achieve full compliance with final effluent limitations by February 2015.

In accordance with Waste Discharge Requirements Order No. R5-2009-0010 (NPDES Permit No. CA0077950), the Woodland Water Pollution Control Facility is permitted to discharge up to 10.4 MGD to the Tule Canal, a tributary to the Yolo Bypass. In September 2011, the Sacramento Central Valley Regional Water Board issued TSO No. R5-2011-0907. The TSO includes an interim effluent limitation for selenium, and requires Woodland to achieve full compliance with final effluent limitations by September 2016.

The Project will enable the cities to achieve compliance with the TSOs. According to studies conducted, the selenium in the wastewater treatment plants' effluent comes from the groundwater. Both cities rely on groundwater as their source of drinking water, and this water eventually ends up in the cities' wastewater treatment plants discharges. Using higher quality surface water from the Sacramento River as their major source of drinking water will not only enable the cities to comply with the TSOs, it will also help meet existing and future drinking

water supply needs and improve drinking water quality in the region. The cities plan to supplement the surface water from the Sacramento River with groundwater, when necessary, to meet peak demands.

The total Project cost is \$206,819,449. This includes construction of a new Regional Water Treatment Facility (RWTF) with a design capacity to deliver up to 30 MGD from the Sacramento River. Woodland will be allocated 18 MGD and Davis 12 MGD. UC Davis will get 1.8 MGD from Davis' portion of the allocation. The Project also includes installation of raw water transmission pipelines to convey water from the Sacramento River intake to the RWTF, and finished water transmission pipelines from the RWTF to Woodland's and to the joint Davis/UC Davis' water distribution systems.

The Agency has requested \$95,461,000 from the CWSRF to finance the Davis/UC Davis portion of the Project. The Agency had submitted a complete application to the Division as of December 18, 2013. During review of the application, however, the Division determined that the Project was not eligible for financing because the provisions of the Infrastructure Financing Act (Act) did not allow state financing for the Project. On September 27, 2014, the Governor signed AB 1478, modifying the provisions of the Act to allow CWSRF financing for the project. The Division recommends approving CWSRF financing as requested by the Agency, and recommends that eligibility of construction costs be retroactive to March 1, 2014, when Project construction started.

The Agency does not yet own all of the Project property. The Division recommends withholding construction disbursements until the Agency provides an opinion from counsel that the Agency has acquired all of the Project property.

ENVIRONMENTAL IMPACT

Division staff conducted an environmental review.

Davis was initially the lead agency under the California Environmental Quality Act (CEQA) and prepared an Environmental Impact Report (EIR) for the Project. The EIR was distributed to the public for review and circulated through the State Clearinghouse (SCH No. 2006042175) from April 9, 2007 through June 25, 2007. Comments were submitted by the Department of Water Resources, the California Department of Public Health, the City of West Sacramento, the Department of Conservation, the County of Yolo, Davis, the Yolo County Health Council, the Tehama-Colusa Canal Authority, the Contra Costa Water District, the United States Department of the Interior, Bureau of Reclamation, as well as various Davis residents. Davis, as the former lead agency, responded to all comments, provided clarifications, and revised the final EIR as appropriate.

Davis, as the former lead agency certified the final EIR, adopted a Mitigation Monitoring and Reporting Program (MMRP) and a Statement of Overriding Consideration (SOC) for significant unavoidable impacts to land use and agriculture, air quality, noise, public services and utilities, aesthetics, growth inducing impacts and cumulative effects, and approved the Project on October 16, 2007. Davis filed a Notice of Determination (NOD) with the Yolo County Clerk on November 7, 2007 and the Governor's Office of Planning and Research (OPR) on November 15, 2007. In 2007, Woodland also approved the Project.

Davis and Woodland approved a Joint Powers Agreement forming the Agency in 2009, in order for the Agency to pursue the development of the Project. Pursuant to the Joint Powers Agreement, the Agency has assumed the CEQA lead agency role for the Project while Davis, Woodland, and UC Davis (Project Partners) became responsible agencies.

