

**STATE WATER RESOURCES CONTROL BOARD  
BOARD MEETING - DIVISION OF FINANCIAL ASSISTANCE  
JUNE 5, 2012**

**ITEM 9**

**SUBJECT**

CONSIDERATION OF A PROPOSED RESOLUTION AUTHORIZING THE REFUNDING OF THE SERIES 2002 CLEAN WATER STATE REVOLVING FUND (CWSRF) REVENUE BONDS (2002 BONDS) IN THE ESTIMATED AMOUNT OF ONE-HUNDRED FOURTEEN MILLION DOLLARS (\$114,000,000) AND REAUTHORIZING THE SALE OF UP TO THREE HUNDRED MILLION DOLLARS (\$300,000,000 PAR VALUE) OF NEW REVENUE BONDS FOR THE CWSRF

**DISCUSSION**

Pursuant to [Resolution No. 2002-0108](#), the State Water Resources Control Board (State Water Board) leveraged the CWSRF program through a bond sale in August of 2002. The former Division of Clean Water Programs, now the Division of Financial Assistance (Division), executed an interagency agreement with the California Infrastructure and Economic Development Bank (I-Bank) to act as the conduit issuer on the \$300,000,000 bond sale.

The first optional redemption date for the 2002 Bonds is October 1, 2012. The 2002 Bonds maturing from 2013 to 2018 can be redeemed from the bond holders on or after October 1, 2012 without a premium. The outstanding 2002 Bonds can be redeemed with either cash from the CWSRF account or by selling an equivalent amount of bonds at current market rates.

The interest rates on the 2002 Bonds range from 4.00 percent to 5.00 percent. Based on current market conditions, refunding the 2002 Bonds will save the State Water Board approximately \$9.4 million or almost 10 percent of the refunded face value. A cash redemption would save the CWSRF more than a redemption by refunding, but the work done for a refunding would enable a more expedient future bond sale for new money, should a new money bond sale be warranted. Considering the large savings, redeeming the 2002 Bonds is desirable.

In 2002, the State Water Board and the Division anticipated further leveraging of the CWSRF. As part of the 2002 Bond sale, the State Water Board approved a Master Indenture; the Master Indenture contemplated the issuance of multiple series of bonds. The 2002 Bonds were the first series sold pursuant to that indenture. Future series were expected.

The Division regularly assesses the need for leveraging based on the CWSRF's cash flow forecasts. The forecasts are based on a variety of dynamic factors, with federal grant levels and the timing of project disbursements being the most significant factors. Federal grant levels vary yearly and actual disbursements are regularly made later than projections suggest.

Since 2002, the Division's forecasts have periodically indicated the need for additional funds. In 2005, it appeared that additional bonds might be needed for the program, and the State Water Board adopted [Resolution No. 2005-0064](#), authorizing the Division to sell an additional

\$300,000,000 worth of bonds. The Division, assisted by the I-Bank and other members of the financing team, took preliminary steps toward a bond sale in 2005.

The Division ultimately determined that the cash was not needed, so the bonds were not sold at that time. While Resolution No. 2005-0064 remains in effect, some updates and amendments are in order.

The Division continues to monitor closely the CWSRF's cash flow and refine its forecasting ability. In August 2010, the Division executed a contract with a financial advisor (Public Financial Management) to provide financial advice to the CWSRF program including whether and when to sell bonds. The Division is continually improving the Loans and Grants Tracking System to better track projected receipts and disbursements for more accurate cash flow forecasting. In addition, the Division conducts bi-monthly coordination meetings with the Division of Administrative Services to monitor spending and determine if and when new money will be needed.

Although cash flow forecasts are dynamic, the current cash flow projections and the high level of outstanding funding commitments to CWSRF recipients indicate that the CWSRF is likely to need additional cash in 2013. Based on these conditions, the Division wants to be prepared should a bond sale become necessary. Therefore, the Division seeks to update Resolution No. 2005-0064 to better reflect the current status of the CWSRF.

In addition, the Division recommends that the Board convert from a "closed pool" to an "open pool" pledge. The 2002 Bonds were issued with a closed indenture. Under a closed indenture, specific assets (CWSRF financing agreements) are pledged to a single series of bonds pursuant to a series indenture. In an open indenture, a common group of assets are pledged to all series of bonds, on parity, pursuant to a master trust indenture.

