

**STATE WATER RESOURCES CONTROL BOARD
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE
NOVEMBER 4, 2014**

ITEM 8

SUBJECT

CLEAN WATER STATE REVOLVING FUND ANNUAL REPORT FOR STATE FISCAL YEAR 2013/2014

DISCUSSION

The State Water Resources Control Board (State Water Board) administers California's Clean Water State Revolving Fund (CWSRF) Program. The CWSRF is capitalized with federal and state funds. It provides affordable financing for publicly owned treatment works (wastewater and storm water infrastructure), non-point source (NPS), and estuary projects. California's CWSRF has supported the health, safety, and welfare of Californians since 1989 by financing 676 eligible projects. Many CWSRF recipients use their financing to address water quality violations and the associated enforcement actions by the Regional Water Boards. Every project financed by the CWSRF is directly related to improving water quality, public health, or both.

As of June 30, 2014, the total funds available to the CWSRF for financial assistance or other valid purposes since inception of the Program was \$6.964 billion. This annual update of the CWSRF Program provides results for State Fiscal Year (SFY) 2013/2014 ending June 30, 2014, and discusses recent and future developments in the Program.

A. FINANCIAL RESULTS

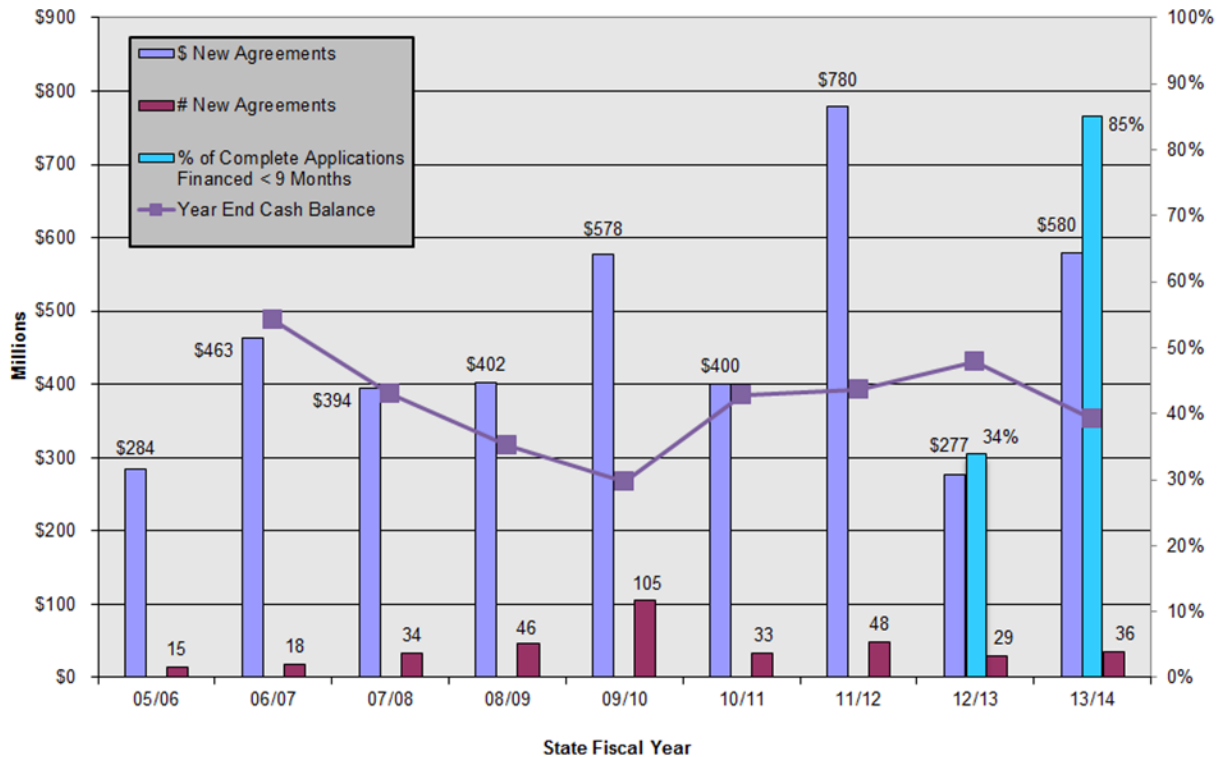
1. Cumulative Financial Results

As of June 30, 2014, about 95 percent of all available funds had been disbursed or expended for valid purposes. Currently the CWSRF has approximately \$1.05 billion in outstanding commitments that will be fulfilled over the next three to four years. About 95 percent of CWSRF financing has been for publicly owned wastewater infrastructure, and five percent has been used for storm water, NPS, or estuary projects.

2. Cash Flow Management and Unliquidated (federal) Obligations (ULO)

The CWSRF continues to carry a substantial cash balance, although it did decrease significantly this year from approximately \$430 million to approximately \$350 million. As seen in Figure 1 below, over the last eight years CWSRF's cash balance has ranged from a low of approximately \$275 million to a high of approximately \$480 million. The large cash balance, even with increasing average financing levels over the same time period, indicates that the CWSRF can fund more projects.

Figure 1
CWSRF Year-End Cash Balances¹, Yearly Financing Activity,
and Financing Performance Measure



Although cash is essential for the State Water Board to fulfill its CWSRF commitments, a large balance does not provide a water quality benefit. The program’s financial goal is to maintain enough cash to fulfill disbursements, make bond payments, and meet other expenses.