The Agency substantiated its decision to approve the Project despite significant unavoidable secondary growth impacts. The Agency determined that the following economic, social, technological, and environmental benefits of the Project outweigh the significant unavoidable adverse impacts to agricultural/farmland resources and hydrology and water quality:

- a) The Project will increase the reliability of the Project Partners' water supplies by diversifying the number of water sources used. This will provide the Project Partners better protection from unpredictable hydrological conditions such as drought.
- b) The Project will improve the quality of drinking water served to customers within the Project area and enable the Project Partners to comply with current water quality regulations and better position the Partners to meet future water quality regulations.
- c) Because the quality of water delivered to the Project Partners' customers will be improved, the Project will result in a reduction in the number of water softeners. This will have beneficial impacts on water quality by reducing the salt load in treated effluent discharges from the cities' wastewater treatment plants.
- d) The Project will improve the quality of treated wastewater effluent discharged by the Project Partners by substituting treated surface water from the Sacramento River for a substantial portion of existing groundwater supplies. Because the treated surface water is substantially lower in salinity than the existing groundwater supplies, this will provide the Project Partners with a sensible and cost-effective strategy for reducing the salt loads in their treated wastewater effluent.
- e) The Project will protect groundwater resources within Yolo County by greatly reducing the Project Partners' groundwater pumping.
- f) The Project will protect the quality of Yolo County's groundwater resources by reducing the risk that future pumping from the deep aquifer would cause that aquifer to become contaminated with lower-quality water from the intermediate aquifer.
- g) The Project will reduce fish mortality in the Sacramento River by replacing the water transferors' unscreened diversion with the Project Partners' state-of-the-art screened diversion.
- h) The Project will reduce the Project Partners' greenhouse gas emissions by greatly reducing the amount of groundwater they pump. This will facilitate the Project Partners' compliance with AB 32.
- i) The Project will ensure that the cities have adequate water supplies available to permit the development needed for them to meet their share of existing and future Regional Housing Needs Allocations.

- j) The Project will ensure that UC Davis has adequate water supplies available to permit it to accept its share of the University of California's system wide growth. This will help the University of California fulfill its constitutionally mandated mission to provide higher educational opportunities for the top tier of California's graduating high school classes.
- k) The Project will ensure that UC Davis has adequate water supplies available to permit it to fulfill its important functions for agricultural research. This will help the University of California fulfill its mission to provide the primary state-funded institution for public research.
- l) The Project will boost the local economy by providing temporary employment for construction workers.
- m) The Project will boost the local economy by providing permanent employment for Water Treatment Plant employees.

The Agency prepared six addenda for the EIR. Addenda one through four were minor changes to the Project to enhance efficiency of the Project. The Agency prepared Addendum No. 5 to update the Project's air quality emissions modeling prepared for the 2007 EIR, and to demonstrate compliance with the General Conformity Rule of the Clean Air Act. Addendum No. 5 was distributed to the public and circulated through the SCH for review from September 18, 2013 to October 3, 2013. The Agency filed an NOD for Addendum No. 5 with both the Yolo County Clerk and OPR on October 16, 2013. The Agency prepared Addendum No. 6 to update the Project's solids handling and flood modeling assessments. Addendum No. 6 was distributed to the public and circulated through the SCH for review from December 31, 2013 to January 29, 2014. The Agency filed an NOD for Addendum No. 6 with the Yolo County Clerk on January 23, 2014 and OPR on January 14, 2014.

The Project will have a temporary impact to 34.93 acres of rice/agricultural wetlands. However, there are no impacts to Williamson Act farmland anticipated. Mitigation measures will be implemented to reduce impacts to farmland to less than significant. However, there are still some impacts on prime or unique farmland that are considered significant and unavoidable. United States Army Corps of Engineers (USACE) was lead agency for federal consultation with United States Fish and Wildlife Service (USFWS), National Marine Fisheries Service (NMFS) and the State Historic Preservation Officer (SHPO). The United States Department of the Interior, Bureau of Reclamation was the lead for the National Environmental Policy Act, and completed a Finding of No Significant Impact for the Project on November 19, 2013.

On June 29, 2012, the USACE initiated consultation with the USFWS under Section 7 of the Endangered Species Act because the Project may adversely affect the Valley Elderberry Longhorn Beetle (VELB), Giant Garter Snake (GGS) and Delta Smelt (DS).

After reviewing the current status of the GGS, VELB, DS, their critical habitat, the environmental baseline for the Project action areas, the effects of the proposed Project, proposed conservation measures, and cumulative effects, on August 7, 2013, the USFWS issued a Biological Opinion (BO) with the determination that the Project, as proposed, is not likely to jeopardize the continued existence of the VELB, GGS, or DS. The Project occurs outside of designated critical habitat for VELB and DS, and no critical habitat has been designated for GGS in the Project area.

