

**STATE WATER RESOURCES CONTROL BOARD
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE
DECEMBER 6, 2016**

ITEM 4

SUBJECT

CONSIDERATION OF A PROPOSED RESOLUTION TO APPROVE CLEAN WATER STATE REVOLVING FUND (CWSRF)/SMALL COMMUNITY GRANT (SCG) FINANCING FOR THE NEVADA COUNTY SANITATION DISTRICT NO. 1 (DISTRICT) CASCADE SHORES COMMUNITY LEACH FIELD PROJECT (PROJECT), CWSRF PROJECT NO. C-06-8077-110

DISCUSSION

The Community of Cascade Shores (Community) is located in Nevada County, approximately 70 miles northeast of Sacramento. The District owns and operates the Cascade Shores Wastewater Treatment Plant. The treatment plant currently discharges up to 0.026 million gallons per day of tertiary-level treated effluent to Gas Canyon Creek. The District is under the jurisdiction of the Central Valley Water Quality Control Board (Central Valley Regional Water Board).

In July 2008, the Central Water Regional Water Board adopted Waste Discharge Requirements (WDR) Order R5-2008-0111, which included final effluent limitations. The Cascade Shores Wastewater Treatment Plant could not comply with final copper effluent limitations. On December 14, 2010, the Assistant Executive Officer of the Central Valley Regional Water Board issued Time Schedule Order (TSO) R5-2010-0909. TSO R5-2010-0909 contained interim effluent limitations for copper. In May 2011, the Central Valley Regional Water Board adopted Administrative Civil Liability (ACL) Complaint Order R5-2011-0573. The ACL noted 11 serious violations for copper and 4 non-serious violations for pH and total coliform. Another ACL Order R5-2014-0506 was issued, citing 13 serious violations for copper and ammonia and 9 non-serious violations for pH, ammonia and coliform. The total amount of the mandatory penalties assessed was sixty-six thousand dollars (\$66,000). Administrative Civil Liability Order R5-2014-0506 was issued allowing the District to pursue items related to the land application project to satisfy the above penalty.

The Project has been identified to reduce the cost of operation for the Cascade Shores residents while improving water quality. The Project, land application through a community leach field, will lead to an elimination of discharge into the Gas Canyon Creek. The elimination of the discharge from the treatment plant will reduce the amount of pollutants into the Gas Canyon Creek while meeting discharge requirements for land application. The use of land application will also reduce the operating cost of the wastewater treatment plant and will stabilize the finances for the Cascade Shores Community.

The residents of Cascade Shores are currently paying \$204 per month in sewer rates, which is 3.9% of their median household income (MHI) of \$63,082. The current fiscal year expense for operating the Cascade Shores Wastewater Treatment Plant is approximately \$300,000. The analyses show that, under the current scenario, the Cascade Shores Zone is operating at a loss of \$70,000 to \$80,000 per year. This estimate is based on current operating procedures, which

result in copper effluent violations and fines. Reflecting the additional costs to meet the copper requirements would further increase the forecast operating loss.

The District will build a pipeline, lift station, septic tanks and a land application system for an estimated cost of \$2.2 million. According to the 2016-2017 Intended Use Plan, Cascade Shores does not qualify for a SCG Construction grant because their community's MHI is 102.6% of the statewide MHI and their wastewater rates are 3.9% of their MHI. However, the application for the Project was submitted in March 2016 when the 2015-2016 Intended Use Plan allowed 50% of the total project cost in SCG grant funding for any community with wastewater rates greater than or equal to 4.0%.

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 significant adverse water quality impacts.

The District is the lead agency under the CEQA, and has complied with the CEQA and CEQA Guidelines. The District prepared an Initial Study/Mitigated Negative Declaration (IS/MND) for the Project. The IS/MND was distributed to the public and circulated through the State Clearinghouse (SCH; No. 2013092049) from September 25, 2013 through October 24, 2013. The District received 15 comment letters. The District responded to all comments and appropriately revised the IS/MND.

The District adopted the IS/MND and a Mitigation Monitoring and Reporting Program (MMRP), and approved the Project on March 11, 2014. The District filed a Notice of Determination (NOD) with the Nevada County Clerk on March 14, 2014 and the Governor's Office of Planning and Research (OPR) on March 13, 2014.

