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SWRCB Clerk

October 19, 2018

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

RE: Comment Letter – November 27, 2018 Board Meeting – CWSRF 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 Clean Water State Revolving Fund (CWSRF Policy). We support the efforts of the State Water Resources Control Board (State Water Board) to revise the CWSRF Policy and encourage you to continue exploring options for providing multi-year funding commitments to long-term projects and incentivizing borrowers to pair SRF financing with complementary funding sources.

SFPUC understands that increased demand for low-interest financing has presented new challenges for California's SRF programs and we appreciate the steps you have taken to solicit and incorporate feedback from borrowers. Overall, we support adoption of this new CWSRF Policy with some proposed modifications. We are particularly optimistic about policy revisions mentioned below and have also noted our concerns and recommendations for your consideration.

Establishment of an Annual Funding Target and a Fundable List

We support your efforts to provide greater certainty for applicants who are awaiting a funding decision. Implementing federal cost cutters and interim financing to maintain SRF eligibility, without knowing whether a project will receive SRF financing, can be costly and inefficient for an applicant. We are hopeful that this new approach will support better cooperative planning between applicants and the State Water Board.

SFPUC is concerned that these changes will not address CWSRF financial capacity constraints. We encourage the State Water Board to consider development of two fundable lists, one for construction loans and another for planning and design (P/D) loans. SRF programs that take this approach can more efficiently manage their program's funding capacity by obligating what a project needs, when it will need it, rather than over-committing funds to a single project that may not draw most of those funds for several years. Additionally, P/D borrowers should receive priority to refinance P/D loans under SRF construction loans. State Water Board staff would already be familiar with the project and the borrower's terms, resulting in an expedited approval and negotiation processes.

New Scoring and Prioritization Criteria

SFPUC supports your proposal to prioritize project readiness for applicants seeking construction loans. Funding shovel-ready projects promotes efficient use of available SRF funds and expedites recycling of those funds back into the SRF Program.

Unlike the FY18/19 CWSRF IUP, the revised CWSRF Policy does not incentivize pairing SRF with complementary funding sources. SFPUC recommends that borrowers who have secured additional sources of funding, rather than solely relying on SRF loans to finance their project, should receive some priority points. Co-funding not only reduces the amount of CWSRF funds needed to complete a single project, it also supports more cost effective use of these funds, since many of the administrative compliance and reporting requirements of SRF are the same for other subsidized programs, like EPA's Water Infrastructure Finance and Innovation Act (WIFIA) program.

The new CWSRF Policy does not mention obligating additional funds to projects that have previously received partial SRF funding. SFPUC recommends awarding priority points to those projects because they provide another opportunity to maximize cost effectiveness of the SRF program. Both the State Water Board and borrowers have already made a significant investment in the application, approval, execution and ongoing administration of these partially funded projects. The CWSRF Intended Use Plan for State Fiscal Year 2018 - 2019 noted that funding amounts for partially funded projects could be subject to increase in a future IUP; the revised CWSRF Policy should provide a mechanism for this.

While we understand the importance of projects that must be implemented to correct an immediate water quality impact, we are concerned that, as proposed, the primary scoring system does not reward agencies that proactively manage their aging systems and undertake critical upgrades to remain in compliance with regulatory requirements.

Credit/Financial Guidelines (CWSRF Appendix N)

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):

- 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 ~~Aa~~AA-, Aa3 or higher…" and edit B.2., "If an applicant's outstanding material debt is a recent bond issuance rated below ~~Aa~~BBB- 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.
- 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.

Eligibility of Construction Costs

SFPUC supports your decision to allow reimbursement of soft costs and construction costs incurred prior to execution of a financing agreement. As stated above, each loan carries administrative costs for the borrower and the State Water Board; optimizing the total eligible costs per loan increases the cost benefit for both parties.

We look forward to continuing to work with you to explore opportunities to expand the financial capacity 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@sfwater.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
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