

# ***San Geronio Pass Water Agency***

**DATE:** July 17, 2023  
**TO:** Board of Directors  
**FROM:** Lance Eckhart, General Manager  
**BY:** Tom Todd, Jr., Chief Financial Officer/Lance Eckhart, General Manager  
**SUBJECT: EXPANSION OF GAP FUNDING**

## **RECOMMENDATION**

Consider expanding the Agency's gap funding concept to other water purveyors within Agency boundaries to promote regional infrastructure improvements.

## **PREVIOUS CONSIDERATION**

- Board of Directors – February 14, 2022: The Board discussed a Staff proposal to provide the Cabazon Water District with gap funding to allow CWD to accept Proposition 68 and Proposition 1 grants for infrastructure improvements within CWD boundaries.
- Board of Directors – March 14, 2022: The Board reviewed a potential agreement with Cabazon Water District that would provide gap funding to CWD.
- Board of Directors – April 11, 2022: The Board approved an agreement with Cabazon Water District to provide gap funding so CWD could utilize funds from Proposition 68 and Proposition 1 grants.
- Board of Directors – December 12, 2022: The Board considered increasing the limit of gap funding available to CWD to allow for faster completion of the projects.
- Board of Directors – December 19, 2022: The Board approved the First Amendment to the Cabazon Water District Gap Funding Agreement, which increased the funding limit.

## **BACKGROUND**

At a recent Board meeting, a draft vision statement for the Agency was presented: *“San Geronio Pass Water Agency aims to provide water security that meets the regional needs of an evolving landscape, transcending boundaries to work toward common goals, create synergy through collaboration and ensure an adequate water supply today and in the future.”*

To activate these aims, the Agency has taken a proactive posture by looking for opportunities to collaborate on regional projects to improve all aspects of the region's water supply. An example of the Agency's collaborative stance is the gap funding it has

agreed to provide for the Cabazon Water District (CWD) for needed infrastructure improvements.

In addition to CWD, there are water retailers within the boundaries of the Agency that may not have the financial reserves to handle the cash-flow requirements that usually come with the acceptance of a grant. The time difference between paying a contractor and getting the reimbursement from the grant provider can be over six months.

## **ANALYSIS**

State grant administrators have indicated that “gap funding” by regional entities has become a common and often necessary component for smaller water systems to utilize state funding.

State funding administrators have indicated that they support a regional entity assisting grant implementation for smaller systems within their service areas that find it hard to utilize available funding due to resource constraints. The funding entities have acknowledged that similar regional agency support is becoming more commonplace across the state and is often considered a critical element in getting designated grant funds to Disadvantaged Communities. Some of the industry trends concerning providing support for underserved and disadvantaged water systems are well documented in the following:

[Water Education Foundation: Solving Water Challenges in Disadvantaged Communities  
A Handbook to Understanding the Issues in California and Best Practices for  
Engagement](#)

[Community Water Systems Alliance  
Case Studies: Regional Agency Assistance for Small Water Systems](#)

The Agency recently established a gap funding agreement with the Cabazon Water District to help them advance with an infrastructure improvement project totaling about \$1.7M. Grant funds were provided from Proposition 68 and Proposition 1 funding sources. Still, CWD did not have sufficient reserves to pay the contractor’s invoices and then wait months to receive reimbursement. The Agency agreed to provide funds to bridge the gap between invoice payment and grant reimbursement. Gap funding allows CWD to accept the grant, complete the improvements, and maintain normal operations without interruption.

The most likely alternative for CWD without some funding help would be to refuse the grant. This action would likely have multiple layers of impacts: CWD would not get the improvements they needed, and granting agencies could not consider further grant opportunities to the region, which would affect the Agency, as well as other local public entities.

