

**STATE WATER RESOURCES CONTROL BOARD
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE
JULY 15, 2014**

ITEM 4

SUBJECT

CONSIDERATION OF A RESOLUTION AUTHORIZING THE EXECUTIVE DIRECTOR OR DESIGNEE TO EXECUTE AN AGREEMENT WITH THE CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-BANK) FOR SAFE DRINKING WATER STATE REVOLVING FUND (SDWSRF) MATCHING FUNDS

DISCUSSION

The SDWSRF provides low-interest loans and grants to public water systems (PWS) for planning and construction of drinking water projects throughout California. It is capitalized by annual grants (capitalization grants) from the United States Environmental Protection Agency (U.S. EPA). In addition to capitalizing the SDWSRF's loan and grant activities, the capitalization grants also fund administration of the SDWSRF, technical assistance to water system applicants, and funding for public water system supervision (PWSS) and regulatory oversight.

As a condition of the capitalization grants, states must provide matching funds equal to 20 percent of each grant. Federal regulations require that the matching funds be deposited into the SDWSRF on or before the date of each capitalization grant payment. The capitalization grant payment schedule is established in the state's annual Intended Use Plan (IUP) submitted in its grant application to U.S. EPA. Recent capitalization grants for the SDWSRF have established a single, lump-sum payment on the grant award date to align the SDWSRF's cash flow modeling with the requirements of its Corrective Action Plan.

Past match for the SDWSRF has been provided by general fund appropriations, proceeds from the sale of general obligation bonds (Propositions 13, 50, and 84), and in 2013, a loan from the I-Bank. These sources have provided sufficient funds to fully match the 1997 through the 2012 capitalization grants. Although past sources appear to have provided most of the match for the 2013 grant, staff is currently reconciling all prior match expenditures to determine if any additional funds are needed to fully match the 2013 capitalization grant; staff estimates that the SDWSRF may need an additional \$1,255,800 to fully match the 2013 grant. The SDWSRF also needs an additional \$16,644,200 to match its 2014 capitalization grant.

The SDWSRF does not have any current general fund appropriations or general obligation bond authorizations that can provide additional matching funds. Its immediate options for obtaining matching funds are a loan from the I-Bank or the sale of revenue bonds on the municipal bond market. Without additional match, the State Water Resources Control Board (State Water Board) may be unable to fully draw the 2013 capitalization grant funds, and will be unable to draw any of the 2014 capitalization grant funds. Therefore, it would be unable to use those unmatched funds for PWS planning and construction, administration of the SDWSRF, or PWSS and regulatory oversight.

Staff proposes a new loan between the I-Bank and the SDWSRF, totaling approximately \$17.925 million in principal, interest, and fees. The transaction with the I-Bank will be a short-term loan secured and repaid from past interest earnings currently held by the SDWSRF. The loan will have a one week maturity following closing, with no pre-payment penalty. The loan will bear interest at the I-Bank's standard rate. All fees and costs will be rolled into the loan, and paid concurrent with the loan repayment. The fees and costs cannot be determined exactly at this time, but are expected to be approximately equal to the fees on the 2013 I-Bank

loan (approximately \$25,000.) Using interest earnings to obtain matching funds is an eligible use of interest earnings under state and federal law.

The proposed transaction with the I-Bank must be completed in early September 2014, so that the match can be deposited into the SDWSRF no later than October 1, 2014. Based on historical trends, it is anticipated that the 2014 capitalization grant will be awarded in early October 2014.

POLICY ISSUE

Should the State Water Board authorize the Executive Director or his designee to execute a short-term loan with the I-Bank to obtain matching funds for the SDWSRF?

FISCAL IMPACT

The proposed loan with the I-Bank will not significantly affect the finances of the SDWSRF. There are currently approximately \$62 million in interest earnings held in the SDWSRF. Even with the conversion of these earnings to match, they will still be available in perpetuity for financing drinking water projects. However, use of interest earnings for this purpose will preclude them from being used for SDWSRF administration or the newly established Small Water Community Emergency Grant Fund.

