

**STATE WATER RESOURCES CONTROL BOARD  
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE  
OCTOBER 20, 2009**

**ITEM 3**

**SUBJECT**

CONSIDERATION OF A RESOLUTION CLARIFYING THE PROHIBITION ON FUTURE SENIOR DEBT IN THE POLICY FOR IMPLEMENTING THE CLEAN WATER STATE REVOLVING FUND (CWSRF) FOR CONSTRUCTION OF WASTEWATER TREATMENT FACILITIES (POLICY)

**DISCUSSION**

Section X.G.1 of the CWSRF Policy prohibits a recipient's future debt from being senior to a CWSRF obligation. The CWSRF Policy does not prohibit a recipient from having existing senior debt. The Inland Empire Utilities Agency (Agency) has existing debt that is senior to several CWSRF obligations. The Agency foresees the possibility of refunding its existing senior debt without extending the term or increasing the payments. The Agency wishes to replace the existing senior obligation with a new obligation at the same senior lien position. Such a course of action would violate the CWSRF Policy.

It is likely that other Agencies will want to refinance or refund existing senior debt to reduce senior debt payments. Reducing senior debt payments increases the security of the CWSRF obligation by decreasing an Agency's overall debt service.

**POLICY ISSUE**

Should the State Water Board:

Clarify Section X.G.1 of the Policy to allow refunding of senior debt provided the following conditions are met:

- a. The new senior debt shall refund or refinance existing senior debt.
- b. The new senior debt shall have the same or earlier repayment term as the refunded senior debt.
- c. The new senior debt service shall be lower than the existing debt service; and
- d. The future senior debt shall not diminish the Agency's ability to repay its CWSRF obligation(s)?

**FISCAL IMPACT**

There is no direct fiscal impact to the CWSRF Program by taking action on this item. However, recipients would be in a stronger position to repay the CWSRF by decreasing their overall debt service obligations, thus making the CWSRF loan portfolio stronger.

## **REGIONAL BOARD IMPACT**

None

## **STAFF RECOMMENDATION**

The State Water Board should:

Approve the clarification of Section X.G.1 of the Policy to allow refunding of senior debt provided the following conditions are met:

- a. The new senior debt shall refund or refinance existing senior debt.
- b. The new senior debt shall have the same or earlier repayment term as the refunded senior debt.
- c. The new senior debt service shall be lower than the existing debt service; and
- d. The future senior debt shall not diminish the Agency's ability to repay its CWSRF obligation(s).

State Water Board action on this item will assist the Water Boards in reaching Goals 1 and 2 of the Strategic Plan Update: 2008-2012 to: (1) Implement strategies to fully support the beneficial uses for all 2006 listed water bodies by 2030 (Goal 1); and (2) Improve and protect groundwater quality in high use basins by 2030 (Goal 2).

# DRAFT

## STATE WATER RESOURCES CONTROL BOARD RESOLUTION NO. 2009-

### CLARIFYING THE PROHIBITION ON FUTURE SENIOR DEBT IN THE POLICY FOR IMPLEMENTING THE CLEAN WATER STATE REVOLVING FUND (CWSRF) FOR CONSTRUCTION OF WASTEWATER TREATMENT FACILITIES (POLICY)

#### WHEREAS:

1. The Policy prohibits borrowers from entering into future debt senior to a CWSRF obligation;
2. The Policy's prohibition on future debt prohibits recipients from refinancing existing senior debt to take advantage of lower interest rates; and
3. Allowing recipients to reduce their debt service strengthens their financial position, and therefore increases the security of the CWSRF obligation because they have additional available net revenues.

#### THEREFORE BE IT RESOLVED THAT:

##### The State Water Board:

Approves the clarification of Section X.G.1 of the Policy to allow refunding of senior debt provided the following conditions are met:

- a. The new senior debt shall refund or refinance existing senior debt.
- b. The new senior debt shall have the same or earlier repayment term as the refunded senior debt.
- c. The new senior debt service shall be lower than the existing debt service; and
- d. The future senior debt shall not diminish the Agency's ability to repay its CWSRF obligation(s).

#### CERTIFICATION

The undersigned, Clerk to the Board, does hereby certify that the foregoing is a full, true, and correct copy of a resolution duly and regularly adopted at a meeting of the State Water Resources Control Board held on October 20, 2009.

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Jeanine Townsend  
Clerk to the Board