

State of California

CLEAN WATER STATE REVOLVING FUND

and

The Water Quality, Supply, and Infrastructure  
Improvement Act of 2014

(Prop 1)

and

The California Drought, Water, Parks, Climate, Coastal  
Protection, and Outdoor Access for All Act of 2018 (Prop 68)

**INTENDED USE PLAN**

**STATE FISCAL YEAR 2019-20  
(FEDERAL FISCAL YEAR 2019 CAPITALIZATION GRANT)**

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*Approved by: State Water Resources Control Board  
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## I. INTRODUCTION

Water is one of the most essential natural resources in California. The State Water Resources Control Board (State Water Board) and the nine Regional Water Quality Control Boards (Regional Water Boards), collectively the Water Boards, protect and improve water quality in California through several regulatory and financial assistance programs.

The federal [Clean Water Act](http://www.waterboards.ca.gov/laws_regulations/docs/fedwaterpollutioncontrolact.pdf) (CWA [http://www.waterboards.ca.gov/laws\\_regulations/docs/fedwaterpollutioncontrolact.pdf](http://www.waterboards.ca.gov/laws_regulations/docs/fedwaterpollutioncontrolact.pdf)) established the Clean Water State Revolving Fund (CWSRF) program to finance the protection and improvement of water quality. The CWSRF program has protected and promoted the health, safety, and welfare of Californians since 1989. Many of the projects funded by the CWSRF program address wastewater discharge violations or enforcement orders issued by the Regional Water Boards. Every project is directly related to protecting or improving public health, water quality, or both.

The State of California also periodically allocates funding to the State Water Board for financing programs that help protect and improve water quality. Many of these programs can be used in conjunction with the CWSRF program.

This Intended Use Plan (IUP) describes the State Water Board's plan for implementing the CWSRF and its complementary financing programs for State Fiscal Year (SFY) 2019-20.

### A. Highlights for SFY 2019-20 IUP

California's CWSRF program continues to evolve, primarily due to the ongoing high demand created by the program's attractive terms. In addition, the level of CWSRF and complementary financing has been below average in SFY 2018-19 due to the implementation of California's new, statewide accounting and budgeting system, the Financial Information System for California or "FI\$Cal." The Division of Financial Assistance (DFA) expects that the slower pace of financing will continue into SFY 2019-20, but that the overall pace of financing will return to a level similar to previous levels after FI\$Cal is fully implemented. Stakeholders should note that the SFY 2019-20 IUP reflects several changes from the amended [CWSRF Policy](https://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/cwsrf_policy.shtml) ([https://www.waterboards.ca.gov/water\\_issues/programs/grants\\_loans/srf/cwsrf\\_policy.shtml](https://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/cwsrf_policy.shtml)) approved by the State Water Board on November 28, 2018, highlighted briefly below, to better manage the program.

- Establishing a "funding target" based on a sustainable financing level to maintain the CWSRF on a sound financial basis.

- Scoring applications and the selection of a “Cut-Off” score to select new applications for addition to the “Fundable List,” and limiting eligibility during the fiscal year to new applications with a score equal to the Cut-Off or higher with the exception of small Severely Disadvantaged Communities (SDAC)s, small Disadvantaged Communities (DAC)s, and projects rolling over from the SFY 2018-19 Fundable List.
- Partial funding of selected projects to make the Fundable List consistent with the Funding Target.
- Reimbursing construction costs incurred prior to approval of financing under limited conditions.
- Use of the newly developed “Credit/Financial Guidelines,” [Appendix N \(https://www.waterboards.ca.gov/water\\_issues/programs/grants\\_loans/srf/docs/credit\\_financial\\_guidelines.pdf\)](https://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/docs/credit_financial_guidelines.pdf), to the CWSRF Policy.

Given the ongoing high demand on the CWSRF, the State Water Board will not be able to fund all the projects currently requesting funding in SFY 2019-20. Applicants whose projects are not on the Fundable List are encouraged to evaluate the CWSRF’s finances and competing demands on the program as described in this IUP and any updates during the year, and evaluate all viable, alternative financing options for their projects considering any deadlines they must meet.

## B. Authority and Past Achievements

In 1987, the United States Congress and the President amended the CWA to replace the long-standing, federal Construction Grants Program (Title II) with the more flexible CWSRF program (Title VI). In 2014, Congress and the President approved the [Water Resources Reform and Development Act of 2014](https://www.govtrack.us/congress/bills/113/hr3080/text) (WRRDA <https://www.govtrack.us/congress/bills/113/hr3080/text>), changing the requirements and eligibilities in Title VI of the CWA. California’s CWSRF program is authorized under California [Water Code Sections 13475-13485](http://leginfo.legislature.ca.gov/faces/codes_displayText.xhtml?lawCode=WAT&:di vision=7.&:title&:part&:chapter=6.5.&:article) ([http://leginfo.legislature.ca.gov/faces/codes\\_displayText.xhtml?lawCode=WAT&:di vision=7.&:title&:part&:chapter=6.5.&:article](http://leginfo.legislature.ca.gov/faces/codes_displayText.xhtml?lawCode=WAT&:di vision=7.&:title&:part&:chapter=6.5.&:article)), and operates pursuant to an [Operating Agreement](#) between the State Water Board and the United States Environmental Protection Agency (U.S. EPA) Region 9.

