

**STATE WATER RESOURCES CONTROL BOARD
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE
APRIL 7, 2015**

ITEM 6

SUBJECT

CONSIDERATION OF A RESOLUTION TO AUTHORIZE THE DEPUTY DIRECTOR OF THE DIVISION OF FINANCIAL ASSISTANCE (DIVISION) TO PROVIDE CLEAN WATER STATE REVOLVING FUND (CWSRF) PROGRAM FINANCING TO THE SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT (REGIONAL SAN) FOR THE ECHO WATER PROJECT (PROJECT), CWSRF PROJECT NOS. C-06-8025-110, C-06-8025-120, C-06-8025-130, C-06-8025-140, C-06-8025-150, C-06-8025-160, C-06-8025-170, C-06-8025-180

DISCUSSION

Regional San was formed in 1973, and in 1982 the Sacramento Regional Wastewater Treatment Plant (Facility) began service. Regional San is governed by a 17-member Board of Directors representing all of the jurisdictions served throughout the region.

Regional San owns and operates a regional wastewater conveyance system and the Facility located near Elk Grove, California. Regional San provides sewerage service to residential, industrial, and commercial customers throughout unincorporated Sacramento County; the cities of Citrus Heights, Elk Grove, Folsom, Rancho Cordova, Sacramento and West Sacramento; and the communities of Courtland and Walnut Grove. The population served is approximately 1.4 million people.

The Facility is staffed and operated 24 hours per day and consists of influent pumps, septage receiving station, mechanical bar screening, aerated grit handling, grit classifiers that wash and dewater grit, covered primary sedimentation tanks, pure oxygen biological treatment by activated sludge, secondary sedimentation, disinfection with chlorine gas, and dechlorination with sulfur dioxide. Effluent can be diverted to lined and unlined emergency storage basins as needed to meet effluent dilution, thermal, and disinfection requirements or equalize high flows. The current average dry weather flows are approximately 141 million gallons per day (mgd), and the Facility has a design capacity of 181 mgd. Odors are controlled through stripping towers and carbon treatment.

Solids are thickened by dissolved air flotation and gravity belt thickeners. Primary and secondary sludge is mixed and sent to anaerobic digesters for approximately fifteen days or more, stored at the solids storage basins for three to five years, then harvested and injected into lined dedicated land disposal sites. Some biosolids are recycled with the Synagro Organic Fertilizer Company, and Regional San can dispose of biosolids at the Keifer Landfill as an emergency disposal option.

The Facility lies within the Sacramento watershed, and discharges to the Sacramento River, a tributary of the Sacramento-San Joaquin Delta (Delta). The Delta is home to over two hundred eighty species of birds and more than fifty species of fish, making it one of the most ecologically important aquatic habitats in the State. The Central Valley Regional Water Quality Control Board (Central Valley Regional Board) has required most wastewater treatment facilities that discharge within the Central Valley Region to upgrade their treatment levels to tertiary filtration

and to incorporate nitrification/denitrification (i.e., ammonia/nitrogen removal). The Facility is the largest facility discharging to the Delta, and is one of a few remaining secondary treatment facilities in the Central Valley Region. The Facility's current permitted discharge of 181 mgd represents nearly 60 percent of all publicly-owned treatment works (POTW) discharges to the Delta.

The Facility is regulated in accordance with Waste Discharge Requirements Order (WDR) No. R5-2010-0114-03, (NPDES Permit No. CA0077682). The permit requires compliance with ammonia removal by May 2021, and further requires tertiary filtration for pathogen removal consistent with recycled water requirements under Title 22, Division 4, Chapter 3 of the California Code of Regulations or the equivalent by May 2023.

Over the next several years, the Project will upgrade the Facility to meet the new permit limits. The Project will improve the primary and secondary treatment processes, and expand the tertiary treatment at the Facility. Facility modifications will include replacement of the existing pure oxygen biological treatment facilities with biological nutrient removal (BNR) facilities capable of removing ammonia and nitrate nitrogen, addition of tertiary treatment in the form of granular media filtration, and increased storage facilities.

The Project is currently estimated to be bid and constructed in eight construction phases. Each construction phase will receive a separate CWSRF financing agreement (the "associated financing agreement"). Construction is estimated to take place over the next several years, starting in March 2015 and ending in February 2022. The total cost of the project is estimated at approximately \$1.6 billion.

