

**STATE WATER RESOURCES CONTROL BOARD
BOARD MEETING - DIVISION OF FINANCIAL ASSISTANCE
MAY 22, 2007**

ITEM 6

SUBJECT

CONSIDERATION OF A RESOLUTION APPROVING A PRELIMINARY STATE REVOLVING FUND (SRF) LOAN COMMITMENT TO THE CITY OF PALO ALTO (CITY) FOR CONSTRUCTION OF THE MOUNTAIN VIEW/MOFFETT AREA RECYCLED WATER DISTRIBUTION SYSTEM (PROJECT); SRF LOAN PROJECT NO. C-06-4132-110

DISCUSSION

The City is requesting that the State Water Resources Control Board (State Water Board) commit \$19 million in SRF loan funds to construct a recycled water distribution system.

On August 31, 2006, the Deputy Director (formerly known as Chief) of the Division of Financial Assistance (Division), using standing authority delegated by the State Water Board, approved a \$4 million Water Recycling Funding Program (WRFP) Preliminary Grant Commitment for the City's Project. The City moved forward and placed the Project out for bidding. However, the received bids were unexpectedly high and the City was unable to issue a "Notice-to-Proceed" with construction of the Project until additional funding was secured to construct the Project. The City is requesting a SRF local match loan commitment to supplement the WRFP grant funds.

The City's Project will provide recycled water to the City of Mountain View and the Moffett Field Area. The Project is composed of a conveyance pipeline, laterals, recycled water meters, and backflow prevention devices. The Project will provide approximately 1,503 acre feet per year (AFY) of recycled water to 101 customers within the Project service area that have an equal existing demand for landscape irrigation.

All users are expected to be connected to the recycled water distribution system in accordance with the recycled water user connection schedule included in the Facilities Plan Approval (FPA), issued by the Division, as Attachment A. Converting these customers to recycled water will augment the state water supply.

The proposed recycled water users will be served from the City's Regional Water Quality Control Plant (RWQCP). The Project will utilize existing recycled water treatment, storage, and pumping capacities at the RWQCP.

The Project includes: a) conveyance pipelines consisting of the installation of approximately 3,500 feet of 30-inch diameter, 12,500 feet of 24-inch diameter, and 9,000 feet of 18-inch diameter recycled water distribution pipelines, b) lateral pipelines ranging from 4-inch to 12-inch diameter recycled water distribution pipeline, and c) modifications to user sites to include recycled water meters and backflow prevention devices.

The City is responsible for the planning, design, construction, and operation of the proposed Project. Once the system is operational, the recycled water will ultimately replace the existing use of potable water for irrigation with recycled water from the RWQCP.

Based on the latest cost estimate, the total construction cost of the Project is estimated at \$28.4 million. The total eligible loan amount, including allowances, and excluding the WRF grant, is estimated at \$21.7 million. However, the City has requested a SRF local match loan not to exceed \$19 million.

The City prepared an Initial Study/Mitigated Negative Declaration (IS/MND) for the proposed Project, distributed the IS/MND to the public, and circulated it through the State Clearinghouse (SCH# 2003102161) for review from October 31, 2003, through December 1, 2003. During the review period, the City received 16 comment letters.

As a result of the comments received, modifications to the proposed Project were made. The City Council approved the modified Project and adopted a Mitigated Negative Declaration and the Mitigation Monitoring Plan on December 21, 2004. The City filed a Notice of Determination with the San Mateo County Clerk and the Governor's Office of Planning and Research on January 12, 2005.

On November 21, 2006, State Water Board staff distributed the IS/MND to the following federally designated agencies: U.S. Environmental Protection Agency (USEPA) Region 9, U.S. Army Corps of Engineers, U.S. Fish and Wildlife Service (USFWS), Federal Emergency Management Agency, and the U.S. Department of Agriculture (USDA) Natural Resources Conservation Service, and California Coastal Commission (CCC). The City initiated its own consultation with the Bay Conservation and Development Commission.

The Project was modified again to minimize impact to the environment. The alignment was changed so that no pipeline will cross or be near Stevens Creek. Also, the pipeline will be hung on existing bridges instead of being micro-tunneled under other creeks. On March 15, 2007, USFWS provided written concurrence that the Project would not result in "take" of any federally listed species based on the updated Project description.

