

**STATE WATER RESOURCES CONTROL BOARD
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE
JUNE 7, 2006**

ITEM 9

SUBJECT

ADOPTION OF THE STATE FISCAL YEAR (SFY) 2006/07 STATE REVOLVING FUND (SRF) LOAN PROGRAM PRIORITY LIST (LIST)

DISCUSSION

The SRF Loan Program is a joint Federal and State program that provides low interest loans to local governments and non-profit organizations in California for construction of wastewater treatment and recycling facilities, implementation of non-point source and storm drainage pollution correction measures, and development and implementation of estuary enhancement and management programs. Since the program's inception in 1989, it has made about 300 loans totaling more than \$3 billion to local governments and non-profit organizations in California.

In accordance with the Clean Water Act and federal regulations, the staff of the Division of Financial Assistance (Division) have updated and published the SFY 2006/07 List. A project must appear on the List to be eligible to compete for loan assistance.

The SFY 2006/07 List contained in Exhibit A reflects recommendations submitted by all nine Regional Water Quality Control Boards (Regional Water Boards) and State Water Board staff. The Division provided interested parties two opportunities to review the draft List. Staff notified subscribers of relevant State Water Board electronic mailing lists of their opportunity to comment on the proposed List; the List was posted on the State Water Board website for review. The first review period was held between April 26, 2006, and May 12, 2006; it provided interested parties an opportunity to review the draft List and provide any corrections, omissions, and additions. The second review period was held between May 15, 2006, and May 30, 2006, and provided interested parties an opportunity to make Policy comments to the State Water Board. Division staff made changes to the List in Exhibit A to address comments submitted by the public and interested parties by the end of both comment periods.

The List is based on a five-year planning period; each project on the List identifies the year the agency expects that loan funds will be needed. The first year of the five-year planning period is known as the fundable year. It is reserved for those projects that have received a preliminary loan commitment. All projects not on the fundable portion of the List, the remaining four years, compete on a first-come, first-served basis for preliminary loan commitments until all available funds are committed.

The amount of funds available at any time for new loan commitments is based on the Program's projected cash flow. The cash flow model includes anticipated Federal funding, State funds that can be used to fulfill the required State match, repayments from existing loans, projected disbursements for existing loan commitments, the sale of revenue bonds, and a minimum SRF balance of \$25 million. (Federal appropriations and project disbursements are uncertain; the amount available for loan commitments might be higher or lower than estimated.)

Three specific issues were identified in the notice advising the public and interested parties of their opportunity to provide comments to the State Water Board:

1. Adoption of the SFY 2006/07 List – Division staff solicited projects from all nine Regional Water Boards and State Water Board staff. The Division also provided interested parties with the opportunity to review the draft List and point out any omissions, corrections, and

additions. Division staff has incorporated all input received on the draft List and recommends that the State Water Board adopt the SFY 2006/07 List.

2. SRF Funds – The State Water Board is currently implementing the SRF program, and Division staff estimates that there will be approximately \$154 million available in 2006/07 for new loan commitments based on current cash flow. In September 2005, the State Water Board authorized the sale of up to \$300 million in additional Revenue Bonds to supplement the cash flow of the program. Division staff is closely monitoring the cash flow needs of upcoming projects to determine the best time to sell additional bonds to meet the cash requirements of applicants and the program. The presently estimated cash flow plus the additional revenue bonds should be sufficient to meet the cash needs of all projects reasonably expected to apply for SRF loan funding in 2006/07. The Division recommends that the State Water Board make the funds in the SRF account available for commitment to any project in Priority Classes A through D and Needs Categories I through X.
3. Funding cap and accelerated disbursements – 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. The \$25 million cap has been in effect since May 20, 1999, and was reaffirmed by the State Water Board on September 22, 2005 in Resolution No. 05-064. Resolution No. 05-064 also authorized the Chief of the Division 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. The Division recommends that the State Water Board maintain the cap at the current level of \$25 million and reaffirm the Division Chief's discretion to accelerate project disbursements. The \$25 million cap is generally sufficient to fund most projects while also helping the State Water Board ensure that available funds are distributed equitably. Moreover the ability to accelerate project disbursements provides additional management flexibility to provide additional cash flow for select projects.

POLICY ISSUES

1. Should the State Water Board adopt the SFY 2006/07 SRF Loan Program Priority List?
2. Should the State Water Board make available SRF loan funds for preliminary loan commitments to projects that are in Priority Classes A through D and all needs categories?
3. Should the State Water Board maintain the current \$25 million funding cap and reaffirm the Division Chief's discretion to accelerate disbursement schedules for a loan recipient 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

The development and adoption of the List is a requirement of the Federal Clean Water Act and associated regulations. The staff required to administer loans for projects on the fundable portion of the List is funded by a four-percent administrative set-aside from each Federal Capitalization Grant. Staffing levels approved for the Division for SFY 2006/07 will be sufficient to review and process projects from the fundable portion of the list that are expected to submit documents for review.

REGIONAL WATER BOARD IMPACT

Yes - All Regional Water Boards.

STAFF RECOMMENDATION

1. The State Water Board should adopt the SFY 2006/07 SRF Loan Program Priority List.
2. The State Water Board should make SRF loan funds available for preliminary loan commitments to projects in Priority Classes A through D and all needs categories.
3. The State Water Board should reaffirm the \$25 million funding cap and reaffirm the Division Chief's discretion to accelerate project disbursements for a loan recipient in a particular year as long as the loan recipient ultimately receives the same funding amount if it had remained under the cap.

**STATE WATER RESOURCES CONTROL BOARD
RESOLUTION NO. 2006 -**

ADOPTION OF THE STATE FISCAL YEAR (SFY) 2006/07
STATE REVOLVING FUND (SRF) LOAN PROGRAM PRIORITY LIST

WHEREAS:

1. The Division of Financial Assistance (Division) has developed the SFY 2006/07 SRF Loan Program Priority List based on input from the Regional Water Quality Control Boards, staff of the State Water Resources Control Board (State Water Board), and interested parties consistent with the Federal Clean Water Act and associated regulations;
2. The State Water Board has sufficient funds to process new loan applications for the SRF Program;
3. It is expected that the federal appropriations bill for Federal Fiscal Year (FFY) 2006 will not place any limitations on which Federal Clean Water Act Needs Categories can receive funding; and
4. Up to four percent of the FFY 2006 Federal Capitalization Grant is available for state administration.

THEREFORE BE IT RESOLVED THAT:

The State Water Board:

1. Approves the placement of projects in Priority Classes A through D with a preliminary loan commitment on the fundable portion of the SFY 2006/07 SRF Loan Program Priority List;
2. Directs that funding for all Needs Categories be eligible for the fundable portion of the SFY 2006/07 List;
3. Directs that the funding cap be maintained at the current level of \$25 million per year per agency and reaffirms the Division Chief's discretion to accelerate project disbursements for a loan recipient in a particular year as long as the loan recipient ultimately receives the same funding amount if it had remained under the cap.
4. Approves the set-aside of up to four percent of the FFY 2006 Capitalization Grant for SRF Loan Program administration;
5. Adopts the SFY 2006/07 SRF Loan Program Priority List; and
6. Cautions that placement on the list is not a guarantee of funding, as "readiness to proceed" is a factor to be evaluated by the Division, encompassing among other things, credit worthiness.

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 June 7, 2006.

Song Her
Clerk to the Board

EXHIBIT A
SFY 2006/07 SRF LOAN PROGRAM PRIORITY LIST

(Will be available after May 30th)