

Agenda Report

September 12, 2016

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Water and Power Department

SUBJECT: ADOPTION OF RESOLUTIONS TO COMPLY WITH THE STATE OF CALIFORNIA'S APPLICATION REQUIREMENTS FOR A WATER RECYCLING FUNDING PROGRAM GRANT AND CLEAN WATER STATE REVOLVING FUND LOW-INTEREST LOAN FOR PHASE 1 OF THE NON-POTABLE WATER PROJECT

RECOMMENDATION:

It is recommended that the City Council:

1. Find that Phase I of the Pasadena Non-Potable Water Project, and all funding thereof, was subject to adequate environmental review as part of the Pasadena Non-Potable Water Project Final Environmental Impact Report and corresponding Findings, as certified/adopted by City Council on February 22, 2016, and that there are no changes to the project, changed circumstances, or new information that would trigger further environmental review;
2. Adopt a resolution authorizing and directing the General Manager of the Water and Power Department ("PWP") ("Authorized Representative") or designee to: sign and file on behalf of PWP, a Financial Assistance Application for a financing agreement from the State Water Resources Control Board ("State Water Board") for the planning, design, and construction of the Pasadena Non-Potable Water Project, Phase 1 ("Project"); provide assurances, certifications, and commitments required for both the application and execution of the agreement and any amendments or changes thereto; and, represent PWP in carrying out responsibilities of the agreement, including the certification of disbursement requests on behalf of PWP and compliance with applicable state and federal laws; and
3. Adopt a resolution declaring the City's intention to reimburse itself from the proceeds of one or more tax-exempt financings for certain expenditures made and/or to be made in connection with the Project, prior to the issuance or the approval of the low-interest loan by the State Water Board for the Project; and

4. Adopt a resolution dedicating and pledging net revenues from the Water Fund for payment of any and all Clean Water State Revolving Fund and/or Water Recycling Funding Program financing for the Project, and committing to collect such revenues and maintain the Water Fund throughout the term of such financing.

BACKGROUND:

The six-phase Pasadena Non-Potable Water Project will result in a new water distribution system that will deliver non-potable water from three local water sources to Pasadena and select customers in adjacent locations. Upon completion, the system will supply approximately 10% of Pasadena’s current water needs.

On February 22, 2016, the City Council certified the Environmental Impact Report (“EIR”) for the Project; adopted corresponding environmental findings and a Mitigation Monitoring and Reporting Program; approved the Project as described in the EIR; adopted a resolution to authorize the submission of applications to federal, state, and local agencies for available funding; and directed the City Attorney to draft a mandatory non-potable water use ordinance. The Final EIR evaluated Phase I of the Non-Potable Water Project at the project level, pursuant to the California Environmental Quality Act (“CEQA”).

The estimated cost of Phase 1 of the Project is between \$18 and \$25 million based on the design as submitted with the EIR in February 2016. There may be additional costs for Phase 1 based on the further review of potential re-routing of sections of the pipeline and the ultimate location of the new reservoir at Sheldon Reservoir as requested as part of the EIR approval. As part of the Project funding plan, the City submitted applications to the State Water Board and the U.S. Bureau of Reclamation for the Project funding. Table 1 summarizes the status of each low cost project funding application filed for Phase 1 of the Non-Potable Water Project.

Table 1: Status of Low Cost Project Funding Applications

Agency	Item	Status
State Water Board	Proposition 1 Grant	Notice received of eligibility for up to \$8.2 million in grant funds
State Water Board	State Revolving Fund Loan	Notice received of eligibility for a low interest loan for the balance of the construction costs
U.S. Bureau of Reclamation	Title XVI Water Reclamation and Reuse Grant	Not selected for funds in the 2016 award. (Plan to reapply for 2017)

Federal Grant Status

In June 2016, the United States Bureau of Reclamation notified the City that Pasadena’s funding application was not selected mainly because the Project is not yet ready for construction. Reapplication in FY 2017 was encouraged.

State Grant and Revolving Fund Loan Status

In July 2016, the State Water Board notified the City that the Project has been placed on the eligibility list to receive up to \$8.2 million in Proposition 1 grant funding, and the balance of construction costs in the form of a loan from the State Revolving Fund. However, the award is pending the submission of additional information including the approval of the water rights petition from the City of Los Angeles or City of Glendale for reducing the discharge of recycled water to the Los Angeles River. The water rights petition is expected to be filed by the City of Glendale by the end of September 2016.