On June 26, 2012, the USACE initiated consultation with the NMFS for Essential Fish Habitat (EFH) and the following federally listed species and designated critical habitats that occur in the Project area that may be affected by the Project: Sacramento River winter-run Chinook salmon Evolutionarily Significant Unit (*Oncorhynchus tshawytscha*, Federal Endangered), Sacramento River winter-run Chinook salmon designated critical habitat, Central Valley (CV) spring-run Chinook Salmon Evolutionarily Significant Unit (*Oncorhynchus tshawytscha*, Federal Threatened), CV spring-run Chinook salmon designated critical habitat, California Central Valley (CCV) steelhead Distinct Population Segment (*Oncorhynchus mykiss*, Federal Threatened), CCV steelhead designated critical habitat, Southern Distinct Population Segment of North American green sturgeon (*Acipenser medirostris*, Federal Threatened), and Southern Distinct Population Segment of North American green sturgeon critical habitat.

On October 22, 2013, the NMFS issued a BO determining that the Project will adversely affect the EFH of Pacific salmon protected under the Magnuson-Stevens Fishery Conservation and Management Act. NMFS determined that these effects will be temporary and discountable due to the fact that sedimentation from the construction will dissipate quickly downstream of the Project. The implementation of conservation measures, along with the substantial amount of flow in the Sacramento River along those sections where the diversion changes and new fish screen will be placed, will cause sediment to dissipate to the point of being discountable. NMFS recommends the utilization of conservation measures outlined in the BO to reduce or to prevent short term negative effects during Project construction. The Sacramento River provides all four major components of freshwater EFH for salmon; long term effects of this Project are expected to protect Pacific Salmon from the effects of entrainment in pumping stations as a result of placement of two positive barrier fish screens.

On November 20, 2012, the USACE sent a "Request for Concurrence on Section 106 Compliance" with a finding of "No Historical Properties Affected" to the SHPO. After 30 days, the USACE ended consultation when no concurrence letter was issued by the SHPO. The State Water Board Cultural Resources Officer confirmed that the Agency has provided sufficient documentation to support a determination that "No Historic Properties will be Affected" for the Project, pursuant to 36 CFR Part 800 regulations implementing Section 106 concurring with the USACE's finding of "No Historical Properties Affected".

The Agency submitted a Clean Water Act (CWA) Section 401 Water Quality Certification and Section 404 Permit applications and supplemental documents for review by the Sacramento Central Valley Regional Water Board and the USACE on August 31, 2012. State Water Board staff have received copies of the finalized May 2, 2014 CWA Section 401 Water Quality Certification issued by the Sacramento Central Valley Regional Water Board and the April 21, 2014 CWA Section 404 Permit issued by the USACE. Conditions will be added to the Agency's financing agreement to implement the conditions identified therein.

The Project is within the 100-year flood plain. However, all building structures will be constructed above the estimated 100-year flood level. The Agency prepared a base model on May 9, 2013, and submitted the model to the Federal Emergency Management Agency (FEMA) as part of a Letter of Map Revision application. FEMA has made the changes effective through the Physical Map Revision process. The Agency is in the process of updating the Project information submitted to FEMA consistent with the preliminary design for the RWTF. State Water Board staff will continue to coordinate with the Agency to ensure that no changes are made to the Project scope that will impact the State Water Board determination. Once the Agency's consultation is completed with FEMA, the Agency shall provide final copies of documentation received from FEMA to the State Water Board to ensure that no further action is required.

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

FISCAL IMPACT

A credit review was completed to analyze the Agency's ability to enter into a financing agreement for the amount of \$95,461,000 for construction and allowances. The credit review provides recommendations regarding the maximum CWSRF financing amount, financing terms, financial capacity, and reserve fund requirements of the financing agreement.

The estimated 2013 median household income (MHI) for Davis is \$61,182, approximately ninety-nine percent (99%) of the State of California MHI. The Agency does not qualify as a disadvantaged community. The Woodland Davis Clean Water Agency service area population has increased 11.7% and the median household income has increased 25% since 2000.

After allowing for operations and maintenance costs (O&M), budgeted at \$9,149,000 for fiscal year 2016/17, the net revenues are projected to be \$16,603,679. The Agency has one outstanding debt totaling \$111,358,449 with annual debt service of \$6,646,947. Parity debt may be issued if the net revenues of the Agency Fund equal at least 1.10 times the total debt service.

Security and Source of Financing Repayment:

The Agency shall dedicate the net revenues of the Agency Fund and the Agency Fund to the repayment of the proposed financing agreement. Based on the audited financial statements and cash-flow projections the Woodland Davis Clean Water Agency will be able to meet the annual payment obligation and the debt coverage requirements

A financing agreement for the amount of \$95,641,000 with a thirty year term and an estimated interest rate of 1.90 percent will have debt service of \$4,203,943. When added to the existing debt service of \$6,646,947, the maximum debt service will be \$10,850,890. When net revenues are compared to the maximum debt service, the result is a coverage ratio of 1.30. This exceeds the CWSRF policy requirement that net revenues be at least 1.10 times the total debt service.

