

**STATE WATER RESOURCES CONTROL BOARD  
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE  
NOVEMBER 19, 2013**

**ITEM 3**

**SUBJECT**

CONSIDERATION OF A PROPOSED RESOLUTION DIRECTING THE STATE WATER RESOURCES CONTROL BOARD'S EXECUTIVE DIRECTOR TO APPLY TO THE UNITED STATES ENVIRONMENTAL PROTECTION AGENCY (U.S. EPA) TO OFFER EXTENDED TERM FINANCING (ETF) FOR ALL PROJECTS ELIGIBLE FOR THE CLEAN WATER STATE REVOLVING FUND (CWSRF) PROGRAM

**DISCUSSION**

The State Water Resources Control Board (State Water Board) has provided long-term, low-cost CWSRF financing for hundreds of water quality projects throughout the state. 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 requested and U.S. EPA has approved longer terms for three targeted categories: (1) small, disadvantaged communities (DAC), (2) regionalization projects, and (3) communities in financial distress or facing a financial emergency.

To date ETF has only been provided to DACs to help them lower their financing costs; CWSRF has not used ETF to finance any regionalization projects or restructure agreements with financially distressed communities. In addition to the approximately \$400 million in ETF provided to DACs since 2008, the State Water Board has also provided approximately \$152.4 million in principal forgiveness and \$44.8 million in grants and bonds to DACs. Table 1 below summarizes the annual levels of principal forgiveness, grants, and ETF for DACs, and the total annual CWSRF financing.

**Table 1  
Recent DAC Principal Forgiveness/ETF/Grants and  
Total CWSRF Financing Levels, All \$ in Millions**

FY	CWSRF Program			Grants	
	DAC Principal Forgiveness, \$	DAC ETF, \$	All Financing – Rolling 2 Year Average, \$	Small Community Fund, \$	State Bonds, \$
2005/2006	0.0	0.0	280	0.0	17.1
2006/2007	0.0	0.0	444	0.0	6.1
2007/2008	0.0	0.0	411	0.0	0.0
2008/2009	9.6	10.3	437	0.0	0.0
2009/2010	73.0	170.5	568	0.0	0.0
2010/2011	6.5	105.0	513	1.0	0.0
2011/2012	47.7	95.0	598	1.0	0.3
2012/2013	15.6	19.0	531	12.0	0.0
<b>TOTAL</b>	<b>152.4</b>	<b>399.8</b>	<b>3,782</b>	<b>14.0</b>	<b>30.8</b>

The availability of ETF, in addition to principal forgiveness and grants, has helped a significant number of DACs. As seen from Table 1, though, the pace of ETF has decreased from its initial peak, indicating that any backlog of DAC projects that needed ETF has been met. Extending ETF to all projects will give other communities access to the benefits of ETF without reducing the benefits to disadvantaged communities.

Although ETF somewhat reduces the earnings growth of the CWSRF, and thereby its ability to finance future projects, the CWSRF program's substantial cash flow and equity will allow it to provide ETF without reducing its average, or baseline, financing level. Providing ETF to all eligible CWSRF applicants will also make the program more competitive with other financing options available to communities seeking funding for water quality improvements. ETF seems to be in the best interest of the CWSRF program as well as the State of California because it will provide more affordable financing for all eligible communities and should result in more water quality projects being financed and completed.

U.S. EPA has provided eight criteria to evaluate a state's application for ETF. These eight criteria are discussed in detail in [Attachment A](#). Staff recommends that ETF for projects not currently approved for ETF be effective on the date the Resolution is approved by the State Water Board contingent on U.S. EPA's approval of California's ETF application. Therefore, those projects receiving financing approval on or after the date the State Water Board adopts the Resolution would be eligible for ETF.

The Division of Financial Assistance (Division), therefore, requests authorization from the State Water Board to seek U.S. EPA approval for the CWSRF to provide ETF to all CWSRF eligible projects.

## **POLICY ISSUE**

Should the State Water Board direct the Executive Director to submit an application to U.S. EPA requesting approval of ETF for all CWSRF projects?