The District prepared an Addendum to the IS/MND (Addendum) to evaluate minor revisions to the Project, and circulated it through the SCH for public review from August 11, 2015 to September 24, 2015. The District received one (1) comment letter. No revisions were required. The Addendum was approved on December 8, 2015. The District did not file an NOD for the Addendum and the statute of limitations on any challenges to the Addendum under CEQA has expired.

State Water Board staff initiated an informal consultation with the United States Fish and Wildlife Service (USFWS) under Section 7 of the Endangered Species Act for California red-legged frogs on January 29, 2016. The USFWS responded on March 21, 2016, via email determining that the Project would have "no affect" to California red-legged frogs. The USFWS requested that they be notified if the District selects to implement the Alternative No. 2 instead of the Project.

State Water Board Cultural Resources Officer (CRO) reviewed the documents submitted by District for the Project. On January 21, 2016, the CRO requested concurrence of a determination of "No Adverse Effects to Historic Properties" from the State Office of Historic Preservation (OHP). On February 24, 2016, the OHP concurred with the CRO's determination of "No Adverse Effects to Historic Properties."

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

FISCAL IMPACT

The total cost of the construction project is \$2,200,000, which will be funded through the following sources:

Prop 1 Grant:	\$1,100,000
CWSRF Loan:	\$1,100,000

The District's median household income (MHI) is \$63,082, approximately 103% of the California Statewide MHI, with a population of 200. The District is not considered a small disadvantaged community or small severely-disadvantaged community.

The comparative revenue and expense analysis of the Zone 8 – Cascade Shores Fund for FY 12/13, 13/14, 14/15, and 15/16, and three years' Budget Projections are summarized below. Projections for 2019 were included due to that being the expected year that the new system will be in operation.

The District has one outstanding long-term debt with the State Water Board. The current balance on the loan is \$220,457 as of 6/30/2016 with annual payments of \$16,958 principle and interest. The loan will mature on June 30, 2029. The Zone 8 – Cascade Shores Fund ending cash balance for FY 14/15 was \$106,178.

Fiscal Year	Audited 2012/13	Audited 2013/14	Audited 2014/15	Actuals 2015/16	Projections 2016/17	Projections 2017/18	Projections * 2018/19
Operating Revenue	\$223,500	\$228,915	\$224,235	\$224,235	\$225,945	\$225,945	\$225,945
Other Revenue	\$1,251	\$9,519	\$0	\$0	\$13	\$0	\$0
Non-Operating Revenue							
Interest Income	\$204	\$1,196	\$495	\$595	\$302	\$302	\$302
Total Revenue	\$224,955	\$239,630	\$224,730	\$224,830	\$226,260	\$226,247	\$226,247
Operating Expenses	\$294,593	\$209,792	\$232,593	\$176,886	\$233,828	\$237,453	\$127,642
Net Revenue	-\$69,638	\$29,838	-\$7,863	\$47,944	-\$7,568	-\$11,206	\$98,605
Restricted Account	\$0	\$0	\$0	\$0	\$28,000	\$32,000	\$0
Total Revenues	-\$69,638	\$29,838	-\$7,863	\$47,944	\$20,432	\$20,794	\$98,605
Existing Debt Service	\$28,419	\$28,418	\$28,418	\$30,115	\$16,958	\$16,958	\$16,958
Proposed Debt Service	\$0	\$0	\$0	\$0	\$0	\$0	\$47,112
Total Debt	\$28,419	\$28,418	\$28,418	\$30,115	\$16,958	\$16,958	\$64,070
Debt Coverage	-2.45	1.05	-0.28	1.59	1.20	1.23	1.54
Cash and Investments			\$ 106,178	\$ 110,133			

The District will be required to establish a Restricted Account under the Zone 8 – Cascade Shores Fund in the initial amount of \$60,000 from available cash reserves in addition to the restricted Reserve Fund, equal to one year's debt service on the Obligation.

