

**STATE WATER RESOURCES CONTROL BOARD  
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE  
DECEMBER 3, 2013**

**ITEM 7**

**SUBJECT**

CLEAN WATER STATE REVOLVING FUND ANNUAL REPORT FOR STATE FISCAL YEAR 2012/2013

**DISCUSSION**

The State Water Resources Control Board (State Water Board) administers California's Clean Water State Revolving Fund (CWSRF) Program. The CWSRF is capitalized with federal and state funds. It provides affordable financing for publicly owned treatment works (wastewater and storm water infrastructure), non-point source (NPS), and estuary projects. California's CWSRF has supported the health, safety, and welfare of Californians since 1989 by financing about 650 eligible projects. Many CWSRF recipients use their financing to address water quality violations and the associated enforcement actions by the Regional Water Boards. Every project financed by the CWSRF is directly related to improving water quality or public health.

The revolving nature of the CWSRF creates asset and revenue growth. As of June 30, 2013, the total available to the CWSRF for financial assistance since inception of the Program was \$6.609 billion, including approximately \$279 million in American Recovery and Reinvestment Act funds (ARRA). This annual update of the CWSRF Program provides results for State Fiscal Year (SFY) 2012/2013, and discusses recent and future developments in the Program.

**A. FINANCIAL RESULTS**

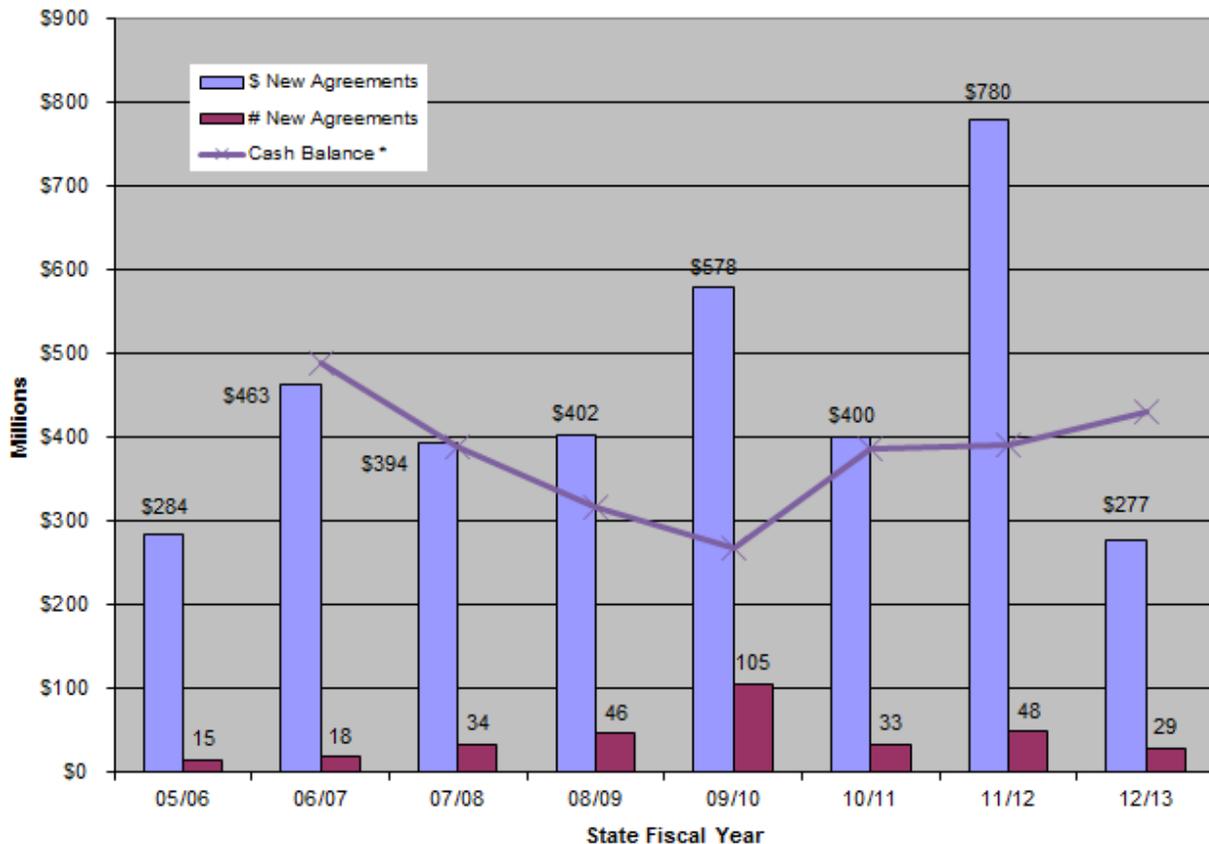
**1. Cumulative Financial Results**

As of June 30, 2013, about 92 percent (\$6.103 billion) of all available funds had been disbursed. Currently the CWSRF has approximately \$986 million in outstanding commitments. About 95 percent of CWSRF funding has been used to finance wastewater infrastructure, and five percent has been used for storm water, NPS, or estuary projects.

**2. Cash Flow Management and Unliquidated (federal) Obligations (ULO)**

The CWSRF continues to have a high cash balance. As seen in Figure 1 below, over the last seven years CWSRF's cash balance has ranged from a low of approximately \$275 million to a high of approximately \$480 million. The large cash balance, even with increasing levels of financing over the same time period, indicates that the CWSRF can fund significantly more projects.

**Figure 1  
CWSRF Year-End Cash Balances<sup>1</sup> and Yearly Financing Activity**



Although cash is essential for the State Water Board to fulfill its CWSRF obligations, holding a large balance does not provide a water quality benefit. The goal is to maintain only enough cash to fulfill disbursements, make bond payments, and meet other expenses.

