

**STATE WATER RESOURCES CONTROL BOARD
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE
MARCH 17, 2015**

ITEM 2

SUBJECT

CONSIDERATION OF A PROPOSED RESOLUTION TO INCREASE THE FINAL AMOUNT OF THE CLEAN WATER STATE REVOLVING FUND (CWSRF) PROGRAM FINANCING FOR INLAND EMPIRE UTILITIES AGENCY (AGENCY); SOUTHERN AREA RECYCLED WATER PROJECT (PROJECT); CWSRF PROGRAM PROJECT NO. C-06-5319-110; FINANCING AGREEMENT NO. 11-813-550

DISCUSSION

On August 19, 2011, the Division of Financial Assistance (Division) executed a financing agreement with the Agency for construction of the Project. On June 20, 2013, the final amount of the agreement was established at \$20,608,638. The Project provides facilities for the storage, pumping, and conveyance of recycled water to customers within the 800 and 930 pressure zones. The Project consists of the installation of recycled water pipeline, increasing the pumping capacity from 8.6 to 14.4 million gallon per day, a new recycled water reservoir, and the capacity purchase of 2 million gallons of storage from the City of Chino Hills.

During construction of the recycled water pipeline, the contractor found shallow groundwater in the path of the pipeline to be constructed. The Project's preliminary geotechnical investigation failed to reveal these site conditions. The contractor was required to dewater the excavated trench to deal with the water, and the additional work resulted in change orders in excess of \$6,000,000.

The Agency constructed the Project on schedule with the intent to cover the cost over-run internally. As a result, the Project was completed by the established Completion-of-Construction date of December 31, 2014.

In a letter submitted on November 24, 2014, the Agency formally requested an increase to the CWSRF financing agreement amount by \$6,000,000. The letter explained that the Agency's decision to keep the Project on track has adversely affected the Agency's finances. Normally, the Agency would rely on income generated by recycled water sales to pay construction overruns. However, it will take too long to convert and connect customers to the recycled water system for the Agency to cover the cost overruns. The Agency estimates that it would have to raise water rates immediately by 70% to cover the unexpected costs. The Agency's other option would be to transfer funds from the Agency's regional recycled water program, which will cause other critical projects to be deferred.

The Policy for Implementing the Clean Water State Revolving Fund (Policy) does not allow for staff to increase the agreement amount after the final budget is established. At the time the final budget was approved for the Project, the Policy did not allow for contingencies, which would have allowed the Agency to cover some, or all, of the unexpected costs.

The Division recommends increasing the financing agreement amount from \$20,608,638 to \$26,608,638 to help the Agency prevent an economic hardship caused by the unexpected conditions. As a result, the Agency will be able to move forward with other critical projects that promotes sustainable local water supplies. The increase in financing will raise the Agency's annual payments from \$1,334,505 to \$1,723,033.

POLICY ISSUE

Should the State Water Board approve increasing the Agency's financing agreement amount by \$6,000,000 for a total of \$26,608,638?

FISCAL IMPACT

The new amount is supported by the agency debt service coverage. Increasing the amount of the agreement from \$20,608,638 to \$26,608,638 increases the annual payment by \$388,528 and results in debt service coverage of 2.07, well above the required 1.25. In addition, the Agency has investment funds totaling \$98,189,138 as of fiscal year end June 30, 2014. A fiscal analysis of the increase impact on CWSRF finances is shown in the following table:

(as of 02/12/2015)	SFY	SFY	SFY	SFY	SFY
	2014-15	2015-16	2016-17	2017-18	2018-19
Beginning Balance:	\$361,819,680	\$454,688,772	\$219,307,161	\$129,617,139	\$247,606,353
Estimated Repayments	\$235,355,387	\$245,355,387	\$255,355,387	\$265,355,387	\$275,355,387
Debt Service on Revenue Bonds	(\$14,713,300)	(\$14,323,300)	(\$13,808,100)	(\$9,980,925)	(\$7,600,725)
Estimated Capitalization Grants	\$96,265,920	\$70,000,000	\$28,800,000	\$28,800,000	\$0
Local Match Credits	\$705,992	\$1,216,238	\$1,217,135	\$0	\$0
Est. SMIF Interest:	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000
<u>Estimated Disbursements</u>	(\$201,038,222)	(\$442,184,417)	(\$251,666,811)	(\$111,623,085)	(\$22,766,791)
Subtotal	\$479,895,457	\$316,252,680	\$240,704,772	\$303,668,516	\$494,094,223
Pending Preliminary Funding Commitments					
Hi Desert Water District, #5295-110 (2/6/15)	\$0	(\$36,694,488)	(\$51,772,969)	(\$28,469,862)	(\$25,411,995)
Inland Empire Utilities Agency, #5319-110 (2/12/15)	(\$3,000,000)	(\$3,000,000)			
Burlingame Hills Sewer Maintenance District, #7810-110 (2/4/15)	(\$233,068)	(\$947,598)	(\$956,796)	(\$162,538)	
City of Fresno, #7893-110 (12/29/14)	(\$6,321,144)	(\$15,003,633)	(\$15,475,899)	(\$6,757,078)	(\$5,485,582)
Carlsbad Municipal Water District, #7899-110 (11/20/14)	(\$4,435,928)	(\$9,308,892)	(\$8,740,744)	(\$3,998,892)	(\$3,015,544)
Rodeo Sanitary District, #8004-110 (12/15/2014)	(\$358,515)	(\$1,169,896)	(\$1,222,733)	(\$79,256)	
Los Carneros Water District, #8005-110 (01/02/2015)	(\$2,151,910)	(6,804,128)	(5,779,410)	(5,246,552)	
City of Davis, #8010-110 (01/12/2015)	(\$8,706,120)	(\$24,016,884)	(\$27,139,082)	(\$11,347,985)	(\$9,846,929)
	\$454,688,772	\$219,307,161	\$129,617,139	\$247,606,353	\$450,334,173

REGIONAL BOARD IMPACT

None

STAFF RECOMMENDATION

The State Water Board should increase the Agency's financing agreement amount by \$6,000,000 to a total of \$26,608,638.

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.

DRAFT

STATE WATER RESOURCES CONTROL BOARD RESOLUTION NO. 2015-

TO INCREASE THE FINAL AMOUNT OF THE CLEAN WATER STATE REVOLVING FUND (CWSRF) PROGRAM FINANCING FOR INLAND EMPIRE UTILITIES AGENCY (AGENCY); SOUTHERN AREA RECYCLED WATER PROJECT (PROJECT); CWSRF PROGRAM PROJECT NO. C-06-5319-110; FINANCING AGREEMENT NO. 11-813-550

WHEREAS:

1. The Division of Financial Assistance (Division) executed a financing agreement with the Agency on August 19, 2011, and established the final budget for the Project on June 20, 2013, with a 20-year term and an interest rate of 2.6 percent;
2. The Agency issued Notice-to-Proceed for the Project on October 8, 2012, and the Project was completed by the established Completion-of-Construction date of December 31, 2014;
3. The Project was approved under the *Policy for Implementing the CWSRF for Construction of Wastewater Treatment Facilities (Policy)*, amended on March 17, 2009;
4. The Policy did not allow the Agency to include contingencies in its budget or allow the Division to increase the financing amount above the final budget amount;
5. The Agency submitted a letter on November 24, 2014, formally requesting an increase of \$6,000,000 to its existing financing agreement, and
6. Increasing the final budget amount will allow the Agency to move forward with other critical water quality projects that promote sustainable local water supplies.

THEREFORE BE IT RESOLVED THAT:

The State Water Board

1. Approves increasing the financing agreement amount from \$20,608,638 to \$26,608,638.

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 March 17, 2015

Jeanine Townsend
Clerk to the Board