

Clean Water State Revolving Fund (CWSRF) Draft SFY 2022-23 Intended Use Plan

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Board Workshop: Item 6

September 7, 2022

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Intended Use Plan Purpose

- Guide staff implementing CWSRF, SCWW grant funds, and Water Recycling Funding Program in 2022-23
- Apply for and receive the 2022 Capitalization Grants from US EPA
- Includes new funding provided by the Bipartisan Infrastructure Law (BIL)
 - Proposing to transfer CWSRF Emerging Contaminants to DWSRF and combine with DWSRF Emerging Contaminants BIL funding
- Includes guidance on California's 2021 and 2022 Budget Acts Appropriations
 - Drinking water and wastewater infrastructure funding
 - Water Recycling funding
 - PFAS funding

IUP Organization

| Source(s) of Funds | Document |
|---|--|
| 2022 CWSRF Base Program Capitalization Grant | 2022-23 CWSRF IUP |
| 2022 CWSRF BIL General Supplemental Capitalization Grant | |
| 2021 and 2022 Budget Acts Water Recycling General Fund Appropriations | |
| 2022 CWSRF BIL Emerging Contaminants Capitalization Grant & 2022 Budget Act PFAS General Fund Appropriation | DWSRF & CWSRF Emerging Contaminants Supplemental IUP |

BIL - Financial Outlook

- Appropriated approximately \$850 million over five years to CA's CWSRF For 2 Objectives.
 - General Supplemental Funding for "Any Eligible Project"
 - \$783 million Total – 49% Principal Forgiveness
 - Emerging Contaminants Funding
 - \$67 million Total – 100% PF
- Authorized approximately \$1.5 billion over 5 years for CA's CWSRF Program (i.e., any eligible project)
 - 2022 Capitalization Grant cut due to Congressionally directed spending (\$82 million vs \$113 million)
 - Therefore, anticipated grants may be \$468 million over 5 years (31% of authorized amount)
 - 40% to be awarded as PF

FFY 2022 Capitalization Grants

| \$ million | Loan | PF | Set-Asides | Total Cap Grant |
|---|----------------------------|---------------------------|------------------------|-----------------------------|
| Base Program | \$44.7 | \$33.1 | \$5.0 | \$82.7 |
| General Supplemental (appropriated by BIL) | \$57.3 | \$62.3 | \$7.6 | \$127.3 |
| “Any Eligible Project” subtotal (FFY 2021 for comparison) | \$102.0 (\$67.8) | \$95.4 (\$45.2) | \$12.6 (\$0) | \$210.0 (\$113.0) |
| Emerging Contaminants (appropriated by BIL) | \$0 | \$6.4 | \$0.3 | \$6.7 |
| Total FFY 2022 | \$102.0 | \$101.8 | \$12.9 | \$216.7 |

Current Financing Demand

| Application Status | No. Applications | Requested Funding, \$ millions | Estimated Funding, \$ millions |
|--|------------------|--------------------------------|--------------------------------|
| Rollover Projects (On Fundable List) | 24 | \$1,809 | \$947 |
| Small SDAC and Small DAC Projects with Complete Applications (On Fundable List) | 29 | \$240 | \$240 |
| New Projects Subject to Scoring (Requesting Placement on Fundable List) | 44 | \$1,980 | \$222 |
| Small SDAC and Small DAC Projects with Incomplete Applications (Not on Fundable List) | 84 | \$781 | \$0 |
| Totals | 181 | \$4,810 | \$1,409 |

Grant and Principal Forgiveness

Small DAC and Septic-to-Sewer

| Funding Source | Loan |
|--|--------------|
| CWSRF Principal Forgiveness (FFY 2022 Base Program and General Supplemental) | \$95 |
| CWSRF PF (previous capitalization grants) | \$82 |
| SCG Fee | \$8 |
| Prop 1 grant | \$4 |
| State General Fund Infrastructure Appropriation | \$495 |
| Total | \$684 |

