

**STATE WATER RESOURCES CONTROL BOARD
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE
MARCH 17, 2009**

ITEM 5

SUBJECT

CONSIDERATION OF A RESOLUTION FOR THE ADOPTION OF A STATEMENT OF OVERRIDING CONSIDERATIONS, PLACEMENT ON THE WATER RECYCLING FUNDING PROGRAM (WRFP) COMPETITIVE PROJECT LIST, AND EXECUTION OF THE CLEAN WATER STATE REVOLVING FUND (CWSRF) AND WRFP PRELIMINARY FUNDING COMMITMENTS (PFC) FOR THE INLAND EMPIRE UTILITIES AGENCY (AGENCY), NORTHEAST PROJECT AREA 1 (PROJECT), CWSRF PROJECT NO. C-06-5176-110; WRFP PROJECT NO. 3834-030

DISCUSSION

In accordance with the State Water Resources Control Board (State Water Board) *Policy for Implementing the State Revolving Fund for Construction of Wastewater Treatment Facilities* (Policy), amended on September 16, 2008, projects on the adopted Project Priority List need State Water Board approval to receive CWSRF funding. The State Water Board may approve a CWSRF and WRFP PFC after issuance of a Project Facilities Plan Approval (FPA). On January 26, 2009, the Assistant Deputy Director of the Division of Financial Assistance (Division) issued the FPA for the Agency's Project. Division staff found that the Agency's Project is (1) consistent with the policies, regulations, and agreements the State Water Board has adopted governing the internal management of the CWSRF and WRFP programs, and (2) is on the CWSRF Priority List adopted by the State Water Board. The State Water Board, on September 2, 2008, adopted the State Fiscal Year 2008/2009 CWSRF Program Priority List, which included the Agency's Project.

In accordance with the WRFP Guidelines, projects must be in a fundable category on the WRFP Competitive Project List (CPL), adopted on January 20, 2005, ([Resolution No. 2005-0002](#)). The Agency's Project is not listed on the current WRFP CPL. Division staff determined that the Project meets the WRFP funding requirements and will benefit the state's water supply. Therefore, Division staff recommends the State Water Board add the Agency's Project to the WRFP CPL.

The Project is the fourth phase of the Agency's Regional Recycled Water Distribution System. The purpose of the Project is to provide facilities for the conveyance of recycled water to customers and groundwater recharge basins from the 1158 pressure zone to the 1299 and 1630 pressure zones. The Project will serve 36 recycled water users that have an existing demand of approximately 603 acre-feet per year (AFY) for irrigation uses and two groundwater recharge basins, with an estimated connected demand of approximately 740 AFY. The Project consists of the installation of recycled water pipelines, the purchase and conversion of an existing 3.5 million gallon potable water reservoir to a recycled water storage reservoir, and the installation of a 1,200 horsepower pump station. The unit cost of the Project is \$2,689 per acre-foot.

The Project is expected to be bid as four separate segments as follows:

Segment I – 1299E Pipeline:

The pipeline consists of approximately 13,000 linear feet (LF) of 36-inch diameter recycled water pipeline that will convey recycled water from the northern end of the North Etiwanda Pipeline, located at the intersection of North Etiwanda Avenue and Arrow Route, in the city of Rancho Cucamonga, to the 1299 Recycled Water Reservoir site, located at Cucamonga Valley Water District's 1C Reservoir site.

Segment II – 1299E Reservoir Purchase/ Conversion and 1630E Pump Station:

The segment consists of the purchase and modification of the existing 1299E reservoir (3.5 million gallon potable water reservoir). The 1299E Reservoir will be purchased from Inland Empire's Member Agency, Cucamonga Valley Water District. All modification and new construction work will occur at the Cucamonga Valley Water District's 1C Reservoir site, located on the west side of East Avenue, north of the intersection of East Avenue and Day Canyon Drive, in the City of Rancho Cucamonga. Also included is the construction of a new recycled water pump station. The new 1,200 total horsepower pump station is anticipated to consist of two 100-horsepower, one 200-horsepower, and two 400-horsepower pumps.

