

STATE WATER RESOURCES CONTROL BOARD
WORKSHOP SESSION - DIVISION OF FINANCIAL ASSISTANCE
SEPTEMBER 7, 2005

ITEM 6

SUBJECT

AUTHORIZATION FOR THE CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (CIEDB) TO SELL REVENUE BONDS UP TO \$300 MILLION FOR THE CLEAN WATER STATE REVOLVING FUND (SRF) LOAN PROGRAM

DISCUSSION

The SRF Program is a joint Federal/State funded program designed to help California meet the goals of the Federal Clean Water Act (33 U.S.C.A. 1251 et seq.). The SRF Program makes loans for wastewater and water recycling system improvements, correction of non-point source pollution problems, and implementation of estuary enhancement programs. The SRF Program has received about \$1.6 billion in capitalization grants from the United States Environmental Protection Agency (US EPA). Additional funds have come from State bond measures and the sale of \$300 million of revenue bonds in 2002. Since 1989 the Program has made 278 loans for a total loan balance of about \$3 billion.

The SRF is currently not making loan commitments. The State Water Resources Control Board (State Water Board) stopped making new SRF loan commitments to projects in November 2003 because the cash balance prevented further loan commitments. The State Water Board had committed an average of \$272 million per year for the five years prior to suspending the Program.

Some funds are available to the SRF Program at present. These include (1) repayments from existing loans, (2) Capitalization Grants from US EPA, and (3) funds deobligated from projects that did not use all of their funding commitment. Sufficient funds are available to make loan commitments to small, financially disadvantaged communities for projects that receive Small Community Wastewater Grants (SCWG) from Proposition 40 and 50 funds. The State Water Board has already committed itself to providing SRF loan funds to these small, financially disadvantaged communities in Resolution 2005-0045 adopted on June 16, 2005.

The Division of Financial Assistance (Division) staff have identified approximately \$1 billion in other pending project costs that could be funded by the SRF over the next four years. In addition, US EPA Capitalization Grants are expected to decrease in the future, and may be eliminated. The funds available to the SRF are not enough to sustain continuous operation of the program considering the current cash flow and project demand. 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.

It appears that one or two more revenue bond sales of approximately \$200 million to \$300 million will be needed to make SRF funding more consistent and more available. The Division proposes that the State Water Board authorize the CIEDB to sell up to \$300 million in revenue bonds on behalf of the State Water Board to meet present cash flow demands and to maintain the \$25 million reserve for the

SRF. The bonds would be sold only when needed to meet actual loan recipient cash demands, and repayments from existing loans will be used to repay the principal and interest on the revenue bonds.

Based on the projected demand for cash in State Fiscal Years (SFY) 2005/06 through 2008/09, leveraging is appropriate to meet this demand. It is also prudent for the State Water Board to sell additional revenue bonds because it provides additional assurance to loan recipients that funds will be available to meet cash flow needs should Federal capitalization grants decrease or be eliminated in the future.

CIEDB previously sold revenue bonds on behalf of the State Water Board pursuant to Government Code 63048.5 et. seq in August 2002. Authorizing CIEDB to sell revenue bonds again on behalf of the SRF will save a significant amount of time and cost because the State Water Board will not have to seek legislation giving it this authority directly.

State Water Board staff initiated revenue bond planning on May 31, 2005, by meeting with the "Financial Team." The Financial Team includes CIEDB, a Financial Advisor, Bond Counsel, and Bond Underwriters. Staff has worked with the Financial Team to determine the size and timing of the proposed bond sale. Based on current cash flow projections, a bond sale of approximately \$300 million will likely meet the cash flow needs over the next three years for those projects that will proceed to construction in State Fiscal Year 2005/06. The Financial Team will continue to work on the timing for the bond sale to best fit the SRF program's cash flow needs.

The cash flow projection for pending projects indicates that additional funds may be needed as additional projects become ready for construction over the next several years. The Division's proposal to authorize the sale of up to \$300 million in revenue bonds is not meant to limit leveraging to this amount. If future cash demand exceeds the available cash, the Division would request additional authorizations to sell revenue bonds.

Division staff have begun administratively processing applications in advance of the revenue bond sale to prepare projects to receive bond sale proceeds. It is important that projects receive proceeds from the bond sale in a timely manner because the proceeds must be disbursed within three years to satisfy Internal Revenue Service (IRS) rules and completing the projects in a timely manner is important for protecting and improving water quality.

