



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: DECEMBER 9, 2025

FROM: PUBLIC UTILITIES DEPARTMENT WARDS: ALL

SUBJECT: AUTHORIZATION FOR APPLICATION TO THE STATE WATER RESOURCES CONTROL BOARD FOR DRINKING WATER STATE REVOLVING FUND LOAN AND EMERGING CONTAMINANTS GRANT OR PRINCIPAL FORGIVENESS PROGRAM FUNDING FOR RIVERSIDE PUBLIC UTILITIES DEPARTMENT'S PALMYRITA PFAS WATER TREATMENT PLANT PROJECT, AND ACCEPTANCE OF GRANT OR PRINCIPAL FORGIVENESS PROGRAM FUNDING OF FIFTY PERCENT OF THE PROJECT COST UP TO \$25 MILLION – SUPPLEMENTAL APPROPRIATION

ISSUE:

Authorize application to the State Water Resources Control Board for Drinking Water State Revolving Fund Loan and Emerging Contaminants Grant or Principal Forgiveness Program funding for the Riverside Public Utilities Department's Palmyrita PFAS Water Treatment Plant Project, and acceptance of the grant or principal forgiveness program funding of fifty percent of the project cost up to \$25 million, to support the construction costs of the Palmyrita PFAS Water Treatment Plant Project.

RECOMMENDATIONS:

That the City Council:

1. Authorize application to the State Water Resources Control Board for Drinking Water State Revolving Fund Loan and Emerging Contaminants Grant or Principal Forgiveness Program funding for the Riverside Public Utilities Department's Palmyrita PFAS Water Treatment Plant Project;
2. Approve the resolution authorizing City Manager, or designee, to file a financial assistance application for the Financial Agreement with the State Water Resources Control Board for the construction of the Riverside Public Utilities Department's Palmyrita PFAS Water Treatment Plant Project;
3. Approve the resolution authorizing the advance of funds for construction of the Riverside Public Utilities Department's Palmyrita PFAS Water Treatment Plant Project subject to later reimbursement of City expenditures by the State Water Resources Control Board;
4. Authorize the City to receive fifty percent of the Riverside Public Utilities Department's Palmyrita PFAS Water Treatment Plant project costs up to \$25 million from the Emerging

Contaminants Grant or Principal Forgiveness Program for the Riverside Public Utilities Department's Palmyrita PFAS Water Treatment Plant upon the grant and/or principal forgiveness award;

5. With five affirmative votes, authorize the Chief Financial Officer, or his designee, to record an increase in revenues and appropriate expenditures in the amount awarded of the Emerging Contaminant Grant or Principal Forgiveness Program award in the Water Fund, DWSRF Emerging Contaminant - Palmyrita PFAS Construction Project revenue and expenditure accounts;
6. Authorize the City Manager, or designee, to sign all necessary documents for the application to the loan and grant and/or principal forgiveness funding program including application materials, contracts, extensions, and other necessary documents related to the application of the loan and application and acceptance of the grant and/or principal forgiveness funding, including making minor and non-substantive changes, corrections, and amendments, as needed; and
7. Recommend staff return to the Board of Public Utilities to provide an update on the State Water Resources Control Board for Drinking Water State Revolving Fund Loan application and application and acceptance of the Emerging Contaminants Grant and/or Principal Forgiveness Program funding.

BOARD RECOMMENDATION:

On December 8, 2025, the Board of Public Utilities will hear this item for consideration to recommend to City Council to Authorize application to the State Water Resources Control Board for Drinking Water State Revolving Fund Loan and Emerging Contaminants Grant or Principal Forgiveness Program funding for the Riverside Public Utilities Department's Palmyrita PFAS Water Treatment Plant Project, authorize the execution of all required documents by the City Manager or designee, and acceptance of the grant or principal forgiveness program funding of fifty percent of the project cost up to \$25 million, to support the construction costs of the Palmyrita PFAS Water Treatment Plant Project.

LEGISLATIVE HISTORY:

California's Drinking Water State Revolving Fund (DWSRF) was created under the Safe Drinking Water Act (SDWA) and is managed by the State Water Resources Control Board. It provides low interest loans, grants, and principal forgiveness programs to help finance infrastructure improvements to mitigate drinking water risks and support human right to water.