Pursuant to state law, the interest rate on a CWSRF financing agreement cannot exceed 50 percent of the interest rate paid by the state on the most recent sale of general obligation bonds. Pursuant to the CWSRF Policy (Policy), the interest rate for a construction financing agreement is established by the earlier of the date that the Division initiates preparation of the financing agreement or the date that financing is approved by the State Water Resources Control Board (State Water Board).

Regional San has requested that the interest rate for the Project be the rate in effect on the date the State Water Board approves financing for the Project. The Division recommends setting an interest rate cap based on the 10-year average interest rate of 2.3 percent to limit the effect this project will have on reducing the CWSRF's future earnings. The Division's recommendation is that the interest rate for the associated financing agreement for each phase would be the rate otherwise in effect at the time that each financing agreement is prepared for each phase, not to exceed 2.3 percent.

Additionally, the Policy restricts recipients' future debt. The Policy's additional debt test requires that a recipient's future parity debt meet certain coverage requirements based on maximum annual debt service. This test conflicts with the additional debt test established by the Regional San in its Master Installment Purchase Contract (Master Contract), which governs its extensive debt portfolio. This is discussed in more detail below under Financial Review. The Division recommends using the test set forth in the Regional San's Master Contract because it provides adequate security for the financing, and Regional San has a strong financial track record and stable revenue base.

Due to the large total project cost and its potential effect on the CWSRF Program's cash flow, Division staff believes it prudent to condition the finance agreements regarding disbursement rates. The Division recommends that Regional San be required to submit updated draw estimates quarterly until all funds are drawn so the Division can plan for future cash draws by Regional San and other financing recipients, and accurately evaluate CWSRF's capacity to finance new projects. Regional San should be required to provide a 90 day notice of any acceleration of cash disbursements relative to previously established cash draw estimates for each financing agreement, and all requests for acceleration should be approved by the Division.

ENVIRONMENTAL IMPACT

State Water Board staff conducted a review pursuant to the California Environmental Quality Act (CEQA) and pursuant to its obligations to apply a "CEQA+" review to projects funded through the CWSRF. State Water Board staff determined that the Project will not result in any significant adverse water quality impacts.

Regional San is the lead agency under CEQA, and has complied with the CEQA and CEQA Guidelines. Regional San prepared an Environmental Impact Report (EIR) for the Project. The EIR was distributed to the public and circulated through the State Clearinghouse (SCH No. 2012052017) from March 4, 2014 through May 9, 2014. Regional San received nine comment letters, responded to all comments, and revised the EIR where appropriate.

Regional San certified the EIR, adopted findings of fact, a Mitigation Monitoring and Reporting Program, and a Statement of Overriding Considerations, and approved the Project on September 24, 2014.

The Project will result in temporary significant unavoidable adverse environmental impacts to air quality and traffic and transportation. Regional San determined the impacts are an acceptable consequence of the Project because of the benefits it will provide; all feasible mitigation will be implemented to reduce the Project's contribution to these impacts; no further feasible mitigation measures or alternatives have been identified to reduce the Project's significant unavoidable adverse environmental impacts; and that the following economic, social, technological, and environmental benefits of the Project outweigh the significant unavoidable adverse impacts:

- a. The Project substantially reduces ammonia from effluent discharged by the Facility to the Sacramento/San Joaquin/Bay Delta;
- b. The Project treats an estimated 97 percent of the wastewater (on an annualized basis) through tertiary filters prior to disinfection, and treats all wastewater through the tertiary filters prior to disinfection during the dry season (during high recreational use of the Sacramento River);
- c. The Facility will comply with the effluent limitations and other requirements identified in the National Pollutant Discharge Elimination System permit;
- d. The Project uses sustainable, cost effective technology and efficient processes thereby protecting ratepayers' interest; and
- e. The Project will improve the Facility's ability to meet potential future regulations and permitting requirements.

Regional San filed Notices of Determination (NOD) with the Sacramento County Clerk and the Governor's Office of Planning and Research (OPR) on September 25, 2014.

The State Water Board has taken the federal lead to consult with the Office of Historic Preservation, Department of Parks and Recreation, State Historic Preservation Officer, and the United States Environmental Protection Agency (U.S. EPA) has taken the federal lead to consult with the National Oceanic and Atmospheric Administration, National Marine Fisheries Service (NMFS) and the United States Department of the Interior, Fish and Wildlife Service (USFWS).

