



MEMORANDUM

TO: Wade Miller, Executive Director

FROM: Dave Smith, Managing Director

COPIES: Mike Markus, President, WaterReuse California Board of Trustees
Paul Klein, California Section Member of Association Board

DATE: March 17, 2014

SUBJECT: WaterReuse California Status Report

Some of WaterReuse California's activities to promote water recycling and desalination are summarized for the WaterReuse Association Board of Directors below. This memorandum describes new issues and provides an update on previously described issues. Please invite anyone wanting additional information to contact me at 916 669-8401 or dsmith@watereuse.org.

NEW ISSUES

Drought Relief

In anticipation of the Governor's declaration of drought emergency, which occurred in January, WaterReuse California identified and described measures that the State could take to facilitate additional water recycling in the short term as follows:

- Refine State Revolving Fund (SRF) Loan Parameters – We identified 220,000 acre-feet of recycling that could be added in the next one to three years at a cost of about \$1 billion. To facilitate this, the State has agreed to make the following SRF loan changes;
 - Reduced interest rate – the rate has historically been 2 to 3 percent, and it will be reduced to 0.5 percent until \$400 million has been loaned, then raised to 1 percent until another \$200 million has been loaned.
 - Loan Subordination. SRF loans have historically been required to have senior status to the borrower's other debt. This has discouraged use of the SRF Program because senior status requires higher reserves to be set aside for debt service by the borrower and may be incompatible with the borrower's other debt commitments. We asked for consideration of the overall credit-worthiness of a given borrower rather than a strict standard that new SRF Program loans be senior to other agency debt. Staff agreed to this request. This change does not require SWRCB approval but we asked that SWRCB be informed on March 18.

- Flexible Re-payment Schedules. Annual debt service payment amount on SRF Program loans typically equal over the repayment period. Many agencies have other debt that results in an uneven aggregated annual payment. We asked for SRF Program loan payment flexibility so borrowers can shape aggregated annual debt service consistent with projected cash flow. Staff agreed to this request. This change does not require SWRCB approval but we asked that SWRCB be informed on March 18.
- Loan Period. SRF Program loans periods have historically been 20 years, and, more recently, 30 years. Neither federal nor State regulation constrain this loan parameter. However, US EPA staff preference has limited the period of SRF Program loans. SWRCB staff stated their willingness to consider 40-year loans on projects with a commensurate useful life.
- Re-funding of Existing 20-year CWSRF Loans or Bridge-Loans with 30-year CWSRF Loans. The recent change to offer SRF Program loans with 30-year versus 20-year payment terms, is favorable for agencies taking on new SRF Program debt. It aligns with bonded debt loan terms, and helps smooth cash flows over a longer period, which is beneficial to ratepayers and often better matches the useful life of an asset to the repayment period. Many agencies have current 20-year SRF Program loans that would benefit from being refunded with the longer term loans. SWRCB staff have not yet provided a clear response as to their willingness to consider such re-funding.
- Revise the State-wide general landscape irrigation water recycling permit – WaterReuse is collaborating with State regulatory officials to rapidly develop a draft permit for adoption that would supersede the wildly unpopular and widely vilified existing permit. The current draft permit would address all our concerns and would strongly encourage all allowed non-potable uses. Adoption in about May is expected.
- Engineering SWAT Teams – the water supply in some disadvantaged California communities is forecast to be exhausted within several months. These communities do not have the resources to address the matter. WaterReuse California is coordinating with the Governor’s staff and representatives of, Black and Veatch, Carollo, HDR, Hydrosience, Kimley Horn, GHD, and RMC Water and Environment to match teams of engineers to particular disadvantaged communities to rapidly conduct a gratis assessment of recycling (and other water supply) opportunities, assist the community obtain emergency funding available, then, once the funding is provided, provide design and construction-related services to get projects on-line in 2014 or 2015.
- Expedite changes to non-potable water recycling regulations to eliminate recycling barriers.

- Evaluate use of tertiary water for livestock watering. Tertiary recycled water is used for livestock watering in California but is not explicitly allowed. Livestock owners throughout California have contact local recyclers seeking recycled for stock watering, and recyclers have, in turn, contact WaterReuse California for guidance. Concurrently, legislators held a hearing to determine if legislation is needed. Organic dairy operators expressed concern about product purity perception by consumers. Animal health experts, the State Veterinarian, testified that they had little basis for concern, except possibly for use by lactating animals. This testimony was based in part on the results of a white paper prepared by an ad hoc group of animal health experts convened in a series of web-based meetings recently by Professor Dwight Bowman of Cornell University in response to WaterReuse California inquiries to prepare for the hearing. Legislators are considering the input while many recyclers continue to make their water available for stock watering.

