



Council Agenda Report

From: Matt Thompson, Recycled Water Manager

Subject: Approval of Closing Resolution for Financing of Recycled Water Distribution System

CEQA Determination: The City prepared an Initial Study and Mitigated Negative Declaration (IS/MND) and circulated it for public comment (State Clearinghouse #2018051033). The City certified the IS/MND and filed a Notice of Determination on August 24, 2018. This action is consistent with the previously certified MND.

Date: April 4, 2023

Facts

1. The State's Clean Water Revolving Fund (SRF) loan program provides low interest financing for projects that clean water and expand water recycling in California. SRF has recently been offering grants in combination with low interest loans to incentivize construction of water recycling projects.
2. In 2019, the City completed the first phase of its recycled water program, which is the Tertiary Treatment Facilities at the Wastewater Treatment Plant. These facilities produce high quality recycled water and enable compliance with stringent requirements for discharge to the Salinas River. SRF provided the City a \$4 million grant in combination with a low interest loan for completion of the Tertiary Treatment Facilities.
3. The second phase of the recycled water program is a purple pipe system to deliver the recycled water to east Paso Robles for irrigation and recharge of groundwater. This project is named the Paso Robles Recycled Water Distribution System.
4. The Recycled Water Distribution System is a very large capital project. It includes installation of a large pumping station, over 4.5 miles of large diameter water pipeline across the northern part of the City, and a 900,000-gallon storage tank located at east end of the City, near Barney Schwartz Park. The total project cost is currently estimated at \$35.4 million (in 2024 dollars, the anticipated mid-point of construction).
5. In 2018, the City applied to SRF for financing for construction of the Recycled Water Distribution System. SRF recently completed a lengthy environmental, financial, and legal review. On March 10, 2023, SRF delivered a financing agreement for the City's signature and execution. The financing agreement includes a \$9,730,000 grant in combination with the low-interest (2.6%) loan. The grant is made possible by President Biden's Bipartisan Infrastructure Law. A copy of the financing agreement is included as Attachment 1.
6. In order to finalize the financing agreement, SRF requires City Council to approve a Closing Resolution and submit it by April 10, 2023. The resolution is essential to formally receive the financing agreement and reauthorize the Mayor, City Manager, and Utilities Director to sign and execute the financing agreement for the City. The Closing Resolution is included as Attachment 2.
7. In addition to this financing agreement, in 2022 the City received a \$3.5 million grant from the State's Department of Water Resources for completion of a portion of the Recycled Water Distribution System under the Salinas River. The Salinas River Segment will soon be under construction. The City has applied for an additional \$5.7 million in grant funding from DWR.

Options

1. Take no action;
2. Approve the attached Closing Resolution; or
3. Provide alternative direction to staff.

Analysis and Conclusions

This large grant and low interest loan from SRF will greatly improve the economics of the recycled water program by reducing the per unit cost of recycled water. It would be prudent to adopt the Closing Resolution and secure this excellent financing. If the City secures the financing, it can move ahead with preparing the project plans and specifications for bidding and construction and acquisition of necessary easements. City staff aims to have the project ready for bidding and start of construction by the end of 2023.

Fiscal Impact

The financial plan for the Recycled Water Distribution System is to utilize the City's Sewer Fund as security for this construction loan. The City intends to sell the recycled water to those who use it for irrigation. Revenues from recycled water sales will be used to pay the annual debt payments and expenses of operating and maintaining the recycled water system. City staff will work closely with many irrigators in the first three to five years after completion of the system to ensure recycled water use is maximized and revenues grow year after year. The long-term goal is for the recycled water program to become financially self-sufficient (i.e., not dependent on the Sewer Fund).

The financing offered by SRF includes a \$9,730,000 grant in combination with a 2.6% annual interest loan with a 30-year payback period. With the project costs described above, this will result in an annual debt payment (principal and interest) of \$1,071,134 per year. The first debt payment will not be due until 2027, which is one year after completion of construction. Financial projections for the next seven years indicate the Sewer Fund can take on this additional debt without affecting the Sewer Fund's ability to pay its other debts or other critical expenses. Again, recycled water revenues will be used to pay this expense and should be sufficient to cover the entire debt payment and operation and maintenance expenses within approximately five years.

Completion of the recycled water system will further diversify the City's portfolio of water supplies and provide a new source of irrigation water for winegrowers. This will help sustain economic growth in the greater Paso Robles area.

CEQA

The City has fulfilled the requirements of the California Environmental Quality Act for the Recycled Water Distribution System project. The City prepared an Initial Study and Mitigated Negative Declaration (IS/MND) and circulated it for public comment (State Clearinghouse #2018051033). The City certified the IS/MND and filed a Notice of Determination on August 24, 2018.

Recommendation (Option 2)

Approve Resolution 23-XXX, authorizing the execution and delivery of and approving a financing agreement with the California State Water Resources Control Board.

Attachments

1. Financing Agreement
2. Resolution 23-XXX - Closing Resolution