Regional San contracted with Ascent Environmental, Inc. to prepare a biological assessment (BA) for terrestrial and aquatic species protected under the Endangered Species Act (ESA) for the Project. The BA determined that the Project will “adversely affect” valley elderberry long-horned beetle (VELB; *Desmocerus californicus dimorphus*) and vernal pool fairy shrimp (VPFP; *Branchinecta lynchi*), and “not likely to adversely affect” the giant garter snake, special status aquatic or anadromous fish species, or critical habitat. Ascent Environmental, Inc. obtained and reviewed the species lists from the USFWS and California Department of Fish and Wildlife California Natural Diversity Database, as well as information from previous studies, and conducted a Project-level biological field survey. During the field survey five elderberry shrubs that provide suitable habitat for the VELB and 1.65 acres of seasonal wetlands and ephemeral ditches that provide suitable habitat for the VPFP were identified within the Project area. In addition, basking and aestivation habitat for the giant garter snake (*Thamnophis gigas*) was also identified approximately 200 feet north of the Project area.

On June 27, 2014, the U.S. EPA notified the NMFS and the USFWS that it will be the lead federal agency for consultations pursuant to Section 7 of the federal ESA. On July 18, 2014, the U.S. EPA initiated formal consultation with the USFWS and informal consultation with the NMFS. On December 18, 2014, the U.S. EPA notified the NMFS that the Project will have “no effect” on any aquatic species protected under Section 7, revising its earlier determination.

On December 23, 2014, the USFWS issued a Biological Opinion (BO) determining that the Project is “not likely to adversely affect” the giant garter snake and “not likely to jeopardize” the continued existence of the VELB and the VPFS provided Regional San implements all “Reasonable and Prudent Measures,” “Terms and Conditions,” and “Report Requirements” identified in the USFWS’s December 23, 2014 BO.

On July 11, 2014, the State Water Board initiated consultation with the Office of Historic Preservation (OHP) under Section 106 of the National Historic Preservation Act.

On October 7, 2014, the OHP responded that it was unable to concur without additional information. On November 7, 2014, the State Water Board provided supplemental information to OHP. On December 5, 2014, the OHP concurred with the State Water Board determination of “no historic properties affected” for the Project.

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

FISCAL IMPACT

Financial Review:

A credit review was completed to analyze Regional San’s ability to enter into multiple finance agreements for the combined total of \$1,576,978,261 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 agreements. Based on information provided by Regional San, the estimated 2013 median household income (MHI) for the regional service area is \$50,661. Regional San’s service area MHI is approximately 83 percent of the State of California MHI. Its MHI has increased 34 percent since

2000. Regional San's service area population is 1,400,000, and has increased 16.8 percent since 2000. Regional San does not qualify for disadvantaged community status.

The most recent rate increases, adopted on March 26, 2014, cover a period of five years. After allowing for operations and maintenance costs (O&M), projected to be \$152,399,225 in fiscal year 2020/21, the net revenues are projected to be \$165,016,502. Regional San has seventeen (17) existing debt obligations, with associated interest rate swap agreements, totaling \$1,428,918,403 with an estimated annual debt service of \$91,880,692. The amount of existing debt that will be on parity with the CWSRF debt totals \$1,061,905,000, and the amount of existing debt that will be subordinate to the CWSRF debt totals \$367,013,403. The Master Contract allows parity debt¹ if the net revenues of Regional San equal at least 1.20 times the total debt service.

Security and Source of Financing Repayment:

Regional San will pledge its net revenues consistent with the Master Contract dated June 1, 2000, to the repayment of the proposed financing agreements.

The combined financing agreements, which total \$1,576,978,261, with thirty year terms, and rates estimated to be from 1.50 percent to 2.30 percent, will have a cumulative estimated annual debt service of \$71,777,037. When added to the existing debt service of \$91,880,692, the total annual debt service will be an estimated \$163,657,709. Based on audited financial statements and cash-flow projections, Regional San will be able to meet the annual payment obligation and the debt coverage requirements for the first six phases of the Project. This evaluation is based on the currently approved monthly service charge rates. Additional service rate increases will be necessary in the future to meet annual payment obligations and debt coverage requirements for the full amount requested.

Comparative Revenues and Expenses Analysis:

The audited financial statements from fiscal year 2010/11 through 2013/14 and the cash-flow projections for fiscal years 2014/15 through 2020/21 are summarized in the attached Exhibit A.