Comparative Revenues and Expenses Analysis:

The audited financial statements for the past three fiscal years and the projections for fiscal years 2013/14 through 2017/18 are summarized below:

Fiscal Year	Audited 2009/2011	Audited 2011/12	Audited 2012/13	Projections 2013/14	Projections 2014/15	Projections 2015/16	Projections 2016/17	Projections 2017/18**
UC Davis Allocation*	\$0	\$0	\$0	\$0	\$0	\$155,818	\$1,352,260	\$1,882,426
Davis Allocation*	\$4,088,000	\$3,328,000	\$3,925,000	\$335,800	\$326,140	\$1,042,782	\$9,751,452	\$13,325,656
Woodland Allocation*	\$4,088,000	\$3,328,000	\$3,925,000	\$394,200	\$382,860	\$8,049,347	\$14,648,967	\$15,267,362
Total Operating Revenues	\$8,176,000	\$6,656,000	\$7,850,000	\$730,000	\$709,000	\$9,247,947	\$25,752,679	\$30,475,444
Operating Expenses	\$727,460	\$345,554	\$396,450	\$730,000	\$709,000	\$3,329,000	\$9,149,000	\$11,538,000
Reserve Fund Established***	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$4,868,640
Total Expenses	\$727,460	\$345,554	\$396,450	\$730,000	\$709,000	\$3,329,000	\$9,149,000	\$16,406,640
Net Revenues	\$7,448,540	\$6,310,446	\$7,453,550	\$0	\$0	\$5,918,947	\$16,603,679	\$14,068,804
Safe Drinking Water Loan Debt Service	\$0	\$0	\$0	\$0	\$0	\$0	\$6,646,947	\$6,646,947
Proposed Debt Service	\$0	\$0	\$0	\$0	\$0	\$0	\$4,203,943	\$4,203,943
Total Debt Service	\$0	\$0	\$0	\$0	\$0	\$0	\$10,850,890	\$10,850,890
Debt Service Coverage	n/a	n/a	n/a	n/a	n/a	n/a	1.47	1.30

* Allocations include the member agencies' portions of the JPA's O&M; Annual Water Purchase and portion of JPA Debt with 1.10 coverage.
**First payment is due June 30, 2017.
***10% of Safe Drinking Water State Revolving Fund reserve fund and 100% of CWSRF reserve fund.

Fiscal Impact on the CWSRF Program:

(as of 10/02/2014)	SFY	SFY	SFY	SFY	SFY
	2014-15	2015-16	2016-17	2017-18	2018-19
Beginning Balance:	\$361,819,680	\$290,724,858	\$159,824,760	\$197,867,410	\$400,828,179
Estimated Repayments	\$239,702,780	\$249,702,780	\$259,702,780	\$269,702,780	\$279,702,780
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	\$70,000,000	\$28,800,000	\$28,800,000	\$0
Local Match Credits	\$1,145,418	\$1,261,589	\$732,358	\$0	\$0
Est. SMIF Interest:	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000
Estimated Disbursements	(\$364,887,310)	(\$376,386,740)	(\$186,721,513)	(\$63,907,564)	(\$15,407,077)
Subtotal	\$324,844,268	\$222,479,187	\$250,030,286	\$423,981,701	\$659,023,157
Pending Financing Agreements	Estimated Disbursements				
City of Santa Barbara, #7857-110 (08/04/14)	(\$4,512,818)	(\$7,076,919)	(\$5,825,639)	(\$2,584,624)	
Woodland-Davis Clean Water Agency, #7873-110 (09/16/14)	(\$16,405,152)	(\$31,042,506)	(\$26,446,236)	(\$12,728,136)	(\$8,838,970)
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, #8002-110 (07/16/2014)	(\$3,508,446)	(\$7,373,856)	(\$6,320,448)	(\$2,194,586)	
City of Woodland, #8002-120 (07/31/2014)	(\$138,455)	(\$507,093)	(\$306,333)		
City of Woodland, #8002-130 (7/31/2014)	(\$175,235)	(\$571,820)	(\$597,637)	(\$38,738)	
Delta Diablo Sanitation District, #8007-110 (07/16/14)	(\$502,378)	(\$581,067)	(\$429,755)		
Delta Diablo Sanitation District, #8007-120 (09/24/14)	(\$466,242)	(\$717,672)	(\$646,886)		
Delta Diablo Sanitation District, #8007-130 (09/24/14)	(\$287,264)	(\$442,176)	(\$398,560)		
Delta Diablo Sanitation District, #8007-140 (09/24/14)	(\$287,264)	(\$442,176)	(\$398,560)		
Delta Diablo Sanitation District, #8013-110 (09/26/14)	(\$2,326,158)	(\$4,356,918)	(\$3,446,152)	(\$1,870,772)	
Ending balance	\$290,724,858	\$159,824,760	\$197,867,410	\$400,828,179	\$647,819,745
<ul style="list-style-type: none"> • Estimated repayments include repayments from existing and future financing. • Estimated disbursements include disbursements remaining on executed financing agreements. • Local match credits are the anticipated funds that will be contributed for local match financing included in "Estimated Disbursements." • Excludes Principal Forgiveness funds. 					

