

**STATE WATER RESOURCES CONTROL BOARD
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE
APRIL 5, 2016**

ITEM 4

SUBJECT

CONSIDERATION OF A RESOLUTION AUTHORIZING THE DEPUTY DIRECTOR OF THE DIVISION OF FINANCIAL ASSISTANCE TO PROVIDE DRINKING WATER STATE REVOLVING FUND (DWSRF) FINANCING FOR TWO CITY OF FRESNO PROJECTS AT A MAXIMUM REPAYMENT TERM OF 30 YEARS

DISCUSSION

The City of Fresno (City) has requested financing with a 30-year repayment term for the two following projects (collectively known as “Projects”):

- Friant-Kern Canal Pipeline (1010007-029C) – \$26,520,000
- Kings River Pipeline (1010007-031C) – \$77,335,000

As a disadvantaged community, the City would benefit from a repayment term of 30 years. Extending the repayment term from 20 years to 30 years would lower the City’s annual debt service payment by approximately \$3 million, which would help maintain affordable water rates for its customers.

Federal regulations authorize DWSRF loans with repayment terms of up to 30 years to disadvantaged communities. The 2015-2016 DWSRF Intended Use Plan limits the 30 year repayment term option to systems serving disadvantaged communities of fewer than 10,000 people. The Division of Financial Assistance has previously provided financing to the City with a repayment term of 30 years for the City’s \$195 million Southeast Surface Water Treatment Facility.

Although funded as separate projects, the Kings River Pipeline and Regional Transmission Mains relate to the new Southeast Surface Water Treatment Facility. The Kings River Pipeline project will deliver raw water from the Kings River to the new plant, while the Regional Transmission Mains project will effectively deliver treated water from the plant to the existing distribution system.

All of these projects represent the first critical elements of the Recharge Fresno Program, which aims to improve reliability and drought resiliency for the system. By maintaining affordable water rates, the City anticipates that it will have the capacity to take on other planned infrastructure improvements.

ENVIRONMENTAL IMPACT

State Water Resources Control Board (State Water Board) staff conducted a California Environmental Quality Act (CEQA)-Plus environmental review, reviewed the environmental documents, and determined that the Projects will not result in any potential significant adverse water quality impacts.

The City is the lead agency under CEQA for the Kings River Pipeline Project (1010007-031C), and has complied with CEQA and CEQA Guidelines. The City prepared an Environmental Impact Report (EIR) for the Fresno Metropolitan Water Resources Management Plan Update, which contained project-specific information for the Kings River Pipeline Project. The EIR was distributed to the public and circulated through the State Clearinghouse (SCH No. 201309102) from February 14, 2014, to April 1, 2014. The City received five (5) comment letters. The City responded to all comments, and made the appropriate revisions to the EIR. The City certified the EIR, adopted a Mitigation Monitoring and Reporting Program (MMRP), adopted a statement of overriding considerations, and approved the Project on June 19, 2014. The City filed a Notice of Determination (NOD) with the Fresno County Clerk on June 24, 2014, and the Governor's Office of Planning and Research (OPR) on June 25, 2014.

State Water Board staff reviewed the biological documents submitted by the City for the Kings River Pipeline Project and sought Endangered Species Act (ESA), Section 7, concurrence from the United States Fish and Wildlife Service (USFWS) on March 19, 2015, that the Project "may affect, but is not likely to adversely affect" the San Joaquin kit fox. The USFWS concurred with the State Water Board staff's finding on July 29, 2015. Additionally, for the Kings River Pipeline Project, the State Water Board staff reviewed cultural resources documents submitted by the City and sought National Historic Preservation Act (NHPA), Section 106, concurrence on the determination of "no historic property affected" from the State Historic Preservation Officer on March 28, 2015. The SHPO concurred with the State Water Board staff finding on May 12, 2015.

As the Kings River Pipeline Project is within a designated sole source aquifer, State Water Board staff consulted in writing with the US Environmental Protection Agency (U.S. EPA) on January 13, 2016. The U.S. EPA responded on January 22, 2016, indicating that it did not appear that the proposed Project will adversely affect the Fresno Sole Source Aquifer.