Due to the short-term nature of the financing and the reliability of using an existing cash balance as the source of repayment, there is essentially no risk of default on the proposed transaction.

The transaction costs will not significantly affect the SDWSRF. Due to the short-term nature of the obligation, as well as the I-Bank's unique role as a public agency specifically formed to provide this special type financing, the fees and transaction costs are minimal and far below the costs associated with a bond market transaction. The staff costs associated with the transaction are also minimal, and will be absorbed as part of the normal administrative costs of the program.

REGIONAL BOARD/DISTRICT OFFICE IMPACT

Yes. Execution of a loan with the I-Bank will allow the State Water Board to fully draw 2013 and 2014 capitalization funds. This will allow the SDWSRF to provide low-interest loans and grants to PWSs, thereby supporting the efforts of the District Offices to implement the requirements of the Safe Drinking Water Act. In addition, the State Water Board will be able to fully use these funds for technical assistance to water system applicants and funding for PWSS and regulatory oversight.

HUMAN RIGHT TO WATER ANALYSIS

Staff has considered Section 106.3 of the Water Code (added by Assembly Bill 685 [Stats. 2012, ch. 524]). This proposed action supports the Human Right to Water because it will assist disadvantaged communities with obtaining safe drinking water by reducing their financing costs and providing technical assistance needed to obtain financing for safe drinking water projects.

STAFF RECOMMENDATION

That the State Water Board authorizes the Executive Director or his designee to execute a short-term loan with the I-Bank to provide matching funds for the SDWSRF.

DRAFT

STATE WATER RESOURCES CONTROL BOARD RESOLUTION NO. 2014-

AUTHORIZING THE EXECUTIVE DIRECTOR OR DESIGNEE TO EXECUTE AN AGREEMENT WITH THE CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-BANK) FOR SAFE DRINKING WATER STATE REVOLVING FUND (SDWSRF) MATCHING FUNDS

WHEREAS:

1. The State Water Resources Control Board (State Water Board) is successor to the application submitted by the California Department of Public Health (CDPH) to the United States Environmental Protection Agency (U.S. EPA) for the Federal Fiscal Year (FFY) 2014 SDWSRF capitalization grant and to open SDWSRF capitalization grants received by CDPH in previous years;
2. The SDWSRF is used by the State Water Board to provide low-interest loans and grants to public water systems, technical assistance to water system applicants, and funding for public water system supervision and regulatory oversight;
3. As a condition of the capitalization grants, the recipient state entity – previously CDPH, and now the State Water Board – must provide matching funds equal to 20 percent of each grant that must be deposited into the SDWSRF on or before the date of each capitalization grant payment from U.S. EPA;
4. Additional funds may be needed to match the FFY 2013 capitalization grant, and additional funds are needed to match the FFY 2014 capitalization grant;
5. The State Water Board has no current general fund appropriations or general obligation bond authorizations that can provide additional matching funds;
6. The State Water Board may use interest earnings of the SDWSRF, as allowed by state and federal law, to secure and repay a bond to obtain matching funds;
7. CDPH obtained matching funds from the I-Bank using this type of transaction in 2013, which was satisfied on November 8, 2013;
8. The SDWSRF currently contains sufficient interest earnings to secure and repay a short-term obligation from the I-Bank to obtain funds to match all capitalization grants through and including the 2014 grant;
9. The State Water Board may be unable to fully draw the FFY 2013 capitalization grant funds, and will be unable to draw the FFY 2014 capitalization grant funds without securing additional match funds; and
10. It is estimated that \$17,925,000 will be necessary to match the FFY 2013 and FFY 2014 capitalization grants, including fees and interest costs from the I-Bank.

D R A F T

THEREFORE BE IT RESOLVED THAT:

The State Water Board authorizes the Executive Director or his designee to execute an agreement with the I-Bank to obtain sufficient funds to match capitalization grants for the SDWSRF through and including the 2014 capitalization grant, not to exceed \$17,925,000.

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 Resources Control Board held on July 15, 2014.

Jeanine Townsend
Clerk to the Board