Small DAC and Septic-to-Sewer

- **No Changes from the March 2022 Amendment of the 21/22 IUP**
- **Priority Projects**
 - Public health projects
 - Address violations of WDRs/NPDES permits
 - Septic-to-Sewer or Regional projects
 - Other projects identified by the Regional Water Board

Wastewater Construction Grant/PF Eligibility Criteria

| Affordability Criteria | | | Grant/PF Amount | |
|---|--------------------------------|---|-------------------------------------|--|
| Type of Community | Wastewater Rates as a % of MHI | Percentage of Total Eligible Project Cost | Maximum Grant/PF Amount Per Project | Maximum Grant/PF Per Residential Connection* |
| Small Community with MHI ≤ 150% Statewide MHI but > 80% Statewide MHI | ≥4% | 50% | N/A | \$45,000** or |
| Small DAC | N/A | 100% | | \$125,000** |
| For septic-to-sewer set-aside projects only: Large DAC or Small Non-DAC | ≥1.5% | 50% | \$25 million | \$75,000 |

* The Deputy Director of DFA may approve financing for construction projects with a total eligible project cost up to \$6 M regardless of the amount per connection.

** Deputy Director of DFA can approve up to \$60,000 or \$175,000, respectively, for good cause

Water Recycling Grant

| Funding Type | Prop 13, 1, 68 | General Fund | AB 211 / SB 128 | Total |
|--------------------|-------------------|-----------------|--------------------|--------------|
| Planning Grant | \$19 | \$0 | \$0 | \$19 |
| Construction Grant | \$20 | \$160 | \$100 | \$280 |
| Construction Loan | \$23 | \$0 | \$0 | \$23 |
| Total | \$62 | \$160 | \$100 | \$322 |

\$15
million

Construction
Grant Maximum

Not included: \$210 million subject to appropriation for 23/24 (AB 211/SB 128). DFA plans to incorporate via a Change Sheet.

PF for Stormwater & Estuary

- Any CWSRF eligible project that implements a nationally designated estuary plan or implements a process, material, technique, or technology to mitigate stormwater runoff

| Project Type | Percentage of Eligible Project Cost | Maximum PF per Project |
|---------------------------|-------------------------------------|------------------------|
| Estuary Project | 75% | \$1,000,000 |
| Stormwater Planning Study | 75% | \$500,000 |
| Stormwater Construction | 50% | \$5,000,000 |