To help address PFAS and other emerging contaminants, the state has added new funding sources in recent years. This includes over \$100 million from the state budget since 2021, plus additional support from the Federal Infrastructure Investment and Jobs Act (IIJA), also known as the Bipartisan Infrastructure Law.

The Water Board now offers a dedicated Emerging Contaminants (EC) and PFAS Funding Program, through the DWSRF process to support projects focused on PFAS testing, treatment, and cleanup. Most recently, SB 454, passed in 2025 and taking effect on January 1, 2026, established the PFAS Mitigation Fund, a new funding source dedicated to PFAS-related projects.

Through a single DWSRF application, agencies may apply for both DWSRF low-interest loan and EC grant or principal forgiveness funding. Each water system is eligible for up to \$100 million in DWSRF loans, and up to \$25 million in EC grant or principal forgiveness funding over its lifetime subject to funding availability.

BACKGROUND:

Per- and Polyfluoroalkyl Substances (PFAS), a collective term for a large group of synthetic organic chemicals, are comprised of more than 12,000 substances of emerging contaminants of concern. They are human-made chemical compounds designed to repel oil and water. They have a wide range of applications, from use in firefighting foam to consumer products designed to be waterproof, stain-resistant, and nonstick. Due to their persistence in the environment, PFAS are known as “forever chemicals”. They bioaccumulate in living organisms, which have the potential to cause adverse human and ecological health effects. Some known health effects include thyroid disease, liver damage, hormone disruption, reproductive and developmental complications, and kidney and testicular cancer. On October 29, 2025, the State Water Resources Control Board reduced notification levels for PFAS compounds to the EPA maximum contaminant levels that go into effect in 2031. Over 60% of Riverside’s wells contain PFAS above the State notification levels and federal maximum contaminant levels.

To proactively meet these upcoming regulatory requirements, RPU plans to construct three water treatment plants. The first design and construction management services agreement was approved by the Board on April 28, 2025, and Council on May 20, 2025, for the Palmyrita PFAS WTP and is in the design phase. This first plant will be constructed on property already owned by RPU which decreases costs associated with the new facility. The new Palmyrita PFAS WTP will treat water from eight impacted groundwater wells with a new supply pipeline, twenty-two ion exchange vessels, and onsite improvements for plant efficiency.

RPU has received the 60% design submittal from Tetra Tech for the Palmyrita PFAS WTP and submitted it to the State Water Resources Control Board – Division of Drinking Water for their review and comments. By working proactively with the regulatory agency, we create a more collaborative process that speeds up permitting, as an amended permit is required to allow us to operate and maintain the new treatment plant. During the design process, updated engineering estimates were received with initial estimates of roughly \$35,500,000 for the plant being designed by Tetra Tech; \$4,500,000 for the pipeline to bring additional 4 wells to the treatment plant being designed in house, as well as \$2,000,000 for construction management. This brings the current construction and construction management estimates to \$42,000,000.

DISCUSSION:

This report provides an initial overview and authorizes application to the State Water Resources Control Board’s DWSRF loan program and authorizes application and acceptance of the EC grant or principal forgiveness program funding as potential financing tools for the Palmyrita PFAS Water Treatment Plant (WTP) Project. Further due diligence will be required before presenting a final recommendation to the Board and City Council for approval and acceptance of the DWSRF loan program.

As directed by the RPU Board on September 8, 2025, RPU is identifying and evaluating alternative funding sources and cost mitigation options for the need to construct PFAS water treatment plants to meet federal and state regulations. In addition to or in place of the use of settlement proceeds,

RPU is assessing the feasibility of funding the construction of Palmyrita PFAS WTP with DWSRF loan and EC grant or principal forgiveness program funding by submitting a single application to the State Water Resources Control Board.