Currently, the CWD gap funding demonstrates the need for this type of financial provision. The original agreement with CWD set a limit for the amount of money that would be extended to CWD at \$800,000, considering the projected workflow and expected rate of expenditures. However, when the contractor informed CWD that they could complete a portion of the grant work (installation of 105 isolation valves) more quickly, the project manager realized that expenditures would also increase substantially. Agency Staff recommended that the Board approve an increase to \$1,300,000 to take advantage of the situation. Currently, the Agency has made payments to CWD totaling about \$1.2 million and received about \$100,000 in reimbursements from CWD, leaving a balance owed to the Agency of approximately \$1.1M. *On June 27, 2023, Staff was informed that the isolation valve work, totaling approximately \$1.2M, is complete and awaiting reimbursement from the Department of Water Resources.*

Considering the current gap funding with CWD as a pilot, the arrangement has run smoothly. Reimbursements have come back to the Agency regularly. Communications with the grantee and funding entities have been regular, transparent, reinforced relationships, and resulted in much-needed local investments that may have been potentially lost without the gap funding. With this in mind, other small water systems in similar situations would like to take advantage of gap funding.

Four small water systems within our service area have recently received grants for infrastructure improvements. Banning Heights Mutual Water Company (BHMWC) has received a \$3.8M grant to build a new water reservoir and improve pipelines. South Mesa Water Company (SMWC) has received a \$10M grant to install a new pipeline in their service area. High Valleys Water District (HVWD) has received a \$1M grant to construct a new water line. CWD was recently awarded \$343,700 for water conservation (preliminary award recommendation). All projects would significantly improve the ability to deliver water reliably to their customers and enhance the water infrastructure in the region.

<b>Local System</b>	<b>Award</b>	<b>Funding Entity</b>	<b>Description</b>
BHMWC	\$3,756,000	DWR	Tank/Well
SMWC	10,236,913	SWRCB	Water Main Replacement
HVWD	\$964,324	DWR	Water Main/Fire Protection
CWD	\$343,700	DWR	Water Conservation
<b>TOTAL</b>	<b>\$15,300,937</b>		

There are four small water systems above are interested in gap funding utilizing various grants. Similar to the current CWD gap funding agreement with the Agency, new agreements between the Agency and the respective small system would be developed. These new agreements would define gap funding needs, gap funding timing, roles, responsibilities, and expectations between the small system and the Agency, as well as establish controls. The agreement(s) would document the public purpose and interests of the Agency being served by engaging in such a transaction. Each agreement would be presented to the Board for consideration at a future meeting.

During the gap funding period, Staff intends to work closely with the respective small system, their consultant, and the funding entities to keep reimbursement cycles as efficient as possible as well as work within any Board authorized gap funding budgets.

### **FISCAL IMPACT**

The fiscal impact to the Agency is transitory, so unlike a proposal to expend funds for a construction project or operational expense, the funds will be returned to the Agency in the future. In other words, this is a temporary expense that would be returned to the Agency.

The Agency has experience with grants and the requirements needed to fulfill grant stipulations. Staff knows that the process can be exacting and time-consuming and expects any gap funding will likely be an extended process. The funds committed to gap funding should not be counted on for other purposes for as long as three fiscal years.

Staff recommends using the Consigned SWP Fund (“Orange Bucket”) to expand the gap funding to the subject four small water systems. Expenditures for all four projects combined would not likely exceed the current reserve level of the Consigned SWP Fund, which is about \$10.6M. The Consigned SWP Fund will receive additional tax distributions in the years ahead, providing additional reserves to meet potential funding requests. Once initiated, these projects are expected to take one to three years to complete. Requests and reimbursements will be ongoing throughout the various project timelines. The SWP Consigned fund is well-positioned to be utilized during the various grant terms. These funds will be returned so that the Consigned SWP Fund will be available for other purposes in the future.

### **ACTION**

Consider approval to develop gap funding agreements for Banning Heights Mutual Water Company, South Mesa Water Company, High Valleys Water District, and Cabazon Water District, as proposed by Staff at future Board meetings.