In the early years of the state revolving fund programs, the closed indenture structure was more prevalent among states that leveraged their CWSRFs through bond sales. As the CWSRF programs have matured, program assets have grown, and rating agencies and investors have become comfortable with this type of credit. The number of states using open indentures has grown significantly over the past ten years with a number of states that previously used closed indentures moving to open indentures. An open indenture structure can increase capacity for future leveraging, reduce administrative costs, and increase flexibility for refundings, cash flow management, and programmatic changes. Developing a new open pool master indenture in conjunction with refunding the Series 2002 Bonds would be administratively efficient and would help prepare the CWSRF program for future bond sales.

For these reasons, the Division proposes that the State Water Board renew the authority granted in Resolution No. 2005-0064. The additional bonds would be sold only if cash flow conditions warrant.

## **POLICY ISSUE**

Should the Board authorize the sale of refunding bonds in the estimated amount of \$114 million in order to redeem the 2002 Bonds?

Should the Board reauthorize the sale of up to \$300,000,000 par value in new revenue bonds for the CWSRF?

## **FISCAL IMPACT**

Refunding the 2002 Bonds will result in estimated savings of \$9.4 million for the CWSRF program. The costs associated with the refunding, and the sale of new bonds if needed, will be paid from the proceeds of the bonds.

State Water Board staff costs associated with the bond transactions will be covered by the administrative accounts currently available to pay staff costs.

## **REGIONAL BOARD IMPACT**

There will be no direct Regional Board impact. Refunding the 2002 Bonds and selling additional bonds will allow the CWSRF to finance additional water quality projects that support the Regional Board's efforts.

## **RECOMMENDATION**

The Board should authorize the sale of refunding bonds in the estimated amount of \$114 million in order to redeem the 2002 Bonds.

The Board should reauthorize the sale of up to \$300,000,000 par value in new revenue bonds for the CWSRF.

State Water Board action on this item will assist the Water Boards in reaching Goals 1, 2, 3, and 4 of the Strategic Plan Update: 2008-2012 to implement strategies to fully support the beneficial uses for all 2006-listed water bodies by 2030; improve and protect groundwater quality in high-use basins by 2030; 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 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. 2012-

AUTHORIZING THE REFUNDING OF THE SERIES 2002 CLEAN WATER STATE REVOLVING FUND (CWSRF) REVENUE BONDS (2002 BONDS) IN THE ESTIMATED AMOUNT OF ONE-HUNDRED FOURTEEN MILLION DOLLARS (\$114,000,000) AND REAUTHORIZING THE SALE OF UP TO THREE HUNDRED MILLION DOLLARS (\$300,000,000 PAR VALUE) OF NEW REVENUE BONDS FOR THE CWSRF

### WHEREAS:

1. In 2002, the State Water Resources Control Board (State Water Board) leveraged the CWSRF by pledging 98 CWSRF loans as security for a \$300 million bond sale;
2. In [Resolution No. 2002-0108](#), the State Water Board authorized the sale of an additional \$300 million worth of bonds;
3. The additional bonds have not yet been sold;
4. The first optional redemption for the 2002 Bonds is October 1, 2012;
5. The Division has been working with a financial advisor, the California Infrastructure and Economic Development Bank (I-Bank), and the Division of Administrative Services to determine the need for additional bonds;
6. Current market interest rates indicate a significant savings for the CWSRF program by refunding the 2002 Bonds;
7. While a cash redemption would result in more savings than a refunding, refunding the 2002 Bonds would better position the CWSRF program for future bond sales for new CWSRF money, should new CWSRF money become necessary;
8. The CWSRF program's cash projections indicate an eventual need for new money; and
9. The I-Bank has the authority to sell CWSRF bonds on behalf of the State Water Board pursuant to Article 6, Chapter 2, Division 1, Title 7 of the Government Code.

### THEREFORE BE IT RESOLVED THAT:

#### The State Water Board:

1. Authorizes the sale of bonds in the estimated amount of \$114 million in order to refund the 2002 Bonds.

# **D R A F T**

2. Reauthorizes the sale of up to \$300,000,000 par value in new revenue bonds for the CWSRF, as necessary.

## **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 June 5, 2012.

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Jeanine Townsend  
Clerk to the Board