The remaining required submittals include three financial compliance related resolutions:

1. *Reimbursement Resolution*: Documents the City's intention to reimburse expenditures paid prior to the issuance of financial loans from the State.
2. *Authorizing Resolution*: Enables the General Manager of PWP or designee authority to sign and file a Financial Assistance Application with the State Water Board for a financing agreement and provide assurances, certifications, and commitments required for the financial application, including executing a financial assistance agreement with the State Water Board, and to represent PWP in carrying out the responsibilities of the financing agreement including certification and disbursement requests.
3. *Pledged Revenue and Fund Resolutions*: Documents the City's dedication and pledge of Net Revenues to pay for all State financings of the Project. The City's pledge shall constitute a lien of the State Water Board on the Water Fund and revenues without any further action necessary.

In addition to the three aforementioned resolutions, PWP's General Manager is expected to acknowledge that PWP has the water rate structure and rate mechanisms in place to cover the financing costs (principal and interest on loans) of Phase 1 of the Project. In addition, prior to obtaining final approval for grants and low-interest loans, a Department of Water Resources ("DWR") approval letter for the 2015 Urban Water Management Plan ("UWMP") is required. The State Water Board is expected to work with the DWR to expedite this requirement. Upon submission of the three resolutions and UWMP approval letter, the grant funding requirements will be met.

The recommended actions are required to maintain PWP's applications for the state grant and loan opportunities in the queue for consideration, but do not guarantee that the Project will ultimately be selected by the state for funding. Should the Project be selected, City Council approval will be necessary prior to executing any grant or loan funding agreements with the state.

Additional Requirements for State Revolving Fund Loan

Two additional consultations with outside agencies will be required to obtain a loan from the State Revolving Fund. The first, a consultation with the Department of Fish and Wildlife regarding Gnatcatchers, has been completed. Staff provided the State Water

Board an updated biological report and the required filing will be completed by the end of November 2016. The second is consultation between the State Historic Preservation Office and the State Water Board. As part of this consultation, the State Water Board requested that the City update the cultural assessment included in the EIR and complete an archaeological excavation of test pits at the Sheldon Reservoir site to confirm the absence of artifacts under the proposed Sheldon Non-Potable Water Reservoir. The archaeological excavations must be carried out in the presence of a monitor designated by the Native American Tribe. If no artifacts are found, PWP expects to submit the report to the State Water Board by the end of September.

COUNCIL POLICY CONSIDERATION:

The recommended actions are consistent with the City Council's Strategic Planning Goals to maintain fiscal responsibility and stability; improve, maintain, and enhance public facilities and infrastructure; to increase conservation and sustainability; and, to support and promote the quality of life and the local economy. Funding and implementing the Project is consistent with the 2011 Water Integrated Resource Plan, the 2015 Urban Water Management Plan, and the 2002 Water Master Plan.

ENVIRONMENTAL ANALYSIS:

On February 22, 2016, the City Council certified the EIR for the Pasadena Non-Potable Water Project; adopted corresponding environmental findings and a Mitigation Monitoring and Reporting Program; approved the project as described in the EIR; adopted a resolution to authorize submittal of applications to federal, state, and local agencies for available funding; and directed the City Attorney to draft a mandatory non-potable water use ordinance. The Final EIR evaluated Phase I of the Non-Potable Water Project at the project level, pursuant to the CEQA. The actions proposed herein, implementing the City Council's direction to seek available funding for the Project, are subsequent discretionary steps required to implement Phase I of the Project studied in the EIR.

Once an EIR has been certified for a project, a lead agency may not require further environmental review absent the presence of triggering conditions as set forth in State CEQA Guidelines Sections 15162-15164, which generally consist of substantial changes in the project, substantially changed circumstances, or certain new information of substantial importance. There are no changes to the project, changes in circumstances, or new information that would require further environmental review as a result of the proposed funding mechanisms. Therefore, pursuant to CEQA Guidelines Section 15162-15164 no subsequent or supplemental environmental review is required.

FISCAL IMPACT:

While there is no immediate cost of continuing the process of submitting the required documents to the State, taking the requested action will keep PWP under consideration for up to \$8.2 million grant and a low-interest loan (1.9% interest rate) of approximately \$16.8 million. The grant and loan will reduce annual financing costs by approximately \$470,000 and \$225,000 per year, respectively, when compared to the approximate financing cost (4.0% interest rate) of Water Revenue Bonds.


Depending on the new non-potable rate design the reduced financing costs may result in savings in the range of \$100,000-\$200,000 per year for the large Phase 1 customers.

Respectfully submitted,



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Pasadena Water and Power

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Approved by:



STEVE MERMELL
City Manager

Attachments: (3)

Attachment A – Authorizing Resolution
Attachment B – Reimbursement Resolution
Attachment C – Pledged Revenues and Fund(s) Resolution