

**STATE WATER RESOURCES CONTROL BOARD
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE
MARCH 18, 2014**

ITEM 3

SUBJECT

CONSIDERATION OF A RESOLUTION TO PROVIDE FINANCIAL INCENTIVES IN RESPONSE TO THE GOVERNOR'S DROUGHT PROCLAMATION FOR NEAR-TERM RECYCLED WATER PROJECTS FUNDED THROUGH THE CLEAN WATER STATE REVOLVING FUND (CWSRF)

DISCUSSION

California is experiencing record dry conditions. These conditions are anticipated to continue through 2014 which is likely to be the driest year on record. Since 2012, extremely dry conditions have persisted and are forecasted to be more regular based on climate change projections. Accordingly, the Governor issued a "Proclamation of a State of Emergency" on January 17, 2014, and through a series of twenty orders, directed state officials to take all necessary actions to respond to these drought conditions. Order number 6 of the Proclamation states,

"The Department of Water Resources and the Water Board will accelerate funding for water supply enhancement projects that can break ground this year and will explore if any existing unspent funds can be repurposed to enable near-term water conservation projects."

The State Water Board is taking action and responding to this Order. In addition to the direction provided in the Proclamation, the State Water Board is considering a funding incentive through the CWSRF for near-term projects to implement the Governor's Drought Proclamation.

Division staff collaborated with a group of water agencies and statewide organizations (Western Recycled Water Coalition, WaterReuse, ACWA, CASA, and NACWA) to survey the needs of agencies with "near-term" recycled water projects. The survey established 'near-term' as projects that could be constructed within three years of the Drought Proclamation. Utilizing the results and respondent list from a previous nationwide survey conducted in October, 2013, approximately 80 California agencies were polled in early February 2014. The response indicated a significant financial need for projects that could offset or augment state water supplies. After evaluating the survey results and incorporating additional stakeholder outreach, at least 25 agencies are very likely to have recycled water projects that will provide a benefit within three years. These agencies report a total 80,000 acre-feet per year (AFY) that could be developed at a cost of approximately \$450 million if financial assistance in the form of 0% to 1% interest, 30 year term loans were available.

Under typical operations, the State Water Board provides 30 year CWSRF financing at approximately one-half the State's General Obligation (GO) Bond rate (currently at 2.1%) for water quality projects throughout the state.

Considering the cash flow and capacity of the fund, annual obligations to administer the program and other incentive programs, need as assessed by the survey and stakeholder input, the following financing incentives in addition to the standard 30 year term are recommended by Division staff. Informal discussions indicate that these are also supported by our collaborative partners.

TABLE 1: “Water Recycling Projects - Financing Incentive”

CWSRF Interest Rate	Complete Application Received		Limits
	<u>Opens</u>	<u>Closes</u>	<u>Duration</u> or <u>\$ Cap</u> (Whichever occurs first)
0.5%	March 18 th , 2014	December 1 st , 2014	8.5 months, \$400 Million
1.0%	December 2 nd , 2014	December 1 st , 2015	12 months, \$200 Million
½ GO Bond Rate	December 2 nd , 2015 onward →		

Water recycling projects that are currently seeking funding from the Division that do not have complete applications as of the Board meeting date and those agencies that can respond with a complete application complying with the timeframes established in Table 1 should be able to compete for the available funding. Funding should be obligated based the order of the Divisions receipt of “Complete Applications”.

A “Complete Application” date means receipt by the Division of an applicant’s complete CWSRF Financial Assistance Application. A Complete Application includes the full general information (signed by the authorized representative), technical, financial, and the environmental packages, with all applicable attachments.

The CWSRF application is available at
http://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/srf_forms.shtml

The Division, therefore, recommends the State Water Board authorize the short-term financial incentives presented in Table1: “Water Recycling Projects - Financing Incentive” in response to the Governor’s Drought Proclamation.

POLICY ISSUE

Should the State Water Board authorize very low interest financing from the CWSRF as presented in the above Table 1: “Financing Incentive”?

FISCAL IMPACT

The short term impacts and long-term revolving nature of the CWSRF Program were evaluated. Interest earnings ensure that the CWSRF Program has sufficient repayment funds for future projects, and to provide sufficient funds for CWSRF administration and the Small Community Wastewater Grant Program.

The effect of accelerating funding for water recycling projects on the CWSRF cash flow is presented in Table 2 below. Table 2 indicates that the CWSRF has sufficient cash flow to support these potential additional commitments.

TABLE 2: "Fiscal Impact - Cash Flow Projections"