Note: Total of \$20 million available for stormwater projects

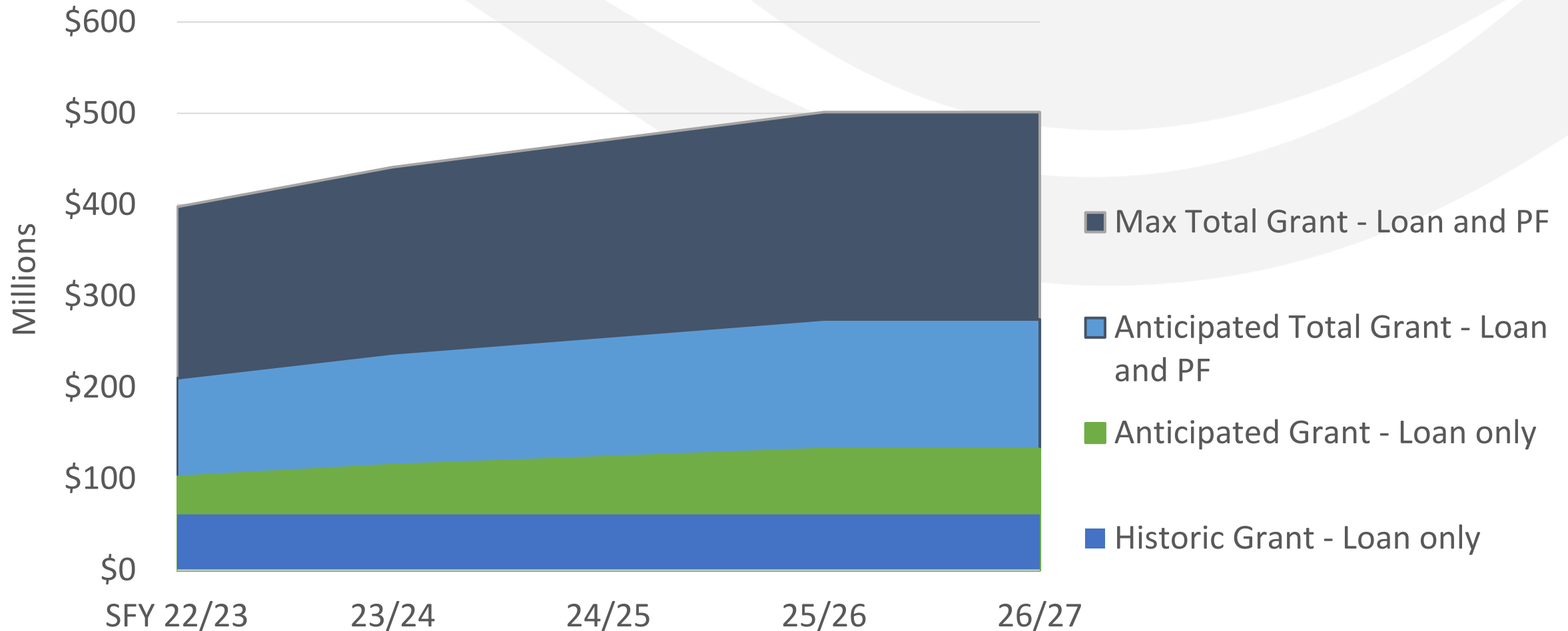
CWSRF Lending Capacity

- Lending capacity remains at \$600 Million; no change from last year
 - Sustainable long-term capacity calculation
 - Used to determine Cutoff Score during Fundable List development