The undrawn balance of the executed CWSRF financing agreements, i.e., the outstanding commitments, is the primary factor affecting the CWSRF’s cash balance. The CWSRF program’s focus in recent years, therefore, has been on creating more demand to increase the aggregate level of outstanding commitments. State Water Board staff regularly evaluates the CWSRF Program’s procedures, data management, and policy choices to increase program demand consistent with the State Water Board’s water quality goals and prudent financial management, and will continue to do so in the future to ensure that cash is being used timely and expeditiously to provide the greatest water quality benefit.

ULOs (i.e., federal funds that have been awarded to an SRF program, but not disbursed) have been a prominent issue nationwide for SRF programs in recent years. California’s CWSRF has successfully managed its sources of funds to ensure that its federal funds are disbursed quickly. This has minimized California CWSRF’s ULOs. As of

¹ Cash balance includes cash on deposit with the State Treasurer’s Office plus funds available to draw from the US Treasury.

June 30, 2014, California CWSRF had ULOs equal to 1.6 percent of its cumulative federal grants. This compares favorably with the national CWSRF ULO average of approximately 3.8 percent. CWSRF staff will continue its practice of first using federal funds to fulfill disbursement requests to ensure that federal funds are liquidated as quickly as possible.

3. Financial Activity

A total of \$579.5 million was financed in SFY 2013/2014. Collectively CWSRF recipients received more than \$209 million in subsidy. The subsidy is the recipients' interest savings, due to the CWSRF's below market interest rates, plus the CWSRF principal forgiveness included in the financing agreements executed during the year.

Approximately \$385 million was disbursed to recipients during SFY 2013/2014. This included approximately \$22 million in principal forgiveness.

Table 1 below provides the CWSRF's performance measure results for the year.

**Table 1
Performance Results for CWSRF by SFY**

Measure	Target	2012/2013	2013/2014
% of Complete Applications Financed in 9 Months or Less	95%	34%	85%
% of Complete Disbursement Requests Filled in 30 Days or Less	100%	82%	87%

4. Audited Financial Statements

The CWSRF's [financial statements for SFY 2013/2014](#) were independently audited. The audit for SFY 2013/2014 was completed by CliftonLarsonAllen LLP on September 26, 2014. CliftonLarsonAllen provided the following opinion regarding the financial statements of the CWSRF (also known as the "Water Pollution Control Revolving Fund.")

