



CALIFORNIA ASSOCIATION of SANITATION AGENCIES

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(10/3/17) Board Meeting
SRF Debt Management Policy
Deadline: 9/22/17 by 12 noon

September 21, 2017

Felicia Marcus, Chair
Members, State Water Resources Control Board
1001 I Street, 24th Floor
Sacramento, CA 95814



Via Email: commentletters@waterboards.ca.gov

Subject: Comment Letter –SRF Debt Management Policy - October 3, 2017 Board Meeting

Dear Chair Marcus and Members of the Board:

The California Association of Sanitation Agencies (CASA) appreciates the opportunity to provide comments on the proposed SRF Debt Management Policy. For more than 60 years, CASA has been the leading voice for public wastewater agencies on regulatory, legislative and legal issues. Our member agencies are engaged in advancing recycled water production and beneficial reuse, generating renewable energy supplies, and producing and beneficially using biosolids and other valuable resources. Through these efforts we help create a clean and sustainable environment for Californians. The Clean Water SRF is a critical source of financing for many of these projects, and our members have a significant stake in the continued vitality of the program.

In general, we believe the proposed policy is prudent and provides sufficient structure for the program while retaining flexibility to accommodate additional borrowing to fund projects statewide. We appreciate the many improvements the Board and staff have made to the CWSRF process over the past several years and have identified a number of recommendations for further changes in California's program. We believe additional leveraging and streamlining are needed to meet the rising demand and ensure that water quality infrastructure projects can move forward as quickly and efficiently as possible.

As we noted in comments submitted to your staff following the series of CWSRF workshops this past summer, we would like to engage in a dialogue with you and Water Board members as to how we can appropriately leverage the program consistent with USEPA guidance. With the current focus on the importance of improving critical water infrastructure nationwide, we believe it is in our collective interest to build on past improvements to make the California's CWSRF program as efficient, vital and effective as possible.

Our specific suggestions for revisions to the proposed policy are set forth below. We also offer additional thoughts and recommendations on several aspects of the CWSRF program we would like to address with the Board moving forward.

Proposed SRF Debt Management Policy

The policy clearly and positively documents an institutional framework for continued leveraging of the CWSRF. We recommend two revisions regarding the terms of bonds and loans, as detailed in Attachment A, which we believe are important to accommodate future flexibility. First, we recommend the references to 30-year terms be deleted, to retain flexibility and avoid limiting bond or loan terms in the policy.

Additionally, we encourage the Board to consider adding a version of the following statement within Section XIX Financing Strategy, Subsection C Demand Management:

"4. Demand management also requires access to, and utilization of, internal resources and staff and external resources, advisors, and consultants to manage financial assistance requests, to document financial assistance agreements, and to monitor compliance with agreements. In particular, additional effort and expertise is required to document and monitor financial assistance to recipients requiring more complex security pledges and covenants ranging from DAC recipients to recipients with covenants attributable to a variety of obligations outside California's SRFs. Accordingly, the Board will support and advocate for the resources required to manage sustainable demand."

SRF Leveraging

We support and encourage the Board's ability and willingness to leverage California's SRFs by issuing revenue bonds secured and repaid by SRF loans and other assets. We agree that such leveraging must consider long-term effects and sustainability on assets and the flow of funds.

The proposed policy emphasizes the need to maintain mutually beneficial relationships with investors and rating agencies and, as a result, maintain high credit ratings. California is on solid ground in this regard, as rating agency comparisons demonstrate that California's Clean Water SRF performs better than median ratings data and the majority of other SRFs for: (1) the amount of pledged assets compared to debt, and (2) the resiliency and default tolerance of the pledged loan portfolio.

Based on our understanding of rating data and financial statements sourced to staff, California has considerably more leveraging capacity available through:

- continuing to diversify the portfolio with a wide range of recipients from DACs to large service providers with more complex security pledges and covenants;
- pledging additional SRF loans and assets; and
- implementing bond related provisions which enable the Clean Water and Drinking Water SRFs to secure and support each other.

SRF Implementation

Even the best debt management policy will be of limited effectiveness if the Board does not ensure that staff have access to and utilize internal and external expertise to manage demand. Similar to our suggested policy provision on demand management, we encourage the Board to document an institutional framework for reliance on adequate internal and external resources within the Clean Water SRF Implementation Policy.

We look forward to the opportunity to address implementation and streamlining recommendations with you. We understand that the Board has limited staff resources, and we believe there are options can reduce the burden on both CWSRF staff and applicants. Among the options to explore:

- Conduct the necessary CEQA review at the time the local agency project is submitted to the clearinghouse rather than waiting until later in the application process. We appreciate that CWSRF staff would not want to conduct a CEQA review of every project submitted to the clearinghouse, but agencies could identify those projects for which they will be seeking CWSRF funding.
- Reduce the amount of effort required of staff by having applicants submit certifications regarding water quality benefits, legal requirements etc. which can be relied upon by staff.
- Establish a "Frequent Borrower Program" where agencies that have been through the funding process do not need to recreate the wheel for each project. Currently, veteran borrowers are treated in the same way as first-time applicants, an unnecessary waste of time for both the applicant and the CWSRF staff. As the Board's policies change over time, the CWSRF staff can focus on these changes instead of starting from scratch with each legal review.
- Supplement the program staffing with outside legal and financial expertise, through contracts.

Thank you for the opportunity to provide our comments on the proposed Debt Management Policy. Please let me know if you have questions or if I can provide additional information.