The City's success in mitigating higher treatment costs by successfully holding polluters responsible for groundwater contamination has significantly contributed to RPU's low water rates. Currently, RPU expects to receive \$39.6M in PFAS settlement proceeds from responsible polluters over the next 8 years that will be set aside in a Water Treatment Designated Reserve to fund water treatment operating and capital costs. A small portion of this settlement is still pending Court approval and may be adjusted when finalized. The annual estimated settlement proceeds are in the table below:

Fiscal Year	Estimated Settlement Proceeds
FY 2025/26	\$23,325,332
FY 2026/27	\$8,127,588
FY 2027/28	\$2,760,321
FY 2028/29	\$1,521,195
FY 2029/30	\$1,034,412
FY 2030/31	\$1,034,412
FY 2031/32	\$912,717
FY 2032/33	\$851,869
Total	\$39,567,846*

*A portion of this total is pending Court approval and will be adjusted when finalized.

The estimated costs for RPU to comply with the Federal PFAS MCLs are listed below. During the design phase of Treatment Plant #1, the Palmyrita PFAS WTP, capital cost estimates have increased from \$27.0 million to \$43.7 million. Final construction cost estimates will not be known until the award for construction is approved.

Treatment Plant	Year in Service	Original Capital Cost Estimates	Updated Capital Cost Estimates	O&M/Personnel Costs *
Plant #1	FY 2028/29	\$27,000,000	\$43,670,451	\$4,431,000
Plant #2	FY 2029/30	\$15,000,000	\$15,000,000	\$2,727,000
Plant #3	FY 2030/31	\$55,200,000	\$55,200,000	\$11,914,000
Total		\$97,200,000	\$113,870,451	\$19,072,000
*Estimated costs in FY 2030/31 when all 3 plants are online.				

RPU is considering alternative funding sources for the Palmyrita PFAS WTP, including grants, settlement proceeds, and the DWSRF loan. RPU was awarded the EPA's State and Tribal Assistance Grant of \$959,752, which along with settlement proceeds will fund the design of the Palmyrita PFAS WTP. Construction and construction management are anticipated to be funded

with the EC grant or principal forgiveness program funding if awarded and either settlement proceeds or the DWSRF loan as reflected in the table below.

Plant #1 - Palmyrita PFAS Water Treatment Plant		Design	Construction & Construction Management	Total
Estimated Costs		\$ 1,670,451	\$42,000,000	\$43,670,451
Estimated Funding Sources				
	EPA Grant	\$959,752		\$959,752
	Settlement Proceeds (Including Matching)	\$710,699		\$710,699
	EC Grant/Principal Forgiveness		\$21,000,000	\$21,000,000
	Settlement Proceeds or DWSRF Loan		\$21,000,000	\$21,000,000
Total Estimated Funding Sources		\$1,670,451	\$42,000,000	\$43,670,451

The single DWSRF application submitted to the California State Water Resources Control Board will allow RPU to apply for DWSRF loan and EC grant or principal forgiveness program funding for the Palmyrita PFAS WTP.

DWSRF Loans are available for up to \$50 million for qualifying projects with a maximum of \$100 million per utility. DWSRF loans are set at 50% of the State's General Obligation rate from the prior year. The current rate for calendar year 2025 is 1.90%, which is lower than traditional revenue bond financing available to RPU.

EC grant and principal forgiveness program funding is structured as a grant or forgivable loan of up to \$25 million per utility covering up to 50% of eligible project costs. No matching funds are required. Award amounts depend on availability of EC funds and timing of the application. While funding is not guaranteed, early submittals are more likely to receive funding.

Early findings suggest that participation in the with DWSRF loan and EC grant or principal forgiveness program programs could:

- Reduce reliance on traditional revenue bond financing and related rate pressures;
- Aligns with the Board's direction to identify alternative funding sources prior to rate adjustments; and
- Demonstrate proactive pursuit of state and federal cost-sharing opportunities.

DWSRF Application Process Highlights:

1. Applicants are considered for both low-interest loans and grant or principal forgiveness funding using a single application.
2. The DWSRF/EC application is not a binding commitment; applicants can withdraw at any time before the funding agreement is executed.
3. The application requires environmental documentation and quarterly progress reports on construction and compliance.