The undrawn balance of the executed CWSRF financing agreements is the primary factor affecting the CWSRF's cash balance. The CWSRF program's focus in recent years, therefore, has been on creating more demand to increase the aggregate level of outstanding obligations. State Water Board staff regularly evaluates the CWSRF Program's procedures, data management, and policy choices to increase program demand consistent with the State Water Board's water quality goals, and will continue to do so in the future to ensure that cash is being used timely and expeditiously to provide the greatest water quality benefit.

ULO (i.e., federal grant funds that have been awarded to an SRF program, but not disbursed) have been a prominent issue nationwide for SRF programs in recent years. California has successfully managed its sources of funds to ensure that its federal grants are disbursed quickly. This has minimized California CWSRF's ULOs. As of June 30, 2013, California CWSRF had ULOs equal to 1.7 percent of its cumulative federal grants. Nationwide CWSRF ULOs range from zero percent to approximately 14

<sup>1</sup> Cash balance includes cash on deposit with the State Treasurer's Office plus funds available to draw from the US Treasury.

percent. With receipt of the federal fiscal year (FFY) 2013 Capitalization Grant, awarded on September 20, 2013, in the amount of \$95,485,000, the California CWSRF ULO was approximately 5.0 percent. CWSRF staff will continue its practice of first using federal grant funds to fulfill disbursements to ensure that federal funds are liquidated as quickly as possible.

3. Financial Activity

A total of \$276.7 million was financed in SFY 2012/2013. Collectively CWSRF recipients received more than \$82.4 million in subsidy. The subsidy is the amount of money saved by recipients due to the CWSRF's below market interest rates and the principal forgiveness on CWSRF financing.

Approximately \$341 million was disbursed to recipients during SFY 2012/2013. This included approximately \$40 million in principal forgiveness.

Table 1 below provides the CWSRF's performance measure results for the year.

**Table 1  
Performance Results for SFY 2012/2013**

Measure	Target	Actual Result
% of Applications Approved for Financing in 9 Months or Less	95%	34%
% of Disbursements Fulfilled in 30 Days or Less	100%	82%

4. Audited Financial Statements

The CWSRF's financial statements for SFY 2012/2013 were independently audited. The audit for SFY 2012/2013 was completed by CliftonLarsonAllen LLP on September 25, 2013. CliftonLarsonAllen provided the following opinion regarding the financial statements of the CWSRF (also known as the "Water Pollution Control Revolving Fund.")