Sincerely,



Roberta L. Larson
Executive Director

Attachment A to CASA Correspondence dated September 22, 2017 regarding Board's SRF Debt Management Policy

2. As appropriate, presentations to the credit rating agencies, updating them on any aspects of the programs necessary to obtaining a rating.
3. Distribution of any documents relevant to the sale of bonds.
4. Timely dissemination of information required by the credit rating agencies for their surveillance activities.
5. Timely disclosure to the appropriate parties of any information that may affect the bonds' credit ratings, regulatory compliance, or bond commitments.
6. To the extent practicable, disclosure of information that may be important to potential investors and the general public.

State Water Board staff shall evaluate at regular intervals in consultation with the IBank and the Financial Advisor the outstanding debt and loan portfolios in an effort to ensure that the State Water Board maintains the strongest credit ratings possible. The State Water Board's goal is to achieve and maintain "AAA" ratings for both of the SRF programs.

VIII. Types of Sale

The IBank, State Treasurer, and Financial Advisor, in consultation with the State Water Board will evaluate and recommend whether a negotiated or a competitive method of sale and/or whether a public offering or a private placement is most suitable for a proposed transaction. Timing, size, program borrower needs, diversity of investment banks to efficiently and effectively sell bonds in institutional and retail markets, program structure and demands, debt service and projected interest rates are to be considered as part of this recommendation. The State Water Board will also consider the cost/benefit for accessing other additional capital, such as the federal Water Infrastructure Finance and Innovation Act (WIFIA) program or short-term financing through the IBank for the purposes of SRF state match, as opportunities arise.

IX. Structure of Bond Issues

A. Term of Bonds

The initial consideration in structuring the term of the program bond issue should be that the term is no longer than the lesser of the useful life of the asset(s) being financed ~~or 30 years~~. **Additionally, the term will be structured in consideration of the term of the composite pledged loan portfolio.** *CASA Comment: Retain flexibility, avoid limiting either loan or bond terms within policy.*

B. Redemption Provisions

Optional redemption provisions should be included to permit the State Water Board to redeem bonds as soon after initial issuance as possible, preferably at 10 years or less,

XVII. Permissible Types of Debt for Financing Projects

The following constitute permissible types of debt instruments under this Debt Policy. Other types of debt instruments may be considered by the State Water Board as the need arises.

CASA Comment: Retain flexibility, avoid limiting either loan or bond terms within policy.

A. Fixed Rate Debt

Fixed rate debt shall be issued as tax exempt or taxable bonds ~~with a final maturity no longer than 30 years~~ and shall have a call option in consideration of the discussion in Section VII(B) of this Debt Policy. Current interest bonds and term bonds may be used for both new money and refunding transactions, and may be structured to meet investor demand at the time of pricing. Capital appreciation and zero coupon bonds, which typically result in higher interest costs, may be used in limited circumstances after an analysis is performed to determine whether the needs or objectives of a particular financing program can be met only through their use. Funds from one SRF program to secure the other SRF program against default through cross-collateralization may also be employed.

B. Short Term Borrowing Program (including Commercial Paper or Draw-Down Note Program)

Short term borrowing programs may be issued to support eligible CWSRF/DWSRF lending and/or high reimbursement demand on a periodic basis to balance cash-flows as well as to satisfy SRF state match requirements. Short-term borrowing may also be considered when using funds from one SRF program to help cure a default in the other SRF program through a short-term cross-fund investment.

XVIII. Entering the Market

Cash flow needs, resource availability, and refunding opportunities are the primary factors determining when the State Water Board issues debt. After an analysis of borrower demand and cash flow are completed, and it is determined that cash flow is projected to be insufficient to meet existing and upcoming commitments, staff will seek State Water Board approval and develop a plan to enter the market and issue bonds. Timing is critical and staff must monitor economic indicators, in coordination with the IBank and Financial Advisor, to determine the appropriate time to enter the market. The State Water Board will also consider advice from the Financial Advisor as to market conditions and optimal timing.

C. Demand Management

The infrastructure and water quality needs in California far exceed what the CWSRF and DWSRF can finance with the available staff and funds. Demand management is an on-going process that attempts to balance the State Water Board's objective of having a consistent pipeline of projects that support its highest priorities and prudent financial management with the applicants' desire for cost-conscious and timely financing of their projects. There are several keys to effective demand management.

1. A robust application prioritization or scoring system should (a) help staff identify and focus on those applications that best support the State Water Board's priorities and (b) help applicants evaluate their projects' competitiveness and guide them toward submitting applications that best align with the State Water Board's priorities. The application scoring systems are established by the State Water Board in the SRF Policies, and will be used to evaluate, in conjunction with a target funding level, project applications as part of the annual Intended Use Plans.
2. Demand management also needs to support the composition of the SRFs' portfolios. Access to the capital markets at a reasonable cost is important for any long-term financing strategy, and the credit quality of the portfolio is affected by the mix of applicants that request and receive financing. DACs often experience some of the most severe water quality problems, while large, financially stable communities provide a sound foundation for leveraging the SRF programs to increase water quality financing in California. Both types of communities play significant roles in the success of the SRF programs. Portfolio diversification should consider the credit quality of the borrowers that may be used in the pledge pool as well as credit concentration. Geographic distribution of borrowers should also be considered to avoid geographic risk.
3. Demand management also requires effective communication with applicants so that they understand the current status of their applications and the status of the program overall. The SRFs' Marketing Strategy and IUPs play key roles in effectively communicating with stakeholders, and ensuring that staff, particularly Project Managers who are often the face of the programs, are up-to-date is an important avenue of communication with applicants.

CASA Comment: We recommend inserting additional text regarding resources to manage demand, see cover letter.