Fiscal Impact on the CWSRF Program:

The CWSRF cash-flow projections for fiscal years 2014/15 through 2018/19 are summarized below:

(as of 02/26/2015)	SFY 2014/15	SFY 2015/16	SFY 2016/17	SFY 2017/18	SFY 2018/19
Beginning Balance:	\$361,819,680	\$181,469,405	(\$225,176,101)	(\$556,346,523)	(\$740,503,687)
Estimated Repayments	\$235,355,387	\$250,205,387	\$265,055,387	\$279,905,387	\$294,755,387
Debt Service on Revenue Bonds	(\$14,713,300)	(\$14,323,300)	(\$13,808,100)	(\$9,980,925)	(\$7,600,725)
Estimated Capitalization Grants	\$96,265,920	\$70,000,000	\$28,800,000	\$28,800,000	\$0
Local Match Credits	\$705,992	\$1,216,238	\$1,217,135	\$0	\$0
Est. SMIF Interest:	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000
Estimated Disbursements	(\$463,508,422)	(\$470,691,496)	(\$285,686,620)	(\$132,901,835)	(\$36,148,589)
Subtotal	\$217,425,257	\$19,376,234	(\$228,098,300)	(\$389,023,896)	(\$487,997,614)

¹ Regional San's additional debt test is different than the CWSRF's additional debt test. For variable debt, CWSRF uses the maximum payment. Regional San calculates the annual debt payment using the average interest rate of all existing debt, which is then used to calculate the coverage ratio.

Pending Preliminary Funding Commitments					
Hi Desert Water District, CWSRF No. 5295-110 (2/6/15)	\$0	(\$36,694,488)	(\$51,772,969)	(\$28,469,862)	(\$25,411,995)
Inland Empire Utilities Agency, CWSRF No. 5319-110 (2/12/15)	(\$3,000,000)	(\$3,000,000)	\$0	\$0	\$0
Burlingame Hills Sewer Maintenance District, CWSRF No. 7810-110 (2/4/15)	(\$233,068)	(\$947,598)	(\$956,796)	(\$162,538)	\$0
Western Municipal Water District, CWSRF No. 7845-110 (2/17/15)	\$0	(\$5,415,384)	(\$8,492,307)	(\$6,990,766)	(\$3,101,543)
City of Fresno, CWSRF No. 7893-110 (12/29/14)	(\$6,321,144)	(\$15,003,633)	(\$15,475,899)	(\$6,757,078)	(\$5,485,582)
Rodeo Sanitary District, CWSRF No. 8004-110 (12/15/2014)	(\$358,515)	(\$1,169,896)	(\$1,222,733)	(\$79,256)	\$0
City of Davis, CWSRF No. 8010-110 (01/12/2015)	(\$8,706,120)	(\$24,016,884)	(\$27,139,082)	(\$11,347,985)	(\$9,846,929)
Sacramento Reg. County Sanitation District, CWSRF No. 8025-110 (2/13/15)**	(\$17,337,005)	(\$158,304,452)	(\$223,188,437)	(\$297,672,306)	(\$332,611,321)
	<u>\$181,469,405</u>	<u>(\$225,176,101)</u>	<u>(\$556,346,523)</u>	<u>(\$740,503,687)</u>	<u>(\$864,454,984)</u>

1. Estimated repayments include repayments from existing and future financing.
2. Estimated disbursements include disbursements through the date of the analysis and disbursements remaining on executed financing agreements.
3. Local match credits are the anticipated funds that will be contributed for local match financing included in "Estimated Disbursements."
4. Excludes Principal Forgiveness funds.

** The disbursement forecast for Project No. 8025-110 includes estimated disbursements through SFY year 2018/19. The remaining spending is projected as follows: 2019/20 (\$295,080,524), 2020/21 (\$187,962,942), 2021/22 (\$55,621,432), 2022/23 (\$9,199,842).

Regional San has submitted its currently estimated disbursement projections. These indicate that 97 percent of the funds for this project will be drawn in seven years. Depending on future project demands, future capitalization grants from U.S. EPA, and the actual pace of construction on this project, it is probable, based on the fiscal impact analysis above, that additional cash, through a CWSRF revenue bond sale, will be needed by the State Water Board during the construction of this project. Short-term cash flow projections indicate that given current demand for financing, the CWSRF may need an additional \$500 million to \$900 million over the next four years.

On June 5, 2012, (Resolution No. 2012-0025) the State Water Board authorized the refunding of its revenue bonds as well as the sale of up to \$300 million in new money revenue bonds to provide additional cash for CWSRF project financing. The Division, therefore, may need to request additional authority for CWSRF revenue bonds or otherwise manage demand for CWSRF financing in the short term.

The CWSRF program's cash flow, excluding this project, is comparable to recent cash flow forecasts showing positive year end balances. In the longer term, the CWSRF program's cash needs are less predictable, and the level of additional debt needed for this or other projects depends on future financing demands and updated cash flow forecasts. Longer-term financial analysis of the CWSRF program indicates that it has a significant capacity to obtain additional cash through the municipal bond market – on the order of an additional \$1.5 to \$2.5 billion over the next 10 years depending on market conditions.