*In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the California State Water Resources Control Board, Water Pollution Control Revolving Fund as of June 30, 2013 and 2012, and the respective changes in the financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.*

B. PROGRAMMATIC RESULTS DURING SFY 2012/13

1. Assistance Activity

As noted earlier, a total of \$276.7 million was financed in SFY 2012/2013. Approximately 99.9 percent of this financing went to wastewater treatment, collection system, or wastewater recycling projects; one-tenth of one percent went to an NPS project.

In recent years, the State Water Board has made a concerted effort to address compliance by small, disadvantaged communities (SDAC). This includes a range of initiatives under the State Water Board's [Small Community Strategy](#). The CWSRF plays an important role in this effort by providing affordable financing to SDACs. Eight of the twenty-nine agreements executed during SFY 2012/2013 were with communities meeting the definition of an SDAC. In addition to the CWSRF's standard subsidized rate (one-half the State of California's general obligation bond rate), the CWSRF can provide principal forgiveness, grants, extended term financing, and reduced interest rates to lower financing costs for SDACs. During SFY 2012/2013, the State Water Board provided \$15.6 million in CWSRF principal forgiveness to SDACs. It also provided \$12 million in grant funds to SDACs from the Small Community Grant Fund<sup>2</sup>. In addition, the State Water Board also provided \$19 million (approximately seven percent) of its CWSRF funding in the form of extended term financing to SDACs.

In addition, approximately \$7.5 million in Category 2 principal forgiveness was awarded in SFY 2012/2013 to four other disadvantaged communities. Other disadvantaged communities are those with a population larger than 20,000 or an area of a larger community that have a median household income less than 80 percent of the statewide median household income.

## 2. Environmental Benefits

Projects in SFY 2012/2013 helped the State Water Board achieve and maintain its water quality goals. Although the contributions of the CWSRF to water quality are diverse and difficult to quantify, one of the Program's strengths is its versatility addressing a wide range of water quality issues and beneficial water uses, and each project usually provides multiple water quality benefits. Each project funded in SFY 2012/2013 was evaluated to determine its benefits, and the data supporting this analysis has been transmitted to US EPA via the CWSRF Benefits Reporting and National Information Management System Databases.

