

**STATE WATER RESOURCES CONTROL BOARD
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE
AUGUST 6, 2013**

ITEM 3

SUBJECT

CONSIDERATION OF A PROPOSED RESOLUTION TO ADD THE SANTA MARGARITA WATER DISTRICT (DISTRICT) MIDDLE CHIQUITA RECYCLED WATER FACILITIES PROJECT (PROJECT) TO THE WATER RECYCLING FUNDING PROGRAM (WRFP) COMPETITIVE PROJECT LIST AND TO AUTHORIZE THE WRFP TO APPROVE A PRELIMINARY FUNDING COMMITMENT (PFC); WRFP PROJECT NO. 3925-030

DISCUSSION

The District is seeking financial assistance from the State Water Resources Control Board (State Water Board) WRFP to construct a recycled water reservoir and transmission pipelines within the District's recycled water service area. The WRFP Construction Grant is limited to \$4 million, but not to exceed 25% of eligible construction costs.

On October 25, 2012, the District submitted an application for a WRFP construction grant. In accordance with the WRFP Guidelines (amended July 15, 2008), projects must be in a fundable category on the WRFP Competitive Project List (CPL), adopted on January 20, 2005, ([Resolution No. 2005-0002](#)). The District'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 District's Project to the WRFP CPL and approve a WRFP PFC for \$1,897,213.

ENVIRONMENTAL IMPACT

State Water Board staff did a CEQA review, reviewed and considered the EIR/EIS, the Addendum, and the associated environmental documents, and determined that the Project will not result in any significant adverse water quality impacts.

The District was the lead agency under CEQA, and has complied with CEQA and CEQA Guidelines. The District prepared an EIR/EIS for the Project. The EIR was distributed to the public and circulated through the State Clearinghouse (SCH; No. 2006061140) for review from July 14, 2006 through August 28, 2006. The District received 13 comment letters from U.S. Department of Interior, Department of Conservation, Caltrans, County of Orange, Integrated Waste Water Management Department, City of Mission Viejo, City of Rancho Santa Margarita, Southern California Edison, California Cultural Resource Preservation Alliance, Rancho Mission Viejo, California Native Plant Society, Conservation Biology Institute, Endangered Habitats League, and Nature Reserve of Orange County. The District responded to all the comments and made changes to the EIR where appropriate.

The District certified the EIR/EIS, adopted a Mitigation Monitoring and Reporting Program (MMRP), and approved the Project on October 24, 2006. The District filed a Notice of Determination (NOD) with the Orange County Clerk on October 25, 2006. The District certified the EIR/EIS, adopted an MMRP, and approved the EIR/EIS on November 6, 2006.

Subsequently, the District prepared an Addendum and approved the Project on July 27, 2011 to address CEQA Project impacts specifically. The Addendum was filed with the Orange County Clerk on August 2, 2011, and with the Governor's Office of Planning and Research (OPR) on June 13, 2013.

State Water Board staff did a CEQA review, reviewed and considered the EIR/EIS, the Addendum, and the associated environmental documents, and determined that the Project will not result in any significant adverse water quality impacts

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

FISCAL IMPACT

Financial Analysis

A financial overview was completed to determine the District's ability to enter into an agreement for a Water Recycling Grant in the amount of \$1,897,213 for construction and allowance costs. The credit review provided recommendations regarding the maximum grant amount.

The total project costs are \$7,971,000, with the District covering the balance of \$6,073,787 in costs from the District's cash reserves.

The District's estimated 2013 median household income (MHI) is \$101,508, approximately one hundred and sixty-five percent (165%) of the State of California MHI. The District's estimated 2013 population is 140,845. The District does not qualify as a small disadvantaged community. In accordance with Proposition 218, the District held a public hearing to increase monthly rates for water and sewer service. The new rates were adopted on November 11, 2011. New rates went into effect on February 1, 2012. The average monthly bill for both water and sewer is \$65.96. The District has a total of 49,709 connections of which 48,207 are residential and 872 are commercial.