The CWSRF functions as an environmental infrastructure bank capitalized by federal and state funds – providing a sustainable source of funds for water quality protection and improvement. The CWSRF’s capital and its earnings are used to provide financial assistance to a wide variety of water quality projects. States can target specific water quality problems, offer a variety of financing options, and customize terms to meet their water quality needs. Financing options include loans, refinancing debt, purchasing or guaranteeing local debt, and purchasing bond insurance<sup>1</sup>.

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<sup>1</sup> Throughout this document, the word “loan” is used expansively and may include bonds, installment sale agreements, and other types of repayable financing.

Interest rates must be below the market rate. Repayment periods are generally the lesser of 30 years or the expected useful life of the financed asset. Since 2009, federal CWSRF appropriations and California law have also authorized grants, negative interest rates, and principal forgiveness (PF) on a limited basis.

All 50 states and Puerto Rico are currently operating successful CWSRF programs. The [total CWSRF financing nationwide \(https://www.epa.gov/cwsrf\)](https://www.epa.gov/cwsrf) exceeds \$133 billion. California's CWSRF has grown since financing its first project in 1989 and has executed more than \$11.0 billion in financial assistance agreements with over 350 unique recipients. The program has funded a broad range of projects. Approximately 96 percent (96%) of funds have been used for publicly owned wastewater infrastructure, and about four percent (4%) of funds have been used for nonpoint source or estuary projects.

### C. Connections to Other Plans, Goals, and Programs

The CWSRF program supports the following goals from the State Water Board's most recent [Strategic Plan Update \(https://www.waterboards.ca.gov/water\\_issues/hot\\_topics/strategic\\_plan/docs/2010/final\\_strategic\\_plan\\_update\\_report\\_062310.pdf\)](https://www.waterboards.ca.gov/water_issues/hot_topics/strategic_plan/docs/2010/final_strategic_plan_update_report_062310.pdf).

- Goal 1: Implement strategies to fully support the beneficial uses for all 303(d) listed water bodies by 2030.
- Goal 2: Improve and protect groundwater quality in high-use basins by 2030.
- Goal 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.
- Goal 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.
- Goal 5: Improve transparency and accountability by ensuring that State Water Board goals and actions are clear and accessible, by demonstrating and explaining results achieved with respect to the goals and resources available, by enhancing and improving accessibility of data and information, and by encouraging the creation of organizations or cooperative agreements that advance this goal, such as establishment of a statewide water data institute.

- Goal 6: 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.
- Goal 7: Ensure that the Water Boards have access to information and expertise, including employees with appropriate knowledge and skills, needed to effectively and efficiently carry out the Water Boards' mission.

The CWSRF program supports the three goals of the [California Water Action Plan](http://resources.ca.gov/docs/california_water_action_plan/Final_California_Water_Action_Plan.pdf) ([http://resources.ca.gov/docs/california\\_water\\_action\\_plan/Final\\_California\\_Water Action Plan.pdf](http://resources.ca.gov/docs/california_water_action_plan/Final_California_Water_Action_Plan.pdf)) (Updated 2016): more reliable water supplies; the restoration of important species and habitat; and a more resilient, sustainably managed water resources system (water supply, water quality, flood protection, and environment) that can better withstand inevitable and unforeseen pressures in the coming decades.

The State Water Board administers several programs authorized by the [Water Quality, Supply, and Infrastructure Improvement Act of 2014 \(Prop 1\)](https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201320140AB1471) ([https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill\\_id=201320140AB1471](https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201320140AB1471)) and the [California Drought, Water, Parks, Climate, Coastal Protection, and Outdoor Access for All Act of 2018 \(Prop 68\)](https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201720180SB5) ([https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill\\_id=201720180SB5](https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201720180SB5)) and may have funding available from other bond measures and funding sources. Projects eligible for four Prop 1 programs administered by the State Water Board, (i) Small Community Wastewater, (ii) Water Recycling, (iii) Stormwater, and (iv) Groundwater Sustainability, are also potentially eligible for CWSRF funds. Projects eligible for other state sources of funds may also be eligible for CWSRF funds. The State Water Board manages its funding programs to maximize its ability to fund projects that support the State Water Boards' water quality goals and by coordinating CWSRF financing with the State Water Board's other funding sources.

In establishing the terms of this CWSRF IUP, the State Water Board considered [Resolution No. 2016-0010, Adopting the Human Right to Water as a Core Value and Directing its Implementation in Water Board Programs and Activities](https://www.waterboards.ca.gov/board_decisions/adopted_orders/resolutions/2016/rs2016_0010.pdf) ([https://www.waterboards.ca.gov/board\\_decisions/adopted\\_orders/resolutions/2016/rs2016\\_0010.pdf](https://www.waterboards.ca.gov/board_decisions/adopted_orders/resolutions/2016/rs2016_0010.pdf)) and statewide policy set forth in section 106.3 of the Water Code. Specifically, Subdivision (a) declares it is the established policy of the State that "every human being has the right to safe, clean, affordable, and accessible water adequate for human consumption, cooking, and sanitary purposes." Subdivision (b) requires the State Water Board to consider this state policy when "revising, adopting, or establishing policies, regulations, and grant criteria when those policies, regulations, and criteria are pertinent to the uses of water."