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the California State Water Resources Control Board, Water Pollution Control Revolving Fund as of June 30, 2014 and 2013, and the respective changes in the financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

B. PROGRAM RESULTS

1. Assistance Activity

As noted earlier, a total of \$579.5 million was financed in SFY 2013/2014. One-hundred (100) percent of this financing went to wastewater treatment, collection system, or wastewater recycling projects.

In recent years, the State Water Board has made a concerted effort to address compliance by small, disadvantaged communities (SDAC). This includes a range of initiatives under the State Water Board's [Small Community Strategy](#). The CWSRF plays an important role in this effort by providing affordable financing to SDACs. Five of the 36 agreements executed during SFY 2013/2014 were with communities meeting the definition of an SDAC. In addition to the CWSRF's standard subsidized rate (one-half the State of California's general obligation bond rate), the CWSRF can provide principal forgiveness, extended term financing, and reduced interest rates to lower financing costs for SDACs. During SFY 2013/2014, the State Water Board provided \$12.3 million in CWSRF principal forgiveness to SDACs. (In addition it should be noted that the State Water Board provided \$15 million in grant funds to SDACs from the Small Community Grant Fund².)

In addition, approximately \$3.6 million in Category 2 principal forgiveness was awarded in SFY 2013/2014 to two other disadvantaged communities. Other disadvantaged communities are those with a population larger than 20,000 or an area of a larger community that has a median household income less than 80 percent of the statewide median household income.

2. Environmental Benefits

Projects in SFY 2013/2014 helped the State Water Board achieve and maintain its water quality goals. Each project funded in SFY 2013/2014 was evaluated to determine its benefits, and the data supporting this analysis has been transmitted to U.S. EPA via the CWSRF Benefits Reporting and [National Information Management System](#) databases.

Table 2 below provides the CSWRF funding by category of funding during SFY 2013/2014.

**Table 2
CWSRF Funding by Category**

Category	Amount Financed
Secondary Treatment	\$149,922,584
Advanced Treatment	\$171,779,717
Infiltration/Inflow Correction	\$500,000
Sewer System Rehabilitation	\$98,675,563
New Interceptors/Appurtenances	\$96,355,182
Storm Sewers	\$8,888,400
Recycled Water Distribution	\$53,424,796
Total Financed	\$579,546,242

3. Water Recycling Incentive (Drought Response)

In March 2014, the State Water Board approved a 1.0 percent interest rate for up to \$800 million in CWSRF financing for water recycling projects that can provide an alternative source of water. The lower rate was approved as a way to encourage implementation of water recycling projects that can take the place of other water

² The Small Community Grant program uses funds from a service charge added to CWSRF agreements in lieu of interest charges. See California Water Code Section 13477.6.

sources. To be eligible for this incentive rate, an applicant must submit a complete application by December 2, 2015. As of October 1, 2014, DFA had executed approximately \$100 million in agreements for the incentive rate, and there were approximately \$120 million in applications under review.

C. NOTEWORTHY EFFORTS AND ACTIVITIES

1. Marketing and Outreach

CWSRF marketing and outreach is an ongoing process due to staff turnover at the community level, but also due to periodic changes and improvements to the CWSRF Program.

In 2013/2014, DFA developed a written *Marketing Plan* (Plan) to guide the CWSRF Program's marketing and outreach efforts. The final [Plan](#) was approved by the Deputy Director of DFA and incorporated into the CWSRF Policy as Appendix M in July 2014. The Plan will be periodically updated as needed to reflect changes in the DFA's approach to marketing and outreach efforts.

Another key marketing effort in 2013/2014 was to revamp the CWSRF's Web site to make it more useful for applicants and stakeholders. The newly reorganized [CWSRF Web site](#) went live in early August 2014.