Segment III – 1630E Segment A:

The pipeline consists of 13,000 LF of 36-inch diameter recycled water pipeline that will convey recycled water from the 1299E Reservoir site to San Sevaine Basin Number 5 groundwater recharge site, located north of the intersection of the 210 and 15 Freeways, in the City of Rancho Cucamonga.

Segment IV – Church Street Lateral:

The pipeline consists of the construction of approximately 4,200 LF of 12-inch diameter recycled water pipeline that will convey recycled water westerly from the 1630E Segment A Pipeline, located at the intersection of Baseline Road and East Avenue, to the intersection of Etiwanda Avenue and Church Street, in the City of Rancho Cucamonga. The Church Street lateral will serve customers in the City of Rancho Cucamonga area in the 1430 pressure zone. These customers will be served from the 1630 pressure zone, with the installation of a pressure reducing station on the pipeline.

ENVIRONMENTAL IMPACT

The Agency prepared a Program Environmental Impact Report (PEIR) that includes the proposed Project. Three management plans were considered within the single PEIR because of the large degree of overlap and corresponding topics and projects addressed in each plan. In addition to being intertwined with the other two master plans (Wastewater Facilities Master Plan and Organics Management Master Plan) discussed within the PEIR, the Recycled Water System Feasibility Study was previously evaluated within the scope of the Optimum Basin Management Plan PEIR, a separate PEIR that was approved by the Agency in August of 2000.

The PEIR containing the three Master Plans was distributed to the public and circulated through the State Clearinghouse (SCH No. 2002011116) for public review from April 29, 2002, through June 12, 2002. No written comments were received during the State Clearinghouse public review period. However, the Agency received 27 comment letters during their local public review.

The Agency responded to all comments and made appropriate changes in their final PEIR. The Agency certified the final PEIR and adopted the Mitigation Monitoring and Reporting Program (MMRP) and Statement of Overriding Considerations (SOC) on June 28, 2002. The Agency approved the Project and filed a Notice of Determination (NOD) with the San Bernardino County Clerk and with the Governor's Office of Planning and Research (OPR) on June 28, 2002.

The Agency prepared an addendum to the PEIR for the proposed Project. The addendum was certified by the Agency and an NOD was filed with the San Bernardino County Clerk on February 20, 2008, and with the OPR on February 22, 2008. The Agency completed the addendum to reevaluate environmental conditions and to provide an updated biological survey and an *Identification and Evaluation of Historic Properties Report*. The addendum identified no new significant impacts to the environment.

The Agency adopted an SOC to substantiate its decision to approve the PEIR despite significant unavoidable cumulative impacts on air quality (exceedance of short-term standards, resulting in cumulative air quality impacts). Even though the Agency will incorporate mitigation measures that will lessen and reduce these short-term impacts to the extent feasible, these potential impacts may not be fully mitigated and are expected to remain significant and unavoidable. The exceedance of short-term standards for air quality is necessary for the Agency to achieve the Project's objectives. The Project is consistent with existing general plan land uses and is in conformity with the Air Quality Management Plan.

State Water Board staff finds that the following specific economic, social, technological, and environmental benefits of the Project outweigh the unavoidable adverse environmental impact to air quality. The Project will:

- Improve water quality and beneficial uses to groundwater resources within the Chino Basin.
- Reduce groundwater overdraft from replacement of potable water supply.
- Help reduce the salt load of the Chino Basin and Santa Ana River and will assist in implementing a salinity management action plan.
- Help avoid wastewater disposal costs and reduce nitrate discharge into the Santa Ana River.
- Improve the Bay-Delta ecosystem from reduced import of Bay-Delta water diverted to Southern California.
- Allow the management of water resources through the reuse of highly treated recycled water.
- Provide a more dependable local supply of water, which will reduce the costs of purchasing imported water and will also allow the Agency to reduce dependence upon the direct delivery of imported water during dry year conditions.
- Reduce possible water shortages in the Project area.