POLICY ISSUES

Should the State Water Board approve the Resolution to:

1. Authorize the Deputy Director of the Division to enter into associated financing agreements for each of the fiscally discrete but technically interrelated and interdependent phases of the Project in a maximum cumulative amount of \$1,576,978,261?
2. Direct the Deputy Director to apply to each associated financing agreement the interest rate otherwise in effect at the date of preparation of that associated financing agreement not to exceed 2.3 percent?
3. Apply to each of the associated financing agreements the additional debt test established in Regional San's Master Contract rather than the additional debt test currently established in the CWSRF Policy?
4. Condition this approval with the following general conditions?
 - a. Regional San shall submit updated draw estimates quarterly until all funds are drawn so the Division can establish cash flow projections for the Project.
 - b. Regional San must request any acceleration of cash disbursements relative to any previously submitted cash draw estimates for its financing agreements at least 90 days in advance of such accelerated disbursement requests, and all requests for acceleration must be approved by the Division.
 - c. The State Water Board reserves the right to add new or modify existing conditions to this commitment in the future, as required by state or federal law or agreements.
 - d. Repayment of an associated financing agreement begins one year after completion of construction of each phase as established in the associated financing agreement for each phase of construction.
5. Condition this approval, as determined by the environmental review, such that the following documents are incorporated by reference and that Regional San shall comply with the terms and conditions identified therein?
 - a. The September 24, 2014 Mitigation Monitoring and Reporting Program, including but not limited to the following mitigation measures: 4.3-1 for air quality, 4.4-1 for climate change, 4.5-1 through 4.5-2 for cultural resources, 4.7-1 and 4.7-2 for hydrology/water quality, 4.8-1 for aquatic biological resources, 4.9-2 for wetlands and waters of the United States, and 4.9-3 through 4.9-9 for terrestrial biological species;
 - b. The letter dated December 5, 2014, from Carol Roland-Nawi of the Office of Historic Preservation, Department of Parks and Recreation to Cedric Irving of the State Water Board regarding Section 106 of the National Historic Preservation Act consultation for the Project;

- c. The letter dated December 23, 2014, from Michael Chotkowski of the USFWS to Douglas E. Eberhardt of the U.S. EPA regarding formal Section 7 of the federal ESA consultation for the Project;
 - d. The Clean Water Act Section 404 Permit (SPK-2012-00544) from the United States Army Corps of Engineers to the Regional San regarding the Project; and
 - e. The Clean Water Act 401 Certification (WDID#5834CR00064) from the Sacramento Central Valley Regional Board to the Regional San regarding the Project.
6. Require that, in any case where the environmental analysis document was completed more than five years before the date an associated financing agreement is executed, Regional San must reevaluate the environmental analysis document and issue a public notice explaining its reevaluation?
7. Condition this approval, as determined by the credit review, with the following conditions?
- a. Regional San shall secure its obligations to the State Water Board under the financing agreements by a pledge of Net Revenues under the Master Contract dated June 1, 2000, as amended, as Parity Obligations.
 - b. Regional San shall covenant to establish rates, fees, and charges for Sanitation Service in amounts sufficient to generate Net Revenues in amounts required under the Master Contract, which amounts are required under the Master Contract to equal at least 1.20 times the total adjusted annual debt service on all Parity Obligations, including the financing agreements with the State Water Board.
 - c. Regional San shall establish a separate reserve fund equal to one year's debt service on all associated financing agreements by completion of construction. The separate reserve fund shall be maintained for the full term of the financing agreements.
 - d. The Division shall not execute an associated financing agreement for any future phase of the Project until it has determined that Regional San's rates are estimated to be sufficient to meet the coverage requirements of the Master Contract for all funds disbursed to that point, and may withhold disbursement on any executed financing agreement until the service rates are estimated to be sufficient to meet the coverage requirements of the Master Contract.
 - e. Future Project phases must satisfy applicable tax-exempt financing rules.

REGIONAL BOARD IMPACT

The proposed financing agreement will help Regional San comply with National Pollutant Discharge Elimination System (NPDES) No. CA0077682 and Waste Discharge Order No. R5-2010-0114-3 issued by the Central Valley Regional Board.

STAFF RECOMMENDATIONS

The Division recommends that the State Water Board:

- 1. Authorize the Deputy Director of the Division to enter into associated financing agreements for each of the fiscally discrete but technically interrelated and interdependent phases of the Project in a maximum cumulative principal amount of \$1,576,978,261.