Financial Risk:

Nevada County Sanitation District #1 – Cascade Shores has an existing loan (project number 4967-110) for the financing of their Wastewater Treatment Plant. The District will continue to pay on their existing obligation to the State Water Board. The District's cost to maintain and operate the treatment plant has been approximately \$250,000 per year. The District does not anticipate raising rates for the project, but its anticipating their operating and maintenance costs to decrease significantly once the completion of construction of the new leachfield system.

Based on their projections they will be able to meet their operating and maintenance costs and pay on the existing and proposed loan with the State Water Board.

REGIONAL BOARD IMPACT

None.

POLICY ISSUE

Should the State Water Board approve the proposed Resolution to:

1. Authorize the Deputy Director of the Division of Financial Assistance to:
 - a. Enter into an agreement with the District to provide 50% of the total project cost in Proposition 1 Small Community Grant Funding and the other 50% in CWSRF financing for the Project at an interest rate of one percent (1.7%) in an amount of up to \$2,200,000, and
 - b. Increase the financing agreement amount for good cause, subject to a determination that such increase is consistent with the financing limit determined by subsequent financial review
2. Condition the approval, as determined by the environmental review, with the following:
 - a. The District shall comply with the following:
 - The March 11, 2014 MMRP, including but not limited to, mitigation measures 3A-3C for air quality; 4A-4G for biological resources; 5A for cultural resources; 6A for geology/soils; and 9A-9B for hydrology/water quality,
 - The January 21, 2016 concurrence letter from Julianne Polanco of the OHP to Gary Scholze of the State Water Board, and
 - The March 21, 2016, email from Steven Detwiler at the USFWS to Amanda Dwyer at the State Water Board titled "Nevada County Sanitation District No. 1 Cascades Shores Leachfield USFWS," the District shall notify the USFWS if Alternative 2 is selected for the Project.
3. Condition the approval, as determined by the financial review, with the following:
 - a. Recipient shall pledge the net revenues of Zone 8 – Cascade Shores Fund, for repayment of the proposed CWSRF financing agreement. This pledge revenue fund (source) shall be subject to lien and pledge as security for the Obligation. (Section 3.7 ISA)
 - b. Restricted Account:
 - Establishment of a Restricted Account under Zone 8-Cascade Shores Fund. Recipient shall establish a Restricted Account in the initial amount of \$60,000 from available cash reserves prior to execution of this Agreement.
 - Application and Purpose of the Restricted Account. The money in the Restricted Account shall be subject to lien and pledge for repayment of this Obligation and the debt service under the CWSRF Agreement #4967-110. Funds in the

Restricted Account may also be applied to cover Operations and Maintenance Costs in the event of insufficiency of available Revenues.

- No Use for Additional Debt. The Recipient may not use the Restricted Account for payment of or security for any other debt obligation other than this Obligation and existing System Obligations repayable to the State Water Board.
 - Term and Replenishment of Restricted Account. Recipient shall maintain the Restricted Account until such time that the Division, in its discretion, determines that Revenues are sufficient to cover Operations and Maintenance Costs and debt service on System Obligations. Recipient's financial information will be analyzed annually by the Division to determine the need for replenishment of the Restricted Account. If required by the Division, Recipient shall replenish the Restricted Account in such amounts, as determined by the Division in its discretion, necessary to ensure proper System operation, cover Operations and Maintenance Costs, and satisfy debt service on System Obligations. The Deputy Director may suspend any requirements related to this Restricted Account, or release the Recipient from the obligation to maintain the Restricted Account. The Recipient shall be released from the obligation to maintain the Restricted Account after the Reserve Account, described below, is fully funded.
 - Material Provisions. Requirements related to the Restricted Account are material provisions of this Agreement.
- c. Recipient shall establish a restricted Reserve Fund, held in the Zone 8 – Cascade Shores Fund, equal to one year's debt service on the Obligation. The restricted Reserve Fund shall be maintained for the full term of the Agreement and shall be subject to lien and pledge as security for the Obligation. Recipient shall begin funding the Restricted Reserve upon Completion of Construction, and Recipient shall complete funding of such restricted Reserve Fund within one year unless such period is extended for good cause by the Deputy Director of the Division.
- d. The proposed financing agreement shall be issued on parity with the State Water Board SRF Loan C-06-4967-110. Issuance of additional parity debt requires Recipient's Net Revenues to be a minimum of 1.10 times the maximum annual debt service for existing and proposed additional debt.
- e. Recipient shall establish and maintain rates and charges sufficient to generate Revenues in the amounts necessary to cover Operations and Maintenance Costs, and shall ensure that Net Revenues are equal to at least 1.10 times the annual debt service in each fiscal year during the term of this Agreement.