2. Drinking Water Program (DWP) Transfer

The 2014/2015 State Budget approved the transfer of the DWP from the California Department of Public Health (CDPH) to the State Water Board effective July 1, 2014. The transfer included moving the Drinking Water State Revolving Fund (DWSRF) and the associated state bond programs managed by CDPH to DFA. The management of the CDPH funding programs is currently being merged with the management of the CWSRF and other financing programs in DFA. The move presents a number of challenges and opportunities for the CWSRF Program in SFY 2014/2015 and beyond. Chief among the challenges is resolving the different processes used by the DWSRF and the CWSRF. In the long term, though, resolving those differences will synergize both programs.

3. Federal Clean Water Act Amendments

On June 10, 2014, President Obama signed into law the Water Resources Reform and Development Act of 2014 (WRRDA). WRRDA included amendments to Titles I, II, V, and VI of the federal Clean Water Act (CWA). U.S. EPA has provided initial guidance for those provisions taking effect October 1, 2014, and during federal fiscal year (FFY) 2015, will provide additional guidance for provisions taking effect October 1, 2015. DFA staff anticipates developing a draft CWSRF Policy amendment (Amendment) in the first half of calendar year 2015. The Amendment would be noticed for public comment, and submitted to the State Water Board for its consideration and possible adoption.

4. Possible 2014 Water Bond

Proposition 1, the Water Quality, Supply, and Infrastructure Improvement Act of 2014, on the November 4, 2014, ballot would authorize \$7.545 billion in general obligation bonds for water related projects. In particular it would provide significant loan and grant financing for small disadvantaged communities for drinking and wastewater infrastructure, drinking water infrastructure, stormwater, and wastewater recycling. Many of the efforts that would be funded by Proposition 1, are also eligible for CWSRF funding. DFA will coordinate Proposition 1 funding, if approved and appropriated to the State Water Board, with available CWSRF funds to achieve the best outcomes with all available funding sources.

5. Potential Significant Future Demand

The recent procedure and policy changes to the CWSRF Program have encouraged several larger agencies to investigate the CWSRF as a financing source for their water quality needs. Currently CWSRF is reviewing an application from the Sacramento Regional County Sanitation District (SRCSD) that is expected to close in early 2015. SRCSD needs an estimated \$1.2 billion over the next 10 years to complete its Echo Water Project. The Los Angeles County Sanitation District (LACSD) has also indicated that it plans to submit an application for its Carson Treatment Plant Secondary Outfall Tunnel Project. LACSD needs approximately \$630 million in financing over the next 10 years for this project. DFA staff has also had some recent discussion with the San Francisco Public Utilities Commission (SFPUC) staff about its \$6 billion-20 year infrastructure needs, and has had some preliminary discussions with the City of San Jose about its ten-year capital improvement program.

Long-term projects such as these provide a number of benefits to applicants and the CWSRF program. They will help ensure consistent, long-term demand on the CWSRF Program. This will help the Program use all its funds in a timely and expeditiously manner. They minimize the application review effort for applicants and DFA staff because both entities can become familiar with each other's processes and requirements. It also helps the borrowers develop a long-term, predictable financing approach through the CWSRF.

Increased demand for financing will also put additional demands on the Program's managers. Cash flow management and forecasting will be critical. The Program should stress internal controls so that it can maintain its high credit rating and access to the municipal bond market. It will also be important to collaborate with large borrowers to ensure that CWSRF supports the needs of these complex and essential local efforts.

POLICY ISSUE

None at this time; informational item.

FISCAL IMPACT

None at this time; informational item.

REGIONAL BOARD IMPACT

None at this time; informational item.

STAFF RECOMMENDATION

None at this time; informational item.

State Water Board action on this item will assist the Water Boards in reaching Goal 5 of the *Strategic Plan Update: 2008-2012* to improve transparency and accountability by ensuring that the Water Boards' goals and actions are clear and accessible, by demonstrating and explaining results achieved with respect to the goals and resources available, by enhancing and improving accessibility of data and information, and by encouraging the creation of organizations or cooperative agreements that advance this goal.