

**STATE WATER RESOURCES CONTROL BOARD
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE
JUNE 21, 2011**

ITEM 3

SUBJECT

CONSIDERATION OF A PROPOSED RESOLUTION TO ADD INLAND EMPIRE UTILITIES AGENCY (AGENCY) SOUTHERN AREA RECYCLED WATER SYSTEM IMPROVEMENTS PROJECT (PROJECT) TO THE WATER RECYCLING FUNDING PROGRAM (WRFP) COMPETITIVE PROJECT LIST AND TO AUTHORIZE FUNDING FROM THE WRFP AND THE CLEAN WATER STATE REVOLVING FUND TO THE AGENCY'S PROJECT; CWSRF PROJECT NO. 5319-110; WRFP PROJECT NO. 3845-030

DISCUSSION

The Agency is seeking financial assistance from the State Water Resources Control Board (State Water Board) CWSRF and WRFP to construct a recycled water storage and distribution system in the Cities of Chino, Chino Hills, and Ontario, San Bernardino County. The WRFP Construction Grant is limited to \$4 million but not to exceed 25% of eligible construction costs.

In accordance with the State Water Board *Water Recycling Funding Program Guidelines* (Guidelines), amended on July 15, 2008, projects not on the Competitive Project List (CPL) need State Water Board approval to receive WRFP funding. The State Water Board may approve a WRFP Preliminary Funding Commitment (PFC) after issuance of a Facilities Plan Approval (FPA). On May 4, 2011, the Assistant Deputy Director of the Division of Financial Assistance (Division) issued the FPA for the Agency's Project. The Agency agreed with the FPA on May 9, 2011. Division staff found that the Project is consistent with the policies, regulations, and agreements the State Water Board adopted governing the internal management of the WRFP. The Project is a Category I project according to the Guidelines, but is not included on the WRFP 2005 CPL, adopted December 23, 2004.

In accordance with the State Water Board *Policy for Implementing the CWSRF for Construction of Wastewater Treatment Facilities* (Policy), amended on March 17, 2009, projects on the adopted Project Priority List need State Water Board approval to receive CWSRF funding. The State Water Board may approve a CWSRF PFC after issuance of a Project FPA. On May 4, 2011, the Assistant Deputy Director of the Division issued the FPA for the Agency's Project. The Agency agreed with the FPA on May 9, 2011. Division staff found that the Agency's Project is (1) consistent with the policies, regulations, and agreements the State Water Board adopted governing the internal management of the CWSRF Program, and (2) the State Water Board, on June 15, 2010, adopted the State Fiscal Year 2010/2011 CWSRF Program Priority List, which included the Agency's Project in Priority Class C.

PROJECT LOCATION

The Agency's service area is located within the jurisdiction of the Santa Ana Regional Water Quality Control Board (Santa Ana Regional Water Board). The Agency's service area is located in the southwest corner of San Bernardino County, and comprises an area of approximately 242 square miles, approximately 35 miles east of Los Angeles.

The Agency provides regional wastewater service, as well as imported and recycled water deliveries to the City of Chino Hills, City of Chino, City of Fontana, City of Montclair, City of Ontario, City of Upland, and Cucamonga County Water District.

The Project is located in the 800 and 930 pressure zones within the Agency’s southern service area, in the Cities of Chino, Chino Hills and Ontario, San Bernardino County. The recycled water storage reservoir will be located on a site northeast of Galloping Hills Road, in the City of Chino Hills. The pipeline will connect the recycled water storage reservoir to the Carbon Canyon Water Reclamation Facility (CCWRF), which is located at the southwest corner of the intersection of Chino Hills Parkway and Telephone Road in the City of Chino Hills.

EXISTING FACILITIES

The Agency provides industrial and municipal wastewater collection through regional wastewater interceptors and wastewater collection pipelines. The wastewater is treated at the Agency’s four regional treatment facilities. The Agency currently operates a regional recycled water distribution system consisting of recycled water distribution mains and pump stations. The Agency is a water management agency and is the wholesale supplier of both water and recycled water within the Agency’s service area. Water supplies include raw imported water purchased from the Metropolitan Water District of Southern California, surface water from filtration plants, and recycled water generated at the Agency regional treatment plants. Potable water and recycled water is provided to the retail water purveyors for delivery to the end users. The Agency delivers recycled water, for groundwater recharge purposes, to several flood control or stormwater recharge basins within the Chino Basin.