STAFF RECOMMENDATION

The State Water Board should adopt a resolution approving Proposition 1 grant and CWSRF loan for the Project.

State Water Board action on this item will assist the Water Boards in reaching Goal 6 of the Strategic Plan Update: 2008-2012 to enhance consistency across the Water Boards, on an ongoing basis, to ensure our processes are effective, efficient, and predictable, and to promote fair and equitable application of laws, regulations, policies, and procedures.

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STATE WATER RESOURCES CONTROL BOARD RESOLUTION NO. 2016-

TO APPROVE CLEAN WATER REVOLVING FUND (CWSRF) PROGRAM
FINANCING/SMALL COMMUNITY GRANT (SCG) FOR THE NEVADA COUNTY SANITATION
DISTRICT #1 (DISTRICT) CASCADE SHORES COMMUNITY LEACH FIELD PROJECT
(PROJECT), CWSRF PROJECT NO. C-06-5295-110

WHEREAS:

1. The State Water Resources Control Board's (State Water Board) Division of Financial Assistance (Division) implements the Clean Water State Revolving Fund (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. The Project is listed on the CWSRF Project List;
3. The Policy authorizes the Deputy Director of the Division to execute a financing agreement for routine and non-controversial projects;
4. The Project is considered to be non-routine because the District wants to decommission the Cascade Shore Wastewater Treatment Plant before the life of the CWSRF loan is complete in 2029 from a previous construction project.
5. The District was issued Time Schedule Order (TSO) No. R5-2010-0909, which included a compliance schedule to bring final effluent limitations for copper into compliance;
6. The District wishes to address these problems of the Wastewater Treatment Plant by constructing a community leach field;
7. The District applied for SCG funding to complete the construction work associated with these issues;
8. The estimated cost for this construction project is \$2,200,000, which will be funded through Small Community Grant and CWSRF loan;
9. The District is the lead agency under the California Environmental Quality Act (CEQA), and has complied with CEQA Guidelines by preparing an Initial Study/Mitigated Negative Declaration (IS/MND) for the Project;
10. Adequate public participation was provided through the CEQA review process. The IS/MND was circulated through the State Clearinghouse (SCH; No. 2013092049) from September 25, 2013 through October 24, 2013 for public review and comments;
11. The District adopted the IS/MND and a Mitigation Monitoring and Reporting Program, and approved the Project on March 11, 2014;
12. The District filed a Notice of Determination (NOD) for the IS/MND with the Governor's Office of Planning and Research (OPR) on March 13, 2014 and the Nevada County Clerk on March 14, 2014;

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13. The District prepared an Addendum to the IS/MND (Addendum) for the Project. The Addendum was distributed to the public and circulated through SCH for review from August 11, 2015 through September 24, 2015;
14. The District approved the Addendum on December 8, 2015. The District did not file an NOD for the Addendum and the statute of limitations for challenges to the Addendum has expired;
15. On January 21, 2016, the State Water Board Cultural Resources Officer (CRO) requested concurrence from the State Office Historic Preservation (OHP) on determination of "No Adverse Effects to Historic Properties." On February 24, 2016, the OHP concurred with the CRO's determination;
16. On January 29, 2016, State Water Board staff initiated an informal consultation with the United States Fish and Wildlife Service (USFWS) under Section 7 of the Endangered Species Act for California red-legged frogs. The USFWS responded on March 21, 2016, via email determining that the Project would have "no affect" to California red-legged frogs. The USFWS requested that they be notified if the District selects to implement the Alternative No. 2 instead of the Project; and
17. The District'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.