REGIONAL BOARD IMPACT

Yes. The proposed financing agreement will assist the Agency in implementing the Project and allow Davis and Woodland to comply with the TSOs issued by the Sacramento Central Valley Regional Water Board.

POLICY ISSUE

Should the State Water Board approve the Resolution to:

1. Authorize the Deputy Director of the Division to execute a CWSRF financing agreement with the Agency for a maximum of \$95,461,000, at an interest rate not to exceed one-half the general obligation bond rate most recently obtained by the State Treasurer's Office, and approve otherwise eligible construction costs incurred on or after March 1, 2014.

2. Condition this authorization on the Agency's compliance with the following environmental conditions:
 - a. The Agency shall comply with the applicable October 19, 2007 MMRP, Mitigation Measures.
 - b. Per the October 22, 2013 NMFS Biological Opinion, the Agency shall implement the conditions and requirements identified therein.
 - c. Per the August 7, 2013 USFWS Biological Opinion, the Agency shall implement the conditions and requirements identified therein.
 - d. Per the April 21, 2014 United States Army Corps of Engineer (USACE) Clean Water Act (CWA) Section 404 Permit, the Agency shall implement the conditions and requirements identified therein.
 - e. Per the May 2, 2014 Sacramento Central Valley Regional Water Quality Control Board (Sacramento Central Valley Regional Water Board) CWA Section 401 Certification, the Agency shall implement the conditions and requirements identified therein.
 - f. The Agency shall coordinate with the Division of Financial Assistance staff to ensure that no changes are made to the Project scope that will impact the State Water Board's determination. Once the Recipient's consultation is completed with FEMA, the Agency shall provide final copies of documentation received from FEMA to the State Water Board to ensure that no further action is required.

3. Condition this authorization on the Agency's compliance with the following credit conditions:
 - a. The Agency shall pledge the net revenues of the Agency Fund and the Agency 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 2014 Safe Drinking Water State Revolving Fund loan;
 - c. The Agency shall establish member charges (allocations) sufficient to generate net revenues equal to at least 1.10 times the total annual debt service;
 - d. The Agency may not incur future senior debt. The Agency's future debt may be on parity with CWSRF debt if the Policy conditions of Section IX.B.4.c.iii, or its replacement, are met;
 - e. The Agency shall establish a restricted reserve, held in the Agency 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; and

- f. The financing agreement shall be limited to a maximum of \$95,461,000, unless information supporting the credit review changes and a supplemental credit review is performed.
4. Condition this authorization on the Agency's compliance with the following other condition:
- a. No construction funds will be disbursed until the Agency provides an opinion satisfactory to the State Water Board's counsel that the Recipient has sufficient property rights in the land where the Project is located for the purposes contemplated in this Agreement throughout the term of this Agreement and specifying the end date, if any, of the property rights.

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 Goals 1, 2 and 4 of the Strategic Plan Update: 2008-2012

Goal 1. Implement strategies to fully support the beneficial uses for all 2006-listed water bodies by 2030.

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.

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STATE WATER RESOURCES CONTROL BOARD RESOLUTION NO. 2014-

TO AUTHORIZE THE DEPUTY DIRECTOR OF THE DIVISION OF FINANCIAL ASSISTANCE (DIVISION) TO PROVIDE CLEAN WATER STATE REVOLVING FUND (CWSRF) PROGRAM FINANCING FOR THE WOODLAND-DAVIS CLEAN WATER AGENCY (AGENCY) FOR THE DAVIS WOODLAND WATER SUPPLY/WATER QUALITY IMPROVEMENT PROJECT (PROJECT), CWSRF PROJECT NO. C-06-7873-110

WHEREAS:

1. The CWSRF program is a state financial assistance program, partially capitalized by federal dollars, and subject to state and federal conditions on eligibility and implementation;
2. The State Water Resources Control Board (State Water Board) is the state agency that administers this program; the Division implements the program pursuant to the "*Policy for Implementing the Clean Water State Revolving Fund*" (Policy), last amended by the State Water Board on May 7, 2013;
3. The Project is listed on the Project List;
4. The Agency had submitted a complete application by December 18, 2013, but could not be approved for CWSRF financing due to an unforeseen potential exclusion in the Infrastructure Financing Act;
5. On August 30, 2014, the Legislature passed and on September 27, 2014, the Governor signed AB 1478, which took effect immediately and included a modification of the Infrastructure Financing Act to clarify CWSRF eligibility for the Project;
6. The Policy authorizes the Deputy Director of the Division to execute a financing agreement for a routine and non-controversial project after the Division has reviewed and approved project application documents, including making a determination that a project is eligible for assistance;
7. The Project is considered non-routine because the Agency is requesting that eligibility of construction costs be established as March 1, 2014, the date Project construction began, rather than the effective date of AB 1478;
8. The Agency is the lead agency under the California Environmental Quality Act (CEQA);
9. The Agency has complied with CEQA and CEQA Guidelines by preparing an Environmental Impact Report (EIR) and six Addenda for the Project;
10. The City of Davis (Davis) was initially the lead agency when preparing the 2007 EIR. In 2009, the Agency adopted the EIR and became lead agency for all subsequent six Addenda, while Davis, City of Woodland (Woodland) and University of California, Davis (UC Davis) became responsible agencies;

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11. Adequate public participation was provided through the CEQA process. The EIR was distributed to the public and circulated through the State Clearinghouse (SCH) from April 9, 2007 through June 25, 2007 for review;
12. Davis, as former lead agency certified the EIR, adopted a Mitigation Monitoring and Reporting Plan (MMRP) and a Statement of Overriding Consideration, and approved the Project on October 16, 2007;
13. The State Water Board finds that the Project will result in significant unavoidable adverse land use and agriculture, noise, public services and utilities, aesthetics, growth inducing, and cumulative impacts. Such changes or alterations are within the responsibility and jurisdiction of another public agency and not the State Water Board. The Agency has adopted a statement of overriding considerations with respect to these effects, finding that the impacts are an acceptable consequence of the Project because of the benefits it will provide, and no feasible mitigation measures or alternatives have been identified to reduce the Project's significant unavoidable impacts and that the following economic, social, technological, and environmental benefits of the Project outweigh the significant unavoidable adverse impacts:
 - a. The Project will increase the reliability of Davis, Woodland, and UC Davis' (Project Partners) water supplies by diversifying the number of water sources used. This will provide the Project Partners better protection from unpredictable hydrological conditions such as drought;
 - b. The Project will improve the quality of drinking water served to customers within the Project area, and enable the Project Partners to comply with current water quality regulations and better position the Partners to meet future water quality regulations;
 - c. Because the quality of water delivered to the Project Partners' customers will be improved, the Project will result in a reduction in the number of water softeners. This will have beneficial impacts on water quality by reducing the salt load in treated effluent discharges from the cities' wastewater treatment plants;
 - d. The Project will improve the quality of treated wastewater effluent discharged by the Project Partners by substituting treated surface water from the Sacramento River for a substantial portion of existing groundwater supplies. Because the treated surface water is substantially lower in salinity than the existing groundwater supplies, this will provide the Project Partners with a sensible and cost-effective strategy for reducing the salt loads in their treated wastewater effluent;
 - e. The Project will protect groundwater resources within Yolo County by greatly reducing the Project Partners' groundwater pumping;
 - f. The Project will protect the quality of Yolo County's groundwater resources by reducing the risk that future pumping from the deep aquifer would cause that aquifer to become contaminated with lower-quality water from the intermediate aquifer;
 - g. The Project will reduce fish mortality in the Sacramento River by replacing the water transferors' unscreened diversion with the Project Partners' state-of-the-art screened diversion;