The City is also the lead agency for CEQA for the Friant-Kern Canal Raw Water Project (1010007-029C) and has complied with CEQA and CEQA Guidelines. For this Project, the City prepared an Initial Study/Mitigated Negative Declaration (IS/MND). The IS/MND was distributed to the public and circulated through the State Clearinghouse (SCH No. 201309102) from August 19, 2012, to September 19, 2012. The City received fourteen (14) comment letters. The City responded to all comments, and made the appropriate revisions to the IS/MND. The City certified the IS/MND and adopted a Mitigation Monitoring and Reporting Program (MMRP) on June 14, 2012. The City filed a Notice of Determination (NOD) with the Fresno County Clerk on June 2, 2012, and the Governor's Office of Planning and Research (OPR) on June 2, 2015.

As the Friant-Kern Canal is owned by the US Bureau of Reclamation (Reclamation), Reclamation developed appropriate National Environmental Policy Act documents. Reclamation also assumed the federal lead agency role for ESA Section 7 and NHPA Section 106 consultations for USEPA (and, hence, State Water Board). State Water Board staff reviewed the consultation documents and had no comments or concerns. For ESA, Section 7, it was determined and the USFWS concurred that the Project "may affect, and is not likely to adversely affect the conservancy fairy shrimp and the San Joaquin kit fox". Additionally, it was determined that the Project "may affect and is likely to adversely affect the federally threatened California Tiger Salamander (CTS) and the federally threatened Vernal Pool Fairy Shrimp (VPFS)". USFWS prepared a Biological Opinion with appropriate conservation measures that are to be incorporated into the proposed Project to avoid and minimize potential adverse effects on VPFS and CTS. The Biological Opinion was transmitted by Memorandum on November 24, 2015, to David Hyatt (Reclamation) from USFWS. For NHPA, on

November 3, 2015, Reclamation requested SHPO concurrence on the determination of eligibility and finding of “no adverse effect to historic properties”. On December 4, 2015, SHPO provided concurrence on both matters.

As the Friant-Kern Canal Raw Water Project is within a designated sole source aquifer, State Water Board staff consulted in writing with the U.S. EPA on November 6, 2015. The U.S. EPA responded on November 23, 2015, indicating that it did not appear that the proposed Project will adversely affect the Fresno Sole Source Aquifer.

The State Water Board staff will file an NOD for each Project with the OPR following funding approval.

FISCAL IMPACT

The total cost of the Friant-Kern Canal Pipeline project (-029C) is \$26,520,000 and the total cost of the Kings River Pipeline project (031C) is \$77,335,000, of which all will be funded through a DWSRF Loan.

The City’s median household income (MHI) is \$41,455, approximately 68% of the California Statewide MHI, with a population of 509,924. The City is not considered a small disadvantaged community.

Currently the City has eight (8) outstanding debts secured by the Water Enterprise Fund. The 2003 Series A Water Revenue Refunding Bond is the only debt that has Seniority. The current balance is \$5,691,597 with an annual debt service of \$1,378,400. The Bond matures in 2020 and the debt coverage requirement is 1.25.

The remaining seven (7) outstanding debts consist of two (2) water revenue bonds and four (4) DWSRF Loans. One of the four (4) DWSRF financing agreements is currently unexecuted, pending a decision by the State Water Board regarding a 30-year repayment term. These seven (7) outstanding debts are on Parity and have a combined current balance of \$378,913,270.00 and a combined debt service of \$16,495,469.

Total debt balance (before this proposed financing agreement) is \$384,604,867 and total debt service is \$17,873,869.

The City’s Water Enterprise Fund exceeded the debt service requirement of 1.25 in each of the last three (3) fiscal years and is budgeted to continue doing so. In addition, the Water Enterprise Fund maintains unrestricted investments to back up the fund. The Fund’s ending cash balance for FY 14/15 was \$49,550,800.

