

**STATE WATER RESOURCES CONTROL BOARD
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE
FEBRUARY 16, 2016**

ITEM 3

SUBJECT

CONSIDERATION OF A RESOLUTION TO AMEND AND CLARIFY THE REDUCED INTEREST RATE INCENTIVE FOR RECYCLED WATER PROJECTS FUNDED THROUGH THE CLEAN WATER STATE REVOLVING FUND (CWSRF) IN RESPONSE TO THE DROUGHT

DISCUSSION

In response to the Governor's 2014 Drought Proclamation, the State Water Resources Control Board (State Water Board), on March 18, 2014, adopted [Resolution No. 2014-0015](#) to provide a financial incentive to near-term recycled water projects funded through the CWSRF. The Resolution reduced the CWSRF's interest rate to 1.0 percent with a cap of \$800 million for those water recycling applicants that submit a complete financial assistance application¹ by December 2, 2015.

Later that year, on November 4, 2014, the voters passed the Water Quality, Supply, and Infrastructure Improvement Act of 2014 (Prop. 1). Prop. 1 authorized \$725 million for water recycling and desalinization project loan and grant funding. Water recycling funds from Prop. 1 have been appropriated in State Fiscal Year 2015/16, and are being provided by the State Water Board through the Division of Financial Assistance's (Division) Water Recycling Funding Program (WRFP).

By December 2, 2015, the Division received 36 complete WRFP project applications in response to Resolution No. 2014-0015. The total estimated cost of these 36 complete applications is approximately \$1.2 billion. After accounting for WRFP grant funds and other funds available to the applicants, the complete applications would need approximately \$963 million in CWSRF 1.0 percent financing².

In addition to the complete applications submitted by December 2, 2015, at least an additional \$640 million in incomplete applications for 1.0 percent CWSRF financing were submitted.

[Attachment A](#) provides a list of all the complete and incomplete applications submitted by December 2, 2015, with the estimated eligible 1.0 percent CWSRF loan and WRFP grant funds.

The Division has evaluated the complete applications submitted by December 2, 2015, and they appear to follow the primary guidelines established in Resolution 2014-0015 for staff to follow while implementing the very low interest CWSRF financing. The projects meet the qualifications of the WRFP Guidelines and offset or augment State water supplies.

¹ A "complete financial assistance application" means that all four completed application packages (general, technical, financial, and environmental), with all applicable attachments, have been submitted to the State Water Board.

² If no additional Prop. 1 grant funds are appropriated in State Fiscal Year 2016/17, approximately \$1,057 million in 1.0 percent loan funds will be needed for the water recycling applications completed by December 2, 2015.

Given the successful response to the State Water Board's incentive, exceeding the original goal, the Board should evaluate whether to extend the program to encompass additional projects based on a newly established deadline or dollar target.

The State Water Board should consider that extending the reduced interest rate incentive delays the use of Prop. 1 WRFPP loan funds, and thereby delays the use of Prop. 1 loan funds for future WRFPP grants. The reason for this is that Prop. 1 loan funds can only be offered at the standard CWSRF interest rate, i.e., one-half the State's General Obligation bond rate. Therefore, if CWSRF loans continue to be available at 1.0 percent, WRFPP loan applicants will decline the Prop. 1 WRFPP loans. Since Prop. 1 WRFPP loan repayments can be used for future WRFPP grants on a 50/50 basis, as was done for Prop. 13, delaying the use of the WRFPP loan funds will create a gap in the future availability of WRFPP grants.

In addition, lowering the CWSRF interest rate, over and above the CWSRF's already substantial subsidized rate, also lowers the earnings needed to support future CWSRF leveraging. On January 5, 2015, the State Water Board approved a resolution authorizing the Division to sell up to \$1.2 billion in revenue bonds for the CWSRF. Given the current high demand on the CWSRF, additional earnings reductions will further limit the CWSRF's ability to meet future demands for financing.