- Allow for the incorporation of water savings envisioned through Agency's water conservation program.
- Facilitate redevelopment of existing recharge basins, and the construction of new recharge basins.
- Store and use otherwise unused excess State Water Project (SWP) water.
- Reduce energy use and air pollution by demanding less energy usage to pump water from the SWP.
- Provide a framework for integrated water resource planning that addresses master planning of all current and future wastewater and wastewater related facilities.
- Provide a variety of water recycling opportunities, including agricultural and landscape irrigation, recreational and non-recreational impoundments, industrial and commercial uses, and groundwater recharge.
- Help achieve the objectives of the Chino Basin Optimum Basin Management Program.
- Support the Agency's Urban Water Management Plan.
- Improve physical delivery system reliability.
- Help lower the anticipated costs of water and sewer rates to customers.
- Help reduce potable water system operations and maintenance expenditures.
- Help retain and attract businesses and industries.

State Water Board staff reviewed and considered the addendum, the PEIR, the MMRP, and the SOC, and determined that the Project will not result in significant adverse water quality impacts. A Tier II review was applied. State Water Board staff will file an NOD with the OPR following funding approval.

FISCAL IMPACT

Applicant's Finances:

An independent credit review analyzed the Agency's ability to enter a CWSRF financing agreement for the amount requested. The credit review provided recommendations regarding the financial agreement terms, maximum CWSRF financing amount, debt conditions and financial capacity for the financing agreement.

The Agency's service area is comprised of the cities of Montclair, Ontario, Upland, Fontana, China, Rancho Cucamonga and Chino Hills. The 2007 Median Household Income (MHI) is \$55,255, approximately 99.0 percent of the State of California MHI. Therefore, the Agency does not qualify as a small disadvantaged community.

A 20-year, \$34 million local match loan will require annual debt service payments of \$1.7 million. The net revenues of the Recycled Water Enterprise Fund are not projected to be sufficient to fully cover debt service on outstanding debt until 2012-13. In the interim, the Agency is planning to utilize loans, grants, bonds, commercial paper proceeds and intrafund transfers to provide funds for capital outlays and debt service payments. Therefore, it is recommended that the Agency also pledge revenues from the Regional Wastewater Enterprise Fund for CWSRF debt service. The net revenues of the Regional Wastewater Enterprise Fund will provide debt service coverage of at least 1.42 times for all debt and 1.54 times for all senior debt. The credit review recommended a maximum financing amount of \$38 million.

Clean Water State Revolving Fund Finances:

(as of 02/10/2009)	SFY 2008-09	SFY 2009-10	SFY 2010-11	SFY 2011-12	SFY 2012-13
Beginning Balance:	\$307,959,193	\$131,980,865	\$54,968,683	\$91,802,010	\$246,597,230
Estimated Repayments	\$201,753,233	\$219,729,388	\$229,729,388	\$239,729,388	\$249,729,388
Debt Service on Revenue Bonds	(\$31,893,104)	(\$31,758,441)	(\$31,456,429)	(\$30,228,204)	(\$27,714,204)
Estimated Capitalization Grants	\$46,965,399	\$18,877,833	\$0	\$0	\$0
State G.O. Bond proceeds (less state admin. match)	\$13,414,123	\$0	\$0	\$0	\$0
Local Match Credits	\$23,932,887	\$3,813,356	\$1,026,021	\$1,020,954	\$749,882
Est. SMIF Interest:	\$10,674,552	\$10,000,000	\$10,000,000	\$8,000,000	\$2,000,000
<u>Estimated Disbursements</u>	(\$425,301,668)	(\$233,646,070)	(\$131,904,289)	(\$49,206,556)	(\$10,999,200)
Subtotal	\$147,504,615	\$118,996,931	\$132,363,374	\$261,117,592	\$460,363,097
Ventura County Waterworks - Piru WWTP, #4946-110 (01/26/2009)	(\$1,500,000)	(\$6,000,000)	(\$5,500,000)		
Eastern Municipal Water District, #5100-110 (01/14/2009)	(\$4,222,750)	(\$22,029,249)	(\$19,601,363)	(\$10,240,362)	
Upper San Gabriel Valley MWD, #5115-110, 120, 130, 140 (02/04/2009)		(\$14,860,000)	(\$4,460,000)	(\$4,280,000)	
	(\$4,125,000)	(\$4,125,000)			
City of Kerman, #5150-110 (02/04/2009)					
Inland Empire Utilities Agency, #5176-110 (02/10/2009)	(\$5,676,000)	(\$17,013,999)	(\$11,000,001)		
	\$131,980,865	\$54,968,683	\$91,802,010	\$246,597,230	\$460,363,097

