

**STATE WATER RESOURCES CONTROL BOARD
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE
NOVEMBER 18, 2014**

ITEM 8

SUBJECT

CONSIDERATION OF A PROPOSED RESOLUTION TO MODIFY THE TERMS OF THE CLEAN WATER STATE REVOLVING FUND (CWSRF) PROGRAM FINANCING FOR CRESCENT CITY (CITY); CRESCENT CITY WASTEWATER TREATMENT PLANT (WWTP) UPGRADE PROJECT (PROJECT); CWSRF PROGRAM PROJECT NO. C-06-4699-110; FINANCING AGREEMENT NO. 07-812-550

DISCUSSION

On February 13, 2008, the Division of Financial Assistance (Division) executed a financing agreement for \$43,814,176 with the City for construction of its Project. The financing agreement had a term of 20 years at an interest rate of 2.4 percent.

In 2008, the United States Environmental Protection Agency (U.S.EPA) approved the State Water Resources Control Board's (State Water Board) request to offer Extended Term Financing (ETF) to small disadvantaged communities (SDAC), and in 2014 U.S. EPA approved ETF for all CWSRF projects.

On August 13, 2009, the City requested an extension of its repayment term from 20 years to 30 years and a reduction of its interest rate to zero percent. In a letter dated October 28, 2009, the Division offered to extend the financing term to 30 years, but did not offer to reduce the interest rate of 2.4 percent. The City accepted, and on April 14, 2010, the financing agreement was amended to extend the term to 30 years.

The City completed construction of the Project on August 1, 2010. The City made timely and full payments for 2011, 2012, and 2013.

In approximately November 2013, City staff alerted Division staff that the City was having financial difficulties, and that the Sewer Enterprise Fund, the source of revenue to pay the CWSRF obligation, would not have sufficient funds to make the payment due August 1, 2014. The City made a partial payment for 2014.

In a letter dated January 31, 2014, the City formally requested a modification to its agreement. The letter explained that the City has had to deal with multiple rate rollback initiatives, referenda to stop rate increases, and litigation to stop the rollbacks. The five rate increases that were planned when the financing agreement was approved were deferred, but eventually implemented by the City.

According to the June 25, 2014, *City of Crescent City, California – Financial Checkup*, prepared for the Division by CliftonLarsonAllen LLP, the revenues generated by the City's Sewer Fund are insufficient to cover its expenses and it does not appear that the City's General Fund can support the Sewer Fund.

According to the 2012 American Community Survey (ACS) data, the City's population is approximately 7,560 and its median household income (MHI) is approximately \$30,170 per year. The City's MHI is 49 percent of the State MHI which qualifies the City as a severely disadvantaged small community.

The Division recommends reducing the financing rate from 2.4 percent to 0 percent for the remaining 26 years of the City's 30-year financing term. The reduced interest rate will lower the City's payments by \$522,284 each year to \$1,617,433 for the remaining 26 payments. The City has submitted a counter-proposal increasing the payment amount gradually from \$1,100,000 in 2015 to its final, annual amount of \$1,697,662 in 2021. The lower payments will make it easier for the City to completely repay the remaining principal balance on Agreement No. 07-812-550, reduce the possibility of a default on the agreement, and increase probability of CWSRF recouping the principal balance of its agreement with the City.

POLICY ISSUE

Should the State Water Board approve reducing the City's interest rate to 0 percent for the remaining 26 years of its financing agreement?

Should the State Water Board authorize the Deputy Director of the Division to modify yearly payments so long as the cumulative payments result in full recovery of all principal on the financing agreement?

FISCAL IMPACT

The principal amount of the financing agreement would be recouped. However, the CWSRF will not receive approximately \$15,470,347 in earnings over the remaining 26 years of the financing agreement.

REGIONAL BOARD IMPACT

None.

STAFF RECOMMENDATION

The State Water Board should reduce the City's current interest rate from 2.4 percent to zero percent for the remaining 26 years of the City's financing agreement.

The State Water Board should authorize the Deputy Director of the Division to modify yearly payments so long as the cumulative payments result in full recovery of all principal on the financing agreement.

<p>State Water Board action on this item will assist the Water Boards in reaching Goal 6 of the Strategic Plan Update: 2008-2012 to enhance consistency across the Water Boards, on an ongoing basis, to ensure our processes are effective, efficient, and predictable, and to promote fair and equitable application of laws, regulations, policies, and procedures.</p>
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STATE WATER RESOURCES CONTROL BOARD RESOLUTION NO. 2014-

TO MODIFY THE TERMS OF THE CLEAN WATER STATE REVOLVING FUND (CWSRF) PROGRAM FINANCING FOR CRESCENT CITY (CITY); CRESCENT CITY WASTEWATER TREATMENT PLANT (WWTP) UPGRADE PROJECT (PROJECT); CWSRF PROGRAM PROJECT NO. C-06-4699-110; FINANCING AGREEMENT NO. 07-812-550

WHEREAS:

1. The Division of Financial Assistance (Division) executed a financing agreement with the City for \$43,814,176 on February 13, 2008, with a 20-year term and an interest rate of 2.4 percent;
2. On April 14, 2010, the Division extended the term of the City's financing agreement from 20 years to 30 years with no change to the interest rate;
3. The State Water Resources Control Board (State Water Board) must set an interest rate at or above zero percent;
4. According to the 2012 American Community Survey (ACS) data, the City's population of approximately 7,560 and the median household income (MHI) of approximately \$30,170 mean that the City is a severely disadvantaged small community; and
5. The City submitted a letter, dated January 31, 2014, formally requesting a payment modification.

THEREFORE BE IT RESOLVED THAT:

The State Water Board:

1. Approves reducing the interest rate from the current 2.4 percent to zero percent for the remaining 26 years of the City's 30-year CWSRF financing term.
2. Authorizes the Deputy Director of the Division to modify yearly payments so long as the cumulative payments result in full recovery of all principal on the financing agreement.

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 November 18, 2014.

Jeanine Townsend
Clerk to the Board