



COUNTY SANITATION DISTRICTS OF LOS ANGELES COUNTY

1955 Workman Mill Road, Whittier, CA 90601-1400
Mailing Address: P.O. Box 4998, Whittier, CA 90607-4998
Telephone: (562) 699-7411, FAX: (562) 699-5422
www.lacsd.org

GRACE ROBINSON HYDE
Chief Engineer and General Manager

May 10, 2018



Delivered Via Electronic Mail

Members of the Board
State Water Resources Control Board
1001 I Street
Sacramento, CA 95814

Via email: commentletters@waterboards.ca.gov

Dear Chair Marcus and Members of the Board:

Comment Letter – June 19, 2018 Board Meeting **Federal Fiscal Year 2018 CWSRF Draft Intended Use Plan**

The Sanitation Districts of Los Angeles County (Districts) provide wastewater conveyance, treatment, disposal, and water reuse service to over 5 million people in 78 cities and numerous unincorporated areas within Los Angeles County. With the aid of various types of financing, including Clean Water State Revolving Fund (CWSRF) loans, the Districts have been able to carry out their mission of protecting public health and the environment through cost-effective wastewater management and by converting waste into resources.

The Districts have a long history of partnering with the State Water Resources Control Board (SWRCB) through the CWSRF to advance our mutual goals. We appreciate the opportunity to provide the SWRCB with comments on the Draft Intended Use Plan (IUP). As discussed by SWRCB staff at the workshop meetings, the proposed IUP includes a number of significant changes from prior years and represents a transition to a new way of managing the program. We understand that these efforts are intended to address issues identified by SWRCB staff and stakeholders over the last few years. We are appreciative of staff's efforts to assist stakeholders in understanding these changes, including the rationale behind this approach. In general, we believe the IUP represents a cautious near term approach to addressing current constraints on the CWSRF. The establishment of an annual funding target, a "fundable list," and the ability to retroactively reimburse construction costs add clarity and reduce uncertainty for project applicants. Given current constraints, we concur with the recommendation to move forward with financing Scenario C.

Although we concur with the recommendation of SWRCB staff, we do have a number of comments and suggestions that are intended to help increase the future efficacy of the CWSRF program to facilitate a clean and sustainable environment for all Californians. While we recognize that these recommendations will likely not be included in this year's IUP, they should be considered as the program moves forward.

Multi-Year Planning

Historically, loan commitments have been made for an entire project out of the current year's funds. This has definitely been beneficial to agencies by providing certainty to their funding as they move

forward with their projects. While it works well for smaller projects that only use a fraction of the available funding, it poses challenges for larger projects and multi-year projects (which by their very nature tend to be larger projects). If these projects were to be funded with a single year's proceeds, one or two projects could drain the entire fund, preventing many other worthwhile projects from moving forward.

Larger projects, which typically span a multi-year timeframe, may actually have an annual expense rate similar to that of many smaller projects. Utilizing a multi-year financing model that considers the timing of project expenses would enable a more strategic deployment of CWSRF funding and therefore, result in a greater overall level of funding. The IUP states that CWSRF's Municipal Advisor determined a sustainable annual lending capacity of \$1.0 billion per year over the next 20 years. It therefore seems reasonable to expect CWSRF to enter into agreements on larger projects that have year-to-year costs similar to that of smaller projects. This will allow the CWSRF to distribute funds based on water quality benefits instead of limiting projects due to an accounting complexity.

Additionally, we feel that a multi-year planning approach for determining funding will help provide certainty to the applicants with respect to project funding throughout construction, provide the SWRCB with multi-year certainty on cash flow, and help maximize the financing of water quality projects. Multi-year planning can also incorporate partial funding and 20-year financing options (discussed below) to provide more funding certainty. This will help the SWRCB achieve its goal of maximizing the ability to fund projects.

Partial Funding

CWSRF staff has proposed partial funding for six projects that they deem to be "large." While the Districts support the concept of partial project funding, we feel that some aspects of this proposal need additional refinement. The currently-discussed limit of 20% would mean that these agencies would have to secure some other type of outside financing. Past experience has shown that, if these agencies have to go to outside funding under any circumstances and incur duplicate costs of issuance, they will drop out of the CWSRF program altogether. This is something the CWSRF staff has been fighting to overcome for a number of years; the proposed modifications should address this concern, rather than revive the old issues. Furthermore, simply setting a threshold (e.g. any project more than \$150M) over which a project is deemed to be limited to partial funding could encourage segmentation or other strategies to avoid this limitation (e.g. is a \$500 million project spread over five years any different than calling it five \$100 million projects) and would result in additional SWRCB staff time to evaluate applications, further slowing down the process. This ties in to our broader suggestion above that the SWRCB should develop a longer term funding plan that acknowledges the availability of funds in future years and seeks to allocate those funds efficiently over time. This longer term approach could reduce the need to provide low percentages of partial funding and address concerns with segmentation of projects.

Streamlining the Review Process

The review process typically requires significant time and resources from both applicants and the SWRCB staff. Frequently the process is not complete by the time construction is ready to begin, and the applicant is left with no choice but to proceed with construction before the CWSRF financing agreement has been executed. We feel the review process can be improved. Options to consider:

- Conduct the necessary CEQA review (including federal cross-cutters) at the time the local agency project is submitted to the State clearinghouse, rather than waiting until later in the application process. Applicants would need to identify those projects for which they will be seeking CWSRF funding at the time the document goes through the clearinghouse.

- Reduce the amount of effort required of staff by having applicants submit self-certifications regarding non-project specific attachments from the Technical Package which have already been approved by staff on prior projects.
- Establish a file on applicants who have previously been through the funding process, and develop a process to re-use Installment Sales Agreement (ISA) language previously agreed upon by SWRCB staff for each project. This would be especially helpful when it comes to legal opinions required from counsel. If nothing has changed with respect to ISA language and bond requirements, then counsel opinions could be pulled off the shelf for each project. Alternatively, when the ISA is submitted for counsel opinion, it would be clearly shown that the ISA is unchanged and reference previous counsel opinion in order to expedite legal review. We acknowledge that in any situation where the ISA has substantive change, a full review and new opinion would be required from counsel.

Incentives

If an application scoring system is used, we believe the SWRCB should consider providing an incentive for applicants to take shorter financing terms. If 20-year financing is selected over a 30-year term, the earlier repayment will replenish the revolving fund faster with more new loans being made available. An applicant willing to take on a shorter repayment should be rewarded with a higher priority. As it stands, there is no incentive to ask for less than 30 years.

Thank you for the opportunity to comment on the Draft IUP. We look forward to continuing to work with the SWRCB on developing policy consistent with the stated goals and objectives. If you have any questions, please contact Andrew Hall at (562) 908-4288, extension 2750 or via email at ahall@lacs.org.

Very truly yours,



Grace Robinson Hyde