

Attachment A

Extended Term Financing Program Approval Criteria

The California State Water Resources Control Board (State Water Board) will submit an Extended Term Financing (ETF) application to the United States Environmental Protection Agency (U.S. EPA). If approved, the State Water Board will offer ETF for all projects eligible for the Clean Water State Revolving Fund (CWSRF) Program. California's ETF proposal is structured to address U.S. EPA's eight ETF 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. ETF is available to disadvantaged communities only. The state defines "disadvantaged community."

- The California CWSRF program requests to offer ETF to all projects eligible for the CWSRF Program. ETF would be offered to all projects, including the three categories of communities that are currently approved by U.S. EPA to receive ETF: (1) small, disadvantaged communities, (2) communities regionalizing their wastewater infrastructure and (3) communities in financial distress or facing a financial emergency. Offering ETF to all eligible CWSRF applicants will make the program more competitive with other financing options available to communities seeking funding for water quality improvements. ETF will provide more affordable financing for all eligible communities, and should result in more water quality projects being financed and completed.

3. ETF 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.

- The Division of Financial Assistance (Division) will determine the useful life of the treatment works or other project for which ETF is sought prior to approving ETF. Division staff will review each project to check that the infrastructure financed has a useful life of at least the term of the financing. Division staff will also review the applicant's ability to afford the financing to check that the time necessary to make the project affordable for the community is consistent with the financing period (e.g., 30 years). In no case will the term of the financing be extended more than 30 years past the original project completion date.

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, reliable source of revenue sufficient to make payments consistent with existing practice:

“The applicant must submit a resolution or ordinance adopted by its governing board that pledges one or more sources of existing revenue and funds as security for the CWSRF financing agreement. See Appendix G of this Policy for a sample resolution. A restricted reserve will also be required in most cases. A PRF may be a special tax, user fees, or a special assessment, provided that the applicant has the authority to control and pledge the PRF. The PRF may also include liens on real property and other appropriate security liens.” ([Policy for Implementing the Clean Water State Revolving Fund](#), § IX.B.4.d.)

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

- All principal and interest payments associated with ETF 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.” (California Water Code, § 13482(b).)

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

- The State Water Board will set its ETF interest rates using the current CWSRF *Policy* for setting interest rates on twenty year CWSRF financing agreements. The ETF interest rate will be half the most recent general obligation bond rate obtained by the State Treasurer’s Office or less (California Water Code, §13480(b)(D)(i)).

7. The long-term revolving nature of the fund is protected in one of two ways: (1) offering ETF 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 ETF 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 2. To ensure that the fund can maintain its long-term ability to finance projects while offering ETF to all projects eligible for the CWSRF Program, the Division reviewed the analysis completed by its financial advisor, Public Financial Management, on October 1, 2013. A financial model was developed to evaluate the funding capacity of the CWSRF over a 60-year period assuming that all available financing was amortized for 30 years. The model evaluates the capacity based on two factors – minimum debt coverage requirements and perpetuity of the fund. The analysis shows California CWSRF can finance \$675 million a year for the next 60 years using a 30-year term for all agreements. The historic, annual average CWSRF assistance in California since program inception is \$262 million. For the last five years, the annual average has been \$487.4 million. Even with ETF for all eligible projects, California CWSRF can not only maintain its historic average, or baseline, but exceed it. The California CWSRF program has the capacity to provide ETF without jeopardizing the financial strength of the fund.

8. If the State Water Board chooses to measure its ETF'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 continue its practice of evaluating the effect of ETF on financing levels in its Annual Report to U.S. EPA and explain any differences between anticipated and actual results.