



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

JAN 03 2013

OFFICE OF
WATER

MEMORANDUM

SUBJECT: Approval of California Clean Water State Revolving Fund Extended Term Financing for Communities in Financial Distress or Financial Emergency

FROM: George Ames, Chief (4204M) 
State Revolving Fund Branch

TO: Douglas E. Eberhardt, Chief
Sustainable Infrastructure Office, Region IX (WTR-4)

We have reviewed the California State Water Resources Control Board's (SWRCB) proposal dated October 23, 2012, requesting U.S. Environmental Protection Agency (EPA) approval to allow SWRCB to offer 30 year extended term financing within the California Clean Water State Revolving Fund (CWSRF) Program. Based upon the information contained in the proposal, I am approving by copy of this memorandum the change to the California CWSRF Program to include this provision for 30 year extended term financing for communities in financial distress or financial emergency.

The basic requirements for extended term financing have been satisfied in SWRCB's proposal and shall be maintained while the California CWSRF is offering this financing. These include:

- The California CWSRF buys or refinances debt obligations from municipalities and inter-municipal and interstate agencies pursuant to Section 603(d)(2) of the Clean Water Act.
- The California CWSRF must require that the community establish a dedicated source of revenue for bond repayments (e.g., a general obligation or revenue obligation pledge to guarantee their repayments), or provide some form of security which will guarantee bond repayment in the event of a default (e.g., property lien, etc.).
- All principal and interest received from bond payments must be deposited into the California CWSRF as provided under Section 603(d)(1)D.

- Interest rates must be at or below the market rate, or for 0% interest as provided under Section 603(d)(1)A.
- The long-term revolving nature of the California CWSRF must be protected by either (1) demonstrating that the projected revolving level of the California CWSRF will not decrease by 10% or more with the use of extended term financing as compared to the revolving level the California CWSRF would attain if extended term financing were not offered, using a 60-year projection period, or (2) SWRCB must maintain its CWSRF program's historical average annual assistance levels, or baseline. The impact of extended term financing on the California CWSRF must be included in a section within their annual report provided to EPA.
- Extended term financing will be available to all California communities in financial distress or financial emergency.
- Extended term financing cannot exceed the lesser of the useful life of the underlying asset or 30 years. For restructured assistance agreements, the term of the financing must not extend more than 30 years past the original project completion date.

I understand that the Region will provide guidance to the SWRCB on the steps necessary to incorporate its 30 year extended term financing proposal into their CWSRF Operating Agreement. I recommend that the SWRCB report annually on their plans for offering 30-year financing by identifying in the Intended Use Plan those projects that will receive 30-year financing, and the SWRCB should also report on the projects that received 30-year loans in their Annual Report.

This agreement satisfies EPA's interest in maintaining the performance of the California CWSRF while allowing the California CWSRF to offer an additional financing option that will make it more affordable for communities to borrow from the fund. We look forward to our continued cooperation in providing financial assistance for needed water quality improvement activities within the State of California.

cc: Juanita Licata (Region IX)
Sheila Platt
Kelly Tucker
Mark Mylin