

Item 12

# STATE REVOLVING FUND LOAN PROGRAM

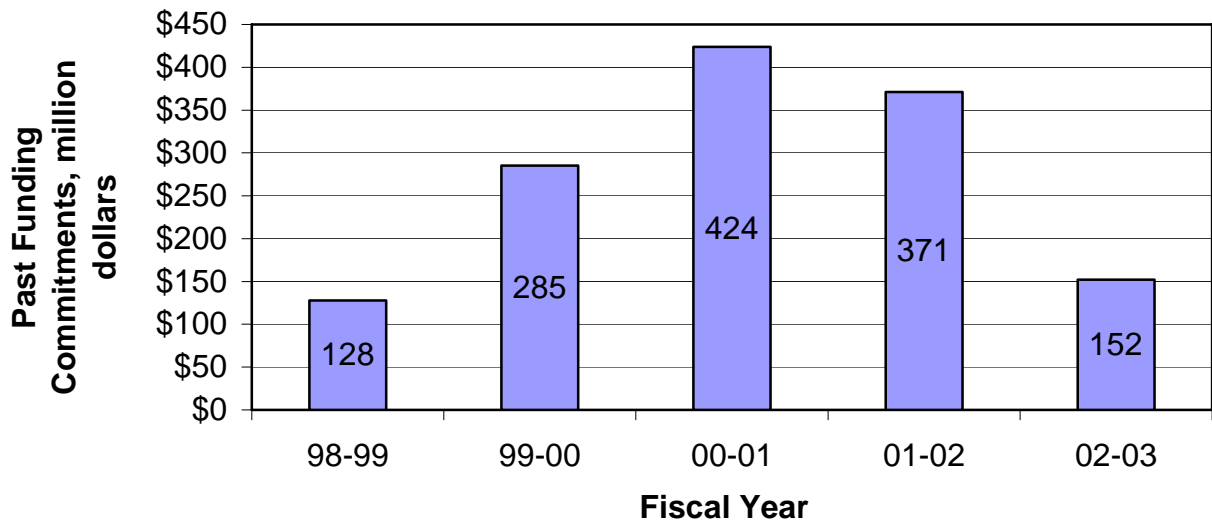
## Current Status and Upcoming Actions

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### SRF Program Background

- The State Revolving Fund (SRF) Program is a joint Federal/State funded program that makes loans for wastewater system improvements, correction of non-point source pollution problems, and implementation of estuary enhancement programs.
- Since 1989 the Program has made 278 loans for a total loan balance of about \$3 billion. The Program has received about \$1.6 billion in capitalization grants from the United States Environmental Protection Agency (USEPA). Additional funds have come from State bond measures and the sale of \$300 million of revenue bonds in 2002.
- State Water Resources Control Board (State Water Board) stopped making new loan commitments in November 2003.
  - Cash balance prevented further loan commitments.
  - Staffing shifted to handle Proposition 40 and 50 programs.
- The State Water Board had committed an average of \$272 million per year, over the five years, prior to suspending the Program.

**Funding Commitment Levels per Fiscal Year Prior to Suspending SRF Program**



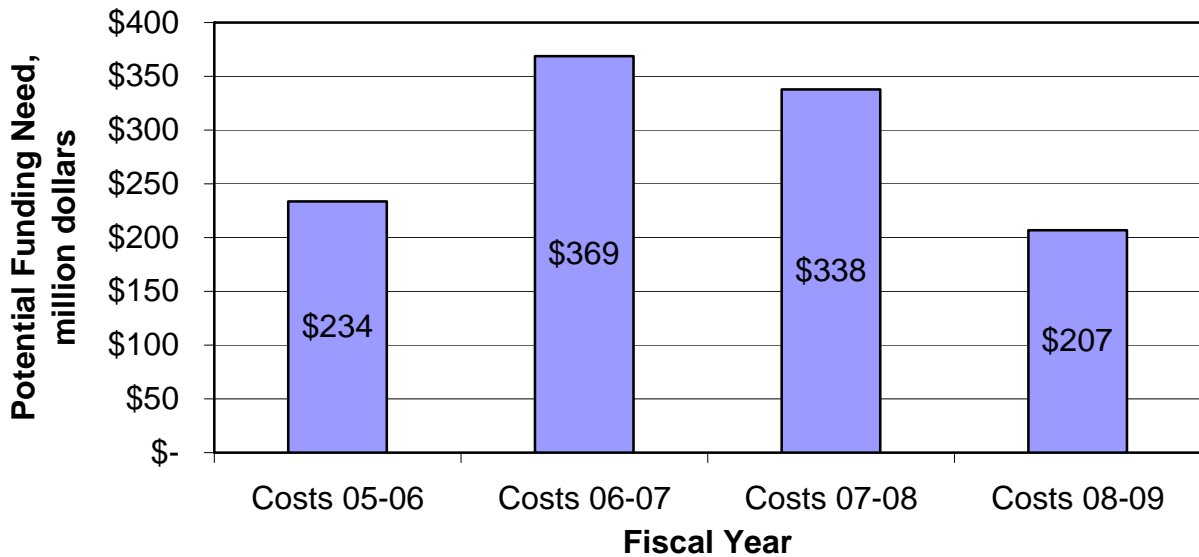
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**SRF Current Status**

- Some funds are now available to the SRF Program. These include:
  - Repayments from existing loans.
  - Capitalization grants from US EPA.
  - Funds deobligated from projects that did not use all of their funding commitment.
- Sufficient funds are available to make loan commitments to projects for disadvantaged communities that receive Small Community Wastewater Grants (SCWG) [Prop. 40 and 50 Funds], and the State Water Board has already committed itself to providing SRF loan funds to these disadvantaged communities [Resolution 2005-0045, June 16, 2005].
- Staff has identified about \$1 billion in pending project costs that could be funded over about the next four years.

**Potential Funding Needs by Fiscal Year**



- The additional funds available for new commitments are not enough to sustain continuous operation of the program considering the current demand. Furthermore, US EPA Capitalization Grants are expected to decrease in the future, and may be eliminated. With the current expected cash flow, the SRF Program would go into intermittent operation for several years and would not be able to maintain continuous availability of funds.

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**Future SRF Considerations**

- Another revenue bond sale will make SRF funding more consistent and more available.
  - State Water Board staff has initiated revenue bond planning; a kick-off meeting was held May 31, 2005.
  - Staff is currently working with Infrastructure and Economic Development Bank and other financial advisors to determine size and timing of the proposed bond sale(s); likely one or two sales between \$200 to \$300 million each.
  - Best timing for bond sale likely in Fall 2005; staff will work with all involved parties to determine the best timing.
  - Staff will present a resolution approving bond sale for State Water Board consideration at the September 2005 Workshop and Board Meeting.
  - If the Board approves the bond sale, staff will begin administratively processing applications in advance of the revenue bond sale in order to have projects ready for bond sale proceeds.
  
- Incorporating Sustainability into the SRF Policy is important to the long-range goals of the State Water Board.
  - State Water Board identified Sustainability as a Core Value on January 20, 2005 (Resolution 2005-0006).
  - Staff analyzed ways to incorporate Sustainability into the SRF Program and developed a series of recommendations.
  - Staff is preparing draft SRF Policy changes for management and public review.
  - Draft Policy revisions will be released in late July 2005 for 30-day public comment period.
  - Draft Policy revisions will be presented to State Water Board at September 2005 Workshop and Board Meeting.