2. Direct the Deputy Director to apply to each associated financing agreement the interest rate otherwise in effect at the date of preparation of that associated financing agreement not to exceed 2.3 percent.
3. Apply to each of the associated financing agreements the additional debt test established in Regional San's Master Contract rather than the additional debt test currently established in the CWSRF Policy.
4. Condition this approval with the following general conditions.
 - a. Regional San shall submit updated draw estimates quarterly until all funds are drawn so the Division can establish cash flow projections for the Project.
 - b. Regional San must request any acceleration of cash disbursements relative to any previously submitted cash draw estimates for its financing agreements at least 90 days in advance of such accelerated disbursement requests, and all requests for acceleration must be approved by the Division.
 - c. The State Water Board reserves the right to add new or modify existing conditions to this commitment in the future, for financing agreements not yet executed, as required by state or federal law or agreements.
 - d. Repayment of an associated financing agreement begins one year after completion of construction of each phase as established in the associated financing agreement for each phase of construction.
5. Condition this approval, as determined by the environmental review, such that the following documents are incorporated by reference and that Regional San shall comply with the terms and conditions identified therein.
 - a. The September 24, 2014 Mitigation Monitoring and Reporting Program, including but not limited to the following mitigation measures: 4.3-1 for air quality, 4.4-1 for climate change, 4.5-1 through 4.5-2 for cultural resources, 4.7-1 and 4.7-2 for hydrology/water quality, 4.8-1 for aquatic biological resources, 4.9-2 for wetlands and waters of the United States, and 4.9-3 through 4.9-9 for terrestrial biological species;
 - b. The letter dated December 5, 2014, from Carol Roland-Nawi of the Office of Historic Preservation, Department of Parks and Recreation to Cedric Irving of the State Water Board regarding Section 106 of the National Historic Preservation Act consultation for the Project;
 - c. The letter dated December 23, 2014, from Michael Chotkowski of the USFWS to Douglas E. Eberhardt of the U.S. EPA regarding formal Section 7 of the federal ESA consultation for the Project;
 - d. The Clean Water Act Section 404 Permit (SPK-2012-00544) from the United States Army Corps of Engineers to the Regional San regarding the Project; and
 - e. The Clean Water Act 401 Certification (WDID#5B34CR00064) from the Sacramento Central Valley Regional Board to the Regional San regarding the Project.
6. Require that, in any case where the environmental analysis document was completed more than five years before the date an associated financing agreement is executed, Regional San must reevaluate the environmental analysis document and issue a public notice explaining its reevaluation.

7. Condition this approval, as determined by the credit review, with the following conditions.
- a. Regional San shall secure its obligations to the State Water Board under the financing agreements by a pledge of Net Revenues under the Master Contract dated June 1, 2000, as amended, as Parity Obligations;
 - b. Regional San shall covenant to establish rates, fees, and charges for Sanitation Service in amounts sufficient to generate Net Revenues in amounts required under the Master Contract, which amounts are required under the Master Contract to equal at least 1.20 times the total adjusted annual debt service on all Parity Obligations, including the financing agreements with the State Water Board;
 - c. Regional San shall establish a separate reserve fund equal to one year's debt service on all associated financing agreements by completion of construction. The separate reserve fund shall be maintained for the full term of the financing agreements;
 - d. The Division shall not execute an associated financing agreement for any future phase of the Project until it has determined that Regional San's rates are estimated to be sufficient to meet the coverage requirements of the Master Contract for all funds disbursed to that point, and may withhold disbursement on any executed financing agreement until the service rates are estimated to be sufficient to meet the coverage requirements of the Master Contract; and
 - e. Future Project phases must satisfy applicable tax-exempt financing rules.

State Water Board action on this item will assist the Water Boards in reaching Goals 1 and 3 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 3. Increase sustainable local water supplies available for meeting existing and future beneficial uses by 1,725,000 acre-feet per year, in excess of 2002 levels, by 2015, and ensure adequate flows for fish and wildlife habitat.