Finally, the State Water Board also considered the objectives and requirements of the [Comprehensive Response to Climate Change Resolution<sup>2</sup>](https://www.waterboards.ca.gov/board_decisions/adopted_orders/resolutions/2017/rs2017_0012.pdf) ([https://www.waterboards.ca.gov/board\\_decisions/adopted\\_orders/resolutions/2017/rs2017\\_0012.pdf](https://www.waterboards.ca.gov/board_decisions/adopted_orders/resolutions/2017/rs2017_0012.pdf)) during development of this IUP. The Climate Change Resolution describes near-term actions and policy changes to support the state's key climate priorities as identified in the AB 32 Scoping Plan, Safeguarding California Plan, and Water Action Plan.

#### D. IUP and Federal Guidance

This IUP contains elements required under federal law. The State Water Board will submit this IUP as part of its application package for the federal fiscal year (FFY) 2019 Capitalization Grant for the CWSRF program.

This IUP also establishes the State Water Board's business plan for California's CWSRF program for State Fiscal Year (SFY) 2019-20. It discusses DFA's approach and ability to successfully carry out that business plan with the available financial and programmatic resources. It also discusses how DFA will operate the CWSRF program in conjunction with other financing programs, including, but not limited to, Prop 1, Prop 68, or sources of funding outside the State Water Board that may be used to jointly finance projects.

This IUP includes a forecast of the CWSRF cash flow and other funds available to the State Water Board (Appendix A, page 50) for the next several years and identifies projects (Appendix B – the Fundable List, page 51) the State Water Board anticipates financing in SFY 2019-20. This IUP also analyzes the effect these projects would have on the CWSRF's cash flow and other sources of funds if financed and includes performance measures to track the effectiveness of the CWSRF program.

The State Water Board will continue to implement the CWSRF and complementary financing programs consistent with applicable state and federal statutes, regulations, policies, and guidelines. These include, but are not limited to:

- The [Policy for Implementing the Clean Water State Revolving Fund](http://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/finalpolicy0513.shtml) ([http://www.waterboards.ca.gov/water\\_issues/programs/grants\\_loans/srf/finalpolicy0513.shtml](http://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/finalpolicy0513.shtml) CWSRF Policy) and funding guidelines related to any complementary financing sources;
- The [Operating Agreement](https://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/docs/policy0513/oa_revised_2019.pdf) ([https://www.waterboards.ca.gov/water\\_issues/programs/grants\\_loans/srf/docs/policy0513/oa\\_revised\\_2019.pdf](https://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/docs/policy0513/oa_revised_2019.pdf)) between the State Water Board and U.S. EPA;
- [The Clean Water and Drinking Water State Revolving Funds Debt Management Policy](#)

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<sup>2</sup> State Water Board Resolution No. 2017-0012

[https://www.waterboards.ca.gov/drinking\\_water/services/funding/documents/srf/srf\\_debt\\_mgmt\\_policy.pdf](https://www.waterboards.ca.gov/drinking_water/services/funding/documents/srf/srf_debt_mgmt_policy.pdf))

(SRF Debt Management Policy) and agreements related to outstanding CWSRF revenue bonds;

- [The State Water Board's Clean Water and Drinking Water Capacity Development Strategy](https://www.waterboards.ca.gov/drinking_water/services/funding/documents/srf/cw_dw_capacity_devel_strategy.pdf) ([https://www.waterboards.ca.gov/drinking\\_water/services/funding/documents/srf/cw\\_dw\\_capacity\\_devel\\_strategy.pdf](https://www.waterboards.ca.gov/drinking_water/services/funding/documents/srf/cw_dw_capacity_devel_strategy.pdf)),
- [U.S. EPA Interpretive Guidance](http://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/docs/initial_interpretive_guidance_wrrda.pdf) ([http://www.waterboards.ca.gov/water\\_issues/programs/grants\\_loans/srf/docs/initial\\_interpretive\\_guidance\\_wrrda.pdf](http://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/docs/initial_interpretive_guidance_wrrda.pdf)) regarding the WRRDA amendments;
- Any additional federal requirements in the 2019 budget appropriation, the 2019 Capitalization Grant agreement, and/or guidance from U.S. EPA

The State Water Board or the Executive Director may amend this IUP, but only after the public and interested parties are given an opportunity to comment on the proposed amendment. The Executive Director, or designee, may update stakeholders during SFY 2019-20 on DFA's progress implementing this IUP and the current capacity of the CWSRF and its complementary programs to provide financing to applicants.

## II. WATER QUALITY FINANCING NEEDS

### A. Clean Watersheds Needs Survey

California needs significant funding to achieve its clean water goals. The most recent Clean Watersheds Needs Survey in 2012 shows that California needs an estimated \$26.2 billion for wastewater treatment and collection, wastewater recycling, and stormwater pollution prevention over the next 20 years. This includes an estimated \$24.4 billion to update aging infrastructure.

