



MEMORANDUM

TO: City Council

FROM: Nicole Valentine, Administrative Services Director

SUBJECT: Authorization to Submit Water Infrastructure Finance and Innovation Act (WIFIA) Application for Central Coast Blue Project and Incur Related Loan Application and Issuance Costs

DATE: August 8, 2023

SUMMARY OF ACTION:

Submit an application to the Environmental Protection Agency (EPA) for a Water Infrastructure Finance and Innovation Act (WIFIA) loan to fund the City's share of Central Coast Blue (CCB) project costs and incur related costs related to the application and appropriate \$55,000 from the Water Enterprise Fund Balance.

IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:

The initial \$25,000 WIFIA application fee and \$30,000 S&P RES fee will be paid for from the Water Enterprise Fund Balance. The additional estimated costs of \$125,000 for the EPA legal team to review and prepare the WIFIA Loan will be paid for from the first draw of the Loan; however, if the Loan does not close, the Water Enterprise Fund Balance will need to pay this amount. Additional WIFIA Loan costs are contingent upon the closing and will be paid for from the Loan.

RECOMMENDATION:

Authorize the Interim City Manager to submit an application to the Environmental Protection Agency (EPA) for a Water Infrastructure Finance and Innovation Act (WIFIA) loan to fund the City's share of Central Coast Blue (CCB) project costs and incur related costs related to the application and appropriate \$55,000 from the Water Enterprise Fund Balance.

BACKGROUND:

The City of Pismo Beach has been the lead agency for the CCB Project. The Project has been a multi-agency effort between three of the four Northern Cities Management Area agencies (the Cities of Arroyo Grande, Grover Beach, and Pismo Beach) and the South San Luis Obispo County Sanitation District¹ to construct a regional recycled water project that will enhance supply reliability by injecting advanced purified water into the Santa Maria Groundwater Basin. The Project will reduce vulnerability to drought and seawater

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intrusion by creating a seawater intrusion barrier and supplementing the naturally occurring groundwater¹.

At its [January 25, 2022](#) meeting, the City Council authorized entering into a Cost Sharing Agreement with the cities of Grover Beach and Pismo Beach for the Project, as well as a Resolution that authorized the City Manager to apply for financial assistance from Clean Water State Revolving Fund administered by the State Water Resources Control Board for the City's share of anticipated construction costs for the Project. The Cost Sharing Agreement also contained provisions related to the contemplated creation of a Joint Powers Authority, which is a separate legal public entity, pursuant to Government Code section 6500 et seq., that will own and operate the Project and have the power to issue debt and enter into loans or financing agreements to finance the construction costs for Phase 1 of the Project. As set forth in the Cost Sharing Agreement, the Joint Powers Agreement contains provisions addressing acquisition of the facility site from Pismo Beach by the Authority, ownership of the facility, and financing of construction costs, including repayment obligations of the parties consistent with the Water Purveyor Contribution percentages identified in the Cost Sharing Agreement.

On [September 14, 2022](#), the first joint City Council meeting called for in the Cost Sharing Agreement was held with the City Councils of the cities of Arroyo Grande, Grover Beach, and Pismo Beach. At that meeting, the City Councils and the public received an update from the Project's design and engineering consultant, Water Systems Consulting (WSC), regarding the Project components and purpose, preliminary design of the Advanced Treatment Facility, updated cost estimates, grant funding opportunities and awards, and permitting requirements.

At its [September 27, 2022](#) meeting, the City Council Approved the CCB JPA Agreement that created the CCB Regional Recycled Water Authority (CCBRRWA) and appointed Mayor Ray-Russom to be the representative of the Authority Board of Directors.

On [June 5, 2023](#), the second joint City Council meeting was held with the City Councils of the cities of Arroyo Grande, Grover Beach, and Pismo Beach. At that meeting, the City Councils and the public received an update from Geoff English, the CCBRRWA General Manager and the Project's design and engineering consultant, WSC, regarding a Status Report and Project Update. Additionally, a Report was presented on alternatives and considerations to advance local hiring for construction of the CCB Project.

The City is a member of the Central Coast Blue Regional Recycled Water Authority which is a Joint Powers Authority (JPA) tasked with building and operating the Central Coast

¹ Although it has contributed to the overall Project effort, the South San Luis Obispo County Sanitation District is not a party to the Joint Powers Authority for the CCB Project during Phase I and will not be involved in the construction or initial operation of the Project.

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Blue (CCB) recycled water facility. The total construction costs are currently estimated at \$93 million of which \$39 million would be paid by grants, leaving \$54 million to be financed by Grover Beach, Pismo Beach, and Arroyo Grande. Arroyo Grande's share of CCB is 25% and, therefore, after adding Arroyo Grande preconstruction payments of \$2 million, the City would need to finance up to \$14.3 million for the remaining portion of preconstruction and construction costs. The consultant WSC, on behalf of CCB, submitted the loan application to the State Revolving Fund (SRF) in December of 2021. In August 2022, CCB heard from the State that funds were not allocated to the CCB project. It was therefore decided by the JPA to seek financing from the EPA through the WIFIA Loan Program. A Letter of Interest was submitted to the EPA for the WIFIA Loan and after EPA approval, the JPA was invited to submit a full application for funding of CCB.