The comparative revenue and expense analysis of the Water Enterprise Fund for FY 12/13, 13/15 and 14/15 and two years’ Budget are summarized below:

Fiscal Year	Audited 2013	Audited 2014	Unaudited Actuals 2015	Budget 2016	Projection 2017
Operating Revenues	\$71,667,204	\$90,095,940	\$75,295,200	\$70,261,000	\$81,892,200
Non-Operating Revenues	\$720,443	\$328,907	\$2,500	\$84,000	\$85,700
Operating Expenses	\$44,930,249	\$42,747,989	\$44,423,100	\$46,228,200	\$54,480,500
Non-Operating Expenses	\$0	\$7,011	\$0	\$0	\$0
Net Revenues	\$27,457,398	\$47,669,847	\$30,874,600	\$24,116,800	\$27,497,400
Outstanding Debt Service	\$14,369,046	\$14,245,899	\$16,700,200	\$16,747,500	\$17,362,431
Proposed Debt Service	\$0	\$0	\$0	\$0	\$3,255,922
Total Debt Service	\$14,369,046	\$14,245,899	\$16,700,200	\$16,747,500	\$20,618,353
Debt Service Coverage	1.91	3.35	1.85	1.44	1.33

POLICY ISSUE

Should the State Water Board approve the resolution to:

1. Authorize the Deputy Director of the Division of Financial Assistance to execute DWSRF financing agreements with the City at a maximum repayment term of 30 years for the following projects:
 - a. Friant-Kern Canal Pipeline (1010007-029C)
 - b. Kings River Pipeline (1010007-031C)
2. Condition this approval, as determined by the City's credit reviews, with the following:
 - a. The City shall pledge the net revenues of the Water Enterprise Fund, and the Water Enterprise Fund, for repayment of the proposed DWSRF financing agreement. This pledged revenue fund (source) shall be subject to lien and pledge as security for the debt obligation (Obligation).
 - b. The proposed DWSRF financing agreement shall be subordinate to the Water System Revenue Refunding Bonds 2003A.

- c. The proposed DWSRF financing agreement shall be on parity with the Water System Revenue Bond A-1, Water System Revenue Bond 2010 A-2, Safe Drinking Water State Revolving Fund SRF06CX150, SRF08SWX101, SRF11CX104, D1502012, and Department of Water Resources E74002.
 - d. The City shall establish rates and charges sufficient to generate net revenues equal to at least 1.25 times the total annual debt service.
 - e. The City shall establish a restricted reserve fund, held in the Water Enterprise Fund, equal to one year's debt service. A reserve of two (2) semi-annual payments shall be accumulated during the first ten (10) years of the loan installment payments. The restricted reserve fund shall be maintained for the full term of the Financing Agreement and shall be subject to lien and pledge as security for the Obligation.
3. Condition this approval, as determined by the City's environmental reviews, with the following:
- a. The City shall implement the mitigation measures identified in the Mitigation Monitoring and Reporting Plan prepared as part of the IS/MND titled "City of Fresno Raw Water Pipeline Project" (SCH #2011081073) and the Biological Opinion contained within the Formal Consultation on the City of Fresno Raw Water Pipeline Project (EA-07-124: SPK-2011-00977) memorandum from the Field Supervisor of the US Fish and Wildlife Office in Sacramento, CA, to David Hyatt with the Bureau of Reclamation, South-Central California Office.
 - b. The City shall implement the mitigation measures identified in the Mitigation Monitoring and Reporting Plan that is in Appendix A of the final EIR, titled Fresno Metropolitan Water Resources Management Plan Update, dated May 2014 (SCH #2013091021) prepared for the project.
 - c. The City shall implement the mitigation measures identified in the "Kings River Pipeline and Southeast Surface Water Treatment Facility Projects Biological Assessment" dated July 2015 and prepared by CH2M Hill.
 - d. The City shall implement the conservation/mitigation measures for the San Joaquin Kit Fox as revised in the July 29, 2015, U.S. Fish and Wildlife Service letter on "Informal Consultation for the City of Fresno 80 MGD Southeast Surface Water Treatment Facility and Kings River Pipeline; Safe Drinking Water State Revolving Fund 1010007-028ci."

REGIONAL BOARD IMPACT

None.