The operations and maintenance costs for fiscal year 2011/12 were \$54,375,177 and are expected to increase \$40,000 initially and \$46,000 by year five (5) of operation. The District has outstanding debt totaling \$11,880,521 as of June 30, 2012. Debt service for 2011/12 was \$1,120,684. The debt service coverage requirement for outstanding debt is 1.10. The District Cash Reserves totaled \$28,359,273 as of June 30, 2013. Of this amount, approximately \$12,032,955 is for capital replacement, capital repairs and maintenance and construction projects.

Comparative Revenues and Expenses Analysis

The audited financial statements for the District for the prior three fiscal years are summarized in the following table:

Santa Margarita Water District

Fiscal Year	Audited 2009/10	Audited 2010/11	Audited 2011/12
Water Sales	\$28,653,367	\$27,522,866	\$29,764,206
Sanitation Sales Service Charge	\$16,693,371	\$15,600,334	\$16,536,155
Utility Billing charges	\$709,257	\$722,208	\$681,507
Construction Revenue	\$11,065	\$208,086	\$276,091
Other Operating Revenues	\$3,192,317	\$4,424,449	\$3,465,588
Capacity Lease Income*	\$7,149,921	\$805,793	\$807,066
Contributions for Capital Facilities*	\$0	\$8,107,737	\$15,937,610
Investment Income	\$4,531,146	\$2,348,104	\$2,226,758
Connection Fees	\$25,500	\$0	\$0

Rental Income	\$0	\$1,116,498	\$1,174,618
Other Non-Operating Income	\$0	\$0	\$1,000,000
Total Revenues	\$60,965,944	\$60,856,075	\$71,869,599
Operating Expenses	\$52,062,726	\$52,370,371	\$54,375,177
Net Revenues	\$8,903,218	\$8,485,704	\$17,494,422
Existing Debt Service	\$1,120,684	\$1,120,684	\$1,120,684
Debt Service Coverage	7.94	7.57	15.61

*A portion of the Capacity Lease Income was reclassified as Contributions for Capital Facilities beginning with the 2011/12 financial statements by CPA as lease income is used for capital improvements and repairs.

The District has sufficient cash reserves and available revenues of approximately \$17 million after allowing for operations and maintenance costs and debt service; that can be used for the District share of the Project.

It is recommended that the Division approve a WRF PFC for the maximum amount of \$1,897,213.

Fiscal Impact on the WRF Program

Loan repayments from the Water Recycling Revolving Fund are deposited into the Water Recycling Sub-accounts and provide funds for new construction grants, loans, and planning 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 50	
Construction Grants	
	Appropriation Balance
Balance as of 6/18/2013	\$9,690,074
Proposed Commitments	
Santa Margarita Water District # 3925-030	-\$1,897,213
Balance after New Commitments	\$7,792,861

REGIONAL WATER BOARD IMPACT

The Project will operate under Waste Discharge and Water Recycling Requirements Order Number 97-52, issued by the San Diego Regional Water Quality Control Board.

POLICY ISSUE

Should the State Water Board:

1. Add the Project to the WRF CPL?
2. Approve a \$1,897,213 WRF PFC for the proposed Project?

3. In accordance with Section III.F of the WRFP Guidelines, condition this approval by withdrawing the WRFP PFC if the District does not sign the grant agreement by February 6, 2013? Allow Division staff to have the discretion to approve up to a 90-day extension for good cause?

STAFF RECOMMENDATION

The State Water Board should:

1. Add the Project to the WRFP CPL;
2. Approve a \$1,897,213 WRFP PFC for the proposed Project; and
3. In accordance with Section III.F of the WRFP Guidelines, condition this approval by withdrawing the WRFP PFC if the District does not sign the grant agreement by February 6, 2014. Allow Division staff to have the discretion to approve up to a 90-day extension for good cause.

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.