THEREFORE BE IT RESOLVED THAT:

The State Water Board:

1. Authorizes the Deputy Director of the Division of Financial Assistance to:
 - a. Enter into an agreement with the District to provide 50% of the total project cost in Proposition 1 Small Community Grant Funding and the other 50% in CWSRF financing for the Project at an interest rate of one percent (1.7%) in an amount of up to \$2,200,000, and
 - b. Increase the financing agreement amount for good cause, subject to determination that such increase is consistent with the financing limit determined by subsequent financial review.
2. Conditions the approval, as determined by the environmental review, with the following:
 - a. The District shall comply with the following:
 - The March 11, 2014 MMRP, including but not limited to, mitigation measures 3A-3C for air quality; 4A-4G for biological resources; 5A for cultural resources; 6A for geology/soils; and 9A-9B for hydrology/water quality;

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- The January 21, 2016 concurrence letter from Julianne Polanco of the OHP to Gary Scholze of the State Water Board; and
- The March 21, 2016, email from Steven Detwiler at the USFWS to Amanda Dwyer at the State Water Board titled “Nevada County Sanitation District No. 1 Cascades Shores Leachfield USFWS,” the District shall notify the USFWS if Alternative 2 is selected for the Project.

3. Conditions the approval, as determined by the financial review, with the following:

- a. Recipient shall pledge the net revenues of Zone 8 – Cascade Shores Fund, for repayment of the proposed CWSRF financing agreement. This pledge revenue fund (source) shall be subject to lien and pledge as security for the Obligation. (Section 3.7 ISA).
- b. Restricted Account:
 - Establishment of a Restricted Account under Zone 8-Cascade Shores Fund. Recipient shall establish a Restricted Account in the initial amount of \$60,000 from available cash reserves prior to execution of this Agreement.
 - Application and Purpose of the Restricted Account. The money in the Restricted Account shall be subject to lien and pledge for repayment of this Obligation and the debt service under the CWSRF Agreement #4967-110. Funds in the Restricted Account may also be applied to cover Operations and Maintenance Costs in the event of insufficiency of available Revenues.
 - No Use for Additional Debt. The Recipient may not use the Restricted Account for payment of or security for any other debt obligation other than this Obligation and existing System Obligations repayable to the State Water Board.
 - Term and Replenishment of Restricted Account. Recipient shall maintain the Restricted Account until such time that the Division, in its discretion, determines that Revenues are sufficient to cover Operations and Maintenance Costs and debt service on System Obligations. Recipient’s financial information will be analyzed annually by the Division to determine the need for replenishment of the Restricted Account. If required by the Division, Recipient shall replenish the Restricted Account in such amounts, as determined by the Division in its discretion, necessary to ensure proper System operation, cover Operations and Maintenance Costs, and satisfy debt service on System Obligations. The Deputy Director may suspend any requirements related to this Restricted Account, or release the Recipient from the obligation to maintain the Restricted Account. The Recipient shall be released from the obligation to maintain the Restricted Account after the Reserve Account, described below, is fully funded.
 - Material Provisions. Requirements related to the Restricted Account are material provisions of this Agreement.
- c. Recipient shall establish a restricted Reserve Fund, held in the Zone 8 – Cascade Shores Fund, equal to one year’s debt service on the Obligation. The restricted Reserve Fund shall be maintained for the full term of the

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Agreement and shall be subject to lien and pledge as security for the Obligation. Recipient shall begin funding the Restricted Reserve upon Completion of Construction, and Recipient shall complete funding of such restricted Reserve Fund within one year unless such period is extended for good cause by the Deputy Director of the Division.

- d. The proposed financing agreement shall be issued on parity with the SWRCB SRF Loan C-06-4967-110. Issuance of additional parity debt requires Recipient's Net Revenues to be a minimum of 1.10 times the maximum annual debt service for existing and proposed additional debt.
 - e. Recipient shall establish and maintain rates and charges sufficient to generate Revenues in the amounts necessary to cover Operations and Maintenance Costs, and shall ensure that Net Revenues are equal to at least 1.10 times the annual debt service in each fiscal year during the term of this Agreement.
4. Conditions this approval on the District approval and execution of the financing agreement by April 30, 2017, unless Division staff approves an extension of up to 120 days for good cause. Any extension may include additional provisions necessary to satisfy state and federal requirements.

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 December 6, 2016.

Jeanine Townsend
Clerk to the Board