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- h. The Project will reduce the Project Partners' greenhouse gas emissions by greatly reducing the amount of groundwater they pump. This will facilitate the Project Partners' compliance with AB 32;
 - i. The Project will ensure that the cities have adequate water supplies available to permit the development needed for them to meet their share of existing and future Regional Housing Needs Allocations;
 - j. The Project will ensure that UC Davis has adequate water supplies available to permit it to accept its share of the University of California's system wide growth. This will help the University of California fulfill its constitutionally mandated mission to provide higher educational opportunities for the top tier of California's graduating high-school classes;
 - k. The Project will ensure that UC Davis has adequate water supplies available to permit it to fulfill its important functions for agricultural research. This will help the University of California fulfill its mission to provide the primary state-funded institution for public research;
 - l. The Project will boost the local economy by providing temporary employment for construction workers; and
 - m. The Project will boost the local economy by providing permanent employment for Water Treatment Plant employees.
14. Davis filed a Notice of Determination (NOD) with the Yolo County Clerk on November 7, 2007, and the Office of Planning and Research on November 15, 2007, for the EIR;
15. The State Water Board finds that the Project will result in significant unavoidable air quality impacts. The State Water Board finds that the impacts are an acceptable consequence of the Project because of the benefits it will provide, and no feasible mitigation measures or alternatives have been identified to reduce the Project's significant unavoidable impacts and that the following economic, social, technological, and environmental benefits of the Project outweigh the significant unavoidable adverse impacts:
- a. The Project will increase the reliability of Davis' and Woodland's water supplies by diversifying the number of water sources used. This will provide the cities better protection from unpredictable hydrological conditions such as drought;
 - b. The Project will improve the quality of drinking water served to customers within the Project area, and enable the cities to comply with current water quality regulations and better position the cities to meet future water quality regulations;
 - c. Because the quality of water delivered to the cities' customers will be improved, the Project will result in a reduction in the number of water softeners. This will have beneficial impacts on water quality by reducing the salt load in treated effluent discharges from the cities' wastewater treatment plants;

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- d. The Project will improve the quality of treated wastewater effluent discharged by the cities by substituting treated surface water from the Sacramento River for a substantial portion of existing groundwater supplies. Because the treated surface water is substantially lower in salinity than the existing groundwater supplies, this will provide the cities with a strategy for reducing the salt loads in their treated wastewater effluent;
 - e. The Project will protect groundwater resources within Yolo County by reducing groundwater pumping;
 - f. The Project will protect the quality of Yolo County's groundwater resources by reducing the risk that future pumping from the deep aquifer would cause that aquifer to become contaminated with lower-quality water from the intermediate aquifer;
 - g. The Project will reduce the greenhouse gas emissions by reducing groundwater pumping.
16. The Agency prepared Addendum No. 5 to update the Project's air quality emissions modeling prepared for the 2007 EIR, and to demonstrate compliance with the General Conformity Rule of the Clean Air Act. Addendum No. 5 was distributed to the public and circulated through SCH for review from September 18, 2013 to October 3, 2013;
17. The Agency filed an NOD for Addendum No. 5 with both the Yolo County Clerk and OPR on October 16, 2013;
18. The Agency prepared Addendum No. 6 to update the Project's solids handling and flood modeling assessments. Addendum No. 6 was distributed to the public and circulated through the SCH for review from December 31, 2013 to January 29, 2014;
19. The Agency filed an NOD for Addendum No. 6 with the Yolo County Clerk on January 23, 2014 and OPR on January 14, 2014;
20. The United States Army Corps of Engineers (USACE) acted as the lead federal agency consulting with the United States Fish and Wildlife Service (USFWS), the National Marine Fisheries Service (NMFS) and the State Historic Preservation Officer (SHPO);
21. On August 7, 2013, the USFWS issued a Biological Opinion (BO) with the determination that the Project, as proposed, is not likely to jeopardize the continued existence of the Valley Elderberry Longhorn Beetle (VELB), Giant Garter Snake (GGS), or Delta Smelt. The Project occurs outside of designated critical habitat for VELB and delta smelt and as such no destruction or adverse modification of critical habitat will occur. No critical habitat has been designated for GGS, so none will be adversely modified or destroyed;
22. On October 22, 2013, the NMFS issued a BO determining that the Project will adversely affect the Essential Fish Habitat (EFH) of Pacific Salmon protected under the Magnuson-Stevens Fishery Conservation and Management Act. NMFS determined that these effects will be temporary and discountable due to the fact that sedimentation from the construction will dissipate quickly downstream of the Project. The implementation of conservation measures, along with the substantial amount of flow in the Sacramento River along those sections where the diversion changes and new fish screen will be placed, will cause sediment to dissipate to the point of being discountable. NMFS recommends the utilization of conservation measures outlined in the BO to reduce or to prevent short term negative

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effects during project construction. The Sacramento River provides all four major components of freshwater EFH for salmon; long term effects of this Project are expected to protect Pacific Salmon from the effects of entrainment in pumping stations as a result of placement of two positive barrier fish screens;