 - Rollover projects or Small DAC applicants are not affected

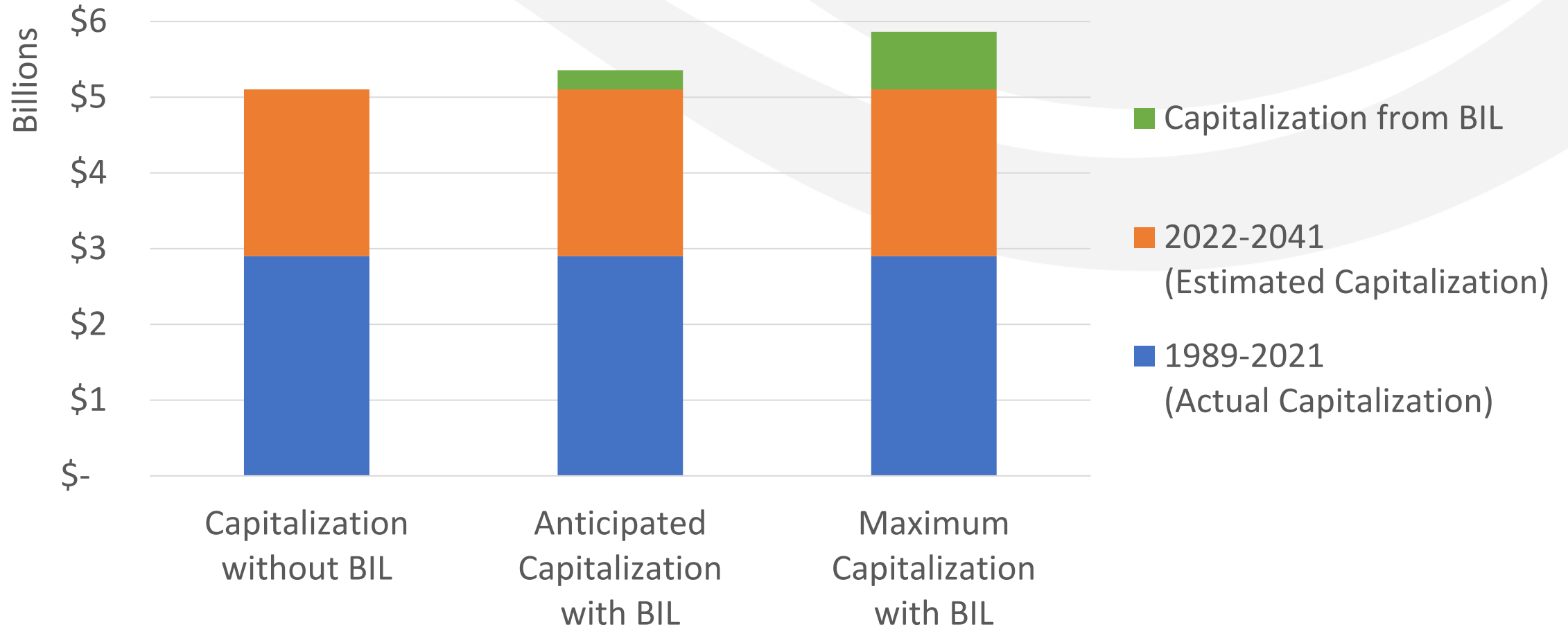
| | SFY 2017-18 | 18-19 | 19-20 | 20-21 | 21-22 |
|-------------------|-------------|-------|-------|-------|---------|
| No. of Agreements | 44 | 9 | 23 | 30 | 54 |
| Loan \$, millions | \$670 | \$241 | \$552 | \$286 | \$2,071 |

