STATE WATER RESOURCES CONTROL BOARD
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE
DECEMBER 5, 2017

ITEM 11

SUBJECT

CLEAN WATER STATE REVOLVING FUND POLICY AND PRIORITIZATION IMPROVEMENTS

DISCUSSION

The State Water Resources Control Board (State Water Board) administers California's Clean Water State Revolving Fund (CWSRF) Program (Program). The CWSRF is capitalized with federal and state funds. It provides affordable financing in the form of low interest loans and principal forgiveness to public entities to build new or rehabilitate publicly owned treatment works (wastewater and stormwater infrastructure) and implement non-point source and estuary projects. These projects serve to protect and promote the health, safety, and welfare of the people of California as well as reduce the effects of climate change and promote sustainable water resources for future generations.

This informational item provides an overview of the recent CWSRF Policy and Prioritization Workshops and discusses the responses received from stakeholders.

A. WORKSHOP OVERVIEW

1. Purpose and Need

   In the last several years, the Program has received a significant number of applications in comparison to previous years. As of September 18, 2017, the Program had 165 applications in-house, totaling $7.6B in funds requested; over 60 of those applications were complete. On average, the Program finances between 30 and 40 applications per year. As a result of the increasing demand for CWSRF financing, the Program has experienced a number of challenges. These challenges include 1) longer processing times, 2) unpredictable application outcomes, and 3) demand greater than supply. These challenges prompted the need to conduct workshops to solicit stakeholder input on practice and policy changes to make the financing process more effective and predictable, and to discuss how to manage future demands on the Program.

2. Logistics

   A public notice was sent in April 2017, and three workshops were held in Orange County, the Bay Area, and the Central Valley, on June 28, July 13 and July 20, 2017, respectively.

   The workshops were designed to be interactive and collaborative. Division of Financial Assistance (DFA) staff presented an overview of the Program's history, current status, and future direction through a one-hour PowerPoint presentation. Small group discussions followed to brainstorm solutions to address the Program's current challenges. Topics of discussion included application prioritization criteria,

process changes to increase the predictability of financing, the Program's financial capacity, and resource needs associated with potential practice and policy changes.

3. Expectations from Stakeholders

DFA staff developed a questionnaire and a Potential Application Priority Scoring Criteria Survey (Survey). These were sent to attendees in advance of the workshops. DFA staff emphasized the importance of using the questionnaire and Survey primarily as conversation starters and that DFA was open to any topics of discussion related to policy and prioritization improvements.

The questionnaire consisted of a series of Yes/No questions related to: 1) the threshold for scoring an application, 2) establishing a yearly funding target and establishing a fundable list, 3) providing partial funding and defining agencies for purposes of partial funding, and 4) retroactive funding of construction costs and determining the eligibility date for retroactive construction costs.

The Survey was developed using the prioritization criteria in the existing CWSRF Policy and review of more than 15 other states' prioritization criteria. The Survey included criteria in the following categories: public health, water quality/ enforcement/permit compliance, project readiness, financial need/affordability, sustainability, and cooperative funding/financing readiness. The Survey also followed a Yes/No approach. Stakeholders were asked to answer "Yes" if they thought the criteria should be considered in a potential application scoring system, and "No" if they thought the opposite. Stakeholders were also asked to weight the criteria. Attendees were asked to submit the completed questionnaire and Survey and any other comments by August 4, 2017.

Small group discussions were facilitated by DFA staff during the workshops, and stakeholder ideas/feedback were recorded.

Additionally, a meeting was held on August 22, 2017 to solicit input from technical, administrative, legal, environmental, and financial staff.

B. RESPONSES AND CONCLUSIONS

1. Responses

Nearly 220 registered and a total of 170 stakeholders attended the workshops. Approximately 25 questionnaires, 25 Surveys and 10 free form responses were received by DFA from stakeholders. Collectively, responses to the questionnaire and Survey, free form comments, workshop group notes, and DFA staff discussion notes were evaluated to determine what policy and prioritization improvements should be implemented.

2. Conclusions

Based on the group discussions and responses to the questionnaire and Survey, there are a number of practice and policy changes that the stakeholders favor. The two which received the highest number of "Yes" answers are providing partial funding and establishing a yearly funding target. Others that were clearly favored included continuing to fund and prioritize disadvantaged communities and severely

disadvantaged communities. There was also high support to give priority (a higher score) to projects that do one or more of the following: have submitted complete applications, are ready to accept an agreement and are shovel-ready, have secured complementary sources of funding, were on the previous year's fundable list, and have a secure revenue stream in place. In contrast, giving priority to an application that has already received past financing or scoring an application that has already completed construction were clearly not favored.

In addition to the clear "Yes's" and "No's" stated above, other feedback was less clear, and will require further consideration before implementation. Ambiguous feedback included: 1) what criteria to use in an application scoring system, 2) how to define agencies for the purpose of partial funding, 3) what eligibility date to use for retroactive funding, and 4) whether letters of support, complementary state funds, or having a high bond rating should give applications higher priority.

C. NEXT STEPS

Using the feedback received from the workshops and DFA staff discussions, the next step is to implement those practice and policy changes that are feasible at this time. Practice changes would involve adjusting current practices within the Program or updating the Program's annual Intended Use Plan (IUP). Policy changes would require amending the *Policy for Implementing the CWSRF Program* or changing applicable statutes. To help establish a reasonable timeframe for implementation, the changes were ranked according to the ease or difficulty with which the change can be implemented.

1. Practice Changes

A majority of the practice changes have been implemented or are in the process of being implemented. On October 3, 2017, the State Water Board increased the leveraging authority of the CWSRF. Establishing a yearly funding target and offering partial funding can be added to the Program's IUP for Fiscal Year 2018/2019 (FY 18/19), which is slated for State Water Board consideration in June 2018. Implementation of other changes, such as re-examining the agreement routing process, modifying the existing application status report on the web, and new monthly push-button application status reports are expected to be completed by the end of 2017.

2. Policy Changes

The new *Drinking Water and Clean Water State Revolving Fund Debt Management Policy* was also adopted at the October 3, 2017 Board Meeting. Potential Policy changes that DFA anticipates adding to the draft FY18/19 IUP include reimbursing retroactive construction costs in a manner that does not interfere with federal environmental consultations and scoring applications. The objective is to go through a dry run of a potential application scoring system, and continue to work with stakeholders on developing a new scoring system prior to amending the CWSRF Policy. This would allow DFA to make adjustments, if necessary, and transition towards full launch/implementation of a new application prioritization system.

POLICY ISSUE

None at this time; informational item.

FISCAL IMPACT

None at this time; informational item.

REGIONAL BOARD IMPACT

None at this time; informational item.

HUMAN RIGHT TO WATER ANALYSIS

The State Water Board adopted the human right to water as a core value and top priority consistent with Water Code Section 106.3. The Program supports California's Human Right to Water law by providing financial resources needed to finance infrastructure that contributes to safe, clean, affordable, and accessible water adequate for human consumption, cooking, and sanitary purposes and prevents pollution that causes or threatens harm to human health, safety and the environment.

STAFF RECOMMENDATION

None at this time; informational item.

State Water Board action on this item will assist the Water Boards in reaching Goal 6 of the Strategic Plan Update: 2008-2012 to enhance consistency across the Water Boards, on an ongoing basis, to ensure our processes are effective, efficient, and predictable, and to promote fair and equitable application of laws, regulations, policies, and procedures.