



# Agenda Report

July 24, 2017

**TO:** Honorable Mayor and City Council

**FROM:** Pasadena Water and Power

**SUBJECT: AUTHORIZE THE GENERAL MANAGER OF THE WATER AND POWER DEPARTMENT TO ENTER INTO A FUNDING AGREEMENT WITH THE UNITED STATES DEPARTMENT OF THE INTERIOR, BUREAU OF RECLAMATION FOR THE PASADENA NON-POTABLE WATER PROJECT, PHASE I**

## **RECOMMENDATION:**

It is recommended that the City Council:

1. Find that the federal funding from the United States Department of the Interior, Bureau of Reclamation ("USBR") for the Pasadena Non-Potable Water Project, Phase I was subject to adequate environmental review in the Environmental Impact Report certified by City Council on February 22, 2016, and there are no changes to the project, changed circumstances or new information, proposed with this action which would trigger additional environmental review.
2. Authorize the General Manager of the Water and Power Department ("PWP") to sign on behalf of the City of Pasadena the funding agreement with the USBR for the Pasadena Non-Potable Water Project, Phase I; conduct all negotiations with the federal agency; and execute all documents including other agreements, amendments, payment requests, and others, as may be necessary to implement the funding agreement, including potential future increases to the maximum grant amount awarded for Phase I.

## **BACKGROUND:**

For over 25 years, PWP has been evaluating and pursuing the use of reclaimed or recycled water as a reliable source of supply for its customers' non-potable water demands. After several concept iterations and extensive public stakeholder input, PWP proposed the Pasadena Non-Potable Water Project ("Project") to deliver tertiary-treated recycled water produced at the Los Angeles-Glendale Water Reclamation Plant ("LAG") to Pasadena, supplemented by non-potable water from the Devil's Gate and Richardson tunnels and stream water from the Arroyo Seco. The proposed Project contemplates implementation in six phases over a period of 20 years. Currently, planning is complete,

the Environmental Impact Report (“EIR”) has been certified, and detailed design and permitting are in progress.

### ***Federal Grant Funding***

As part of the action taken to certify the Project’s EIR in February 2016, the City Council approved resolutions authorizing the General Manager to apply for state and federal grant and loan funding. PWP has applied for both state and federal funding, and was recently notified by the United States Bureau of Reclamation (“USBR”) that Phase I of the Project is eligible for \$2 million in federal funds pending execution of the proposed funding agreement.

The recommended grant will reimburse the City for up to 25% of the eligible project costs for planning, design, environmental, and construction work completed between November 2009 and September 30, 2019, up to a maximum of \$2 million. Procurement and contracting activities must comply with both federal and City requirements to be eligible for reimbursement. A small portion of the grant will be reserved for USBR staff time to oversee the implementation of the project.

Per USBR, the funding agreement must be finalized by the end of the federal fiscal year, September 30, 2017. After the agreement is finalized, the City can seek reimbursement of approximately \$350,000 for the eligible planning, design, and environmental costs already incurred. Invoices will be submitted electronically with the Automated Standard Application for Payments system and reimbursements will be received within a week. Construction costs are reimbursed only after USBR approves PWP’s financial capability to pay its portion of the project costs and its plan to fund the project.

The Project may be eligible for additional funding from the USBR Title XVI Program, up to 25% of the total project cost, as it progresses in the future. Starting December 2017, PWP will submit funding applications annually until USBR reimburses the entire 25% of the total project costs. If additional funds are awarded in the future for Phase I of the Project, the recommended action will authorize the General Manager to sign necessary amendments to the funding agreement with USBR.

### ***State Grant Status***

In 2015 PWP applied for a Proposition 1-related grant from the State Water Resources Control Board (“SWRCB”) to fund 35% of the project cost, and a low-interest loan from the Clean Water State Revolving Fund (“SRF”) program to fund the remaining cost of the project. The SWRCB application is currently under review. On February 28, 2017, SWRCB’s Division of Financial Assistance (“DFA”) notified PWP that based on the current application status it is very unlikely that the project will receive the Prop 1 grant.

On April 27, 2017, DFA confirmed that the Prop 1 grant is fully allocated to other projects, but the low-interest loan was still available. However, DFA will not approve any funding for the project until the Wastewater Change Petition filed by the City of Glendale

is approved. Granting the petition will enable Glendale to deliver recycled water to PWP for the project, but it is currently being challenged by other parties.

### ***Project Cost and Risk***

The estimated cost for the first phase of the Project ("Phase I") as currently defined with a yield of 700 acre feet per year ("AFY") is \$20 million. With the USBR funding secured thus far and a subsidy from the Metropolitan Water District ("MWD") Local Resources Program, the average cost of water for the Phase I project is expected to be \$2,000 per acre-foot ("AF"). The current MWD Tier 1 rate is \$979/AF. PWP anticipates it may secure additional federal and state grants and low interest loans in the future that will reduce the average Phase I cost of water to about \$1,500/AF, or possibly lower.

There is limited incremental risk, if any, associated with the recommended action. Execution of the funding agreement with USBR will secure federal funding for the project and enable PWP to recover costs already incurred. If the project construction does not proceed and the USBR funding agreement is subsequently terminated, Pasadena will not be required to return any eligible expenses reimbursed under the recommended grant. However, failure to complete the project may potentially have negative consequences for the evaluation of future federal grant applications for other City projects.

Staff recommends execution of the funding agreement with USBR in order to secure the \$2 million awarded for the Project. Communications with USBR support this course of action, even with knowledge of the current challenges with the petition approval.

### **COUNCIL POLICY CONSIDERATION:**

The proposed grant funding agreement is consistent with the City Council's Strategic Planning Goal to maintain fiscal responsibility and stability. The Project is consistent with the General Plan Land Use Element with respect to sustainability and is also consistent with the City's Strategic Planning Goals. The Project is recommended in the Water Integrated Resource Plan and is a major element in PWP's strategy for addressing water supply reliability.

### **ENVIRONMENTAL ANALYSIS:**

On February 22, 2016, the City Council certified the 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 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 EIR evaluated Phase I of the Non-Potable Water Project at the project level, pursuant to CEQA. The actions proposed herein, 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. These conditions 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:**

Execution of the recommended funding agreement with USBR will allow for up to \$2 million federal funds to be obligated for the Project. It enables PWP to recover an estimated \$350,000 costs already incurred. The remaining \$1,650,000 will reimburse future costs if the project proceeds with construction.

The cost of this action will be approximately \$10,000 for coordination efforts by staff. Funding for this action will be addressed by the utilization of existing appropriations in the Water System Capital Improvement Program Budget Number 1013 – Non-Potable Water Project. It is anticipated that 100% of the cost for this action will be spent during fiscal year 2018.

Additional City Council action is required to authorize future construction expenditures. The specific fiscal impact of such action(s) will be addressed when it is brought forward to the City Council.

Respectfully submitted,



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