

**STATE WATER RESOURCES CONTROL BOARD  
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE  
NOVEMBER 17, 2015**

**ITEM 8**

**SUBJECT**

CLEAN WATER STATE REVOLVING FUND ANNUAL REPORT FOR STATE FISCAL YEAR 2014/2015

**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 stormwater infrastructure), non-point source (NPS), and estuary projects. California's CWSRF has supported the health, safety, and welfare of Californians since 1989 by financing 709 eligible projects for about \$7.95 billion. 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.

This annual update of the CWSRF Program provides results for State Fiscal Year (SFY) 2014/2015, ending June 30, 2015, and discusses recent and future developments in the Program.

**A. FINANCIAL RESULTS**

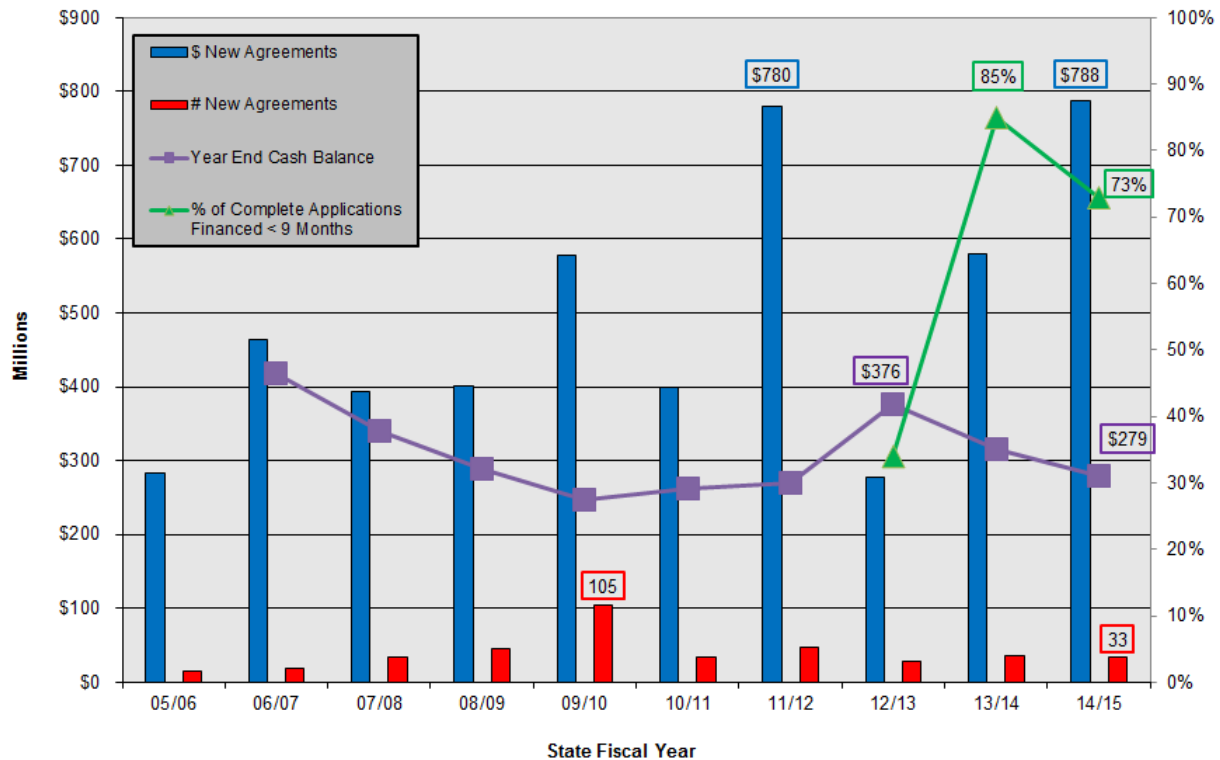
**1. Cumulative Financial Results**

As of June 30, 2015, about ninety-five (95) percent of all available funds had been disbursed or expended. CWSRF also has, as of June 30, 2015, approximately \$3.54 billion in loan receivables. About ninety five (95) percent of CWSRF financing has been for publicly owned wastewater infrastructure, and five (5) percent has been used for stormwater, NPS, or estuary projects. Since inception, CWSRF has financed about \$2.78 in projects for every \$1 of capital contributed by the U.S. Environmental Protection Agency (U.S. EPA). This is slightly below the national average on June 30, 2014, of \$2.80 for every \$1 of capital from U.S. EPA.

**2. Cash Flow Management**

The CWSRF's cash balance decreased approximately \$37 million year-over-year, and approximately \$97 million over the last two years. The decreasing cash levels are an indication that CWSRF funds are being used expeditiously to provide the greatest water quality benefit.

**Figure 1**  
**CWSRF Year-End Cash Balances<sup>1</sup>, Yearly Financing Activity,**  
**and Financing Performance Measure**



### 3. Financial Activity

A total of \$788 million was financed in SFY 2014/2015. Collectively, CWSRF recipients received approximately \$230 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 \$396 million was disbursed to recipients during SFY 2014/2015. This included approximately \$23.6 million in principal forgiveness.