Since the cumulative cost of the complete applications submitted by the deadline is comparable to the Board's original dollar target, and the projects meet the overarching drought response goals of Resolution 2014-0015 to distribute the incentive as fairly as possible and distribute it in a manner that responds to the Governor's Drought Proclamation, the Division recommends that the State Water Board authorize the Deputy Director of the Division to approve 1.0 percent CWSRF financing for all water recycling applications determined complete as of December 2, 2015, and listed on Attachment A, regardless of the final cumulative project cost or the availability of future Prop. 1 WRFPP grant funds. The Division also recommends that if a project is incapable of executing a CWSRF financing agreement, no substitute projects be allowed to make up the difference.

POLICY ISSUE(S)

Should the State Water Board rescind the \$800 million cap on 1.0 percent CWSRF financing set forth in Resolution No. 2014-015?

Should the State Water Board authorize the Deputy Director of the Division to approve 1.0 percent CWSRF financing for any otherwise eligible water recycling project where a complete application, as determined by the Division, for that project was submitted on or before December 2, 2015?

Should the State Water Board limit 1.0 percent CWSRF financing to those projects with an application submitted on or before December 2, 2015, and listed on Attachment A, and not allow substitutions if any of those projects are unable to proceed for any reason?

FISCAL IMPACT

The Division evaluated the short term impacts and long-term revolving nature of the CWSRF Program. Interest earnings ensure that the CWSRF Program has sufficient repayment funds for future projects and future leveraging, and provide sufficient funds for CWSRF administration and the Small Community Wastewater Grant Program.

The effect of approving additional 1.0 percent water recycling funding on the CWSRF cash flow is presented in Table 1 below. Table 1 indicates that the CWSRF should have sufficient cash flow to support these additional commitments.

TABLE 1: “Fiscal Impact - Cash Flow Projections”

(as of 01/14/2016)	SFY 2015-16	SFY 2016-17	SFY 2017-18	SFY 2018-19	SFY 2019-20	SFY 2020-21
Beginning Balance:	\$300,109,414	\$439,570,298	\$212,021,419	\$101,063,958	(\$123,067,510)	(\$299,293,045)
Estimated Repayments	\$237,748,058	\$252,598,058	\$267,448,058	\$282,298,058	\$297,148,058	\$311,998,058
Debt Service on Revenue Bonds	(\$14,323,300)	(\$13,808,100)	(\$9,980,925)	(\$7,600,725)	\$0	\$0
Estimated Capitalization Grants	\$95,772,480	\$90,000,000	\$28,800,000	\$28,800,000	\$0	\$0
Anticipated Revenue Bond Sale ³	\$500,000,000	\$350,000,000	\$350,000,000	\$0	\$0	\$0
Local Match Credits	\$1,070,771	\$1,241,537	\$627,832	\$0	\$0	\$0
Est. SMIF Interest:	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000
Estimated Disbursements	(\$568,408,780)	(\$470,362,495)	(\$261,888,846)	(\$118,952,178)	(\$63,888,211)	(\$2,394,048)
Subtotals	\$553,468,643	\$650,739,298	\$588,527,538	\$287,109,114	\$111,692,337	\$11,810,965
Commitments in Process	(\$113,898,345)	(\$301,771,833)	(\$350,517,533)	(\$273,230,578)	(\$274,039,336)	(\$91,090,548)
Future 1.0 Percent Commitment from Original \$800 million		(\$99,446,043)	(\$99,446,043)	(\$99,446,043)	(\$99,446,043)	(\$99,446,043)
Future 1.0 Percent Commitments Pending Water Board Approval		(\$37,500,000)	(\$37,500,000)	(\$37,500,000)	(\$37,500,000)	(\$13,334,444)
Ending Balance	\$439,570,298	\$212,021,422	\$101,063,961	(\$123,067,507)	(\$299,293,042)	(\$192,060,070)

Approving approximately \$163 million more in 1.0 percent financing will further reduce future interest earnings, compared to the current, standard CWSRF loan rates, by an estimated \$17 million over a 30 year period. This is in addition to the estimated \$90 to \$100 million of interest earnings lost as a result of the original \$800 million in 1.0 percent financing.

