

STATE WATER RESOURCES CONTROL BOARD
BOARD MEETING SESSION - DIVISION OF FINANCIAL ASSISTANCE
NOVEMBER 16, 2005

ITEM 7

SUBJECT

STATE REVOLVING FUND LOAN PROGRAM (SRF PROGRAM) REIMBURSEMENT
RESOLUTION

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 Program receives its funds from the United States Environmental Protection Agency (US EPA), State bond measures, the sale of revenue bonds, and the repayment of outstanding loans. Since 1989, the SRF Program has made 284 loans for a total loan balance of over \$3 billion.

The Division of Financial Assistance (Division) has identified approximately \$1 billion in pending project costs that could be funded by the SRF Program over the next four years. The SRF Program at present has sufficient funds to start several of these projects, but not enough to sustain continuous funding of the program, considering the current cash flow and funding demand. The State Water Resources Control Board (State Water Board) approved the sale of \$300 million in additional revenue bonds on September 22, 2005, to help meet this demand.

The State Water Board wishes to proceed with funding the construction of wastewater and water recycling system improvements using the funds it currently has and reimburse itself with the proceeds of the revenue bond sale. This will help the State Water Board stimulate the construction of much needed system improvements now. It will also provide the State Water Board with greater flexibility to meet the disbursement deadlines associated with the bond sale and to reduce the risk that the SRF Program will incur taxation or penalties on un-disbursed revenue bond proceeds.

Internal Revenue Service (IRS) rules require that the recipient of tax-exempt revenue bond proceeds declare its intent to reimburse itself for costs it previously paid from its own funds no later than 60 days after the sale of those bonds. This resolution is an official statement of intent by the State Water Board to show that it is complying with IRS rules.

POLICY ISSUE

Should the State Water Board declare its intent to reimburse itself for expenditures to construct or reconstruct public facilities and improvements for wastewater and water recycling systems with proceeds from the sale of obligations whose interest is exempt from gross income?

FISCAL IMPACT

There will be a minor increase in administrative costs associated with the State Water Board reimbursing itself for project costs that were previously paid by the SRF account.

REGIONAL WATER BOARD IMPACT

None.

RECOMMENDATION

That the State Water Board declares its intent to reimburse itself for expenditures to construct or reconstruct public facilities and improvements for wastewater and water recycling systems with proceeds from the sale of obligations whose interest is exempt from gross income.

STATE WATER RESOURCES CONTROL BOARD
RESOLUTION NO. 2005 –

STATE REVOLVING FUND LOAN PROGRAM REIMBURSEMENT RESOLUTION

WHEREAS:

1. The State Water Resources Control Board (State Water Board) desires to finance the costs of constructing or reconstructing certain public facilities and improvements relating to wastewater and water recycling systems, including certain treatment facilities, pipelines and other infrastructure (Projects);
2. The State Water Board intends to finance the construction or reconstruction of these Projects or portions of the Projects with funds (Project Funds) provided by the sale of interest yielding obligations (Obligations);
3. The State Water Board may fund the Projects or portions of the Projects with proceeds from the sale of Obligations the interest upon which is excluded from gross income for federal income tax purposes; and
4. Prior to either the issuance of the Obligations or the approval by the State Water Board of the Projects, the State Water Board desires to incur certain capital expenditures (Expenditures) with respect to the Projects from available funds of the State Water Board.

THEREFORE BE IT RESOLVED THAT:

The State Water Board:

1. States its intention and reasonably expects to reimburse Expenditures paid prior to the issuance of the Obligations or the approval by the State Water Board of the Project Funds;
2. Has determined that the reasonably expected maximum principal amount of the Project Funds is \$300,000,000;
3. Affirms that this resolution is being adopted no later than 60 days after the date on which the State Water Board will expend funds for the portion of the Project costs to be reimbursed with Project Funds;
4. Has determined that each Expenditure by the State Water Board will be of a type properly chargeable to a capital account under general federal income tax principles;
5. Declares that to the best of our knowledge, this Agency is not aware of the previous adoption of official intents by the State Water Board that have been made as a matter of course for the purpose of reimbursing expenditures and for which tax-exempt obligations have not been issued;
6. Adopts this resolution as official intent of the State Water Board in order to comply with Treasury Regulation §1.150-2 and any other regulations of the Internal Revenue Service relating to the qualification for reimbursement of Project costs; and

7. Declares that all the recitals in this Resolution are true and correct.

CERTIFICATION

The undersigned, Acting 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 November 16, 2005.

Selica Potter
Acting Clerk to the Board