



(2/5/19) Board Meeting
DWSRF Policy Amendment
Deadline: 12/21/18 by 12 noon

December 20, 2018

Ms. Jeanine Townsend, Clerk to the Board
 State Water Resources Control Board
 1001 "I" Street, 24th Floor
 Sacramento, CA 95814



RE: Comment Letter – February 5, 2019, Board Meeting –DWSRF Policy Amendment

Dear Chair Marcus and Members of the Board:

The San Francisco Public Utilities Commission (SFPUC) appreciates the opportunity to review and comment on the draft amendments to the Policy for Implementing the Drinking Water State Revolving Fund (DWSRF Policy). We support the efforts of the State Water Resources Control Board (State Water Board) to revise the DWSRF Policy to be more consistent with your recent revisions to the Clean Water State Revolving Fund Policy and encourage you to consider minor changes to your financial requirements to align with industry standards and streamline the application process.

We support your development of new Credit/Financial Guidelines which should result in a more streamlined negotiation process. Considering a borrower's existing credit rating and allowing greater flexibility with SRF loan terms for borrowers with strong credit can expedite the legal consultation process without increasing the SRF Program's financial risk. SFPUC recommends the following edits to the Credit/Financial Guidelines (CWSRF Appendix N) to align with industry standards:

- Add "*Material Debt*" to definitions. "*Material Debt*" should be defined as debt of the applicant secured by and repayable from the pledged source of repayment and can include public bond offerings, direct placements, loans, notes, and other forms of fixed interest rate and variable interest rate indebtedness.
- Revise B.1. "*If an applicant's outstanding material bond debt is rated AaAA-, Aa3 or higher...*" and edit B.2., "*If an applicant's outstanding material debt is a recent bond issuance rated below AaBBB- or Baa3 or is unrated private placement material debt...*" The market considers BBB-/Baa3 and higher as "investment-grade" and considers BBB-/Baa3 "lower medium grade" compared to A-/A3 or higher. Generally, BBB-/Baa3 up to AA-/AA3 should at least be equal or better than non-rated debt.
- A bond rating from one major rating agency (rather than two) should be sufficient.

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- Add "A.3.viii. The Division may consider accepting a Recipients' alternative Debt Service Calculation assumptions." The State Water Board should allow some flexibility on how interest on a tax-exempt variable rate obligation is calculated; there are additional industry-standard and market-accepted provisions for calculating interest on a tax-exempt variable rate obligation that are not reflected in the language of the current draft.

We also have concerns about your proposed revisions to section IX "Water Rate Studies", which would require applicants to adopt water rates "for a period of at least five (5) years from the anticipated Completion of Construction." Large construction projects can take more than three years to complete, in which case, the new language would prohibit an applicant from executing a loan agreement until they adopt rates for at least the next eight years. SFPUC adopts a rolling 10-year financial plan that includes projected rates, but typically adopts four-year rate packages. Therefore, we recommend revising the text as follows: "Prior to execution of a construction Financing Agreement, an Applicant must demonstrate, to the satisfaction of the Division, ~~adepted~~ water rates sufficient to operate and maintain the water system, including the proposed construction project, for a period of at least five (5) years from the anticipated Completion of Construction." This would allow the Division to continue to exercise their discretion when determining if an applicant is able to demonstrate sufficient rates, which further supports your efforts to streamline the credit/financial review process and avoid delays that result when applicants must obtain special approval from the Water Board.

We look forward to continuing to work with you to explore opportunities that will ensure long-term stability and continued growth of California's SRF programs. The SFPUC has a long history of partnering with the State Water Board to provide reliable and affordable services to our community while protecting the health of the Bay. Although San Francisco has a high median income level, the SFPUC also serves water and wastewater customers and maintains critical infrastructure facilities in low income/disadvantaged communities. As we reinvest in our infrastructure, we are committed to working with you to ensure that all San Francisco residents and taxpayers continue to have access to the benefits of SRF funding.

We appreciate the opportunity to provide written comments on this important program. If you have any questions regarding our comments, please contact Alexandra Gunnell at agunnell@sflower.org or by phone at (415) 551-4505.

Sincerely,



Michael P. Carlin
Deputy General Manager

cc: Eric L. Sandler, CFO and Assistant General Manager, Business Services
Greg Norby, Assistant General Manager, Wastewater Enterprise
Steve Ritchie, Assistant General Manager, Water Enterprise
Kathryn How, Assistant General Manager, Infrastructure
Juliet Ellis, Assistant General Manager, External Affairs