Notes:

- Estimated Repayments include repayments from existing and future SRF financings.
- Estimated disbursements include disbursements remaining on executed loans (and other financings) and planned disbursements on projects with preliminary financings commitments. Local Match credits are the anticipated funds that will be contributed for local match financings included in "Estimated Disbursements."

Water Recycling Funding Program Finances:

Loan repayments from water recycling construction projects are deposited into the Water Recycling Sub-accounts and provide funds for new construction grants and loans, planning grants, and research projects. Construction grant funds are appropriated each year during the state budget process. The available balance for construction grants can be found in the fiscal impact table below:

Proposition 13, 2000 Bond Law				
Construction Grants				
	Continuous Appropriation balance	Southern Counties (60%)	Other Counties (40%)	Total Appropriation
Balance as of 2/10/2009	\$5,096,035	\$3,057,621	\$2,038,414	\$5,096,035
Proposed Commitments				
Inland Empire 3834-030		(\$2,203,221)	(\$2,038,414)	(\$4,241,635)
Balances after New Commitments		\$854,400	\$0	\$854,400
Total WRFP Grant				\$4,241,635

REGIONAL WATER BOARD IMPACT

The Santa Ana Regional Water Quality Control Board prescribed Waste Discharge Requirements (WDRs) Order [No. R8-2007-0084](#), authorizing the use and discharge of recycled water within the Agency service area. The proposed Project will ensure continued compliance with the WDRs. The distribution of recycled water from Agency wastewater treatment facilities will be covered under the Santa Ana Regional Water Board's General Order [No. R8-2005-0033](#), which was last amended on April 15, 2005.

POLICY ISSUE

Should the State Water Board:

1. Add the Project to the WRFP CPL?
2. Approve the maximum CWSRF financing agreement amount of \$38 million for the proposed Project, including a 20-year repayment period, with the first repayment due one year after completion of construction?
3. Approve a \$4,241,635 WRFP grant for the proposed Project?
4. Adopt a Statement of Overriding Considerations for the CWSRF and WRFP Programs for the Agency's Project?
5. Condition this approval by withdrawing the CWSRF PFC if the Agency does not sign the agreements by March 30, 2010, in accordance with Section IX (J) of the Policy? Allow Division staff to have the discretion to approve up to a 90-day extension for good cause?

6. In accordance with Section III.F of the WRFP Guidelines, condition this approval by withdrawing the WRFP PFC if the Agency does not sign the grant agreement by March 30, 2010? Allow Division staff to have the discretion to approve up to a 90-day extension for good cause?
7. Condition this approval, as determined by the Agency's credit review, with the following items:
 - Secure the CWSRF loan with net revenues of the Recycled Water Enterprise Fund.
 - All future debt secured by net revenues of the Recycled Water Enterprise Fund shall be subordinate to the CWSRF loan.
 - The Agency will pledge revenues of the Regional Wastewater Enterprise Fund for CWSRF loan debt service. This pledge will be subordinate to existing obligations secured by the Regional Wastewater Enterprise Fund.
 - A Loan Reserve Fund, equal to one year's debt service, must be established by the Agency at the time of construction completion date.
 - The Financing Agreement shall be limited to a maximum of \$38 million unless information supporting the credit review changes and a supplemental credit review is performed.