The Agency produces tertiary treated recycled water that complies with the requirements of Title 22 of the California Code of Regulations. The Agency’s four regional treatment facilities operate under National Pollutant Discharge Elimination System permit (NPDES permit No. CA8000409).

PROJECT OBJECTIVES

The purpose of the Project is to construct recycled water distribution mains, recycled water storage facilities and recycled water pumping capacity within the Agency’s southern service area.

PROJECT DESCRIPTION

The Project is an expansion of the Agency’s regional recycled water distribution system. The Project will provide facilities for the storage, pumping, and conveyance of recycled water to customers within the 800 and 930 pressure zones. The Project will directly serve landscape irrigation customers that have an existing demand as shown in below

CATEGORY OF USE	EXPECTED RECYCLED WATER DELIVERIES (AFY)
Landscape Irrigation	532
TOTAL	532

The Project is expected to provide sufficient recycled water to meet the expected demand in each category of use listed above. Recycled water customers are expected to be connected to the recycled water distribution system upon initial operation of the Project or as scheduled in the recycled water categories of use connection schedule. Replacing the use of potable water with recycled water for landscape irrigation purposes will augment the State Water supply.

The Project consists of the installation of recycled water pipelines, increasing the pumping capacity from 8.6 to 14.4 million gallons per day (mgd), a new recycled water reservoir, and the capacity purchase of 2 million gallons (MG) of storage capacity. The proposed Project is expected to be bid as three separate segments and one capacity purchase agreement as follows:

Segment I – 930-Zone Pipeline:

Segment I consists of constructing approximately 14,500 linear feet of 30-inch diameter recycled water pipeline to convey recycled water from the 930-reservoir to the CCWRF.

Segment II – CCWRF Pump Station Expansion:

Increasing the pumping capacity of the CCWRF pump station to 14.4 mgd by replacing four 2,000 gallons per minute (gpm) (200 horsepower) pumps with 2,500 gpm (250 horsepower) pumps, installing a fifth 2,500 gpm (250 horsepower) pump as a standby, replacing the variable frequency drives and motors, and modifying the electrical room and controls.

Segment III – 5.0 MG 930 Zone Storage Reservoir:

Segment III consists of design and construction of a 5.0-MG recycled water storage reservoir in the City of Chino Hills. The 5.0 MG 930-Zone Storage Reservoir will be a circular steel tank, with diameter of 170 feet and a side water height of 30 feet.

Storage Tank Capacity Purchase:

The Agency will execute a capacity purchase agreement between the Agency and the City of Chino Hills. The Agency is purchasing 2.0 MG of storage capacity in the City of Chino Hills 930-reservoir. Capacity purchase agreement No. 4600000599 was executed on August 24, 2010, the purchase amount is \$2 million.

The Project will provide delivery of treated municipal wastewater for beneficial reuse that will offset State Water supplies and reduce pumping in the Delta. For this reason, this Project classifies as a Category I water recycling project, as defined in the Guidelines.

GREEN PROJECT ANALYSIS

No less than 20 percent (20%) of the Federal Fiscal Years 2010 and 2011 funds appropriated to California's CWSRF Program are to be provided for water or energy efficiency, green infrastructure, or other environmentally innovative activities (Green Projects).

An entire project may be considered a Green Project, or larger projects with appropriate identifiable components may qualify as partial Green Projects. The projects or project components that are deemed Green Projects, or components thereof, must clearly advance the objectives articulated in the specific categories outlined in U.S. EPA guidance documents:

- Water Efficiency – The use of improved technologies and practices to deliver equal or better services with less water.
- Energy Efficiency – The use of improved technologies and practices to reduce the energy consumption of water quality projects, including projects to reduce energy consumption or produce clean energy used by a treatment works.
- Green Infrastructure – Green Infrastructure includes a wide array of practices at multiple scales that manages and treats stormwater and that maintains and restores natural hydrology by infiltrating, evapotranspiring, and capturing and using stormwater.
- Environmentally Innovative – Projects that demonstrate new and/or innovative approaches to managing water resources in a more sustainable way, including projects that achieve pollution prevention or pollutant removal with reduced costs and projects that foster adaptation of water protection programs and practices to climate change.

Based on the above, the Project is one hundred percent (100%) eligible as a Water Efficient Green Project.