Additional DWSRF Considerations:

1. DWSRF loans are available up to \$50 million per project with a maximum of \$100 million per utility.
2. DWSRF loans are set at 50% of California's average general obligation bond rate, which in calendar year 2025, is 1.9%. This is lower than traditional revenue bond financing available to RPU which is currently estimated at 4.14%.
3. EC grant and principal forgiveness funding is available up to \$25 million per utility and up to 50 percent of eligible project costs.
4. EC grant and principal forgiveness program has no matching fund requirements.
5. If awarded, reimbursements are typically made on a monthly basis, provided environmental clearance is complete and construction is underway.
6. Beginning construction prior to environmental approval may disqualify the project from receiving DWSRF or EC funding.
7. There is no penalty or fee if project costs are less than anticipated and awarded funds are not fully used.
8. Repayment of interest begins when reimbursements begin; full principal and interest repayment begins one year after construction is complete.
9. Upon project completion, a final report will summarize project costs and ensure water quality goals are met.

Additional analysis of DWSRF loan program eligibility, bond covenant compliance, debt service coverage threshold restriction, future borrowing needs, cash flow timing, and legal and financial implications will continue to be evaluated and completed before recommending formal participation and acceptance.

Further due diligence of the DWSRF loan and EC grant or principal forgiveness will be conducted to evaluate:

1. Eligibility and Timing: Confirming project qualification under DWSRF loan and EC grant or principal forgiveness program criteria and assessing the timeline for application review and funding availability.
2. Environmental and Regulatory Compliance: Ensuring the project's CEQA/NEPA documentation and timing align with the program requirements.
3. Financial Analysis: Comparing lifecycle cost savings under DWSRF loan program versus traditional revenue bond financing including potential grant offsets and administrative overhead. Comparing debt service coverage ratio calculation requirements of the DWSRF loan program vs current bond debt service coverage ratio requirements and the impact on future planned borrowings and on future rate plans for the water utility.
4. Legal and Contractual Review: Assessing implications of loan covenants and reporting requirements and potential restrictions on future borrowing capabilities
5. Internal Coordination: Collaborating with Finance and City Attorney Office to ensure readiness and capacity to manage the funding and reporting obligations.
6. Peer analysis: Learn more about experiences from current program participants

Of the due diligence items identified above, the most critical will be the comprehensive evaluation of the debt service ratios required under the DWSRF program guidelines. These guidelines include

a five-year forward lookout projection that may place additional pressure on the utility to adjust water rates or implement new rate plans sooner than anticipated, particularly if cash reserve levels decline or fall below the state's required minimums. While RPU's existing rate plan and bond covenants are forward-looking, they do not impose requirements as stringent as those associated with the DWSRF program.

By pursuing DWSRF funding, RPU can uphold its commitment to the highest quality water and electric service at the lowest possible rates to benefit the community.

FISCAL IMPACT:

The total fiscal impact of this action is an increase in revenue and expenditures in the amount of fifty percent of the Palmyrita PFAS WTP Project construction cost, currently estimated at \$21,000,000, and up to \$25,000,000 if projected construction costs increase. The final fiscal impact will be determined by the actual funding award amount received through the EC program.

Upon City Council approval and receipt of the EC grant or principal forgiveness program funding award, a corresponding increase in revenue and expenditures will be recorded in the Water Fund, DWSRF Emerging Contaminant - Palmyrita PFAS WTP Project, revenue and expenditure accounts listed in the table below.

Fund	Program	Account	Amount
Water Fund	<i>Revenue</i>		
	DWSRF Emerging Contaminant Grant - Palmyrita PFAS Construction Project	6812300-331300	\$25,000,000
	<i>Expenditures</i>		
	DWSRF Emerging Contaminant Grant - Palmyrita PFAS Construction Project	6812300-440120	\$25,000,000

There is no fiscal impact associated with the DWSRF loan application submittal.

Prepared by:	Brian Seinturier, Assistant General Manager/Finance and Administration, and Robin Glenney, Assistant General Manager/ Water
Approved by:	David A. Garcia, Utilities General Manager
Certified as to availability of funds:	Kristie Thomas, Finance Director/Assistant Chief Financial Officer
Approved by:	Rafael Guzman, Assistant City Manager
Approved as to form:	Rebecca McKee-Reimbold, Interim City Attorney

Attachments:

1. Authorizing Application Resolution
2. Reimbursement Resolution
3. Presentation