### B. State Water Board Guidance

#### 1. Small and/or Disadvantaged Communities (DACs)

On July 1, 2008, the State Water Board adopted [Resolution No. 2008-0048](http://www.waterboards.ca.gov/board_decisions/adopted_orders/resolutions/2008/rs2008_0048.pdf) ([http://www.waterboards.ca.gov/board\\_decisions/adopted\\_orders/resolutions/2008/rs2008\\_0048.pdf](http://www.waterboards.ca.gov/board_decisions/adopted_orders/resolutions/2008/rs2008_0048.pdf)) to assist small and/or DACs with their wastewater needs. Resolution No. 2008-0048 referred to a Small Community Wastewater Strategy, which was subsequently updated and expanded in the Spring of 2016 to incorporate public water systems and was renamed the [Clean Water and Drinking Water Capacity Development Strategy](https://www.waterboards.ca.gov/drinking_water/services/funding/documents/srf/cw_dw_capacity_devel_strategy.pdf) ([https://www.waterboards.ca.gov/drinking\\_water/services/funding/documents/srf/cw\\_dw\\_capacity\\_devel\\_strategy.pdf](https://www.waterboards.ca.gov/drinking_water/services/funding/documents/srf/cw_dw_capacity_devel_strategy.pdf) Capacity Development Strategy). The strategy provides an overview of the challenges facing these communities. Regarding wastewater, these include both failing septic systems and failing outdated and undersized wastewater treatment plants. Small and/or DACs generally have higher per capita costs. Disadvantaged (median household income [MHI] of less than 80 percent [80%] of the statewide MHI) and severely disadvantaged (MHI of less than 60 percent [60%] of the statewide MHI) small communities typically face the additional burden of lower household incomes. The result is higher, sometimes prohibitive, sewer and water rates. In 2017, the Drinking Water Capacity Development program, required by the Safe Drinking Water Act, was moved from DFA to the Division of Drinking Water (DDW). To preserve the distinction between the capacity development program implemented by DDW and the capacity development strategy implemented by DFA, the strategy implemented by DFA will be renamed the Small Community Capacity Development Strategy. This strategy is scheduled to be updated in SFY 2019-20. The updated strategy will focus on the priorities of the Office of Sustainable Water Solutions (Office), focusing on the financial and technical needs of small disadvantaged and small severely disadvantaged communities, over the next three fiscal years.

The Office was statutorily established on March 27, 2015 and is part of DFA. The Office was created to promote permanent and sustainable drinking water and wastewater treatment solutions to ensure effective and efficient provision of safe, clean, affordable, and reliable drinking water and wastewater treatment services, focusing on addressing financial and technical assistance needs, particularly for small disadvantaged communities. The Office provides low interest loans and grants utilizing state and federal funding sources.

## 2. San Francisco Bay/Sacramento-San Joaquin Delta Estuary (Bay-Delta)

Staff from the State Water Board and the Central Valley and San Francisco Bay Regional Water Boards coordinate the Water Boards' activities in the San Francisco Bay and Sacramento-San Joaquin River Delta (Bay-Delta). The Bay-Delta Team is charged with developing the Water Boards' short and long-term efforts for addressing impacts to the beneficial uses of water in the Bay-Delta. In December 2018, the State Water Board adopted a Bay-Delta Water Quality Control Plan for the lower San Joaquin River and Southern Delta. The State Water Board is in the process of developing and implementing updates to the Bay-Delta Water Quality Control Plan for the Sacramento River and tributaries, and the Central Valley and San Francisco Bay Regional Water Boards continue with their efforts to protect beneficial uses in the Bay-Delta watershed. The CWSRF program can help with these efforts by funding point and nonpoint source projects such as:

- Measures identified in Total Maximum Daily Loads;
- Stormwater and dry weather runoff reduction from Municipal Separate Storm Sewer Systems;
- Conservation measures to reduce sediment and non-point discharges;
- Ammonia discharge reduction from publicly-owned treatment works (POTWs);
- Urban and agricultural water use efficiency to reduce demands on the Delta and reduce runoff of pesticides to the Delta;
- Implementation of non-point source projects under the state's Section 319 program;
- Implementation of watershed projects;
- Implementation of measures under the San Francisco Estuary Blueprint; and
- Measures to promote water conservation, efficiency, or reuse that can decrease demands on the Delta.

### 3. Sustainability and Climate Change

The State Water Board adopted [Resolution No. 2008-0030](http://www.waterboards.ca.gov/board_decisions/adopted_orders/resolutions/2008/rs2008_0030.pdf) ([http://www.waterboards.ca.gov/board\\_decisions/adopted\\_orders/resolutions/2008/rs2008\\_0030.pdf](http://www.waterboards.ca.gov/board_decisions/adopted_orders/resolutions/2008/rs2008_0030.pdf)) on May 6, 2008, emphasizing sustainability as a core value for all the Water Boards' activities and programs. Resolution No. 2008-0030 directed the State Water Board staff to take actions that may affect the CWSRF program such as:

- Promote recycled water use, water conservation, and low-impact development (LID);
- Assign a higher priority to climate-related and LID projects; and
- Coordinate with government agencies, non-profit organizations, and private sector businesses to enhance and encourage sustainable activities.