ENVIRONMENTAL IMPACT

State Water Board staff conducted a Tier II environmental review, reviewed the environmental documents, and determined that the Project will not result in any significant adverse water quality impacts. The Agency prepared a Program Environmental Impact Report (PEIR) (State Clearinghouse No. 2002011116) for a larger project (the Project is a subset of the larger project). The Agency certified the PEIR, adopted a Mitigation Monitoring and Reporting Program (MMRP) and a Statement of Overriding Consideration (SOC), approved the larger project (which includes the Project), and filed a Notice of Determination (NOD) with the San Bernardino County Clerk and the Governor’s Office of Planning and Research (OPR) on June 28, 2002.

The Agency prepared an addendum to the PEIR (Addendum PEIR) to provide Project updates, and identified specific mitigation measures from the adopted MMRP associated with the PEIR as being applicable to the Project. In the Addendum PEIR, the Agency re-evaluated the Project, and determined that the Project will not result in any unavoidable significant impacts. Thus, the SOC does not apply to the Project. The Agency adopted the Addendum PEIR and approved the Project on February 17, 2010, and filed an NOD with the San Bernardino County Clerk on February 18, 2010 and OPR on February 22, 2010.

FISCAL IMPACT

AGENCY FINANCES

Below are pending financing agreements between the Division and the Agency:

Project Number	Requested Amount	PFC Amount	Credit Limit \$76,338,000	Estimated Debt Service Amount
C-06-5333-110	\$14,830,000	\$14,830,000		\$1,006,537
C-06-5319-110	\$20,608,638			\$1,334,505
C-06-5318-110	\$15,543,862			\$969,367

A credit review analyzed the Agency’s ability to enter into three financing agreements for a credit limit total of \$50,982,500 for construction and allowance costs. The credit review provided recommendations regarding the financing agreement terms, maximum CWSRF financing amount, financial capacity and reserve fund requirements for the financing agreements.

The Agency’s service area has an estimated 2009 median household income (MHI) of \$62,227, approximately 103% of the State of California MHI. The Agency does not qualify as a disadvantaged community.

The Agency is a wholesale supplier of recycled water, with water charges established by the member agencies. As such, Proposition 218 notification does not appear to be applicable to the Agency.

The first debt service payments on the proposed projects are projected to be due in fiscal year 2011/12 for project C-06-5319-110 and in fiscal year 2012/13 for projects C-06-5333-110 and C-06-5318-110. After allowing for the operations and maintenance costs (O&M) estimated at \$76,812,030 for fiscal year 2012/13, the net revenues of the Agency are projected to be approximately \$34,925,826.

The Agency has sixteen outstanding CWSRF debts totaling \$47,777,407 as of July 1, 2010. Maximum amount of the fully disbursed CWSRF outstanding debt is \$81,494,150; with a maximum annual debt service of \$4,807,787. In addition the Agency has three CWSRF debts totaling \$2,542,780 that are 100% Principal Forgiveness. The Agency also has four Bond issues totaling \$244,550,000 as of July 1, 2010; with maximum annual debt service of \$13,300,773. The four bond issues; 2005A Revenue Bonds, 2008A Revenue Bonds, 2008B Variable Rate Revenue Bonds, and Series 2010 Revenue Bonds are secured by net revenues of the Agency. This brings the total outstanding debt balance to \$292,327,407; with total maximum annual debt service of \$18,108,560.

The three proposed financing agreements may be issued on parity with the four Bonds as long as they meet the bond covenant that net revenues are at least 1.25 times the total debt service and a reserve fund equal to one year's debt service is established.

The Agency's current and proposed debt service is summarized in the table below:

Project #	Balance as of 7/1/10	Maximum Balance	Maximum Debt Service
4846-110	\$472,425	\$472,425	\$40,410
4846-120	\$495,816	\$495,816	\$42,410
4846-130	\$4,180,167	\$4,180,167	\$337,617
4846-140	\$4,289,977	\$4,289,977	\$343,942
4846-150	\$1,467,087	\$1,467,087	\$118,491
4846-160	\$1,098,304	\$1,098,304	\$89,360
4899-110	\$13,776,530	\$13,776,530	\$935,161
4900-110	\$3,245,146	\$3,245,146	\$170,797
4900-120	\$5,939,802	\$5,939,802	\$312,621
4900-130	\$1,177,932	\$1,177,932	\$61,996
5176-110	\$2,090,841	\$3,493,463	\$176,716
5176-120	\$2,868,144	\$5,789,720	\$293,638
5176-130	\$2,040,204	\$5,658,238	\$289,312
5176-140	\$99,669	\$1,688,745	\$85,095
5327-110	\$3,756,386	\$27,434,811	\$1,438,958
5332-110	\$778,977	\$1,285,987	\$71,263
Total CWSRF Financing Agreements	\$47,777,407	\$81,494,150	\$4,807,787
6956-110		\$773,045	
6959-110		\$298,244	
6960-110		\$1,471,491	
Total Financing with 100% Principal Forgiveness		\$2,542,780	