STAFF RECOMMENDATION

The State Water Board should:

1. Add the Project to the WRFP CPL;
2. Approve the maximum CWSRF financing agreement amount of \$38 million for the proposed Project, including a 20-year repayment period, with the first repayment due one year after completion of construction;
3. Approve a \$4,241,635 WRFP PFC for the proposed Project;
4. Adopt a Statement of Overriding Considerations for the CWSRF and WRFP programs for the Agency's Project;
5. Condition this approval by withdrawing the CWSRF PFC if the Agency does not sign the agreements by March 30, 2010, in accordance with Section IX (J) of the Policy. Division staff should have the discretion to approve up to a 90-day extension for good cause;
6. In accordance with Section III.F of the WRFP Guidelines, condition this approval by withdrawing the WRFP PFC if the Agency does not sign the grant agreement by March 30, 2010. Allow Division staff to have the discretion to approve up to a 90-day extension for good cause; and
7. Condition this approval, as determined by the Agency's credit review, with the following items:
 - Secure the CWSRF loan with net revenues of the Recycled Water Enterprise Fund.
 - All future debt secured by net revenues of the Recycled Water Enterprise Fund shall be subordinate to the CWSRF loans.

- The Agency will pledge revenues of the Regional Wastewater Enterprise Fund for CWSRF loan debt service. This pledge will be subordinate to existing obligations secured by the Regional Wastewater Enterprise Fund.
- A Loan Reserve Fund, equal to one year's debt service, must be established by the Agency at the time of construction completion date.
- The Financing Agreement shall be limited to a maximum of \$38 million unless information supporting the credit review changes and a supplemental credit review is performed.

State Water Board action on this item will assist the Water Boards in reaching Goal 3 of the Strategic Plan Update: 2008-2012 to 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. In particular, approval of this item will assist in fulfilling Objective/Action 3.2 to increase the acceptance and promote the use of recycled water and the reuse of stormwater as locally available, sustainable water supplies consistent with the Climate Change Draft Scoping Plan developed pursuant to the California Global Warming Solutions Act of 2006 (AB 32) and other relevant State and regional efforts.

DRAFT

STATE WATER RESOURCES CONTROL BOARD RESOLUTION NO. 2009-

ADOPTION OF A STATEMENT OF OVERRIDING CONSIDERATIONS, PLACEMENT ON THE WATER RECYCLING FUNDING PROGRAM (WRFP) COMPETITIVE PROJECT LIST, AND EXECUTION OF THE CLEAN WATER STATE REVOLVING FUND (CWSRF) AND WRFP PRELIMINARY FUNDING COMMITMENTS (PFC) FOR THE INLAND EMPIRE UTILITIES AGENCY (AGENCY), NORTHEAST PROJECT AREA 1 (PROJECT), SRF PROJECT NO. C-06-5176-110; WRFP PROJECT NO. 3834-030

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*" (Policy) and amended it on September 16, 2008;
2. The State Water Board, in September 2008, adopted the State Fiscal Year 2008/2009 CWSRF Program Priority List which included the Agency's Project in Priority Class C;
3. The Division of Financial Assistance (Division) approved the Facility Plan for the Agency's Project on January 23, 2009;
4. An independent credit review was completed on November 26, 2008, recommending a credit limit of \$38 million for the Project;
5. The Agency certified a Program Environmental Impact Report (PEIR), approved the Project, and adopted a Mitigation Monitoring and Reporting Program (MMRP) and a Statement of Overriding Considerations (SOC) for the Project on June 28, 2002;
6. The Agency filed a Notice of Determination (NOD) with the San Bernardino County Clerk and with the Governor's Office of Planning and Research (OPR) on June 28, 2002, for the PEIR;
7. The Agency prepared an addendum to reevaluate environmental conditions and filed an NOD with the San Bernardino County Clerk on February 20, 2008, and with the OPR on February 22, 2008;
8. The Agency adopted an SOC to substantiate its decision to approve the Project despite significant and unavoidable cumulative impacts to air quality resulting from exceedences of short-term standards during Project construction and operation;
9. The State Water Board finds that the following specific economic, social, technological, and environmental benefits of the Project outweigh the unavoidable adverse environmental impact to air quality. The Project will:
 - Improve water quality and beneficial uses to groundwater resources within the Chino Basin.
 - Reduce groundwater overdraft from replacement of potable water supply.
 - Help reduce the salt load of the Chino Basin and Santa Ana River and will assist in implementing a salinity management action plan.
 - Help avoid wastewater disposal costs and reduce nitrate discharge into the Santa Ana River.
 - Improve the Bay-Delta ecosystem from reduced import of Bay-Delta water diverted to Southern California.