Should the effective date for ETF for new projects not already eligible for ETF be the date the Board adopts this Resolution?

## **FISCAL IMPACT**

The long-term revolving nature of the CWSRF Program must be protected in one of two ways according to U.S. EPA: (1) ETF must not reduce over a 60-year period the projected level of funding by more than 10 percent from the level the CWSRF would expect to offer without ETF, or (2) the CWSRF Program must maintain its historic average annual assistance, or baseline, levels.

A financial analysis of the effect of ETF on the CWSRF's long-term financing capacity, included in Attachment A, determined that the CWSRF Program can maintain or exceed its average historic, or baseline, assistance level if it provides ETF for all CWSRF eligible projects.

## **REGIONAL BOARD IMPACT**

To the extent that ETF encourages additional water quality improvement projects, it will assist Regional Boards with achieving water quality goals, objectives and performance metrics.

## **STAFF RECOMMENDATION**

The State Water Board should direct the Executive Director to submit an application to U.S. EPA requesting approval of ETF for all CWSRF projects.

The effective date for ETF for new projects not already eligible for ETF should be the date the Board adopts this Resolution.

State Water Board action on this item will assist the Water Boards in reaching Goals 1-4 of the Strategic Plan Update: 2008-2012. In particular, approval of this item will (1) Implement strategies to fully support the beneficial uses for all 2006-listed water bodies by 2030, (2) Improve and protect groundwater quality in high-use basins by 2030, (3) Increase sustainable local water supplies available for meeting existing and future beneficial uses by 1,725,000 acre-feet per year, in excess of 2002 levels, by 2015, and ensure adequate flows for fish and wildlife habitat, and (4) Comprehensively address water quality protection and restoration, and the relationship between water supply and water quality, and describe the connections between water quality, water quantity, and climate change, throughout California's water planning processes.

# DRAFT

## STATE WATER RESOURCES CONTROL BOARD RESOLUTION NO. 2013-

DIRECTING THE STATE WATER RESOURCES CONTROL BOARD'S EXECUTIVE DIRECTOR TO APPLY TO THE UNITED STATES ENVIRONMENTAL PROTECTION AGENCY (U.S. EPA) TO OFFER EXTENDED TERM FINANCING (ETF) FOR ALL PROJECTS ELIGIBLE FOR THE CLEAN WATER STATE REVOLVING FUND (CWSRF) PROGRAM

### WHEREAS:

1. The CWSRF Program is a joint federal/state funded program, providing low-cost financing for projects intended to improve the quality of the state's waters;
2. While CWSRF financing terms are generally capped at 20 years under state and federal law, U.S. EPA may authorize a state to offer ETF with financing terms capped at 30 years;
3. In 2008, U.S. EPA approved the State Water Board's ETF program for small, disadvantaged communities, and in 2012 U.S. EPA approved the State Water Board's ETF program for regionalization projects and communities in financial distress or facing a financial emergency;
4. The State Water Board recognizes the cost of CWSRF financing and the effect that ETF has on reducing the cost of financing water quality projects; and
5. The eight approval criteria outlined by U.S. EPA for ETF are addressed in [Attachment A](#), which will be included in the application to U.S. EPA.

### THEREFORE BE IT RESOLVED THAT:

1. The State Water Board directs the Executive Director, or designee, to apply to U.S. EPA to offer ETF for all projects eligible for the CWSRF program;
2. Upon U.S. EPA's approval of this application, the Division of Financial Assistance may amend CWSRF agreements entered into on or after today's date to extend repayment periods consistent with U.S. EPA's and the State Water Board's ETF criteria; and
3. The State Water Board directs staff, in the CWSRF Annual Report, to continue to periodically evaluate the effect of ETF on the financing levels of the CWSRF.

### CERTIFICATION

The undersigned, Clerk to the Board, does hereby certify that the foregoing is a full, true, and correct copy of a resolution duly and regularly adopted at a meeting of the State Water Board held on November 19, 2013.

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Jeanine Townsend  
Clerk to the Board