



Santa Clara Valley Water District

File No.: 21-1006

Agenda Date: 11/9/2021

Item No.: *7.1.

BOARD AGENDA MEMORANDUM

SUBJECT:

Receive and Discuss Information on the Pacheco Reservoir Expansion Project and Water Storage Investment Program Award Discussion, and Adopt a Resolution for Water Storage Investment Program Funding Commitment for the Pacheco Reservoir Expansion Project.

RECOMMENDATION:

- A. Receive and discuss information regarding the Pacheco Reservoir Expansion Project;
- B. Water Storage Investment Program Award Discussion; and
- C. Adopt the RESOLUTION for WATER STORAGE INVESTMENT PROGRAM FUNDING COMMITMENT FOR THE PACHECO RESERVOIR EXPANSION PROJECT.

SUMMARY:

The Pacheco Reservoir Expansion Project (PREP) is on track to meet several milestones before the end of 2021. The Planning Study Report summarizing the Project Planning Phase will be completed and submitted as a non-agenda memo. The PREP Team has completed several basis of design studies that are being used to develop the 30% plans, specifications, and construction cost estimate. The Draft Environmental Impact Report (EIR) is set for release for public review and comment in November 2021. The Board of Directors will consider approval of the PREP following completion of the Final EIR.

Additional updates related to the project funding and financing are provided below.

Water Storage Investment Program (WSIP)

On July 24, 2018, the California Water Commission (CWC) awarded Santa Clara Valley Water District (Valley Water) \$484.6 million of Maximum Conditional Eligibility Determination (MCED) funding for PREP under the State's Water Storage Investment Program (WSIP) program. The MCED was increased to \$496.7 million on February 3, 2021 to reflect an inflation adjustment of approximately 1%. Valley Water executed an Early Funding Agreement with CWC on December 10, 2018 for \$24.2 million to fund a portion of certain eligible project costs, including costs related to permitting oversight and coordination, environmental documentation and permit support, data review and problem definition, alternatives analysis, staff-recommended alternative, planning study report and state feasibility report, environmental documentation and regulatory compliance, geotechnical data collection and investigations and 30% basis of design report.

To remain eligible for the \$496.7 million MCED, Valley Water is statutorily required to meet the following milestones prior to January 1, 2022:

1. All feasibility studies are complete - The State Feasibility Report has been updated with the most current project information for review by CWC Staff.
2. Draft environmental documentation is available for public review - The Draft EIR is targeted for release in November 2021 with a public meeting planned for January 2022 to present a summary of the Draft EIR content and the California Environmental Quality Act (CEQA) process.
3. The Director of the Department of Water Resources (DWR) receives commitments for not less than 75 percent of the non-public benefit cost share of the project - Board adoption of the RESOLUTION for WATER STORAGE INVESTMENT PROGRAM FUNDING COMMITMENT FOR THE PACHECO RESERVOIR EXPANSION PROJECT will fulfill this milestone. The sources of the funding may be from eligible Valley Water funding as well as any partnership contributions as applicable.

Staff presented a project update and timeline for the milestones above to the CWC at a regular meeting on August 18, 2021. There were no issues concerning the PREP raised at the meeting. The CWC will make a determination on whether the PREP is feasible and eligible for the MCED at their December 15, 2021 meeting prior to the January 1, 2022 deadline.

Water Infrastructure Finance and Innovation Act (WIFIA)

The WIFIA loan program is a low-cost federal loan program that is subject to annual Congressional budget appropriations. The 2021 appropriation is expected to allow the Environment Protection Agency (EPA) to lend up to \$6.5 billion. On August 16, 2021, the EPA announced that it has received 50 LOIs totaling \$8.2 billion in loan requests, well above the \$6.5 billion loan capacity for Fiscal Year (FY) 2021. Staff anticipates the WIFIA loan will save Valley Water \$1 million in debt service cost for every \$100 million in loan principal. Should Valley Water be successful in obtaining the full \$1.2 billion WIFIA loan for the PREP, the potential cost saving is approximately \$12 million per year, up to \$420 million in total debt service savings over a 35-year loan repayment period.

In April 2021, the EPA accepted Valley Water's Letter of Interest (LOI) submitted in October 2020 for \$660 million for the PREP, which was approximately 49% of the then estimated project cost of \$1.3 billion based on the FY 2021 Capital Improvement Plan (CIP). In the FY 2022 CIP, the PREP project cost estimate was increased to \$2.5 billion primarily due to updates to the dam and spillway design. Staff met with the EPA in the spring of 2021 to discuss this cost increase and the impact on the WIFIA loan sizing. The EPA provided guidance for Valley Water to submit a second LOI in 2021 to secure an additional \$575 million in WIFIA loan to ensure Valley Water will receive the full \$1.2 billion WIFIA loan to fund 49% of the current project cost. The 2021 LOI was submitted to the EPA in July 2021 and an announcement from the EPA on project selection is expected in October/November 2021. Staff anticipates the full loan application will be submitted by April 2022 with loan closing for the full

\$1.2 billion loan amount by Dec 2022. Staff anticipates that the draft loan agreement will be presented for Board approval in the fall of 2022, prior to final loan closing.

Partnerships for Project Funding

The PREP Team has enlisted two separate consultants to assist with developing partnership leads, partnership opportunities, negotiations, and further analysis. Staff anticipates receiving letters of interest from multiple potential partners before the end of the year. The PREP Team continues modeling of different operations to provide storage and exchange benefits to potential partners. With the help of the outside consultants that specialize in water partnerships working with Staff, efforts are accelerating toward the partnership goals.

Water Rate Impacts

The PREP Team presented long term water rate impacts to the Board on April 14, 2021. The Board adopted FY 2022 water rates assumed Valley Water will receive the full \$1.2B WIFIA loan to fund 49% of the current project cost. In addition, the FY 2022 water rates assumed Valley Water will secure public agency partnership participation at 35% of total project costs. Depending on the final WIFIA loan amount, interest rate, and partnership participation level, the PREP impact on the water rates could vary materially. Attachment 2 includes a sliding scale graph identifying the potential impacts to North County Zone W-2 Municipal and Industrial (M&I) groundwater charges in terms of annual percentage increase at various levels of partnership participation.

FINANCIAL IMPACT:

The financial impact of this item is reflected in the FY 2022-26 CIP for PREP (project number 91954002) with current year costs included in the Board adopted FY 2022 Budget.

CEQA:

The recommended action is not an approval of the project and does not constitute a project under CEQA because it does not have the potential for resulting in direct or reasonably foreseeable indirect physical change in the environment.

ATTACHMENTS:

Attachment 1: Resolution

Attachment 2: Rate Impact

*Handout 7.1-A: Email, J. Michael

*Handout 7.1-B: Email, Sierra Club

*Handout 7.1-C: Email, K. Carpenter

UNCLASSIFIED MANAGER:

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