The State Water Board adopted [Resolution No. 2017-0012](http://www.waterboards.ca.gov/board_decisions/adopted_orders/resolutions/2017/rs2017_0012.pdf) ([http://www.waterboards.ca.gov/board\\_decisions/adopted\\_orders/resolutions/2017/rs2017\\_0012.pdf](http://www.waterboards.ca.gov/board_decisions/adopted_orders/resolutions/2017/rs2017_0012.pdf)) on March 7, 2017, outlining a comprehensive response to climate change for all the Water Boards' activities and programs. Resolution No. 2017-0012 directed the State Water Board staff to take actions that affect the CWSRF program IUP. Specifically:

- Include climate change mitigation and adaptation objectives in the IUP.
- Ensure that applications and environmental reviews for potential projects account for impacts related to climate change, including potential effects of climate change on the viability of funded projects.

On May 16, 2017, the State Water Board adopted an emergency regulation to implement provisions of the Sustainable Groundwater Management Act (SGMA). SGMA created a framework for sustainable, local groundwater management for the first time in California history, and requires the formation of local groundwater sustainability agencies (GSAs) in California's high- or medium-priority groundwater basins or the submittal of an alternative that demonstrates a basin is already sustainable. The CWSRF can potentially fund projects that would assist GSA's with achieving groundwater sustainability.

#### C. Application Demand

As of February 2019, the State Water Board had in process 256 complete and partially complete applications, requesting approximately \$7.1 billion in financing in SFY 2019-20. All applications in process as of February 2019 are listed on the Comprehensive List in Appendix C (page 64). The applications on the Comprehensive List represent a wide variety of project types from communities of various sizes throughout California. The applications on the Comprehensive List and their statuses are summarized in Table 1 below.

The largest number of new applications comes from small communities – many of them eligible to receive grant or principal forgiveness funds due to their status as disadvantaged communities. The new applications also include 10 projects, each greater than \$100 million, collectively requesting approximately \$3.9 billion in financing.

**Table 1: Status of Applications on Comprehensive List (\$ in Millions)**

<b>Application Status</b>	<b># of Applications</b>	<b>Requested Amount<sup>3</sup></b>
Projects Currently on Fundable List (Rollovers from SFY 2018-19 IUP)	74	\$1,469
New Small SDAC and Small DAC Projects (Automatically Added to Fundable List)	67	\$1,65
Projects Subject to Scoring (Requesting Placement on the Fundable List)	98	\$5,342
Projects Not Subject to Scoring (Not Requesting Placement on the Fundable List)	12	\$219
<b>Totals</b>	<b>251</b>	<b>\$7,195</b>

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<sup>3</sup> Amount requested includes total project cost irrespective of funding source.

### III. FUNDING CAPACITY AND DISTRIBUTION OF FUNDS

#### A. General Funding Approach

This IUP updates for SFY 2019-20 the Fundable List (Appendix B, page 51) of projects. The Fundable List was updated to reflect those projects DFA believes will achieve the most favorable water quality results in California during SFY 2019-20 with the financial and programmatic resources available to the CWSRF and its complementary financing programs. DFA's goal is to execute financing agreements for all projects on the Fundable List by June 30, 2020.

All new applications from small SDACs and small DACs received since November 2018, the most recent update of the Fundable List, were added to the Fundable List in this IUP. An SDAC or DAC<sup>4</sup> application not shown on the Fundable List in this IUP will be added automatically to the Fundable List when the applicant starts an application. SDAC and DAC projects may be funded at any time provided they submit a complete application and meet all other eligibility requirements. Other projects were added to the Fundable List as discussed in Section III.D. of this IUP. Projects that are not small SDAC projects or not small DAC projects, but are identified on the Fundable List in this IUP may receive financing during SFYs 2018-19 and 2019-20. Projects that are not small SDAC or not small DAC projects that are not included on the Fundable List are ineligible for financing unless otherwise directed by the State Water Board but may be eligible for financing in a future year.

Funding will be consistent with the [CWSRF Policy<sup>5</sup>](https://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/cwsrf_policy.shtml) ([https://www.waterboards.ca.gov/water\\_issues/programs/grants\\_loans/srf/cwsrf\\_policy.shtml](https://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/cwsrf_policy.shtml)), the [SRF Debt Management Policy](https://www.waterboards.ca.gov/drinking_water/services/funding/documents/srf/srf_debt_mgmt_policy.pdf) ([https://www.waterboards.ca.gov/drinking\\_water/services/funding/documents/srf/srf\\_debt\\_mgmt\\_policy.pdf](https://www.waterboards.ca.gov/drinking_water/services/funding/documents/srf/srf_debt_mgmt_policy.pdf)), the [Operating Agreement](https://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/docs/policy0513/oa_revised_2019.pdf) ([https://www.waterboards.ca.gov/water\\_issues/programs/grants\\_loans/srf/docs/policy0513/oa\\_revised\\_2019.pdf](https://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/docs/policy0513/oa_revised_2019.pdf)), applicable federal and state statutes, regulations, and guidance, and any guidelines or requirements applicable to the complementary funding sources that may be used to fund a project separately or jointly with CWSRF funds. In addition, funding will be consistent with the requirements of the program's Master Trust Indenture and associated bond documents to ensure compliance with Securities and Exchange Commission, Internal Revenue Service, and Municipal Securities Rule Making Board (MSRB) rules and regulations and ensure that all CWSRF revenue bonds are secure and repaid in full and on time.