DRAFT

- Allow the management of water resources through the reuse of highly treated recycled water.
 - Provide a more dependable local supply of water, which will reduce the costs of purchasing imported water and will also allow the Agency to reduce dependence upon the direct delivery of imported water during dry year conditions.
 - Reduce possible water shortages in the Project area.
 - Allow for the incorporation of water savings envisioned through the Agency's water conservation program.
 - Facilitate redevelopment of existing recharge basins, and the construction of new recharge basins.
 - Store and use otherwise unused excess State Water Project (SWP) water.
 - Reduce energy use and air pollution by demanding less energy usage to pump water from the SWP.
 - Provide a framework for integrated water resource planning that addresses master planning of all current and future wastewater and wastewater related facilities.
 - Provide a variety of water recycling opportunities, including agricultural and landscape irrigation, recreational and non-recreational impoundments, industrial and commercial uses, and groundwater recharge.
 - Help achieve the objectives of the Chino Basin Optimum Basin Management Program.
 - Support the Agency's Urban Water Management Plan.
 - Improve physical delivery system reliability.
 - Help lower the anticipated costs of water and sewer rates to customers.
 - Help reduce potable water system operations and maintenance expenditures.
 - Help retain and attract businesses and industries.
10. The State Water Board reviewed and considered the information contained in the addendum, the PEIR, the MMRP, and the SOC, and determined that the funded Project will not result in any significant adverse water quality impacts.

THEREFORE BE IT RESOLVED THAT:

The State Water Board:

1. Adds the Project to the WRFPP Competitive Project List;
2. Approves the maximum CWSRF financing agreement amount of \$38 million for the proposed Project, including a 20-year repayment period, with the first repayment due one year after completion of construction;
3. Approves a \$4,241,635 WRFPP PFC for the proposed Project;
4. Adopts a Statement of Overriding Considerations for the CWSRF and WRFPP programs for the Agency's Project;

DRAFT

5. Conditions this approval by withdrawing the CWSRF PFC if the Agency does not sign the agreements by March 30, 2010, in accordance with Section IX (J) of the Policy. Division staff has the discretion to approve up to a 90-day extension for good cause;
6. In accordance with Section III.F of the WRFPP Guidelines, conditions this approval by withdrawing the WRFPP PFC if the Agency does not sign the grant agreement by March 30, 2010. Division staff has the discretion to approve up to a 90-day extension for good cause; and
7. Conditions this approval, as determined by the Agency's credit review, with the following items:
 - Secure the CWSRF loan with net revenues of the Recycled Water Enterprise Fund.
 - All future debt secured by net revenues of the Recycled Water Enterprise Fund shall be subordinate to the CWSRF loans.
 - The Agency will pledge revenues of the Regional Wastewater Enterprise Fund for CWSRF loan debt service. This pledge will be subordinate to existing obligations secured by the Regional Wastewater Enterprise Fund.
 - A Loan Reserve Fund, equal to one year's debt service, must be established by the Agency at the time of construction completion date.
 - The Financing Agreement shall be limited to a maximum of \$38 million unless information supporting the credit review changes and a supplemental credit review is performed.

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 March 17, 2009.

Jeanine Townsend
Clerk to the Board