23. On May 2, 2014, the Sacramento Central Valley Regional Water Quality Control Board issued a Clean Water Act (CWA) Section 401 Water Quality Certification to the Agency. On April 21, 2014, USACE issued a CWA Section 404 Permit to the Agency. Conditions will be added to the Agency's financing agreement to implement the conditions identified therein;
24. On November 20, 2012, the USACE sent a "Request for Concurrence on Section 106 Compliance" with a finding of "No Historical Properties Affected" to the SHPO. After 30 days, USACE ended consultation when no concurrence letter was issued by the SHPO. The State Water Board Cultural Resources Officer confirmed that the Agency has provided sufficient documentation to support a determination that "No Historic Properties will be Affected" for the Project, pursuant to 36 CFR Part 800 regulations implementing Section 106 concurring with the USACE's finding of "No Historical Properties Affected";
25. The United States Department of the Interior, Bureau of Reclamation was the lead for National Environmental Policy Act (NEPA) and completed a Finding of No Significant Impact for the Project on November 19, 2013;
26. The Project is within the 100-year flood plain. However, all building structures will be constructed above the estimated 100-year flood level. The Agency prepared a base model on May 9, 2013, and submitted the model to the Federal Emergency Management Agency (FEMA) as part of a Letter of Map Revision application. FEMA has made the changes effective through the Physical Map Revision process. The Agency is in the process of updating the Project information submitted to FEMA consistent with the preliminary design for the RWTF. State Water Board staff will continue to coordinate with the Agency to ensure that no changes are made to the Project scope that will impact the State Water Board determination. Once the Agency's consultation is completed with FEMA, the Agency shall provide final copies of documentation received from FEMA to the State Water Board to ensure that no further action is required;
27. The Agency's environmental documents provided an adequate disclosure of the environmental relationships of all water quality aspects of the Project. Mitigation measures have been incorporated to the Project design features or implementation to reduce any potentially significant environmental impacts. The Project will not result in any significant adverse water quality impacts;
28. The Agency has represented that it complies with the State Water Board's Drought Emergency Water Conservation regulations in Section 863-865 of title 23 of the California Code of Regulations; and
29. The Agency has not completed property acquisitions for the Project.

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THEREFORE BE IT RESOLVED THAT:

The State Water Board:

1. Authorizes the Deputy Director of the Division to execute a CWSRF financing agreement with the Agency for a maximum of \$95,461,000, at an interest rate not to exceed one-half the general obligation bond rate most recently obtained by the State Treasurer's Office, and approves otherwise eligible construction costs incurred on or after March 1, 2014;
2. Conditions this authorization on the Agency's compliance with the following environmental conditions:
 - a. The Agency shall comply with the applicable October 19, 2007 MMRP, Mitigation Measures.
 - b. Per the October 22, 2013 NMFS Biological Opinion, the Agency shall implement the conditions and requirements identified therein.
 - c. Per the August 7, 2013 USFWS Biological Opinion, the Agency shall implement the conditions and requirements identified therein.
 - d. Per the April 21, 2014 United States Army Corps of Engineer (USACE) Clean Water Act (CWA) Section 404 Permit, the Agency shall implement the conditions and requirements identified therein.
 - e. Per the May 2, 2014 Sacramento Central Valley Regional Water Quality Control Board (Sacramento Central Valley Regional Water Board) CWA Section 401 Certification, the Agency shall implement the conditions and requirements identified therein.
 - f. The Agency shall coordinate with the Division of Financial Assistance staff to ensure that no changes are made to the Project scope that will impact the State Water Board's determination. Once the Recipient's consultation is completed with FEMA, the Agency shall provide final copies of documentation received from FEMA to the State Water Board to ensure that no further action is required.
3. Conditions this authorization on the Agency's compliance with the following credit conditions:
 - a. The Agency shall pledge the net revenues of the Agency Fund and the Agency 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 2014 Safe Drinking Water State Revolving Fund loan;
 - c. The Agency shall establish member charges (allocations) sufficient to generate net revenues equal to at least 1.10 times the total annual debt service;

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- d. The Agency may not incur future senior debt. The Agency's future debt may be on parity with CWSRF debt if the Policy conditions of Section IX.B.4.c.iii, or its replacement, are met;

The Agency shall establish a restricted reserve, held in the Agency 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; and

- e. The financing agreement shall be limited to a maximum of \$95,461,000, unless information supporting the credit review changes and a supplemental credit review is performed.

- 4. Conditions this authorization on the Agency's compliance with the following other condition:

- a. No construction funds will be disbursed until the Agency provides an opinion satisfactory to the State Water Board's counsel that the Recipient has sufficient property rights in the land where the Project is located for the purposes contemplated in this Agreement throughout the term of this Agreement and specifying the end date, if any, of the property rights.

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 October 21, 2014.

Jeanine Townsend
Clerk to the Board