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<sup>4</sup> All references to "SDAC" and "DAC" in this IUP are understood to mean small, severely disadvantaged and small, disadvantaged communities with populations less than or equal to 20,000 and median household incomes less than or equal to 60% and less than or equal to 80% of the statewide median household income respectively.

<sup>5</sup> Please refer to Section IV.L. of this IUP for an important precaution regarding reimbursement of eligible construction costs.

The funds available to the CWSRF program during SFY 2019-20 generally consist of:

- Repayments of CWSRF principal and interest on past loans and investment earnings;
- Capitalization Grants from U.S. EPA, potentially including PF;
- Proceeds from the Series 2018 Green Bonds, which closed in March 2018, and potential future bond sales.

A more detailed financial analysis is described in Section III.B.

The State Water Board's financial priorities for the CWSRF in order of importance during

SFY 2019-20 will be:

- Liquidating the Series 2018 Green Bond proceeds and any future revenue bond proceeds to meet applicable commitments;
- Liquidating Capitalization Grants once awarded; and
- Liquidating repayments and investment earnings.

The funding priorities in SFY 2019-20 will also be influenced by the complementary sources of funds available to the State Water Board. Specifically, these additional funding sources may include but not be limited to: (i) Prop 1, Prop 68, and the Costa-Machado Water Act of 2000 (Prop 13) funds for SDAC and DAC wastewater, water recycling, stormwater, groundwater, and other authorized projects; (ii) PF funds; and (iii) Small Community Grant (SCG) funds provided through fees in lieu of interest.

DFA may also sell revenue bonds to the extent authorized and approved by the State Water Board,<sup>6</sup> regulate project commitment or cash disbursement levels, suspend project approvals, or do some combination of these actions to ensure prior commitments are fulfilled.

The State Water Board directs DFA to manage the CWSRF so that sufficient funds are available under all circumstances to meet the repayable financing needs of SDACs and DACs for wastewater projects.

Without restricting the approach described in this IUP, the Executive Director (or designee), should update the State Water Board members and the public at State Water Board meetings or by other appropriate communications regarding the finances of the CWSRF and complementary financing programs. They should also recommend appropriate adjustments to this IUP or other changes in policy or procedure necessary to achieve the maximum water quality results in California.

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<sup>6</sup> On October 3, 2017, the State Water Board approved [Resolution No. 2017-0057](https://www.waterboards.ca.gov/board_decisions/adopted_orders/resolutions/2017/rs2017_0057.pdf) ([https://www.waterboards.ca.gov/board\\_decisions/adopted\\_orders/resolutions/2017/rs2017\\_0057.pdf](https://www.waterboards.ca.gov/board_decisions/adopted_orders/resolutions/2017/rs2017_0057.pdf)) increasing the leveraging ceiling for the CWSRF program from \$1.2 billion to \$2.2 billion bonds (par value). Currently, approximately \$1.24 billion of the total (par value) is outstanding.

General provisions applicable to financing projects in SFY 2019-20 may include, but are not limited to:

1. Best Use of Available Financing Sources and Terms

DFA will consider the requirements associated with all available sources of funds and match up available funds with projects to achieve the maximum water quality benefit. This includes the use of reduced interest rates, match financing, partial financing, PF, the SCG Fund, other state sources of funds appropriated to the State Water Board, and other state and federal funding sources managed by other agencies, to the extent they are available and compatible with the State Water Board's funding, to maximize the financing of water quality projects.

2. Green Project Reserve (GPR)<sup>7</sup>

Based on the information currently available to DFA, the FFY 2019 appropriation is expected to require a minimum of 10 percent (10%) of the 2019 Capitalization Grant (or an estimated GPR of approximately \$11 million) be provided to projects that meet the GPR criteria. To ensure that California meets or exceeds the minimum GPR requirement for SFY 2019-20, the State Water Board will prioritize the review and approval of GPR projects until the minimum is met. GPR projects must meet [U.S. EPA's FFY 2012 Guidance](http://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/docs/fy1213/prdcr_implmnt.pdf) ([http://www.waterboards.ca.gov/water\\_issues/programs/grants\\_loans/srf/docs/fy1213/prdcr\\_implmnt.pdf](http://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/docs/fy1213/prdcr_implmnt.pdf)) or any subsequent guidance issued by U.S. EPA.

As shown in Appendix C (page 64) the CWSRF has significantly more GPR demand than the minimum GPR requirement anticipated in SFY 2019-20; therefore, the State Water Board does not plan to solicit additional GPR projects during SFY 2019-20.