Because the demand for SRF funds exceeds the supply of funds, the State Water Board has historically established an annual funding cap for SRF loans to ensure that loan funds are distributed to a variety of applicants. The State Water Board adopted Resolution No. 99-040 on May 20, 1999 establishing a funding cap of \$25 million per fiscal year per loan recipient. The funding cap is based largely on the estimated available cash in the coming fiscal year. Based on the cash flow projection for the next fiscal year, Division staff recommend that the funding cap remain at \$25 million per fiscal year per recipient. This level should be sufficient to fund most projects and still ensure that smaller projects are able to compete for available funds.

In order to best utilize future bond funds, Division staff recommend that the Chief of the Division be given authority to accelerate project funding disbursements, and exceed a recipient's yearly cap, as long as total funding for the project remains under the amount the project would have received under the ultimate cap amount. This will allow the Division to more efficiently manage the SRF program's cash flow and expenditure of bond funds so that the time frame for expending the bonds as set by the IRS rules can more easily be met.

POLICY ISSUE

Should the State Water Board authorize the CIEDB to sell on behalf of the State Water Board up to \$300million in revenue bonds for the SRF in order to meet cash flow needs?

Should the Chief of the Division be given authority to accelerate project funding disbursements and exceed a loan recipient's funding cap in a particular year as long as the loan recipient ultimately receives the same funding amount if it had remained under the cap?

FISCAL IMPACT

Both the Division of Financial Assistance and Division of Administrative Services estimate that the administrative work to process loans can be accommodated within the currently budgeted staffing levels for the SRF.

Costs to pay the Financial Team members for selling the bonds can be paid from proceeds of the bond sales.

The Division's projections indicate that there is approximately \$1 billion in pending projects that could be funded over the next four years. Currently, the cash balance in the SRF account is approximately \$200 million. The Division proposes to begin funding projects with the cash in the SRF account, and then proceed with a \$300 million revenue bond sale to meet the cash flow needs for those projects as they continue through construction. Another bond sale may also be required in two or three years to maintain adequate cash flow and complete the projects underway. In this way, the funding level would not provide more funds than could be used such that the SRF Program would be subject to taxation or penalties, or such that unused funds authorized in the Capitalization Grant from the US EPA would revert back to the federal government.

REGIONAL WATER BOARD IMPACT

None.

RECOMMENDATION

That the State Water Board authorize the CIEDB to sell on behalf of the State Water Board up to \$300 million in revenue bonds for the SRF as the cash is needed to meet cash flow needs.

STATE WATER RESOURCES CONTROL BOARD
RESOLUTION NO. 2005 – __

AUTHORIZATION TO COORDINATE WITH THE CALIFORNIA INFRASTRUCTURE
AND ECONOMIC DEVELOPMENT BANK (CIEDB) TO SELL REVENUE BONDS UP TO
\$300 MILLION FOR THE STATE REVOLVING FUND (SRF) LOAN PROGRAM

WHEREAS:

1. The State Water Resources Control Board (State Water Board) stopped making new SRF loan commitments in November 2003 because the cash balance showed that the program could not support additional loan commitments and available staff resources were needed to support Proposition 40 and 50 grant programs;
2. Loan contracts cannot be issued to new projects without sufficient cash flow to make projected disbursements;
3. The State Water Board desires to fund all “ready” projects up to the funding cap;
4. The California Infrastructure and Economic Development Bank (CIEDB) has the statutory authority to sell infrastructure revenue bonds pursuant to Government Code 63000 et. seq. on behalf of the SRF Program;
5. An authorization to sell up to \$300 million in revenue bonds would allow the State Water Board to make loan commitments to projects projected to start construction in State Fiscal Year 2005/06; and
6. The State Water Board established a funding cap of \$25 million per fiscal year per loan recipient in Resolution No. 99-040 on May 20, 1999, and the \$25 million cap has been in effect since May 20, 1999.

THEREFORE BE IT RESOLVED THAT:

The State Water Resources Control Board:

1. Authorizes the CIEDB to sell up to three-hundred million dollars (\$300,000,000) in revenue bonds as necessary to meet the cash flow needs of the SRF;
2. Authorizes Division of Financial Assistance (Division) to continue coordination with the “Financial Team” to sell revenue bonds to meet cash flow demands for the SRF Program;
3. Directs the Division staff to begin making loan commitments in advance of the revenue bond sale in order to have projects ready to receive bond sale proceeds;
4. Directs Division to monitor loan approvals and estimated disbursements and seek authorization from the State Water Board for additional revenue bond sales as needed;
5. Confirms continuation of the funding cap per fiscal year per loan recipient at \$25 million; and

6. Authorizes the Chief of the Division of Financial Assistance to accelerate project funding disbursements and exceed a loan recipient's funding cap in a particular year as long as the loan recipient ultimately receives the same funding amount if it had remained under the cap.

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 September 22, 2005.

Debbie Irvin
Clerk to the Board