Average annual loans of \$764 million per year (5-year average)

CWSRF Grant Levels per Year



Loan Capacity is a Function of Capitalization



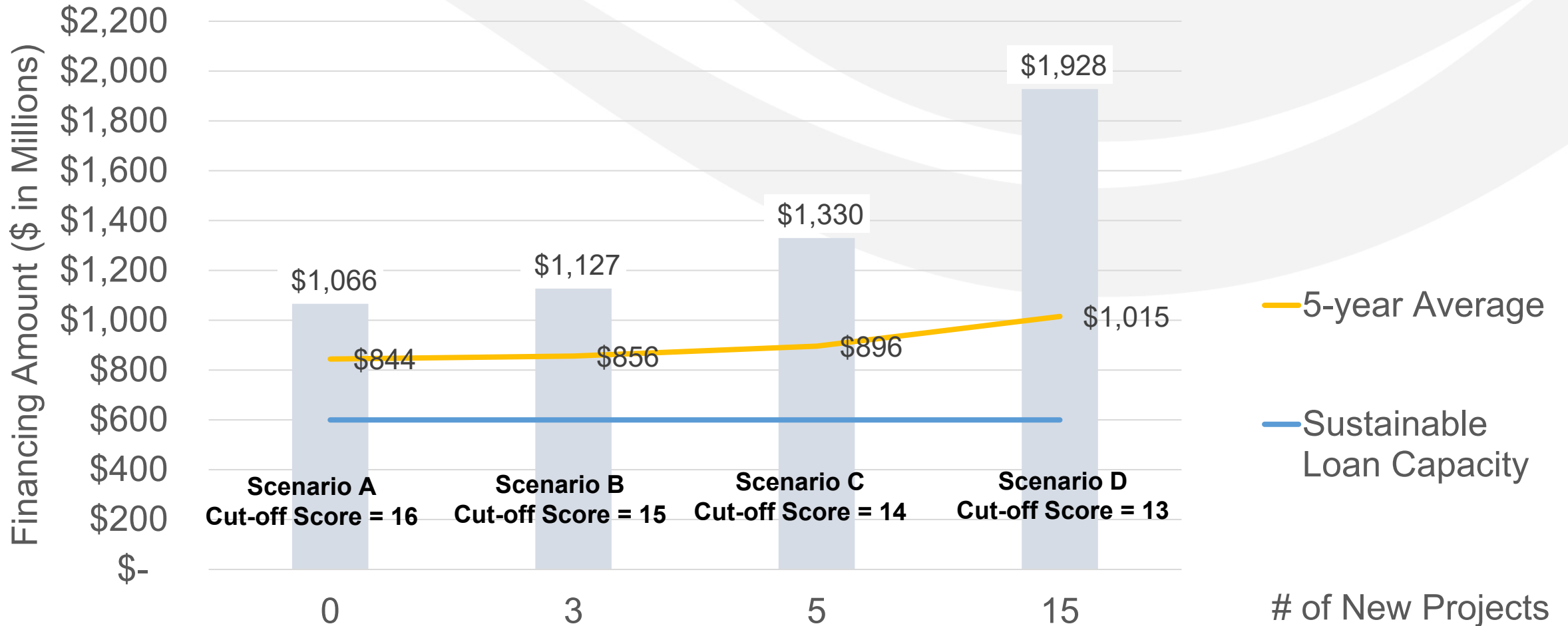
Fundable List Development

- Comprehensive List
 - Pipeline of projects under development
 - List of all Projects with priority score details
- Identifies Projects DFA Is Allowed to Finance
 - Only Projects on Fundable List may be financed in SFY 22/23
 - Small DACs may receive financing if
 - A complete application is submitted, staff determines they are ready for a financing agreement, and funds are available
 - Previous year's Fundable List projects "rollover" or are removed
- Loan Demand Exceeds Loan Capacity
 - Scoring/Ranking of Projects, is warranted due to demand
 - Funding Target Range = 90% —> 125% of \$600 million Loan Capacity

Loan Scenarios Discussion

| Scenario | Cutoff Score | # of Projects Added | Total CWSRF Loan, M | Five Year Average / Excess of Funding Target |
|----------|--------------|---------------------|---------------------|--|
| A | 16 | 0 | \$1,066 | \$844 million / +\$244 million |
| B | 15 | 3 | \$1,127 | \$856 million / +\$256 million |
| C | 14 | 5 | \$1,330 | \$896 million / +\$296 million |
| D | 13 | 15 | \$1,928 | \$1,015 million / +\$416 million |

Comparison of Loan Financing Scenarios



DFA recommends Scenario A – No new scored (loan) projects added to the Fundable List, but:

- Deputy Director may bypass Rollover projects on Fundable List
- Water recycling and stormwater projects that support water supply resiliency eligible to receive grant/PF can be added to the Fundable List
- Deputy Director may lower Cut-Off score to 14 or 13 (Scenario C or D) if sufficient cash flow and staff resources will be available to execute by June 30, 2023

Build America Buy America (BABA)

- New federal requirement expanding domestic sourcing requirements
- Includes construction materials and manufactured goods in addition to the existing American Iron and Steel (AIS) requirements
- EPA Adjustment Period Waiver issued September 2, 2022
 - Project initiated design planning prior to May 14, 2022
 - e.g. Issued RFP, submitted preliminary engineering report, executed SRF agreement that includes design, submitted (incomplete) plans and specs to state authority.
 - If project cannot provide documentation, request opinion from EPA

Key Performance Indicators

- Execute 90% of projects with complete applications, on Fundable List, by June 30, 2023
 - 50% of projects executed during SFY 2022/23 should assist SDACs or DACs.
- Fulfill 75% of complete disbursement requests in 60 days or less.

& Process Improvements

- For 100% nonrepayable planning projects, limited financial review, but planning project must address future financial capacity
- Change Order contingency increased from 10% to 20% for grant/PF projects
- Clarified which federal requirements are not necessary for non-SRF funding sources

Schedule

| Item | Date |
|--|-------------------------------|
| Draft IUP Posted for 30-Day Public Comment | August 24, 2022 |
| Board Workshop/Webinar | September 7, 2022 |
| Deadline to Submit Written Comments | September 23, 2022, (Noon) |
| Board Meeting for Adoption of IUPs | October 3, 2022 |
| Evaluate Progress of Fundable List Rollovers | Quarterly |
| Start Developing SFY 2023-24 Fundable List | December 31, 2022 |
| Execute Agreements for All 2022-23 Fundable Projects | June 30, 2023 |

Questions