3. Match Financing Option

California is required to contribute at least one dollar of matching funds for every five federal dollars contributed to the CWSRF program. California's CWSRF program has matched its federal capitalization grants in excess of the matching requirement for approximately two years' worth of capitalization grants from U.S. EPA at the currently expected levels. Section IV.H. provides a more detailed discussion of California's matching contribution to the CWSRF. Offering match financing in accordance with Section V of the [CWSRF Policy](https://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/cwsrf_policy.shtml) ([https://www.waterboards.ca.gov/water\\_issues/programs/grants\\_loans/srf/cwsrf\\_policy.shtml](https://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/cwsrf_policy.shtml)) to CWSRF applicants, where the applicant provides the funds to match the federal grants, is one way California meets the match requirement. Other methods of providing match include state appropriations and match bonds. Currently there are no foreseeable state appropriations of matching funds and providing match loans is financially preferable to issuing match bonds.

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<sup>7</sup> GPR projects may also be eligible to receive PF as noted in Section III.C.2 and Appendix D (Page 77).

Given the lead time necessary to identify applicants willing and able to take the match financing option, execute the agreements, and disburse funds that can be counted as match, the State Water Board resumed offering the match financing option to CWSRF recipients whose agreements are executed after July 1, 2017, and will continue to offer the match option until further notice.

#### 4. Interest Rates

##### a. Standard Rates

The State Water Board's standard interest rate for CWSRF (repayable) planning financing is 50 percent (50%) of the rate obtained by the State Treasurer for California's most recent general obligation bond sale. The standard term for repayable planning financing is five or ten years, at the applicant's option.

The State Water Board's standard interest rate for CWSRF (repayable) construction financing is 50 percent (50%) of the rate obtained by the State Treasurer for California's most recent general obligation bond sale. The standard term for repayable construction financing is a maximum of 30 years or the useful life of the financed facilities.

##### b. Short-Term Financing Incentive

Applicants for CWSRF repayable construction financing will receive a 0.25% reduction to the standard interest rate in exchange for selecting a 20-year financing term rather than a 30-year financing term, but the resulting interest rate will not be less than zero percent.

##### c. SDAC and DAC Reduction

If the total amount of CWSRF financing to be repaid by an SDAC or DAC qualifying for SCG funds (see Appendices F and G, pages 79 and 80) is less than \$10 million, and the community is unable to afford all or a portion of the interest payments, DFA may approve a reduced interest rate (not less than zero percent).

##### d. Non-Point, Stormwater, and Estuary Reduction

If the total amount of CWSRF financing to be repaid by a non-point source, stormwater, or estuary management applicant is less than \$10 million, DFA may approve a reduced interest rate (not less than zero percent) if the applicant is unable to afford all or a portion of the interest payments.

## B. Recent Financing Activity<sup>8</sup>

From July 1, 2018 to March 1, 2019, the State Water Board has provided the following financing from the CWSRF and complementary financing programs.

**Table 2: SFY 2018-19 CWSRF and Complementary Financing**

	CWSRF	SCG	WRFP	SWGP	GWQF	Totals
<b>Number of Agreements<sup>9</sup></b>	7	3	4	5	11	28
<b>\$ of Agreements, millions</b>	232.5	14.1	32.0	23.7	45.8	348.1

DFA estimates that cumulative, SFY 2018-19 financing by the CWSRF and complementary financing programs will be less than \$450 million.

CWSRF and complementary financing for the three previous years is shown in the table below.

**Table 3: Recent CWSRF and Complementary Financing**

SFY	Number of Agreements	\$ of Agreements, millions
2015-16	69	\$1,074
2016-17	110	\$1,693
2017-18	105	\$1,106

## C. Financial Outlook

### 1. CWSRF Cash Flow<sup>10</sup> and Funding Target

Appendix A (page 50) shows the forecasted cash flow (sources and uses) of the CWSRF program as of February 2019. Except for capitalization grants, the future cash flow of the CWSRF program can be predicted with reasonable certainty. The estimated cash flow includes:

<sup>8</sup> Historical CWSRF financing activity can be seen at [http://www.waterboards.ca.gov/water\\_issues/programs/grants\\_loans/srf/docs/cwsrf/fncng\\_actvty.pdf](http://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/docs/cwsrf/fncng_actvty.pdf). Prop 1 funding activity can be found at [http://www.waterboards.ca.gov/water\\_issues/programs/grants\\_loans/proposition1.shtml](http://www.waterboards.ca.gov/water_issues/programs/grants_loans/proposition1.shtml).

<sup>9</sup> Two projects received funding from more than one source. Therefore, the number of unique financing agreements was 28.

<sup>10</sup> The overall cash flow includes the available PF funds.

- The cash balance at the beginning of SFY 2018-19 (July 1, 2018)<sup>11</sup>;
- U.S. EPA capitalization grants<sup>12</sup>;
- Principal and interest payments on outstanding receivables;
- Investment earnings;
- Matching funds;
- Disbursements to projects with executed financing agreements;
- Debt service payments;
- Estimated proceeds of probable bond sales in 2020 and 2021, and
- Program administrative costs

Including future forecasted revenue bond sales authorized by the State Water Board, the CWSRF estimated year-end cash balances through June 30, 2023 generally range from \$450 million to \$550 million as seen in Appendix A (page 50).

The CWSRF's Municipal Advisor, in cooperation with DFA staff, has estimated the CWSRF's lending capacity. Given current capitalization and debt levels, and assuming conservative future capitalization, loan terms and earnings levels, and bond and coverage terms, the CWSRF can operate at an estimated sustainable financing level of approximately \$1.0 billion per year. The capacity is the amount of new lending that could be done per year with the existing loan pool and new loans pledged to potential bonds. The annual capacity is a level amount that could be originated each year for the next 20 years. The Funding Target, therefore, for SFY 2019-20 will be \$1.0 billion in new financing.