Bond Series

Series 2005A	\$21,650,000	\$21,650,000	\$1,156,825
Series 2008A	\$125,000,000	\$125,000,000	\$6,250,000
Series 2008B	\$52,330,000	\$52,330,000	\$2,687,594
Series 2010A	\$45,570,000	\$45,570,000	\$3,206,354
Total Bonds	\$244,550,000	\$244,550,000	\$13,300,773

Proposed CWSRF Financing Agreements

5319-110		\$20,608,638	\$1,334,505
5333-110		\$14,830,000	\$969,367
5318-110		\$15,543,862	\$1,006,537
Total Proposed Financing Agreements		\$50,982,500	\$3,310,409

Total Proposed Combined Debt Service	\$292,327,407	\$379,569,430	\$21,418,969
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SECURITY AND SOURCE OF FINANCING REPAYMENT

The Agency shall dedicate the net revenues of the Agency to the repayment of the three financing agreements.

The three financing agreements, totaling \$50,982,500 for a term of 20 years at an estimated interest rate of 2.70 percent will have a combined annual debt service of \$3,310,409. When added to the existing debt service of \$18,108,560 the result is maximum debt service of \$21,418,969. When total proposed debt service is compared to the net revenues, the result is 1.63 times coverage. This exceeds both the CWSRF requirement that net revenues be at least 1.10 times total debt service, and the Revenue Bonds requirement that net revenues be at least 1.25 times total debt service.

The proposed financing agreements shall be on parity with the Series 2005A Revenue Bonds, Series 2008A Revenue Bonds, Series 2008B Variable Rate Revenue Bonds, and Series 2010 Revenue Bonds. The CWSRF senior debt coverage requirement is not applicable as there is no senior debt.

COMPARATIVE REVENUES AND EXPENSES ANALYSIS

The revenues and expenses for the entire Agency's revenue funds for the last four fiscal years and projections for fiscal years 2011/12 and 2012/13 are summarized below:

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2011/12 Projections	2012/13 Projections
Operating Revenues	\$34,983,763	\$41,217,146	\$41,466,345	\$46,547,554	\$50,191,402	\$52,532,971
Connection Fees	\$20,895,635	\$24,670,848	\$16,625,720	\$5,753,403	\$5,719,200	\$6,672,400
Property Taxes	\$20,069,646	\$31,018,196	\$34,451,122	\$36,324,998	\$33,779,233	\$33,948,129
Interest Revenues	\$3,867,906	\$5,324,853	\$5,006,145	\$2,796,097	\$1,415,621	\$1,455,139

Non-Operating Revenues	\$8,007,544	\$8,645,853	\$17,719,719	\$3,543,079	\$15,742,617	\$17,129,217
Total Revenues	\$87,824,494	\$110,876,896	\$115,269,051	\$94,965,131	\$106,848,073	\$111,737,856
Operating Expenses	\$53,707,777	\$65,479,425	\$65,009,761	\$66,516,663	\$75,739,975	\$76,812,030
Net Revenues Available for Debt Service	\$34,116,717	\$45,397,471	\$50,259,290	\$28,448,468	\$31,108,098	\$34,925,826
Existing Debt Service	\$13,900,488	\$14,946,098	\$16,094,456	\$22,667,392	\$14,902,206	\$18,108,560
Proposed Debt Service (5318-110; 5319-110; 5333-110)	\$0	\$0	\$0	\$0	\$969,367	\$3,310,409
Total Debt Service	\$13,900,488	\$14,946,098	\$16,094,456	\$22,667,392	\$15,871,573	\$21,418,969
Debt Service Coverage	2.45	3.04	3.12	1.26	1.96	1.63

Total revenues have increased an average of two percent per year over the past four fiscal years. Projections show that total revenues will continue to increase an average of six percent per year from fiscal year 2009/10 through 2012/13. Operating expenses increased an average of six percent per year over the past four fiscal years; however projections show that the operating expenses will increase an average of five percent per year from fiscal year 2009/10 through 2012/13.

