



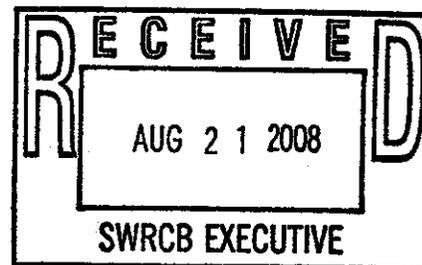
BARTLE WELLS ASSOCIATES
INDEPENDENT PUBLIC FINANCE ADVISORS

1889 Alcatraz Avenue
Berkeley, CA 94703
510 653 3399 fax: 510 653 3769
www.bartlewells.com

Sent Via U.S. Mail and Electronic Mail

August 21, 2008

Ms. Jeanine Townsend
Clerk to the Board
State Water Resources Control Board
1001 "I" Street, 24th Floor
Sacramento CA 95814



Re: Amendment to the Policy for Implementing the CWSRF

Dear Ms. Townsend:

The State Water Resources Control Board (State Water Board) plans to amend the Policy for Implementing the Clean Water State Revolving Fund for Construction of Wastewater Treatment Facilities (CWSRF Policy). Bartle Wells Associates (BWA) has reviewed the State Water Board's July 22, 2008 notice of a proposed amendment to the CWSRF Policy and the draft policy changes. By means of this letter BWA submits its comments on the proposed amendments to the CWSRF Policy.

By way of an introduction, BWA is a public finance consulting firm and has advised hundreds of public agencies (cities, counties, and special districts) in California on wastewater rates and financing. We have assisted many wastewater agencies in obtaining State Revolving Fund (SRF) loans and are currently working with several wastewater agencies seeking SRF loans.

BWA wishes to comment on the following significant changes proposed by the State Water Board: (1) deletion of the revenue program guidelines, (2) dedicated sources of funds, and (3) future local debt. In general BWA does not object to a credit review plan; however, we have specific comments on the current proposal.

Revenue Program Guidelines [Pages 24-26 of Exhibit B, Proposed Amendment in the color-coded track-changes version]

The proposed CWSRF Policy Amendment deletes the Revenue Program Guidelines. **BWA strongly recommends retaining Appendix G, Revenue Program Guidelines.**

The Guidelines have been part of SWRCB policy since 1974 and are extremely helpful to wastewater agencies in establishing fair and equitable wastewater service charges. Prior to the guidelines, wastewater rate setting was often a political process controlled by large industries or other special interest groups. Proposition 218 helps but does not provide

specific rate setting guidance. The Guidelines including the "List of Useful Lives and Allocation Parameters", "Commercial User Strength Characteristics," and Tables G-1 through G-5 provide a legitimate reference source and are used extensively in the industry for rate setting.

Wastewater agencies have used the Guidelines in the sometimes contentious rate setting process. The Guidelines have often proved the difference in requiring that all customers, including large and politically powerful users, pay their fair share.

Dedicated Source(s) of Funds [Pages 26-27 of Exhibit B, Proposed Amendment in the color-coded track-changes version]

The CWSRF Policy lists dedicated sources can be general taxes, user fees, a special assessment or other sources. To clarify what sources can be used, BWA recommends expanding the list of dedicated sources of funds to include capacity fees, connection fees, interest earned on cash investments, and any legally available funds of the wastewater agency. Furthermore, the term "general taxes" is unclear.

Future Local Debt [Pages 42-43 of Exhibit B, Proposed Amendment in the color-coded track-changes version]

The proposed CWSRF Policy states that in the financing agreement there will be a provision requiring future local debt to be subordinate to the CWSRF debt. This provision may be waived at the discretion of the State Water Board if certain criteria are met.

This provision should be eliminated or amended so that local agencies can issue debt on parity with CWSRF debt as is the current policy.

Requiring small agencies to subordinate their future debt will effectively block them from the municipal debt market or result in excessively high interest rates, which could limit their ability to comply with SWRCB wastewater requirements.

We see no compelling reason for this onerous provision. To our knowledge there have been no defaults on California SRF loans. The proposed provision seems to conflict with the purpose of CWSRF program to assist in financing wastewater projects.

Furthermore, the proposed waiver of the subordinate debt requirement requires two credit ratings with "A" ratings or better. There are several problems with this approach:

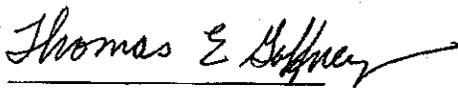
- Many agencies borrow without obtaining any credit ratings (for example via bank loans, private placements and other state and federal funding programs).
- The provision is punitive to small agencies that may not be able to obtain adequate credit ratings due to their size.
- The provision is punitive to agencies located in less affluent areas, whose credit ratings would likely be affected by regional economics.
- The provision will likely preclude many agencies from obtaining funding from other state and federal programs that may not agree to have their debt subordinate to CWSRF debt.
- Making any future local debt subordinate to the CWSRF debt would unduly restrict the ability of wastewater agencies to borrow money in the future.

Additionally, BWA finds the three-year net revenue pledge language confusing and not in conformance with general municipal debt practice.

In conclusion, BWA appreciates the opportunity to comment on the proposed CWSRF Policy changes. We hope our comments will lead to a more successful loan program.

Very truly yours,

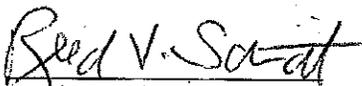
BARTLE WELLS ASSOCIATES



Thomas E. Gaffney, CIPFA
Principal



Douglas R. Dove, CIPFA
Principal



Reed V. Schmidt, CIPFA
Principal



Alex T. Handlers, CIPFA
Principal