	State Fiscal Year				
	2013-14	2014-15	2015-16	2016-17	2017-18
Beginning Balance:	\$430,172,728	\$282,443,410	\$17,517,752	(\$183,672,396)	(\$139,487,290)
Estimated Repayments	\$231,565,720	\$241,565,720	\$251,565,720	\$261,565,720	\$271,565,720
Debt Service on Revenue Bonds	(\$15,070,800)	(\$14,713,300)	(\$14,323,300)	(\$13,808,100)	(\$9,980,925)
Estimated Capitalization Grants	\$91,665,600	\$100,832,160	\$50,000,000	\$50,000,000	\$50,000,000
Local Match Credits	\$975,306	\$1,314,874	\$1,314,874	\$431,771	\$0
Est. SMIF Interest:	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000
Estimated Disbursements	(\$439,131,812)	(\$407,905,783)	(\$247,637,427)	(\$66,424,217)	(\$21,973,026)
Subtotal	\$301,676,742	\$205,037,081	\$59,937,619	\$49,592,778	\$151,624,479
Pending Preliminary Funding Commitments	(\$19,233,332)	(\$62,519,329)	(\$68,610,015)	(\$39,080,068)	(\$17,254,064)
Water Recycling - \$400,000,000		(\$125,000,000)	(\$100,000,000)	(\$100,000,000)	(\$75,000,000)
Water Recycling - \$200,000,000			(\$75,000,000)	(\$50,000,000)	(\$75,000,000)
Ending Balance:	\$282,443,410	\$17,517,752	(\$183,672,396)	(\$139,487,290)	(\$15,629,585)

The value of reduced interest earnings is presented in Table 3 below. Current interest earnings on the CWSRF are approximately \$50 million per year.

TABLE 3: "Fiscal Impact – Lost Interest Earnings"

CWSRF Interest Rate	Limit	Lost Interest Earnings*	
	Not to Exceed \$ Value	First Year	Over 30 year term
0.5%	\$400 Million	\$6,400,000	\$111,447,383
1.0%	\$200 Million	\$2,200,00	\$39,107,310
*The difference assuming our current 2.1% interest rate			Total \$150,554,693

REGIONAL BOARD IMPACT

To the extent that providing these financial incentives encourages additional water quality improvement projects and drought-relief, it will assist Regional Boards with achieving water quality goals, objectives and performance metrics.

STAFF RECOMMENDATION

The State Water Board should authorize very low interest financing from the CWSRF as presented in the above Table 1: "Financing Incentive".

State Water Board action on this item will assist the Water Boards in reaching Goals 1-4 of the Strategic Plan Update: 2008-2012. In particular, approval of this item will (1) Implement strategies to fully support the beneficial uses for all 2006-listed water bodies by 2030, (2) Improve and protect groundwater quality in high-use basins by 2030, (3) Increase sustainable local water supplies available for meeting existing and future beneficial uses by 1,725,000 acre-feet per year, in excess of 2002 levels, by 2015, and ensure adequate flows for fish and wildlife habitat, and (4) Comprehensively address water quality protection and restoration, and the relationship between water supply and water quality, and describe the connections between water quality, water quantity, and climate change, throughout California's water planning processes.

DRAFT

STATE WATER RESOURCES CONTROL BOARD RESOLUTION NO. 2014-

TO PROVIDE FINANCIAL INCENTIVES IN RESPONSE TO THE GOVERNOR'S DROUGHT PROCLAMATION FOR NEAR-TERM RECYCLED WATER PROJECTS FUNDED THROUGH THE CLEAN WATER STATE REVOLVING FUND (CWSRF)

WHEREAS:

1. California is experiencing record dry conditions. These dry conditions are anticipated to continue through 2014 and are forecasted to be more regular based on climate change projections;
2. The Governor issued a "Proclamation of a State of Emergency"(Drought Proclamation) on January 17, 2014;
3. Order Number 6 of the Governor's Proclamation states *"The Department of Water Resources and the Water Board will accelerate funding for water supply enhancement projects that can break ground this year and will explore if any existing unspent funds can be repurposed to enable near-term water conservation projects."*;
4. In addition to the Proclamation, the State Water Board would like to respond to the Drought emergency by offering financing incentives for the construction of recycled water facilities;
5. The State Water Resources Control Board (State Water Board), on May 7, 2013, amended the *"Policy for Implementing the Clean Water State Revolving Fund"* (Policy);
6. The State Water Board adopted the *"Water Recycling Funding Program Guidelines"* and amended them on July 15, 2008 (Guidelines) which are incorporated into the CWSRF Policy Appendix;

THEREFORE BE IT RESOLVED THAT:

The State Water Board:

1. Authorizes the Division of Financial Assistance (Division) to offer very low interest financing for water recycling projects from the CWSRF for recycled water projects;
2. Establishes the following primary guidelines for staff to follow while implementing the very low interest financing;
 - Water recycling projects shall meet the qualifications of the Guidelines and offset or augment State water supplies;
 - Financing will be distributed as fairly as possible and should be distributed in a manner that takes into account response to the Governor's Drought Proclamation;

DRAFT

- Financing will be obligated based on the order of the Division's receipt of Complete Applications for financial assistance through the CWSRF;
 - Projects with earlier construction start dates should receive priority for financing before projects with later construction start dates if funds become limited;
 - "Near-term" projects are generally those that could be constructed within three years of the Governor's Drought Proclamation;
 - Applicants that currently have financing agreements that have been initiated pursuant to Section IV(C)(1) of the CWSRF policy have already been assigned interest rates and are not eligible for reductions under this resolution.
3. Offers very low interest financing for water recycling projects according to the following schedule and limitations:

Water Recycling Projects – Very Low Interest Financing

CWSRF Interest Rate	Complete Application Received		Limits
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4. Delegates to the Executive Director, in consultation with the State Water Board Chair and Vice Chair, the ability to extend the allocation time frames, increase funding limits up to 10%, and/or transfer funds from one category to another so long as the financial health of the fund is maintained.

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 March 18, 2014.

Jeanine Townsend
Clerk to the Board