The Agency shall fund a reserve fund equal to one year's debt service from available cash. A reserve fund in the amount of one year's debt service is maintained so that in the event of non-payment, there are funds available to make the payment.

The independent credit review states that the Agency has significant payment capacity well beyond the \$50,982,500 requested as supported by the current rates. After further review the State Water Board staff, in reference to Section X. (F) of the Policy; determined a maximum credit limit of \$76,338,000, which is 150% of the requested amount. This exceeds the minimum debt to income coverage ratios required by CWSRF and Bond requirements. The effects of the \$76,338,000 financing agreement and the results are in the table below:

Total Annual Gross Revenues (FY 2012/13 projections)	Annual Operations and Maintenance Costs	Annual Net Revenue Available for Debt Service	Existing Debt Service	CWSRF Annual Debt Service for 5318110; 5319-110; 5333-110 Financing Agreements	Total Annual Debt Service	Debt Service Coverage
\$111,737,856	\$76,812,030	\$34,925,826	\$18,108,560	\$4,989,853	\$23,098,413	1.51

FISCAL IMPACT ON THE CWSRF PROGRAM

(as of 03/16/2011)	SFY 2010-11	SFY 2011-12	SFY 2012-13	SFY 2013-14	SFY 2014-15
Beginning Balance:	\$405,559,109.08	\$137,876,299.75	\$59,311,609.34	\$208,126,522.83	\$418,875,985.20
Estimated Repayments	\$254,233,674.81	\$264,233,674.81	\$274,233,674.81	\$284,233,674.81	\$294,233,674.81
Debt Service on Revenue Bonds	(\$31,456,428.75)	(\$30,228,203.75)	(\$27,714,203.75)	(\$23,821,828.75)	(\$20,966,278.75)
Estimated Capitalization Grants	\$67,144,221.00	\$40,000,000.00	\$28,800,000.00	\$28,800,000.00	\$28,800,000.00
Local Match Credits	\$6,163,989.61	\$2,634,670.53	\$2,288,622.44	\$915,119.30	\$956,715.63
Est. SMIF Interest:	\$2,700,000.00	\$3,000,000.00	\$3,000,000.00	\$3,000,000.00	\$3,000,000.00
Estimated Disbursements	(\$543,242,381.00)	(\$254,768,526.00)	(\$60,724,995.00)	(\$54,000,723.00)	(\$44,142,516.00)
Subtotal	\$161,102,184.75	\$162,747,915.34	\$279,194,707.83	\$447,252,765.20	\$680,757,580.89
City of Redding, #4971-230 (01/05/2011)	(\$4,407,893.00)	(\$4,000,000.00)			
City of Redding, #4971-240 (01/05/2011)		(\$7,205,000.00)	(\$13,760,000.00)		
City of Redding, #4971-260 (01/05/2011)		(\$246,530.00)	(\$4,503,470.00)		
Union Sanitary District, #5222-110 (01/05/2011)	(\$1,114,416.00)	(\$4,853,988.00)	(\$225,767.00)		
San Luis Obispo (Los Osos), #5230-110 (02/01/2011)			(\$29,276,046.00)	(\$21,034,728.00)	(\$18,252,894.00)
City of Seal Beach, #5310-110 (10/07/10)	(\$75,000.00)	(\$1,300,000.00)	(\$300,000.00)		
City of Seal Beach, #5310-120 (11/15/10)	(\$75,000.00)	(\$1,300,000.00)	(\$700,000.00)		
Eastern Municipal Water District (Temecula Valley), #5312-110 (11/30/10)	(\$3,743,576.00)	(\$10,605,788.00)	(\$9,924,264.00)	(\$1,342,052.00)	
Inland Empire Utilities Agency, #5319-110 (12/07/2010, 03/16/2011)		(\$14,300,000.00)	(\$6,308,638.00)		
Inland Empire Utilities Agency, #5333-110 (10/25/2010)	(\$1,510,000.00)	(\$13,000,000.00)	(\$320,000.00)		
City of Sausalito, #5354-110 (02/17/2011)	(\$850,000.00)	(\$250,000.00)			
City of Tehachapi, #5563-110 (03/16/2011)			(\$150,000.00)		
City of Lathrop, #5599-110 (02/01/2011)	(\$400,000.00)	(\$600,000.00)			
Santa Ana Watershed Project Authority, #5610-110 (03/09/2011)		(\$5,500,000.00)	(\$6,000,000.00)	(\$6,000,000.00)	(\$2,500,000.00)
City of Santa Barbara, #5859-110 (03/03/2011)	(\$2,000,000.00)	(\$3,000,000.00)	(\$200,000.00)		
City of San Leandro, #7002-110 (02/01/2011)	(\$9,000,000.00)	(\$34,000,000.00)			
Santa Nella County Water District, #7132-110 (03/14/2011)	(\$50,000.00)	(\$750,000.00)	(\$400,000.00)		
	\$137,876,299.75	\$59,311,609.34	\$207,126,522.83	\$418,875,985.20	\$660,004,686.89

