

**STATE WATER RESOURCES CONTROL BOARD  
BOARD MEETING SESSION –DIVISION OF FINANCIAL ASSISTANCE  
NOVEMBER 17, 2015**

**ITEM 7**

**SUBJECT**

CONSIDERATION OF A RESOLUTION APPROVING WATER RECYCLING FUNDING PROGRAM (WRFP) AND CLEAN WATER STATE REVOLVING FUND (CWSRF) FINANCING FOR THE CITY OF PACIFIC GROVE LOCAL WATER PROJECT (PROJECT)

**DISCUSSION**

The City of Pacific Grove (City) applied for a CWSRF Loan and WRFP Grant for a total of \$7.7 million for the construction of a new satellite recycled water treatment plant. The Project will produce recycled water to irrigate the Pacific Grove Municipal Golf Links, El Carmelo Cemetery, and Crespi Pond restrooms with a maximum delivery of 125 acre-feet per year. The recycled water will augment or offset delivered potable water from the California American Water Company.

The recommended Project will consist of a sewer diversion structure, a satellite recycled water treatment plant, waste pump station with force main, recycled water pump station, approximately a half mile of eight inch pipeline, user connections and site retrofits.

The City's water purveyor, California American Water Company, is subject to pumping restrictions pursuant to the State Water Resource Control Board (State Water Board) [Order 95-10](#) and Cease and Desist [Order WR2009-0060](#) for diversions from the Carmel River. The City's Project is one of a group of projects that will help California American Water Company comply with the orders.

The item is being brought to the State Water Board for approval because it is considered a controversial project. The Sierra Club and Carmel River Steelhead Association submitted a letter to the State Water Board's Division of Financial Assistance raising concern with the Supplemental Environmental Impact Report on the grounds that the Project has the potential to create growth in the City. There is also a City resident who is challenging the project for the same reason as the Sierra Club and Carmel River Steelhead Association.

State Water Board staff reviewed these concerns, and found that the Project remains eligible for funding. The Project offsets fresh water supplies, complies with the program requirements established in the WRFP Guidelines and the CWSRF Policy, and will support the State Water Board's long-standing orders regarding diversions from the Carmel River.

**ENVIRONMENTAL IMPACT**

State Water Board staff conducted a California Environmental Quality Act (CEQA)-Plus environmental review, reviewed the environmental documents, and determined that the Project will not result in any potential significant adverse water quality impacts.

The City is the lead agency under CEQA, and has complied with CEQA and CEQA Guidelines. The City prepared an Environmental Impact Report (EIR) for the Project. The EIR was distributed to the public and circulated through the State Clearinghouse (SCH; No 2014021058) from September 16, 2014 through October 30, 2014. The City received five (5) comments. The City responded to all comments, and made the appropriate revisions to the EIR.

The City certified the EIR, adopted a Mitigation Monitoring and Reporting Program (MMRP), and approved the Project on November 19, 2014. The City filed a Notice of Determination (NOD) with the Monterey County Clerk and the Governor's Office of Planning and Research (OPR) on November 20, 2014 and November 24, 2014, respectively.

The City prepared a Supplement to the EIR (Supplemental EIR) to evaluate minor revisions to the Project's recycled water allocations, and circulated it through the State Clearinghouse from July 8, 2015 through August 6, 2015. The City adopted the Supplemental EIR and approved the Project on October 7, 2015. The City filed an NOD for the Supplemental EIR with the Monterey County Clerk and OPR on October 8, 2015 and October 9, 2015, respectively.

The State Water Board Cultural Resources Officer reviewed the documents submitted by the City for the Project and sought concurrence with the State Historic Preservation Officer (SHPO) on February 4, 2015. On March 11, 2015, the SHPO responded with a conditional concurrence. SHPO concurred with a determination of "No Adverse Effects to Historic Properties" with the condition that qualified archeological and Native American monitors be present for all ground disturbing activities in the Project area.

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

## **FISCAL IMPACT**

The total cost of the project is \$7,700,000, of which \$2,415,000 is a Prop 13 grant and \$5,285,000 will be a CWSRF financing agreement.

The city's median household income (MHI) is \$46,603, approximately 77% of the State of California MHI, with a population of 15,295. The City is considered a small disadvantaged community.