STAFF RECOMMENDATION

The State Water Board should adopt a resolution approving the City's request to extend the repayment period from 20 to 30 years.

State Water Board action on this item will assist the Water Boards in reaching Goal 6 of the Strategic Plan Update: 2008-2012 to enhance consistency across the Water Boards, on an ongoing basis, to ensure our processes are effective, efficient, and predictable, and to promote fair and equitable application of laws, regulations, policies, and procedures.

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STATE WATER RESOURCES CONTROL BOARD RESOLUTION NO. 2016-

AUTHORIZING THE DEPUTY DIRECTOR OF THE DIVISION OF FINANCIAL ASSISTANCE TO PROVIDE DRINKING WATER STATE REVOLVING FUND (DWSRF) FINANCING FOR TWO CITY OF FRESNO PROJECTS AT A MAXIMUM REPAYMENT TERM OF 30 YEARS

WHEREAS:

1. Federal and state law authorize the State Water Resources Control Board (State Water Board) to provide 30 year DWSRF financing where the recipient system serves a disadvantaged community;
2. The State Water Board adopted the Policy for Implementing the Drinking Water State Revolving Fund Program (DWSRF Policy) on October 21, 2014;
3. On August 4, 2015, the State Water Board adopted the DWSRF Intended Use Plan (2015-16 IUP), which sets forth the plan for how funds will be used within the State Fiscal Year 2015-2016 and refines criteria set forth in the DWSRF Policy for the coming year;
4. The 2015-16 IUP authorizes the Deputy Director of the Division of Financial Assistance to provide 30 year DWSRF financing to small community water systems where the system serves a disadvantaged community with a population of no more than 10,000 people;
5. On March 12, 2015, the City of Fresno (City) began submitting applications to receive DWSRF financing for the following projects:
 - a. Friant-Kern Canal Pipeline (1010007-029C) – \$26,520,000
 - b. Kings River Pipeline (1010007-031C) – \$77,335,000
6. The City, which serves approximately 500,000 people, currently has a median household income of \$42,015, which is below the threshold to be considered a disadvantaged community;
7. On January 5, 2016, the City requested 30 year DWSRF financing;
8. Extending the term of repayment will allow the City to maintain affordable water rates;
9. The State Water Board has previously provided 30 year DWSRF financing to the City;
10. The Projects are listed on the Comprehensive List;
11. The City is the Lead Agency under the California Environmental Quality Act (CEQA) for the Friant-Kern Canal Pipeline project;
12. The City prepared a Mitigated Negative Declaration (MND) titled City of Fresno Raw Water Pipeline Project, which was circulated through the State Clearinghouse (No. 2011081073) for review and comment;

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13. The City adopted the MND and Mitigation Monitoring and Reporting Program (MMRP) on June 14, 2012;
14. A Notice of Determination was filed with the Fresno County Clerk's office on June 19, 2012, and filed with the Office of Planning and Research, State Clearinghouse on June 19, 2015;
15. The City's MND includes mitigations to be incorporated into the Project to reduce the environmental impacts of the Project to less-than-significant levels;
16. The City is the Lead Agency under CEQA for the Kings River Pipeline project;
17. The City prepared an Environmental Impact Report (EIR), which was circulated through the State Clearinghouse (No. 2013091021) for review and comments;
18. The City certified and adopted the EIR, a MMRP, and Findings of Fact and Statement of Overriding Considerations on 6/19/14;
19. A Notice of Determination was filed with Fresno County Clerk's office on 6/24/14 and filed with the Office of Planning and Research, State Clearinghouse, on 6/25/14;
20. As a Responsible Agency under CEQA, the State Water Board complies with CEQA by considering the EIR or negative declaration prepared by a lead agency and by reaching its own conclusion on whether and how to approve the project involved. A Responsible Agency is responsible only for considering the effects of those activities involved in a project over which the responsible agency has jurisdiction.
21. The State Water Board has considered the IS/MND and EIR prepared for the Friant-Kern Canal Pipeline and Kings River Pipeline, respectively, and finds the following:
 - (a) Neither the IS/MND nor the EIR identify any potentially significant effects of the Kings River Pipeline project or the Friant-Kern Canal Pipeline project related to water quality or hydrology. Accordingly, any impacts to water quality or hydrology associated with these two projects will be less than significant.
22. The EIR did identify potentially significant environmental effects of the Kings River Pipeline Project related to biological resources, cultural resources, air quality, climate change, geology and soils, transportation and traffic, noise, public service and utilities, hazards and hazardous materials, and aesthetics. The EIR includes measures to mitigate impacts on above-listed resources to less-than-significant levels. Such changes or alterations are within the responsibility and jurisdiction of another public agency and not within the jurisdiction of the State Water Board. Such changes have been adopted by the relevant agency or can and should be adopted by such agency.
23. As to the effects of certain cumulative and construction activities, as well as the potential effects of the project on cultural resources, the City adopted findings of fact and a statement of overriding considerations, finding that the impacts are an acceptable consequence of the Project because the benefits it will provide, and no feasible mitigation measures or alternatives have been identified to reduce the project's significant unavoidable impacts.