Financing activity during SFY 2014/2015 increased the CWSRF outstanding commitment level to approximately \$1.45 billion, a 40 percent increase year-over-year.

<sup>1</sup> Cash balance includes cash on deposit with the State Treasurer's Office plus funds available to draw from the US Treasury.

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	2014/2015
% of Complete Applications Financed in 9 Months or Less	95%	34%	85%	73%
% of Complete Disbursement Requests Filled in 30 Days or Less	100%	82%	87%	90%

4. Audited Financial Statements

The CWSRF’s [financial statements for SFY 2014/2015](#) were independently audited. The audit for SFY 2014/2015 was completed by CliftonLarsonAllen LLP on September 30, 2015. 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, 2015 and 2014, and the respective changes in 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 \$788 million was financed in SFY 2014/2015. Ninety-six (96) percent of this financing went to wastewater treatment, collection system, or wastewater recycling projects; the remaining four (4) percent went to expanded use type projects.

In recent years, the State Water Board has made a concerted effort to address compliance by small, disadvantaged communities. 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 small, disadvantaged communities. Four of the thirty-three agreements executed during SFY 2014/2015 were with communities meeting the definition of a small, disadvantaged community. 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 and reduced interest rates to lower financing costs for small, disadvantaged communities. During SFY 2014/2015, the State Water Board provided \$8.1 million in CWSRF principal forgiveness to small, disadvantaged communities.

In addition, approximately \$4.3 million in Category 2 principal forgiveness was awarded in SFY 2014/2015 to four other projects. This included three other disadvantaged communities and one National Estuary Program partner. 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 2014/2015 helped the State Water Board achieve and maintain its water quality goals. Each project funded in SFY 2014/2015 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 CWSRF funding by category during SFY 2014/2015.

**Table 2  
CWSRF Funding by Category**

<b>Category</b>	<b>Amount</b>	<b>Percentage</b>
Secondary Treatment	\$452,547,158	57%
Advanced Treatment	\$232,201,577	29%
Infiltration/Inflow Correction	\$233,087	0%
Sewer System Rehabilitation	\$36,730,400	5%
New Interceptors & Appurtenances	\$5,700,000	1%
Non-Point Source	\$32,297,449	4%
Recycled Water Distribution	\$28,505,530	4%
<b>Total Financed</b>	<b>\$788,215,201</b>	<b>100%</b>

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 sources. To be eligible for this incentive rate, an applicant must submit a complete application by December 2, 2015. As of October 1, 2015, the Division of Financial Assistance (DFA) had executed approximately \$241 million in agreements for the incentive rate, and there were approximately \$242 million in complete applications under review that are expected to receive an executed financing agreement in the near future. Another \$1,351 million of incomplete applications are also under review.

## C. NOTEWORTHY EFFORTS AND ACTIVITIES

### 1. 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 amended the CWSRF program. U.S. EPA provided guidance to the states on implementing the WRRDA changes, and DFA developed a draft CWSRF Policy amendment for the Board's consideration at its February 2015 meeting. The Amendment was approved by the Board, and has been fully implemented.

### 2. Proposition 1 – 2014 Water Bond

Proposition 1, the Water Quality, Supply, and Infrastructure Improvement Act of 2014, was approved by California's voters on November 4, 2014. It authorized \$7.545 billion in general obligation bonds for water related projects. In particular, it provides significant loan and grant financing that can be used in conjunction with CWSRF for small disadvantaged community wastewater infrastructure, as well as stormwater and wastewater recycling projects. DFA is coordinating Proposition 1 funding appropriated to the State Water Board with the CWSRF funds to achieve the best outcomes with all available funding sources.

### 3. Green Project Reserve (GPR)/Climate Change

The Water Boards are committed to ensuring that its policies and programs help mitigate greenhouse gas emissions and support adaptation to climate change. Since 2010, the capitalization grants from U.S. EPA have required that a certain percentage of each grant be used for GPR projects. Many of these activities or projects can help the Water Boards implement its climate change objectives. The SFY 2015/2016 Intended Use Plan, approved in June 2015, redirected the principal forgiveness from the 2015 capitalization grant to GPR Projects. Approximately \$30 million in principal forgiveness from the 2015 capitalization grant will be used for GPR projects. The CWSRF application forms have been modified and posted so applicants can identify projects or portions of projects that meet GPR criteria.

### 4. Significant Financing Demand and Potential Bond Sale

The recent procedure and policy changes have increased interest and demand in the CWSRF Program, particularly from several larger agencies. The commitment to finance the Sacramento Regional Echo Water Project and the current demand from other borrowers is increasing the outstanding commitment level and increasing the average disbursement rate. In addition, new applications are being submitted regularly. Higher disbursement levels indicate that there will likely be a need for new CWSRF bonds in SFY 2015/2016 to meet the cash needs of financing recipients.

Increased demand for financing puts additional demands on the Program's managers and resources. Cash flow management and forecasting will remain critical, and the Program should continue to stress and strengthen 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 can support 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.