Notes:

- The State Water Board approved the sale of up to \$300 million in Revenue Bonds in September 2005 for the CWSRF Program to cover any shortfall of funds.
 - Estimated repayments include repayments from existing and future financing.
 - Estimated disbursements include disbursements remaining on executed financing and planned disbursements on projects with preliminary funding commitments.
 - Local match credits are the anticipated funds that will be contributed for local match financing included in "Estimated Disbursements."
- Estimated Capitalization Grants excludes funds reserved For Principal Forgiveness.

FISCAL IMPACT ON THE WRFPP PROGRAM

The WRFPP Construction grant will be split funded with Proposition 13 and 50 funds. The \$854,800 Proposition 13 funds appropriated in SFY 2008/2009 must be encumbered by June 30, 2011 or they will need to be reappropriated to fund water recycling projects. The specific breakdown of Proposition 13 and 50 funds is detailed in the tables below.

Proposition 50, 2002 Bond Law	
Construction Grants	
	Appropriation Balance
Balance as of 4/29/2011	\$7,834,652
Proposed Commitments	
Inland Empire Utilities District #3845-030	(\$3,145,200)
Balance after New Commitments	\$4,689,452

Proposition 13, 2000 Bond Law				
Construction Fiscal Impact Table				
	Appropriation balance	Southern Counties (60%)	Other Counties (40%)	Total Appropriation
Balance as of 4/29/2011	\$3,169,800	\$1,901,880	\$1,267,920	\$3,169,800
Proposed Commitments				
Inland Empire Utilities District #3845-030		(\$854,800)	\$0	(\$854,800)
Balances after New Commitments	\$3,169,800	\$1,047,080	\$1,267,920	\$2,315,000

* Includes six counties as follows: Los Angeles, Ventura, San Diego, San Bernardino, Orange and Riverside.

**All counties not listed above are listed under "other counties"

LEGAL REVIEW

The Agency's attorney represents that the Agency is exempt from Proposition 218 requirements for setting rates. The Agency's bond counsel represents that the Agency's existing debt obligations do not conflict with the proposed CWSRF financing.

The Agency's attorney shall certify that the Agency owns the property on which the Project will be constructed. The Agency's attorney shall certify that the Agency holds sufficient property rights to enable the Agency to access, construct, operate, maintain, repair, monitor, and inspect the Project for the life of the Project or the term of the CWSRF financing, whichever is longer.

In Resolution No. 2010-5-5, the Agency dedicates all net revenues of its enterprise funds to the repayment of any and all CWSRF financing agreements.

The Agency certified, on June 23, 2010, that it complies with the water metering requirements of Division 1, Chapter 8, Article 3.5 of the Water Code.

The Agency is a signatory to the California Urban Water Conservation Council's Memorandum of Understanding (MOU) regarding Urban Water Conservation in California.

The Agency's Project is not on the WRFPL. The Project funding commitment must be approved by the State Water Board.

REGIONAL BOARD IMPACT

Completion of the Project will enable the Agency to maintain compliance with the Agency's Waste Discharge Requirements, Order No. R8-2009-0021, and National Pollution Discharge Elimination System (NPDES) Permit No. CA8000409, issued by the Santa Ana Regional Water Board.