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THEREFORE BE IT RESOLVED THAT:

The State Water Board:

1. Authorizes the Deputy Director of the Division of Financial Assistance to execute DWSRF financing agreements with the City at a maximum repayment term of 30 years for the following projects:
 - a. Friant-Kern Canal Pipeline (1010007-029C)
 - b. Kings River Pipeline (1010007-031C)
2. Conditions this approval, as determined by the City's credit reviews, with the following:
 - a. The City shall pledge the net revenues of the Water Enterprise Fund, and the Water Enterprise Fund, for repayment of the proposed DWSRF financing agreement. This pledged revenue fund (source) shall be subject to lien and pledge as security for the Obligation.
 - b. The proposed DWSRF financing agreement shall be subordinate to the Water System Revenue Refunding Bonds 2003A.
 - c. The proposed DWSRF financing agreement shall be on parity with the Water System Revenue Bond A-1, Water System Revenue Bond 2010 A-2, Safe Drinking Water State Revolving Fund SRF06CX150, SRF08SWX101, SRF11CX104, D1502012, and Department of Water Resources E74002.
 - d. The City shall establish rates and charges sufficient to generate net revenues equal to at least 1.25 times the total annual debt service.
 - e. The City shall establish a restricted reserve fund, held in the Water Enterprise Fund, equal to one year's debt service. A reserve of two (2) semiannual payments shall be accumulated during the first ten (10) years of the loan installment payments. The restricted reserve fund shall be maintained for the full term of the Financing Agreement and shall be subject to lien and pledge as security for the Obligation.
3. Conditions this approval, as determined by the City's environmental reviews, with the following:
 - a. The City shall implement the mitigation measures identified in the Mitigation Monitoring and Reporting Plan prepared as part of the IS/MND titled "City of Fresno Raw Water Pipeline Project" (SCH #2011081073) and the Biological Opinion contained within the Formal Consultation on the City's Raw Water Pipeline Project (EA-07-124: SPK-2011-00977) memorandum from the Field Supervisor of the United States Fish and Wildlife (USFW) Office in Sacramento, CA, to David Hyatt with the Bureau of Reclamation, South-Central California Office.
 - b. The City shall implement the mitigation measures identified in the Mitigation Monitoring and Reporting Plan that is in Appendix A of the final EIR, titled Fresno Metropolitan Water Resources Management Plan Update, dated May 2014 (SCH #2013091021) prepared for the project.
 - c. The City shall implement the mitigation measures identified in the "Kings River Pipeline and Southeast Surface Water Treatment Facility Projects Biological Assessment" dated July 2015 and prepared by CH2M Hill.

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- d. The City shall implement the conservation/mitigation measures for the San Joaquin Kit Fox as revised in the July 29, 2015, USFW Service letter on “Informal Consultation for the City of Fresno 80 MGD Southeast Surface Water Treatment Facility and Kings River Pipeline; Safe Drinking Water State Revolving Fund 1010007-028ci.”

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 April 5, 2016.

Jeanine Townsend
Clerk to the Board