ANALYSIS OF ISSUES:

The WIFIA Loan is similar to the SRF program in that draws are made to fund construction of an eligible project until the project is completed. Once the project is completed, the drawn amounts are aggregated into a loan amount and amortization begins on the loan. This is a more cost-effective form of financing than a traditional tax-exempt bond issue where a project amount is funded and then interest on the principal balance begins at closing. The WIFIA Loan rate is the published State and Local Government Securities ("SLGs") rate, published daily by the US Treasury, plus 1 basis point (.01), based upon the average life of the Loan. The WIFIA Loan is a 30-year Loan that starts amortizing once the Project is completed, and, therefore, the average life of the Loan is estimated to be 20 years. As of July 30th, the current SLGs rate for 20 years is 4.20% and, therefore, the WIFIA Loan rate would be 4.21%, which is subject to change.

The JPA agencies are seeking separate financing arrangements for each agency's estimated project costs given the unique financing needs across communities. Arroyo Grande and Pismo Beach are applying together using their common financial advisor whereas Grover Beach is applying separately as it has a prior Series 2020 Water Bond that must be taken into account when issuing the WIFIA Loan along with a defined financing team with extensive WIFIA loan experience. Arroyo Grande would be applying as a "Small Community" because the City's population is less than 25,000, with an application fee of \$25,000. Once the EPA begins working on the Loan and engaging their outside legal counsel, they estimate that the total costs for the EPA portion of issuance costs would be approximately \$150,000 which includes the initial fee of \$25,000. These costs, once incurred by the EPA, are payable from the initial draw upon closing but are not contingent upon the Loan closing and will be due and payable should the City decide not to proceed with the Loan for whatever reason.

These costs will be provided once the EPA approves the Loan and when Council will be requested to approve the loan documents.

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An additional upfront fee is the Standard & Poor's cost for their Rating Evaluation Service ("RES"). The WIFIA application requires a rating evaluation that the Loan would be investment grade (BBB- or higher). The fee for the RES is \$30,000 and is applied toward the S&P Rating Fee of \$35,000, which is the total fee for the full S & P rating once there is a Loan Agreement and Term Sheet that is reviewed.

Staff have been preparing the WIFIA Loan application with the City's consultants and are seeking Council approval to submit the application with the fee of \$25,000, along with the separate fee for the S & P Rating Evaluation Services of \$30,000. The requested \$55,000 was not included in the FY 2023-24 budget and is being requested as a budget appropriation from the Water Enterprise Fund Balance. This is just the initial step in the planned loan process in order to proceed in a timely manner, enabling the City and the other JPA member agencies to begin funding construction costs in early 2024. Council will ultimately have the authority to consider a WIFIA Loan Agreement provided by the EPA's legal firm at the end of 2023.

ALTERNATIVES:

The following alternatives are provided for the Council's consideration:

1. Authorize the Interim City Manager to submit an application to the Environmental Protection Agency (EPA) for a Water Infrastructure Finance and Innovation Act (WIFIA) loan to fund the City's share of Central Coast Blue (CCB) project costs and incur related costs related to the application in the amount of \$55,000, and appropriate that amount from the Water Enterprise Fund Balance; or
2. Provide other direction to staff.

ADVANTAGES:

The City Council has already approved the City's participation in the Project and the City has executed the Cost Sharing Agreement and Joint Powers Authority to own and operate the Project. The Project is important for the ongoing resiliency of groundwater resources relied upon by the City, as well as all residents, businesses, agricultural operations, and visitors to the Five Cities area.

DISADVANTAGES:

Since the City has already approved participation in the Project and entered into the Cost Sharing Agreement and the CCB JPA Agreement, submitting a WIFIA Application does not have any disadvantages at this time.

ENVIRONMENTAL REVIEW:

The City of Pismo Beach is the Lead Agency under the California Environmental Quality Act (CEQA) for the Project and previously prepared, circulated, and approved an Environmental Impact Report (EIR), and adopted findings and a Statement of Overriding Considerations on February 16, 2021. The City of Arroyo Grande is a Responsible

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Agency for the Project under CEQA. On March 23, 2021, the City Council adopted findings and a Statement of Overriding Considerations for the Project relying on the EIR in compliance with CEQA. No additional CEQA findings are required at this time associated with the WIFIA loan application and appropriation of funds regarding that application.

PUBLIC NOTIFICATION AND COMMENTS:

The Agenda was posted at City Hall and on the City's website in accordance with Government Code Section 54954.2.