UPDATE ON PREVIOUS ISSUES

Reassignment of Recycled Water Regulatory Responsibilities Between California Agencies

Recycled water and drinking water are regulated in California by the Division of Drinking Water and Environmental Management (DDWEM) in the California Department of Public Health (DPH). AB 145 would reassign DDWEM responsibilities to the State Water Resources Control Board (SWRCB), which also regulates recycled water, water rights, and issues NPDES permits in California. The reassignment appears to be a response to the Legislature's perception that DDWEM lacks sufficient capacity to fulfill its drinking water regulatory responsibilities. WaterReuse California adopted an oppose-unless-amended position on AB 145. We sought amendments that will assure resources are available to update and maintain water recycling regulations to reflect current science and technology, regulate recycled water as a water resource instead of a waste, assure public health protection focus at an agency (SWRCB) that must address unprecedented major policy issues other than drinking water. AB 145 died in the California Senate, but the Governor has indicated his intent to consolidate drinking water regulation at SWRCB. The Governor convened a task force of key stakeholders, which met biweekly, to develop recommendations for an effective transfer. The Governor's Transition Plan was issued on March 14 and WaterReuse California's recommendations were adopted, including transfer of responsibility for permitting of potable reuse projects from Regional Water Boards (some of which are unfriendly to recycling) to the SWRCB (which promises to be responsive to the Governor's direction on moving potable reuse forward quickly).

Implementation of SB 918

Direct Potable Reuse

SB 918, enacted in 2010, was sponsored by WaterReuse California and requires the California Department of Public Health (DPH) to create a panel of experts to assist it complete its direct potable reuse (DPR) feasibility evaluation by December 2016. The DPR Initiative (a partnership of WaterReuse California and the WaterReuse Research Foundation) is focused on providing DPH with research results on which it will base its feasibility evaluation and regulations. A key early task of the panel is to evaluate the DPR Initiative research plan and identify any additional research needs. Formation of the expert panel has been delayed by lack of DPH resources (see *Reassignment of Recycled Water Regulatory Responsibilities Between California Agencies* section above). Representatives of WaterReuse California have succeeded in identifying a source of funding and securing the approvals necessary for NWRI to start the panel process on behalf of DPH. NWRI and DPH identified and contacted prospective panelists. The panel is met on March 5 and is expected to provide in initial report for consideration by the Foundation at its March 26 meeting.

Draft Groundwater Recharge Regulations

DPH has proposed a regulation governing recharge of recycled water to groundwater for potable reuse. Draft regulations have been in development for more than 28 years, evolving to reflect advances in science and technology. DPH has revised the last two drafts (November 2011 and March 2013) to be highly responsive to WaterReuse California comments solicited through an informal public review process. Emergency drought legislation (SB 104) requires adoption of the regulations by June 30, 2014, under emergency rule that effectively eliminates public input. WaterReuse is meeting with Administration officials to explain our remaining concerns so they can be considered as a basis for adoption.

California Water Bond

The Safe, Clean and Reliable Drinking Water Supply Act (Water Bond) is an \$11.14 billion general obligation bond measure approved by the legislature for voter consideration in the November 2010 election. The Water Bond includes \$1.25 billion for water recycling. The Legislature and Governor have twice enacted legislation to defer the matter because of concern that the voters would not approve the Water Bond.

The Legislature and Governor are working to develop a revised Water Bond, but political considerations (such as the gubernatorial election) indicate that the matter may not be on 2014 ballot (2016 was currently considered more likely until the drought hit California). WaterReuse California is fully engaged to preserve as much funding for recycling projects as possible to be disbursed on a competitive basis (i.e. no earmarks). Although many

competing bills are being considered by the Legislature, WateReuse's concerns with each bill are being addressed since authors seem to want our support in this drought environment.

Update WateReuse California Strategic and Business Plan

The current five-year plan was adopted in 2009 and was updated at a Board workshop on December 6, 2013. The plan identifies issues and solutions including long-term legislative, regulatory, member service, and membership/revenue goals. The plan is available at <https://www.watereuse.org/sections/california/strategic-business-plan>

Conferences

The **WateReuse California 2014 Annual Conference** was held at the Newport Beach Marriott Hotel on **March 16 – 18**. More than 380 people attended the conference, and WateReuse California garnered more than \$123,000 in sponsorships and exhibitor fees, a record for the fourth year in a row.