Currently the City has one outstanding debt secured by the Sewer Enterprise Fund, the 2013 Wastewater Revenue Refunding Bond, issued by Capital One Public Funding, LLC. The current balance is \$1,151,740 with annual debt service of \$135,385. The Bond matures October 1, 2031 and the debt coverage requirement is 1.20.

The City's Sewer Enterprise Fund exceeded the debt service requirement of 1.20 in each of the last three fiscal years and is budgeted to continue doing so. In addition, the City had a total of \$17,392,466 in cash and investments for fiscal year end June 30, 2014.

The comparative revenue and expense analysis of the Sewer Enterprise Fund for Fiscal years 2011/12, 2012/13, 2013/14 and the 2014/15 annual budget are summarized below:

<b>Fiscal Year</b>	<b>Audited 2011/12</b>	<b>Audited 2012/13</b>	<b>Audited 2013/14</b>	<b>Budget 2014/15</b>
Charges for Services	\$2,573,438	\$2,626,719	\$2,780,863	\$2,878,193
Other Non-Operating Revenue	\$3,790	\$9,797	\$7,154	\$6,914
Interest Income	\$36,603	\$23,678	\$29,993	\$30,091
Total Revenues	\$2,613,831	\$2,660,194	\$2,818,010	\$2,915,198
Operating Expenses	\$836,933	\$1,303,701	\$1,289,171	\$2,046,705
Net Revenues	\$1,776,898	\$1,356,493	\$1,528,839	\$868,493
Outstanding Debt Service	\$100,500	\$96,652	\$135,385	\$135,385
Proposed Debt Service	\$0	\$0	\$0	\$204,784
Total Debt Service	\$100,500	\$96,652	\$135,385	\$340,169
Debt Coverage	17.68	14.03	11.29	2.55

Clean Water State Revolving Fund

(as of 10/19/2015)

	SFY 2015-16	SFY 2016-17	SFY 2017-18	SFY 2018-19	SFY 2019-20
Beginning Balance:	\$300,109,414	(\$165,075,856)	(\$703,326,406)	(\$1,044,695,931)	(\$1,147,663,396)
Estimated Repayments	\$237,155,591	\$252,005,591	\$266,855,591	\$281,705,591	\$296,555,591
Debt Service on Revenue Bonds	(\$14,323,300)	(\$13,808,100)	(\$9,980,925)	(\$7,600,725)	\$0
Estimated Capitalization Grants	\$96,405,120	\$28,800,000	\$28,800,000	\$28,800,000	\$0
Local Match Credits	\$1,344,909	\$1,193,208	\$402,023	\$0	\$0
Est. SMIF Interest:	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000
Estimated Disbursements	(\$625,227,141)	(\$438,216,247)	(\$237,311,256)	(\$108,423,273)	(\$54,174,640)
<b>Subtotal</b>	<b>(\$3,035,409)</b>	<b>(\$333,601,404)</b>	<b>(\$653,060,974)</b>	<b>(\$848,714,338)</b>	<b>(\$903,782,446)</b>