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STATE WATER RESOURCES CONTROL BOARD RESOLUTION NO. 2013-

ADD THE SANTA MARGARITA WATER DISTRICT (DISTRICT) MIDDLE CHIQUITA RECYCLED WATER FACILITIES PROJECT (PROJECT) TO THE WATER RECYCLING FUNDING PROGRAM (WRFP) COMPETITIVE PROJECT LIST AND TO AUTHORIZE THE WRFP TO APPROVE A PRELIMINARY FUNDING COMMITMENT (PFC);
WRFP PROJECT NO. 3925-030

WHEREAS:

1. The State Water Resources Control Board (State Water Board) adopted the “*Water Recycling Funding Program Guidelines*” (Guidelines) and amended them on July 15, 2008;
2. The Project is a Category I project according to the Guidelines, but is not included on the WRFP CPL, adopted January 20, 2005;
3. An independent credit review was completed on May 28, 2013;
4. 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;
5. The Project is a routine and non-controversial project that is consistent with the policies, regulations, and agreements the State Water Board adopted for implementation of the WRFP;
6. The District is the lead agency under CEQA, and has complied with CEQA and CEQA Guidelines. The District prepared an Environmental Impact Report/Environmental Impact Statement (EIR/EIS) [State Clearinghouse (SCH) No. 2006061140] and circulated the EIR/EIS through the SCH and the public for review and comments;
7. The District certified the EIR/EIS, adopted a Mitigation and Monitoring Reporting Program (MMRP), and approved the Project on October 25, 2006. The County filed a Notice of Determination (NOD) with the Orange County Clerk on October 25, 2006;
8. The District certified the EIR/EIS, adopted an MMRP and approved the EIR/EIS on November 2, 2006;
9. The District prepared an Addendum based on County’s EIR/EIS to specifically describe the Project;
10. The District approved the Addendum on July 27, 2011 and filed a NOD with the Orange County Clerk on August 2, 2011 and with the Governor’s Office of Planning and Research (OPR) on June 13, 2013 for the subsequent addendum;
11. Adequate public participation was provided through the CEQA review process;
12. Mitigation measures and design measures incorporated into the Project will avoid or substantially reduce other potentially significant environmental impacts;

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13. The District's environmental documents provided an adequate disclosure of the environmental relationships of all water quality aspects of the Project. The Project will not result in any significant adverse water quality impacts.
14. The District submitted an Urban Water Management Plan to the Department of Water Resources (DWR) in accordance with Section 10644 of the Water Code. The District meets the definition of an Urban Water Supplier as defined in Section 10617 of the Water Code;
15. Water Code Section 10631.5 requires the DWR to determine if an urban water supplier is implementing water-demand management measures described in Section 10631 of the Water Code. The District submitted the required documentation to DWR on November 14, 2012, and requested that DWR make an eligibility determination. On November 26, 2012, DWR determined the District to be in compliance, and therefore eligible to receive water management grant funds; and
16. As of January 1, 2010, Water Code section 529.5 requires an urban water supplier that applies for financial assistance from the state for a wastewater treatment project, drinking water treatment project, or water use efficiency project, or a permit for a new or expanded water supply, to demonstrate that the applicant meets the water metering requirements of Division 1, Chapter 8, Article 3.5 of the Water Code. On October 22, 2012, the District certified that it is an urban water supplier, as that term is understood pursuant to the provisions of Section 529.5 of the Water Code and that it complied with Division 1, Chapter 8, Article 3.5 of the Water Code.

THEREFORE BE IT RESOLVED THAT:

The State Water Board:

1. Adds the Project to the WRFP CPL;
2. Approves a \$1,897,213 WRFP PFC for the proposed Project; and
3. In accordance with Section III.F of the WRFP Guidelines, conditions this approval by withdrawing the WRFP PFC if the District does not sign the grant agreement by February 6, 2014. Division staff has the discretion to approve up to a 90-day extension for good cause.

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 August 6, 2013.

Jeanine Townsend
Clerk to the Board