DRAFT

STATE WATER RESOURCES CONTROL BOARD RESOLUTION NO. 2015-

AUTHORIZING THE DEPUTY DIRECTOR OF THE DIVISION OF FINANCIAL ASSISTANCE (DIVISION) TO PROVIDE CLEAN WATER STATE REVOLVING FUND (CWSRF) PROGRAM FINANCING FOR THE SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT (REGIONAL SAN) FOR THE ECHO WATER PROJECT (PROJECT), CWSRF PROJECT NOS. C-06-8025-110, C-06-8025-120, C-06-8025-130, C-06-8025-140, C-06-8025-150, C-06-8025-160, C-06-8025-170 and C06-8025-180

WHEREAS:

1. The State Water Resources Control Board's (State Water Board) Division implements the CWSRF Program pursuant to the "Policy for Implementing the Clean Water State Revolving Fund" (Policy), last amended by the State Water Board on February 17, 2015;
2. Regional San submitted a complete CWSRF application requesting financing for the Project;
3. The Project is listed on the CWSRF Project List;
4. The Policy authorizes the Deputy Director of the Division to execute a financing agreement for routine and non-controversial projects;
5. The Project is considered non-routine because Regional San is requesting an interest rate cap for all financing agreements related to the Project, and requesting that the CWSRF use Regional San's additional debt test established in its Master Installment Purchase Contract (Master Contract) instead of the Policy's additional debt test;
6. Regional San is the lead agency under the California Environmental Quality Act (CEQA), and Regional San has complied with CEQA and CEQA Guidelines by preparing an Environmental Impact Report (EIR) for the Project, which was circulated through the State Clearinghouse (SCH)(SCH No. 2012052017) for review and comments;
7. Adequate public participation was provided through the CEQA process; the EIR was distributed to the public and circulated through the SCH from March 4, 2014 through May 9, 2014;
8. Regional San certified the EIR and adopted findings of fact, a Mitigation Monitoring and Reporting Program, and a Statement of Overriding Consideration, and approved the Project on September 24, 2014;
9. State Water Board finds that the Project will result in temporary significant unavoidable adverse impacts to air quality. he 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 finds that the following economic, social, technological, and environmental benefits of the Project outweigh the significant unavoidable adverse impacts:

DRAFT

- a. The Project will substantially reduce ammonia from effluent discharged by the Sacramento Regional Wastewater Treatment Plant (Facility) to the Sacramento/San Joaquin/Bay Delta (Delta);
 - b. The Project will treat an estimated 97 percent of the wastewater (on an annualized basis) through tertiary filters prior to disinfection, and will treat all wastewater through the tertiary filters prior to disinfection during the dry season (during high recreational use of the Sacramento River);
 - c. The Facility will be able to comply with the effluent limitations and other requirements identified in the National Pollutant Discharge Elimination System (NPDES) permit; and
 - d. The Project will improve the Facility's ability to meet potential future regulations and permitting requirements.
10. State Water Board finds that the Project will also result in significant unavoidable adverse impacts to traffic and transportation. Such changes or alterations are within the responsibility and jurisdiction of another public agency and not the State Water Board. Regional San has determined that these 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 adverse impacts, and finds that the following economic, social, technological, and environmental benefits of the Project outweigh the significant unavoidable adverse impacts:
- a. The Project will substantially reduce ammonia from effluent discharged by the Facility to the Delta;
 - b. The Project will treat an estimated 97 percent of the wastewater (on an annualized basis) through tertiary filters prior to disinfection, and will treat all wastewater through the tertiary filters prior to disinfection during the dry season (during high recreational use of the Sacramento River);
 - c. The Facility will be able to comply with the effluent limitations and other requirements identified in the NPDES permit;
 - d. The Project uses sustainable, cost effective technology and efficient processes thereby protecting ratepayers' interest; and
 - e. The Project will improve the Facility's ability to meet potential future regulations and permitting requirements.
11. Regional San filed Notices of Determination with the Sacramento County Clerk and the Governor's Office of Planning and Research on September 25, 2014;
12. On July 18, 2014, the United States Environmental Protection Agency (U.S. EPA) initiated formal consultation with the United States Department of the Interior, Fish and Wildlife Service (USFWS). On December 23, 2014, the USFWS issued a Biological Opinion (BO), determining that the Project is "not likely to adversely affect" the giant garter snake and "not likely to jeopardize" the continued existence of the valley elderberry long-horned beetle (*Desmocercus californicus dimorphus*) and the vernal pool fairy shrimp (*Branchinecta lynchi*) provided that Regional San implements all "Reasonable and Prudent Measures," "Terms and Conditions," and "Report Requirements" identified in the USFWS's December 23, 2014 BO;

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13. On July 11, 2014, the State Water Board initiated consultation under Section 106 of the National Historic Preservation Act with the State Historic Preservation Officer (SHPO). On December 5, 2014, SHPO concurred with the State Water Board's determination of "no historic properties affected" by the Project;
14. Regional San's environmental documents provided an adequate disclosure of the environmental relationships of all water quality aspects of the Project. Mitigation measures have been incorporated into the Project's design or implementation to reduce any potentially significant environmental impacts. The Project will not result in any significant adverse water quality impacts; and
15. The Division has completed a review of Regional San's CWSRF financing application, determined that the Project meets the Technical, Financial and Environmental requirements of the CWSRF, and is eligible to receive financing.