**Pending Preliminary Funding Commitments**

City of San Diego, #4905-150 (6/17/15)	(\$238,764)	(\$651,365)	(\$680,692)		
Hi Desert Water District, #5295-110 (2/6/15)	(\$36,694,488)	(\$51,772,969)	(\$28,469,862)	(\$25,411,995)	
County of Fresno, #5541-110 (9/18/15)	(\$134,820)	(\$728,496)	(\$709,575)	(\$201,046)	
South Coast Water District, #7882-110 (06/25/15)	(\$24,234,551)	(\$36,313,842)	(\$22,487,232)	(\$12,990,935)	(\$6,533,440)
Rodeo Sanitary District, #8004-120 (07/30/15)	(\$1,818,499)	(\$2,103,322)	(\$1,555,579)		
Rodeo Sanitary District, #8004-140 (07/30/15)	(\$124,725)	(\$456,812)	(\$275,963)		
City of Davis, #8019-110 (07/31/15)	(\$8,388,523)	(\$12,569,626)	(\$7,783,704)	(\$4,496,669)	(\$2,261,478)
City of Watsonville, 8021-110 (6/22/15)	(\$192,948)	(\$526,383)	(\$550,076)		
Sacramento Reg. County Sanitation District, #8025 - 150 (2/13/15)	(\$8,933,302)	(\$18,746,730)	(\$17,602,564)	(\$8,053,176)	(\$6,072,880)
Sacramento Reg. County Sanitation District, #8025 -160 (2/13/15)	(\$61,096,116)	(\$203,829,285)	(\$251,758,139)	(\$101,124,612)	(\$82,163,748)
Sacramento Reg. County Sanitation District, #8025 - 170 (2/13/15)	(\$859,597)	(\$10,315,164)	(\$14,939,208)	(\$7,232,478)	(\$4,890,816)
Sacramento Reg. County Sanitation District, #8025 -180 (2/13/15)			(\$20,819,226)	(\$129,581,734)	(\$180,911,892)
<b>City of Pacific Grove, #8026 -110 (10/19/15)</b>	<b>(\$937,209)</b>	<b>(\$2,198,556)</b>	<b>(\$2,149,235)</b>		
McKinleyville Community Water District, #8034-110 (9/15/15)	(\$3,845,853)	(\$7,203,352)	(\$5,697,564)	(\$3,092,961)	
South Tahoe Public Utility District, #8042-110 (8/19/15)	(\$1,303,592)	(\$1,688,741)	(\$1,451,724)		
City of Fresno, #8061-110 (8/20/15)	(\$11,272,420)	(\$18,074,739)	(\$12,516,274)	(\$6,763,452)	(\$3,848,164)
San Francisco Public Utilities Commission, #8064-110 (8/27/15)	(\$1,965,040)	(\$2,545,620)	(\$2,188,340)		
	<b>(\$165,075,856)</b>	<b>(\$703,326,406)</b>	<b>(\$1,044,695,931)</b>	<b>(\$1,147,663,396)</b>	<b>(\$1,190,464,864)</b>

**Proposition 13, 2000 Bond Law**

**Construction Grants**

	<b>Appropriation balance</b>	<b>Total Encumbered</b>	<b>Commitments</b>	<b>Total Appropriation</b>
<b>Beginning Balance: As of 6/30/15</b>				
<b>FY 10/11 Appropriation</b>	<b>\$2,315,000</b>	<b>\$306,687</b>	<b>\$2,008,313</b>	<b>\$0</b>
<b>Idyllwild Water District County of Fresno</b>		\$306,687	\$205,579	
<b>Proposed Commitments</b>				
<b>City of Pacific Grove C-06-8026-110</b>			<b>\$1,802,734</b>	
<b>Balances after New Commitments - FY 10/11 Appropriation</b>	<b>\$2,315,000</b>	<b>\$306,687</b>	<b>\$2,008,313</b>	<b>\$0</b>
<b>Beginning Balance: As of 6/30/15</b>				
<b>FY 14/15 Appropriation</b>	<b>\$2,500,000</b>	<b>\$1,469,200</b>	<b>\$612,266</b>	<b>\$418,534</b>
<b>West County Wastewater</b>		\$1,469,200		
<b>Proposed Commitments</b>				
<b>City of Pacific Grove C-06-8026-110</b>			<b>\$612,266</b>	
<b>Balances after New Commitments - FY 14/15 Appropriation</b>	<b>\$2,500,000</b>	<b>\$1,469,200</b>	<b>\$612,266</b>	<b>\$418,534</b>

**POLICY ISSUE**

Should the State Water Board approve the Resolution to:

1. Approve the WRFP and CWSRF financing agreement for a maximum of \$7,700,000 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 November 2014 MMRP.
  - b. Per the March 11, 2015 concurrence letter from Carol Roland-Nawi of the SHPO to Madeleine Flandreau of the State Water Board, the City shall ensure that qualified archeological and Native American monitors are present during all earth-moving and ground disturbing activities in the Project area.
  - c. The City shall obtain a Coastal Development Permit from the California Coastal Commission, submit a copy to the State Water Board and comply with all required measures therein.
3. Condition this approval, as determined by the City's credit review, with the following:
  - a. The City shall pledge 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 a security for the Obligation.
  - b. The proposed financing agreement shall be issued on parity with the Capital One Public Funding LLC Wastewater Loan Agreement dated April 1, 2013. Parity debt requires debt service coverage of 1.20 times the total annual debt service.