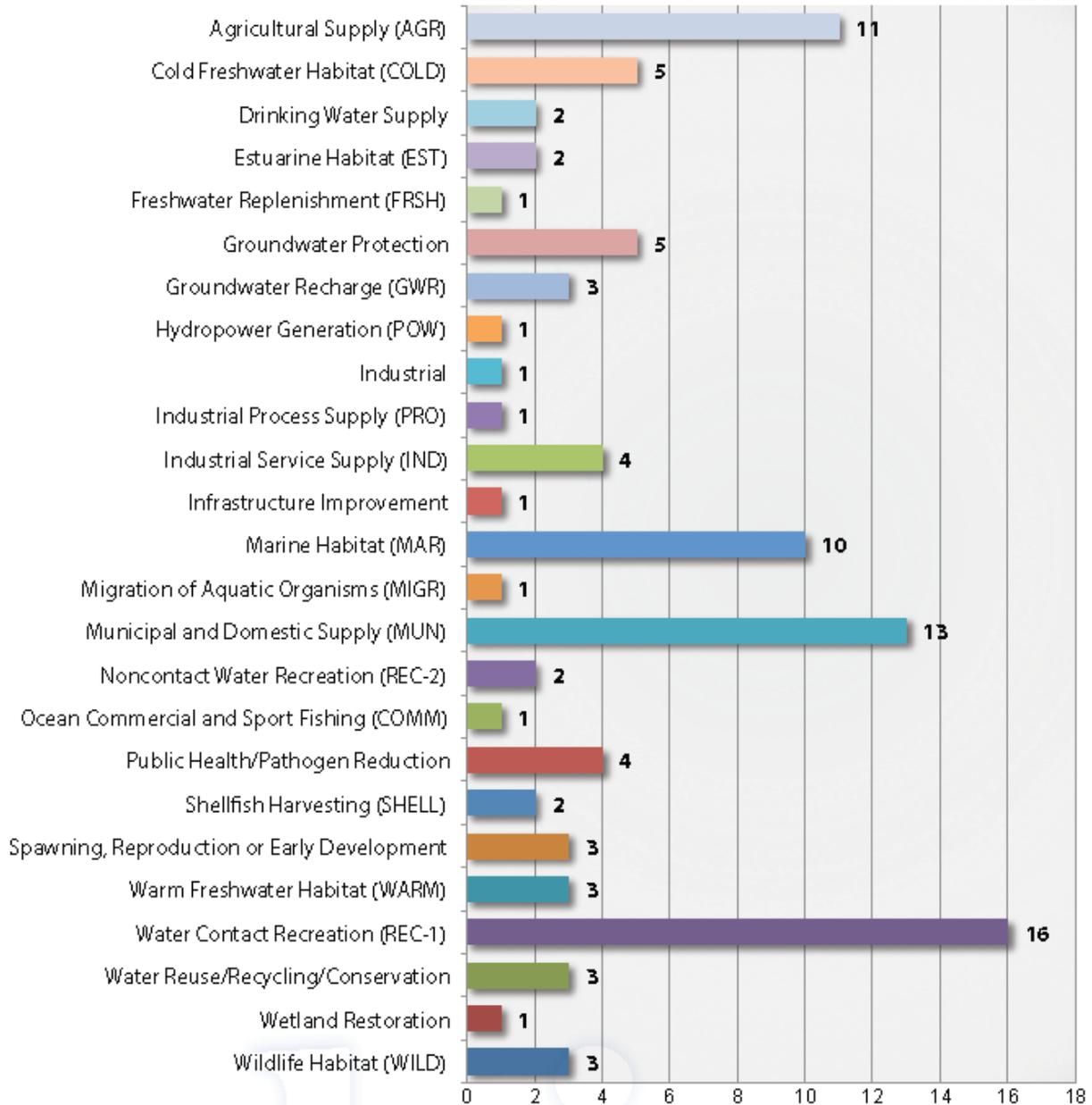
Table 2 below provides the CWSRF funding by category of funding during SFY 2012/2013. Figure 2 below shows how many projects addressed individual beneficial uses identified in state water quality control plans. Note that individual projects may have addressed multiple beneficial uses.

**Table 2  
CWSRF Funding by Category**

Category	Amount Financed
Secondary Treatment	\$ 88,139,437
Advanced Treatment	\$ 77,329,682
Major Sewer System Rehabilitation	\$ 76,171,688
New Collector Sewers	\$ 11,658,921
NPS Hydromodification	\$ 368,926
Recycled Water Distribution	\$ 23,079,500
<b>Total Financed</b>	<b>\$ 276,748,154</b>

<sup>2</sup> The Small Community Grant program uses funds from a service charge added to CWSRF agreements in lieu of interest charges. See California Water Code Section 13477.6.

**Figure 2**  
**Number of Projects Addressing Individual Beneficial Uses<sup>3</sup>**



### 3. Marketing and Outreach

The goals of marketing and outreach include ensuring that decision makers are aware of the savings and benefits of the CWSRF Program, publicizing the Program's successes, sharing new developments with existing and potential borrowers, learning from stakeholders about how the Program can be improved, and assisting applicants through the application process.

<sup>3</sup> Each project may address multiple beneficial uses.

Division of Financial Assistance (DFA) staff continued to work with other state and federal funding partners through the [California Financing Coordinating Committee](#) (CFCC) to market the program and leverage additional funding sources. The CFCC has chosen to shift its annual funding fair schedule so that future CFCC funding fairs will be held during the fall, rather than the spring. Only one CFCC funding fair, therefore, occurred during SFY 2012/2013 (April 2013 in West Sacramento). Five CFCC funding fairs were held in August, September, and October of 2013.

