

## Attachment A

### EXTENDED TERM FINANCING PROGRAM APPROVAL CRITERIA

The California State Water Resources Control Board (State Water Board) will submit an Extended Term Financing (ETF) application to the United States Environmental Protection Agency (U.S. EPA). If approved, the State Water Board will offer ETF to regionalization projects in addition to small, disadvantaged communities as part of the Clean Water State Revolving Fund (CWSRF) Program. California's ETF Program proposal is structured to address U.S. EPA's eight ETF evaluation criteria.

#### **Evaluation Criteria:**

- 1. The State Water Board buys or refinances debt obligations from municipalities at or below market rates.**
  - The State Water Board may purchase or refinance a municipality's bond or other debt, secured by adequate pledged revenues or other collateral, where the initial debt was incurred after March 7, 1985, and building began after that date. (33 USC § 603(d)(2); 40 CFR § 35.3120(b); Water Code § 13480(b)(2).)
- 2. ETF is available to disadvantaged communities only. The state defines "small disadvantaged community."**
  - The California CWSRF program requests to offer extended term financing to regionalization projects, in addition to small disadvantaged communities. Offering 30 year financing will promote regionalization. Regionalization achieves efficiency and better water quality by reducing the number of individual treatment and collection systems. Regionalization can also result in lower wastewater costs because multiple agencies are sharing the infrastructure and operation costs.
- 3. ETF cannot exceed the least of the following: (1) the life of the underlying asset, (2) 30 years, or (3) the time necessary to overcome the threshold at which the project becomes affordable for the community.**
  - An applicant will need to determine the useful life of the treatment works or other project for which ETF is sought, and provide an assessment of the project's useful life as part of the Project Report. Division of Financial Assistance (DFA) staff will review each project to check that the infrastructure financed has a useful life of at least the term of the financing. DFA staff will also review the applicant's Affordability Analysis to check that the time necessary to make the project affordable for the community is consistent with the financing period (e.g., 30 years maximum).

**4. The State Water Board must require that the community establish a dedicated source of revenue for debt payments (e.g., a general obligation or revenue obligation pledge to guarantee their payments), or provide some form of security which will guarantee debt payment in the event of a default (e.g., property lien, etc.).**

- The applicant will be required to provide proof of a dedicated source of revenue consistent with existing practice:

“Revenue will be considered dedicated when the Agency passes an ordinance or resolution committing a source of funds for payments. The Agency must submit a draft ordinance or resolution dedicating a legal and adequate source of revenue for payment of the CWSRF financing agreement before facility plan approval (FPA). The ordinance or resolution dedicating a source of revenue for payment of the CWSRF financing agreement must be adopted by the Agency’s governing board before execution of the financing agreement.” (*Policy for Implementing the State Revolving Fund for Construction of Wastewater Treatment Facilities* § IX, E, 2.)

**5. All principal and interest received from bond payments must be deposited into the CWSRF.**

- All principal and interest payments associated with ETF agreements will be returned to the CWSRF Program Fund:

“Any repayment of fund moneys, including interest payments, and all interest earned on, or accruing to, any moneys in the fund, shall be deposited in the fund and shall be available, in perpetuity, for expenditure for the purposes and uses authorized by the federal act.” (Water Code § 13482(b).)

**6. Interest rates must be at or below the market rate.**

- The State Water Board will set its ETF interest rates using the current CWSRF Program Policy for setting interest rates on twenty year CWSRF loans. The ETF interest rate will be capped at half the most recent general obligation bond rate obtained by the State Treasurer’s Office.

- 7. The long-term revolving nature of the fund is protected in one of two ways: (1) offering ETF must not decrease the projected revolving level of the fund by 10 percent or more compared to the revolving level the fund would attain if ETF were not offered, using a 60-year project period, or (2) the state must maintain its CWSRF program's historical average annual assistance, or baseline, levels.**

California will meet this criterion under Option 2. To ensure that the fund can maintain its long-term ability to finance projects while offering extended term financing to regionalization projects, DFA's financial advisor, Public Financial Management, Incorporation (PFM), ran several funding scenarios. PFM determined that the CWSRF Program can annually offer as much as \$560 million in 30 year financing. This exceeds the average annual amount the CWSRF program has funded over the past ten years. It is anticipated that the amount of ETF to small, disadvantaged communities and regionalization projects will be less than this. The effect of ETF will be assessed each year in the CWSRF Annual Report and evaluated in light of other demands on the CWSRF Program (i.e., offering lower interest rates to disadvantaged communities, limiting the local match option, etc.).

- 8. If the State Water Board chooses to measure its ETF Program's impact using the 60 year projection method, the State Water Board must include a section in its annual report to U.S. EPA that compares projected revolving levels under extended and non-extended financing scenarios with actual results, and describes and explains the reasons for difference between projected and actual results. If, however, the State Water Board chooses to use the baseline method of measurement, it must only include the comparisons between baseline and rolling averages it created under paragraph 7 above. Evidence that the baseline has been met must also be included, along with progress towards meeting the baseline in the two years before a rolling average can be calculated.**
  - The State Water Board agrees to include a section in its Annual Report to U.S. EPA that evaluates the CWSRF program's financing level compared to its historic level or baseline.