On March 13, 2007, the State Water Board's Cultural Resources Officer (CRO) sent a "Request for Concurrence on Finding of No Effect to Historic Properties" to the State Historic Preservation Officer (SHPO). Final clearance will be granted upon concurrence by the SHPO. No special conditions are proposed.

State Water Board staff compared the applicant's information to published air quality standards to determine whether a conformity determination is required, and found that no conformity determination is necessary. Staff subsequently submitted its analysis to USEPA for review and comment. No comments were received from USEPA.

In accordance with the State Water Board's *Policy for Implementing the State Revolving Fund for Construction of Wastewater Treatment Facilities (Policy)*, adopted on February 16, 1995, and amended on September 22, 2005, projects on the adopted priority list need State Water Board approval to receive a SRF loan. A SRF loan commitment can be approved by the State Water Board after the Division has issued the FPA. On February 9, 2007, the Division issued the FPA for the City's Project. The City agreed in writing on February 13, 2007, with the Division's Approval.

The City has provided the Division with a schedule containing Project Milestones. These dates are included in the Division's FPA. In accordance with Section IX (J) of the SRF Policy, the resolution includes the following sunset dates for the Preliminary Funding Commitment: March 3, 2008, for issuance of a "Notice-to-Proceed" to construction for the Project, and

March 3, 2009, for signing the SRF local match loan agreement. The Division may approve up to a 90-day extension for good cause for both dates.

The City requests a 20-year repayment period with the first SRF loan repayment due one year after completion of construction.

POLICY ISSUE

1. Should the State Water Board approve a SRF Preliminary Loan Commitment for the proposed Project, including a 20-year repayment period, with the first repayment due one year after completion of construction?
2. Should the State Water Board, in accordance with Section IX (J) of the Policy, condition this approval by withdrawing the SRF Preliminary Loan Commitment if the City does not issue a "Notice-to-Proceed" to construction for the Project by March 3, 2008, and sign the SRF local match loan agreement by March 3, 2009? Should the Division staff have the discretion to approve up to a 90-day extension for good cause for both dates?
3. Should the State Water Board direct the Division to allocate \$19 million consistent with the construction schedule and availability of funds?

FISCAL IMPACT

(as of 3/19/07)

	SFY 2006-07	SFY 2007-08	SFY 2008-09	SFY 2009-10	SFY 2010-11
Beginning Balance:	\$533,353,932	\$254,267,717	\$248,016,553	\$208,745,956	\$263,623,223
Estimated Repayments	\$177,117,663	\$181,815,880	\$191,815,880	\$201,815,880	\$211,815,880
Debt Service on Revenue Bonds	(\$33,439,354)	(\$33,357,579)	(\$31,893,104)	(\$31,758,441)	(\$31,456,429)
Estimated Capitalization Grants	\$44,528,521	\$62,209,185	\$0	\$0	\$0
State G.O. Bond proceeds (less state admin. match)	(\$606,678)	\$76,000,000	\$0	\$0	\$0
Local Match Credits	\$34,294,794	\$8,549,850	\$4,610,358	\$4,166,750	\$4,166,750
Est. SMIF Interest:	\$17,000,000	\$12,000,000	\$7,000,000	\$4,000,000	\$2,000,000
<u>Estimated Disbursements</u>	(\$515,981,162)	(\$193,007,093)	(\$114,742,423)	(\$68,538,325)	(\$25,964,254)
Subtotal	\$256,267,717	\$368,477,959	\$304,807,264	\$318,431,820	\$424,185,170
Withdraw Crescent City February 20, 2007 Commitment, 4699-110		\$11,000,000	\$5,648,000	\$3,000,000	
Crescent City, 4699-110		(\$19,200,000)	(\$14,614,176)	(\$10,000,000)	
Union SD, 5053-110		(\$1,750,000)			
Novato SD, 4903-110		(\$25,000,000)	(\$22,800,000)	(\$22,800,000)	(\$4,590,080)
Palo Alto, 4132-110		(\$9,400,000)	(\$9,600,000)		
LACSD, 4916-110		(\$15,719,000)	(\$25,000,000)	(\$25,000,000)	(\$25,000,000)
Reedley, City of, 5051-110		(\$14,363,271)	(\$12,195,132)	(\$1,508,597)	
Fontana, City of, 4897-110, -210, -220		(\$29,229,135)			
Colfax, City of, 4470-110		(\$6,800,000)	(\$2,500,000)		
Ventura Co. Water Works Dist. 16, 4946-110		(\$4,500,000)	(\$2,900,000)		
Reserve for Small Community Wastewater Grant Projects	(\$2,000,000)	(\$10,000,000)	(\$15,000,000)	(\$7,500,000)	
Balance	\$254,267,717	\$243,516,553	\$201,345,956	\$247,223,223	\$378,195,090