THEREFORE BE IT RESOLVED THAT:

The State Water Board:

1. Authorizes the Deputy Director of the Division to enter into associated financing agreements for each of the fiscally discrete but technically interrelated and interdependent phases of the Project in a maximum cumulative principal amount of \$1,576,978,261;
2. Directs the Deputy Director to apply to each associated financing agreement the interest rate otherwise in effect at the date of preparation of that associated financing agreement not to exceed 2.3 percent;
3. Directs the Deputy Director to apply to each of the associated financing agreements the additional debt test established in Regional San's Master Contract rather than the additional debt test currently established in the CWSRF Policy;
4. Conditions this approval with the following general conditions:
 - a. Regional San shall submit updated draw estimates quarterly until all funds are drawn so the Division can establish cash flow projections for the Project.
 - b. Regional San must request any acceleration of cash disbursements relative to any previously submitted cash draw estimates for its financing agreements at least 90 days in advance of such accelerated disbursement requests, and all requests for acceleration must be approved by the Division.
 - c. The State Water Board reserves the right to add new or modify existing conditions to this commitment in the future for financing agreements not yet executed, as required by state or federal law or agreements.
 - d. Repayment of an associated financing agreement begins one year after completion of construction of each phase as established in the associated financing agreement for each phase of construction.

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5. Condition this approval, as determined by the environmental review, such that the following documents are incorporated by reference and that Regional San shall comply with the terms and conditions identified therein:
 - a. The September 24, 2014 Mitigation Monitoring and Reporting Program, including but not limited to the following mitigation measures: 4.3-1 for air quality, 4.4-1 for climate change, 4.5-1 through 4.5-2 for cultural resources, 4.7-1 and 4.7-2 for hydrology/water quality, 4.8-1 for aquatic biological resources, 4.9-2 for wetlands and waters of the United States, and 4.9-3 through 4.9-9 for terrestrial biological species;
 - b. The letter dated December 5, 2014, from Carol Roland-Nawi of the Office of Historic Preservation, Department of Parks and Recreation to Cedric Irving of the State Water Board regarding Section 106 of the National Historic Preservation Act consultation for the Project;
 - c. The letter dated December 23, 2014, from Michael Chotkowski of the USFWS to Douglas E. Eberhardt of the U.S. EPA regarding formal Section 7 of the federal Endangered Species Act consultation for the Project;
 - d. The Clean Water Act Section 404 Permit (SPK-2012-00544) from the United States Army Corps of Engineers to the Regional San regarding the Project; and
 - e. The Clean Water Act 401 Certification (WDID#5B34CR00064) from the Sacramento Central Valley Regional Water Quality Control Board to the Regional San regarding the Project.
6. Require that, in any case where the environmental analysis document was completed more than five years before the date an associated financing agreement is executed, Regional San must reevaluate the environmental analysis document and issue a public notice explaining its reevaluation;
7. Condition this approval, as determined by the credit review, with the following conditions.
 - a. Regional San shall secure its obligations to the State Water Board under the financing agreements by a pledge of Net Revenues under the Master Contract dated June 1, 2000, as amended, as Parity Obligations.
 - b. Regional San shall covenant to establish rates, fees, and charges for Sanitation Service in amounts sufficient to generate Net Revenues in amounts required under the Master Contract, which amounts are required under the Master Contract to equal at least 1.20 times the total adjusted annual debt service on all Parity Obligations, including the financing agreements with the State Water Board.
 - c. Regional San shall establish a separate reserve fund equal to one year's debt service on all associated financing agreements by completion of construction. The separate reserve fund shall be maintained for the full term of the financing agreements.
 - d. The Division shall not execute an associated financing agreement for any future phase of the Project until it has determined that Regional San's rates are estimated to be sufficient to meet the coverage requirements of the Master Contract for all funds disbursed to that point, and may withhold disbursement on any executed financing agreement until the service rates are estimated to be sufficient to meet the coverage requirements of the Master Contract.

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- e. Future Project phases must satisfy applicable tax-exempt financing rules.

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 April 7, 2015.

Jeanine Townsend
Clerk to the Board