POLICY ISSUE

Should the State Water Board:

1. Approve a CWSRF PFC and WRFPL \$4 million Construction Grant (not to exceed 25% of eligible project costs) for the Agency's Project with a repayment period of 20-years and interest rate of one half the general obligation bond rate obtained by the State Treasurers Office as of the date of the PFC? The first repayment shall be due one year after completion of construction?
2. As determined by the credit review, condition the CWSRF financing agreement as follows?
 - The Financing Agreements shall be secured on parity with the outstanding Series 2005 A Revenue Bonds, Series 2008 A Revenue Bonds, 2008 B Variable Rate Revenue Bonds, and the 2010 Revenue Bonds;
 - The Agency shall establish a Reserve fund equal to one year's debt service for the project prior to the construction completion date as listed in the Project's Financing Agreement;
 - The Agency shall covenant to establish rates and charges in amounts sufficient to generate net revenues of the Enterprise Funds equal to at least 1.25 times the total annual debt service; and
 - The Financing Agreements for CWSRF projects No. 5333-110, 5319-110 and 5318-110 shall be limited to a combined maximum of \$76,338,000, unless new information supporting the credit review changes and a supplemental credit review is performed.
3. Condition this approval by withdrawing the CWSRF PFC if the Agency does not sign the CWSRF financing agreement by November 30, 2011, and in accordance with Section IX. (K) of the Policy, allow Division staff the discretion to approve up to a 120-day extension of this PFC expiration date for good cause?
4. Condition this approval that a final certification from the Agency's attorney regarding access and ownership to land on which the Project will be constructed is needed before the final financing agreement is amended and construction funds are disbursed?

5. Condition this approval that the users identified in the Recycled Water User Connection Schedule are to be connected by the Initiation of Operations Date? If users are not connected, or changes occur, the Division shall be notified?
6. Condition this approval that when the Project begins operation, it will be monitored for progress in delivering recycled water? The Agency shall submit annual reports for five years after the first full year of operation? These reports shall contain information on the actual deliveries of recycled water, and be submitted by the end of February?

STAFF RECOMMENDATION

1. Approve a CWSRF PFC and WRFPP \$4 million Construction Grant (not to exceed 25% of eligible project costs) for the Agency's Project with a repayment period of 20-years and interest rate of one half the general obligation bond rate obtained by the State Treasurers Office as of the date of the PFC. The first repayment shall be due one year after completion of construction;
2. As determined by the credit review, condition the CWSRF financing agreement as follows:
 - The Financing Agreements shall be secured on parity with the outstanding Series 2005 A Revenue Bonds, Series 2008 A Revenue Bonds, 2008 B Variable Rate Revenue Bonds, and the 2010 Revenue Bonds;
 - The Agency shall establish a Reserve fund equal to one year's debt service for the project prior to the construction completion date as listed in the Project's Financing Agreement;
 - The Agency shall covenant to establish rates and charges in amounts sufficient to generate net revenues of the Enterprise Funds equal to at least 1.25 times the total annual debt service; and
 - The Financing Agreements for CWSRF projects No. 5333-110, 5319-110 and 5318-110 shall be limited to a combined maximum of \$76,338,000, unless new information supporting the credit review changes and a supplemental credit review is performed.
3. Condition this approval by withdrawing the CWSRF PFC if the Agency does not sign the CWSRF financing agreement by November 30, 2011, and in accordance with Section IX. (K) of the Policy, allow Division staff the discretion to approve up to a 120-day extension of this PFC expiration date for good cause;
4. Condition this approval that a final certification from the Agency's attorney regarding access and ownership to land on which the Project will be constructed is needed before the final financing agreement is amended and construction funds are disbursed;
5. Condition this approval that the users identified in the Recycled Water User Connection Schedule are to be connected by the Initiation of Operations Date. If users are not connected, or changes occur, the Division shall be notified; and

6. Condition this approval that when the Project begins operation, it will be monitored for progress in delivering recycled water. The Agency shall submit annual reports for five years after the first full year of operation. These reports shall contain information on the actual deliveries of recycled water, and be submitted by the end of February.

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.

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STATE WATER RESOURCES CONTROL BOARD RESOLUTION NO. 2011-

TO ADD INLAND EMPIRE UTILITIES AGENCY (AGENCY) SOUTHERN AREA RECYCLED WATER SYSTEM IMPROVEMENTS PROJECT (PROJECT) TO THE WATER RECYCLING FUNDING PROGRAM (WRFP) COMPETITIVE PROJECT LIST AND TO AUTHORIZE FUNDING FROM THE WRFP AND THE CLEAN WATER STATE REVOLVING FUND TO THE AGENCY'S PROJECT; CWSRF PROJECT NO. 5319-110.; WRFP PROJECT NO. 3845-030

WHEREAS:

1. The State Water Resources Control Board (State Water Board) amended the "*Policy for Implementing the State Revolving Fund for Construction of Wastewater Treatment Facilities*," (Policy) on March 17, 2009;
2. The State Water Board, on June 15, 2010, adopted the state fiscal year 2010/2011 CWSRF Program Priority List which included the Agency's Project in Priority Class C;
3. The Division of Financial Assistance (Division) has approved the Facility Plan for the Agency's Project on May 4, 2011, and the Agency agreed with the approval on May 9, 2011;
4. On March 7, 2000, the voters approved the Costa-Machado Water Act of 2000 (2000 Bond Law), and provided authorization for the State Water Board to issue WRFP construction grants;
5. The Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 (Proposition 50) was approved by the voters on November 5, 2002 (Water Code, Division 26.5, Sections 79500 et seq.). Section 79550(g) in Chapter 7 of Proposition 50 allocates funding for urban and agricultural water conservation, recycling, and other water use efficiency projects;
6. The State Water Board, on October 21, 2004, adopted the "*Water Recycling Funding Program Guidelines*," (Guidelines) and amended them on July 15, 2008;
7. The Project is a Category I project according to the Guidelines, but is not included on the WRFP 2005 Competitive Project List, adopted December 23, 2004;
8. The Agency prepared a Program Environmental Impact Report (PEIR; State Clearinghouse No. 2002011116) for a larger project (the Project is a subset of the larger project);
9. The Agency certified the PEIR, adopted a Mitigation Monitoring and Reporting Program (MMRP) and a Statement of Overriding Consideration (SOC) and approved the larger project (which includes the Project) on June 28, 2002;
10. The Agency filed a Notice of Determination (NOD) with the San Bernardino County Clerk and the Governor's Office of Planning and Research (OPR) on June 28, 2002;

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11. The Agency prepared an addendum to the PEIR (Addendum PEIR) to provide Project updates and determined that the Project will not result in any unavoidable significant impacts. Thus, the SOC does not apply to the Project. The Agency identified specific mitigation measures from the adopted MMRP associated with the PEIR that are applicable to the Project;
12. The Agency adopted the Addendum PEIR, and approved the Project on February 17, 2010;
13. The Agency filed an NOD with the San Bernardino County Clerk on February 18, 2010 and OPR on February 22, 2010, for the Addendum PEIR;

THEREFORE BE IT RESOLVED THAT:

The State Water Board:

1. Approves a CWSRF Preliminary Funding Commitment (PFC) and WRF \$4 million Construction Grant (not to exceed 25% of eligible project costs) for the Agency's Project with a repayment period of 20-years and interest rate of one half the general obligation bond rate obtained by the State Treasurer's Office as of today's date. The first repayment shall be due one year after completion of construction;
2. As determined by the credit review, condition the CWSRF financing agreement as follows:
 - The Financing Agreements shall be secured on parity with the outstanding Series 2005 A Revenue Bonds, Series 2008 A Revenue Bonds, 2008 B Variable Rate Revenue Bonds, and the 2010 Revenue Bonds;
 - The Agency shall establish a Reserve fund equal to one year's debt service for the project prior to the construction completion date as listed in the Project's Financing Agreement;
 - The Agency shall covenant to establish rates and charges in amounts sufficient to generate net revenues of the Enterprise Funds equal to at least 1.25 times the total annual debt service; and
 - The Financing Agreements for CWSRF projects No. 5333-110, 5319-110 and 5318-110 shall be limited to a combined maximum of \$76,338,000, unless new information supporting the credit review changes and a supplemental credit review is performed.
3. Condition this approval by withdrawing this CWSRF PFC if the Agency does not sign the CWSRF financing agreement by November 30, 2011, and in accordance with Section IX. (K) of the Policy, allow Division staff the discretion to approve up to a 120-day extension of this PFC expiration date for good cause;
4. Condition this approval that a final certification from the Agency's attorney, acceptable to the Division, regarding access and ownership to land on which the Project will be constructed is needed before the final financing agreement is amended and construction funds are disbursed;

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5. Condition this approval that the users identified in the Recycled Water User Connection Schedule are to be connected by the Initiation of Operations Date. If users are not connected, or changes occur, the Division shall be notified; and
6. Condition this approval that when the Project begins operation, it will be monitored for progress in delivering recycled water. The Agency shall submit annual reports for five years after the first full year of operation. These reports shall contain information on the actual deliveries of recycled water, and be submitted by the end of February.

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 June 21, 2011.

Jeanine Townsend
Clerk to the Board