REGIONAL BOARD IMPACT

To the extent that providing these financial incentives encourages additional water quality improvement projects and drought-relief, it will assist Regional Boards with achieving water quality goals, objectives and performance metrics.

STAFF RECOMMENDATION(S)

The State Water Board should rescind the \$800 million cap on 1.0 percent CWSRF financing set forth in Resolution No. 2014-0015.

The State Water Board should authorize the Deputy Director of the Division to approve 1.0 percent CWSRF financing for any otherwise eligible water recycling project where a complete application, as determined by the Division, for that project was submitted on or before December 2, 2015.

³ On January 4, 2016 the State Water Board approved the sale of 1.2 billion of revenue bonds.

The State Water Board should limit 1.0 percent CWSRF financing to those projects with an application submitted on or before December 2, 2015, and listed on Attachment A, and not allow substitutions if any of those projects are unable to proceed for any reason.

State Water Board action on this item will assist the Water Boards in reaching Goal 3 of the Strategic Plan Update: 2008-2012. In particular, approval of this item will (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.

DRAFT

STATE WATER RESOURCES CONTROL BOARD RESOLUTION NO. 2016-

TO AMEND AND CLARIFY THE REDUCED INTEREST RATE INCENTIVE FOR RECYCLED WATER PROJECTS FUNDED THROUGH THE CLEAN WATER STATE REVOLVING FUND (CWSRF) IN RESPONSE TO THE DROUGHT

WHEREAS:

1. California has experienced record dry conditions for the last four years. These dry conditions can occur on a regular basis, and are projected to be exacerbated by climate change;
2. The Governor issued a "Proclamation of a State of Emergency" (2014 Drought Proclamation) on January 17, 2014;
3. Order Number 6 of the 2014 Drought Proclamation states "*The Department of Water Resources and the Water Board will accelerate funding for water supply enhancement projects that can break ground this year and will explore if any existing unspent funds can be repurposed to enable near-term water conservation projects*";
4. Among other activities taken, the State Water Board responded to the 2014 Drought Proclamation by offering financing incentives through its CWSRF program for the construction of recycled water facilities in its [Resolution No. 2014-0015](#) adopted on March 18, 2014;
5. The State Water Board is required under both state and federal law to maintain the CWSRF in perpetuity;
6. Resolution No. 2014-0015 reduced the CWSRF's interest rate to 1.0 percent with a cap of \$800 million for water recycling projects for which complete financial assistance applications had been submitted to the Division of Financial Assistance (Division) by December 2, 2015;
7. On November 4, 2014, the voters passed the Water Quality, Supply, and Infrastructure Improvement Act of 2014 (Proposition 1);
8. Proposition 1 authorized the State Water Board to provide \$725 million for water recycling project loan and grant funding, which program is also implemented by the Division; and
9. By December 2, 2015, the Division received complete applications for water recycling projects that exceeded the State Water Board's \$800 million cap on 1.0 percent funding for CWSRF projects.

DRAFT

THEREFORE BE IT RESOLVED THAT:

The State Water Board amends and clarifies Resolution No. 2014-0015 as follows:

1. The \$800 million cap on 1.0 percent CWSRF financing set forth in Resolution No. 2014-0015 is rescinded;
2. The Deputy Director of the Division is authorized to approve 1.0 percent CWSRF financing for any otherwise eligible water recycling project where a complete application, as determined by the Division, for that project was submitted on or before December 2, 2015;
3. The State Water Board shall limit 1.0 percent CWSRF financing to those projects with an application submitted on or before December 2, 2015, and listed on [Attachment A](#), and not allow substitutions if any of those projects are unable to proceed for any reason.

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 February 16, 2016.

Jeanine Townsend
Clerk to the Board