- c. The City shall establish rates and charges sufficient to generate net revenues of the Sewer Enterprise Fund equal to at least 1.20 times the total annual debt service.
  - d. 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.
  - e. The City shall submit a revised Pledged Revenue Fund/Source Resolution pledging the Net Revenues of the Sewer Enterprise Fund and the Sewer Enterprise Fund prior to a financing agreement being executed.
4. Condition the disbursement of construction funds on the City's submittal to the Division of Financial Assistance of a Waste Discharge Permit approved by the Central Coast Regional Water Quality Control Board (Central Coast Regional Water Board).

**REGIONAL BOARD IMPACT**

The proposed financing agreement will support the Central Coast Regional Water Board's recycled water use permitting.

**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 Goal 3 of the Strategic Plan Update: 2008-2012

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-

### APPROVING WATER RECYCLING FUNDING PROGRAM (WRFP) AND CLEAN WATER STATE REVOLVING FUND (CWSRF) FINANCING FOR THE CITY OF PACIFIC GROVE LOCAL WATER PROJECT (PROJECT)

#### WHEREAS:

1. The State Water Resources Control Board (State Water Board), on February 17, 2015, amended the "*Policy for Implementing the Clean Water State Revolving Fund*" (Policy);
2. The City of Pacific Grove (City) applied for a CWSRF Loan and WRFP Grant for a total of \$7.7 million for the construction of a new satellite recycled water treatment plant;
3. The Project is listed on the Project List;
4. The City of Pacific Grove (City) is the lead agency under the California Environmental Quality Act (CEQA), and has prepared an Environmental Impact Report (EIR) for the Project;
5. Adequate public participation was provided through the CEQA review process. The EIR was circulated through the State Clearinghouse (SCH) (No. 2014021058) from September 16, 2014 through October 30, 2014 for public review and commenting;
6. The City certified the EIR, adopted a Mitigation Monitoring and Reporting Program (MMRP), and approved the Project on November 19, 2014;
7. The City filed a Notice of Determination (NOD) for the EIR with the Monterey County Clerk and Governor's Office of Planning and Research (OPR) on November 20, 2014 and November 24, 2014, respectively;
8. The City prepared a Supplemental EIR for the Project and distributed it to the public and circulated it through SCH for review from July 8, 2015 through August 6, 2015;
9. The City adopted the Supplemental EIR and approved the project on October 7, 2015 and filed an NOD with the Monterey County Clerk and OPR on October 8, 2015 and October 9, 2015, respectively;
10. State Water Board initiated consultation with the State Historic Preservation Officer (SHPO) on February 4, 2015. On March 11, 2015, the SHPO responded with a conditional concurrence. SHPO concurred with a finding of "No Adverse Effects to Historic Properties" with the condition that a qualified archaeological monitor and a Native American monitor be present for all ground-disturbing activities in the Project area; and
11. 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 water quality impacts.

# DRAFT

THEREFORE BE IT RESOLVED THAT:

The State Water Board:

1. Approves up to \$5,285,000 CWSRF construction financing and \$2,415,000 for Prop 13 Water Recycling Funding Program grant for the City's 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 November 2014 MMRP;
  - b. Per the March 11, 2015 concurrence letter from Carol Roland-Nawi of the SHPO to Madeleine Flandreau of the State Water Board, the City shall ensure that qualified archeological and Native American monitors are present during all earth-moving and ground disturbing activities in the Project area;
  - c. The City shall obtain a Coastal Development Permit from the California Coastal Commission, submit a copy to the State Water Board and comply with all required measures therein;
3. Condition this approval, as determined by the City's credit review, with the following:
  - a. The City shall pledge 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 Capital One Public Funding LLC Wastewater Loan Agreement dated April 1, 2013. Parity debt requires debt service coverage of 1.20 times the total annual debt service;
  - c. The City shall establish rates and charges sufficient to generate net revenues of the Sewer Enterprise Fund equal to at least 1.20 times the total annual debt service;
  - d. 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; and
  - e. The City shall submit a revised Pledged Revenue Fund/Source Resolution pledging the Net Revenues of the Sewer Enterprise Fund and the Sewer Enterprise Fund prior to a financing agreement being executed.



# **D R A F T**

4. Condition this approval, as determined by the City's technical review, with the following:
  - a. The City must submit a Waste Discharge Permit approved by the Central Coastal Regional Water Quality Control Board with the Final Budget Approval package. The financing agreement will not be finalized and no funds will be disbursed for construction until the adopted Waste Discharge Permit is submitted to the Division of Financial Assistance.

## **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 November 17, 2015.

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Jeanine Townsend  
Clerk to the Board