

# **Attachment A**

Extended Term Financing Program Approval Criteria

The California State Water Resources Control Board (State Water Board) will submit an Extended Term Financing (ET Financing) application to the United States Environmental Protection Agency (USEPA). If approved, the State Water Board will offer ET Financing to small, disadvantaged communities as part of the Clean Water State Revolving Fund (CWSRF) Program. California's ET Financing Program proposal is structured to address USEPA's eight ET Financing evaluation criteria.

**Evaluation Criteria:**

**1. The State Water Board buys or refinances debt obligations from municipalities at or below market rates.**

- The State Water Board may purchase or refinance a municipality's bond or other debt, secured by adequate pledged revenues or other collateral, where the initial debt was incurred after March 7, 1985, and building began after that date. (33 USC § 603(d)(2); 40 CFR § 35.3120(b); Water Code § 13480(b)(2).)

**2. ET Financing is available to disadvantaged communities only. The state defines "disadvantaged community."**

- The State Water Board seeks to complement the Small Communities Grant Program by offering the ET Financing Program to small, disadvantaged communities. For purposes of the CWSRF ET Financing Program, a "small, disadvantaged community" means a community with a population of 20,000 persons or less and a Median Household Income (MHI) equal to or less than 80 percent of the statewide MHI. Communities with a population of 20,000 persons or less that pay at least 4 percent of their MHI towards wastewater infrastructure may also be considered disadvantaged, but these communities must receive approval for ET Financing on a case-by-case basis from the State Water Board at a board meeting if their MHI is more than 80 percent of the statewide MHI. ET Financing will be available, upon request, to allow eligible recipients to refinance existing SRF agreements and future applicants for SRF financing.

**3. ET Financing cannot exceed the least of the following: (1) the life of the underlying asset, (2) 30 years, or (3) the time necessary to overcome the threshold at which the project becomes affordable for the community.**

- An applicant will need to determine the useful life of the treatment works or other project for which ET Financing is sought, and provide an assessment of the project's useful life as part of the Project Report. Division of Financial Assistance (DFA) staff will review each project to check that the infrastructure financed has a useful life of at least the term of the financing. DFA staff will also review the applicant's Affordability Analysis to check that the time necessary to make the project affordable for the community is consistent with the financing period (e.g., 30 years).

**4. The State Water Board must require that the community establish a dedicated source of revenue for debt payments (e.g., a general obligation or revenue obligation pledge to guarantee their payments), or provide some form of security which will guarantee debt payment in the event of a default (e.g., property lien, etc.).**

- The applicant will be required to provide proof of a dedicated source of revenue consistent with existing practice:

“Revenue will be considered dedicated when the Agency passes an ordinance or resolution committing a source of funds for payments. The Agency must submit a draft ordinance or resolution dedicating a legal and adequate source of revenue for payment of the CWSRF financing agreement before FPA. The ordinance or resolution dedicating a source of revenue for payment of the CWSRF financing agreement must be adopted by the Agency’s governing board before execution of the financing agreement..” (*Policy for Implementing the State Revolving Fund for Construction of Wastewater Treatment Facilities* § IX, E, 2.)

**5. All principal and interest received from bond payments must be deposited into the CWSRF.**

- All principal and interest payments associated with ET Financing agreements will be returned to the CWSRF Program Fund:

“Any repayment of fund moneys, including interest payments, and all interest earned on, or accruing to, any moneys in the fund, shall be deposited in the fund and shall be available, in perpetuity, for expenditure for the purposes and uses authorized by the federal act.” (Water Code § 13482(b).)

**6. Interest rates must be at or below the market rate.**

- The State Water Board will set its ET Financing interest rates using the current SRF Program Policy for setting interest rates on twenty year CWSRF loans. The ET Financing interest rate will be half the most recent general obligation bond rate obtained by the State Treasurer’s Office (Water Code §13480 (b) (D) (i)).

**7. The long-term revolving nature of the fund is protected in one of two ways: (1) offering ET Financing must not decrease the projected revolving level of the fund by 10 percent or more compared to the revolving level the fund would attain if ET Financing were not offered, using a 60-year project period, or (2) the state must maintain its CWSRF program's historical average annual assistance levels, or baseline.**

- California will meet this criterion under Option 1. According to the calculations on the "ETF 60 Year Projection Sheet" (to be provided as part of the formal application) over the next 60 years the CWSRF's revolving ability will decrease by approximately seven percent. The maximum projected effect will occur in 2032 with a 9.95 percent decrease in projected funding for that year. As shown in the attached projection, after Year 2032 the fund begins to return to its baseline/unaffected level. According to staff's financial analysis, up to 22.5 percent of available CWSRF Program funds can be put toward ET Financing each year without adversely affecting the health of the fund. As an added measure of safety, staff recommends that the State Water Board limit the average annual ET Financing to 20 percent of the total yearly funding. The ET Financing allocation will be assessed each year in the CWSRF Annual Report and evaluated in light of other demands on the CWSRF Program (i.e., offering lower interest rates to disadvantaged communities, limiting the local match option, etc.). In a typical year, approximately \$200 to \$300 million in CWSRF funds are obligated to financial assistance. Therefore, approximately \$40 to 60 million should be available each year for ET Financing.

**8. If the State Water Board chooses to measure its ET Financing Program's impact using the 60 year projection method, the State Water Board must include a section in its annual report to USEPA that compares projected revolving levels under extended and non-extended financing scenarios with actual results, and describes and explains the reasons for difference between projected and actual results. If, however, the State Water Board chooses to use the baseline method of measurement, it must only include the comparisons between baseline and rolling averages it created under paragraph 7 above. Evidence that the baseline has been met must also be included, along with progress towards meeting the baseline in the two years before a rolling average can be calculated.**

- The State Water Board agrees to include a section in its Annual Report to USEPA that compares projected revolving levels under extended and non-extended financing scenarios with actual results, and descriptions and explanations for differences between projected and actual results. The spreadsheets included in this application (to be provided as part of the formal application to USEPA) will be used to illustrate the differences, and be updated to include actual values as well as the projected values.

The State Water Board believes that extended terms will encourage many more small, disadvantaged applicants to make necessary improvements to their wastewater systems.

If there are any questions regarding this application, please contact Mr. Christopher Stevens at (916) 341-5698 or [CStevens@waterboards.ca.gov](mailto:CStevens@waterboards.ca.gov).