Notes:

- Estimated Repayments include repayments from existing and future loans.
- Estimated disbursements include disbursements remaining on existing loans as well as disbursements anticipated for projects with existing commitments. Local Match credits are the anticipated funds that will be contributed for local match loans included in "Estimated Disbursements".

REGIONAL WATER BOARD IMPACT

The San Francisco Bay Regional Water Quality Control Board (San Francisco Bay Regional Water Board) has prescribed Waste Discharge Requirements (WDRs) for the Facility for the use and discharge of recycled water within the RWQCP service area. The proposed Project will ensure continued compliance with the WDRs. The distribution of recycled water will be covered under the San Francisco Bay Regional Water Board's General Order No. 93-160.

STAFF RECOMMENDATION

1. The State Water Board should adopt a resolution approving a SRF Preliminary Loan Commitment of \$19 million for the City's Project with a repayment period of 20 years, with the first repayment due one year after completion of construction.
2. In accordance with the SRF Policy, condition this approval by withdrawing the SRF Preliminary Loan Commitment if the City does not issue a "Notice-to-Proceed" to construction for the Project by March 3, 2008, and sign the SRF local latch loan agreement by March 3, 2009. The Division staff should have the discretion to approve up to a 90-day extension for good cause for both dates.
3. Direct the Division to allocate \$19 million consistent with the construction schedule and availability of funds

**STATE WATER RESOURCES CONTROL BOARD
RESOLUTION NO. 2007-**

RESOLUTION APPROVING A PRELIMINARY STATE REVOLVING FUND (SRF) LOAN
COMMITMENT TO THE CITY OF PALO ALTO (CITY) FOR CONSTRUCTION OF THE
MOUNTAIN VIEW/MOFFETT AREA RECYCLED WATER DISTRIBUTION SYSTEM (PROJECT);
SRF LOAN PROJECT NO. C-06-4132-110

WHEREAS:

1. The State Water Resources Control Board (State Water Board) adopted the "*Policy for Implementing the State Revolving Fund for Construction of Wastewater Treatment Facilities*," and amended it on September 22, 2005;
2. The State Water Board, on June 7, 2006, adopted the State Fiscal Year 2006/2007 SRF Loan Program Priority List that included the City's Project in Priority Class C;
3. The Division of Financial Assistance (Division) approved the Water Recycling Funding Program (WRFP) Preliminary Funding Commitment for the City's Project on August 31, 2006, in Division Item No. DFA-2006-63;
4. The Division approved the Facility Plan for the City's Project on February 9, 2007, and the City agreed with the approval on February 13, 2007;
5. The City prepared and adopted an Initial Study/Mitigated Negative Declaration for its proposed Project;
6. The City Council approved the project on December 21, 2004, and filed a Notice of Determination with the San Mateo County Clerk on January 12, 2005;
7. The City modified its Project alignment to minimize impacts to the environment; and
8. State Water Board staff have reviewed and considered these environmental documents and determined that the Project will not have any significant water quality impacts.

THEREFORE BE IT RESOLVED THAT:

The State Water Board:

1. Approves a SRF Preliminary Funding Commitment of \$19 million for the City's Project, with a repayment period of 20 years, with the first repayment due one year after completion of construction;
2. Includes a condition that this SRF Preliminary Loan Commitment will expire if the City does not issue a "Notice-to-Proceed" to construction for the Project by March 3, 2008, and sign the SRF local match loan agreement by March 3, 2009. The Division staff may approve up to a 90-day extension for good cause for both dates; and

3. Directs the Division to allocate \$19 million consistent with the construction schedule and availability of funds.

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 Board held on May 22, 2007.

Song Her
Clerk to the Board