DFA staff also attended and participated in the Association of California Water Agencies 2013 Fall Conference, California Water Environment Association Annual and Regional Training Conferences, the 2013 WaterReuse California Annual Conference, the 2013 Green California Summit, the 2013 California Tribal Water Summit, the California Association of Sanitation Agencies 2013 Spring Conference, and the Central Valley Clean Water Association 2013 Annual Conference.

### C. RECENT AND FUTURE IMPROVEMENTS AND CHANGES

#### 1. Amend the CWSRF Policy and Revamp the Application Forms and Review Process

DFA's recent efforts to improve the efficiency of the application process were completed in SFY 2012/2013. The State Water Board amended the CWSRF Policy on May 7, 2013, approving a number of policy and procedural changes recommended by staff to make the Program more efficient and flexible. An updated CWSRF application and instructions were also released at the end of May 2013 in conjunction with the Policy amendment. The Policy changes were effective October 1, 2013, and DFA has implemented the policy and procedural changes approved by the Board. New applications are being submitted using the new application forms, and new financing approvals are being done using the new review process.

In addition, on October 3, 2013 the Financial Assistance Application Submittal Tool (FAAST), the Board's on-line application system, became available to CWSRF applicants for the first time. Applicants may now submit applications for CWSRF financing on-line, as well as by hard copy, email, or on a compact disc.

#### 2. Extended Term Financing (ETF)

Financing terms under the CWSRF program are generally capped at 20 years from completion of construction pursuant to provisions of federal law. The State Water Board, however, has received approval from U.S. EPA to provide ETF (i.e., financing up to 30 years or the useful life of a project) to three categories of projects: (1) small, disadvantaged communities (DAC), (2) regionalization projects, and (3) communities in financial distress or facing a financial emergency.

On November 19, 2013, the State Water Board directed the Executive Director to request that U.S. EPA approve ETF for all eligible CWSRF projects. Providing ETF to all projects will make financing more affordable for all eligible communities, make the program more competitive with other financing options, and result in more water quality projects being financed and completed.

If the State Water Board's request is approved by U.S. EPA, DFA would implement the change effective on the date the request was approved by the State Water Board.

### 3. CWSRF Marketing and Outreach

CWSRF Program marketing and outreach is an ongoing process due to staff turnover at the community level, but also due to periodic changes and improvements to the CWSRF Program. By June 2014, State Water Board staff plans to develop a written plan to guide the CWSRF Program's marketing and outreach efforts.

A key component of the marketing efforts in 2014 will be to revamp the CWSRF's Web site to make it more useful for applicants and stakeholders.

### 4. Drinking Water Program (DWP) Transfer

The Governor's Office is continuing discussions to transfer the DWP from the California Department of Public Health (CDPH) to the State Water Board. The transfer would include moving the Drinking Water State Revolving Fund (DWSRF) and the associated state bond programs currently managed by CDPH to the State Water Board. The CDPH funding programs would be merged with the CWSRF and other financing programs managed by DFA. The move will present a number of challenges and opportunities for the CWSRF in SFY 2014/2015 and beyond.

#### **POLICY ISSUE**

None at this time; informational item.

#### **FISCAL IMPACT**

None at this time; informational item.

#### **REGIONAL BOARD IMPACT**

None at this time; informational item.

#### **STAFF RECOMMENDATION**

None at this time; informational item.

State Water Board action on this item will assist the Water Boards in reaching Goal 5 of the *Strategic Plan Update: 2008-2012* to improve transparency and accountability by ensuring that the Water Boards' goals and actions are clear and accessible, by demonstrating and explaining results achieved with respect to the goals and resources available, by enhancing and improving accessibility of data and information, and by encouraging the creation of organizations or cooperative agreements that advance this goal.