## 2. CWSRF Principal Forgiveness<sup>13</sup>

Per the CWA, states have the option to select a PF level that ranges from zero percent to a maximum percentage established by the CWA. The maximum percentage is established by the total national appropriation for the CWSRF program each year<sup>14</sup>.

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<sup>11</sup> The Beginning Balance includes the proceeds of the 2018 Green Bonds sale.

<sup>12</sup> Based on the recent adoption of the federal budget for FFY 2019 the estimate used for the FFY 2019 Capitalization Grant is \$117 million and is subject to change. Future capitalization grants are conservatively estimated at \$70 million per year.

<sup>13</sup> Under federal law, principal forgiveness may be provided to "a municipality or intermunicipal, interstate, or State agency" if the recipient meets the State's affordability criteria, or if the project will address water or energy efficiency, mitigate stormwater runoff, or encourage sustainable project planning, design, and construction.

<sup>14</sup> Per the CWA, if the national appropriation is equal to \$1.0 billion or less, no optional PF is allowed. If the national appropriation is \$1.3 billion or more, the maximum optional PF is 30%. If the national appropriation is between \$1.0 and \$1.3 billion, the maximum optional PF is equal to the percentage the national appropriation exceeds \$1.0 billion; for example, if the national appropriation is \$1.16 billion, the maximum optional PF is 16%.

Additionally, the FFY 2019 federal appropriation may require, as was done in the FFY 2016, 2017, and 2018 appropriations, that a mandatory percentage of the capitalization grant be provided as PF. This mandatory amount would be in addition to the optional allocation established by the CWA.

The State Water Board will provide the maximum amount allowed from the FFY 2019 Capitalization Grant as PF. Based on the information DFA currently has regarding the

FFY 2019 appropriation, the maximum amount of PF allowed from the FFY 2019 Capitalization Grant is estimated to be approximately \$47 million. As of April 19, 2019, approximately \$37 million in PF from the 2017 Capitalization Grant and approximately \$45 million in PF from the 2018 Capitalization Grant remains uncommitted. Therefore, with the addition of an estimated \$47 million in PF from the FFY 2019 Capitalization Grant, the State Water Board would have a maximum of approximately \$130 million in PF to commit during SFY 2019-20.<sup>15</sup>

As discussed below in Section III.C.3, all Prop 1 SCG funds are committed to SDAC and DAC projects and Prop 68 funds have been allocated for Drinking Water SDAC and DAC projects. The Deputy Director of DFA will make PF from the FFY 2018 and 2019 Capitalization Grants available to SDAC and DAC wastewater projects consistent with the conditions and limitations in Appendices F, G, and H (pages 79-82) during SFY 2019-20 to provide non-repayable financing to DAC and SDAC projects.

PF will continue to be available in SFY 2019-20 from the FFY 2017 Capitalization Grant for addressing water and energy efficiency, mitigation of stormwater runoff, and sustainable planning, design, and construction until the available PF is fully committed. Eligible applicants and project types must meet the GPR criteria and the conditions and limitations for PF in the CWA and in Appendix D (page 77). Projects listed on the Fundable List in the SFY 2018-19 IUP that are eligible for PF will be awarded the PF from the FFY 2017 Capitalization Grant until all available PF is committed. If any PF remains after all eligible and Fundable Projects from the SFY 2018-19 IUP are awarded PF, then eligible projects that are added to the Fundable List by the SFY 2019-20 IUP may receive PF for their GPR projects.

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<sup>15</sup> The PF available during SFY 2018-19 may include PF from previously approved projects that finish under budget.

### 3. Prop 1, Prop 68, and Other Appropriated State Funds

#### a. Small Community Grant Fund

Section 13477.6 of the Water Code authorizes the SCG Fund. The SCG Fund allows the State Water Board to help finance communities with the most need in California, helping those that cannot otherwise afford a loan or similar financing to move forward with water quality improvements. The SCG Fund receives revenue generated by a fee on CWSRF financing agreements deposited into the SCG Fund separate from the CWSRF.<sup>16</sup> Other funds may also be appropriated to the SCG Fund, including general obligation bond funds available because of Prop 1 and any available residual general obligation bond funds (including those specifically identified in State Water Board [Resolution No. 2013-004](https://www.waterboards.ca.gov/board_decisions/adopted_orders/resolutions/2013/rs2013_0004.pdf) ([https://www.waterboards.ca.gov/board\\_decisions/adopted\\_orders/resolutions/2013/rs2013\\_0004.pdf](https://www.waterboards.ca.gov/board_decisions/adopted_orders/resolutions/2013/rs2013_0004.pdf)) that become available. Approximately \$78 million will be available for wastewater projects during fiscal year 2019-2020.<sup>17</sup>

All money deposited into the SCG Fund is provided in the form of grants to small SDACs and small DACs for CWSRF-eligible wastewater projects. State law requires the State Water Board to give grant priority to projects that serve small SDACs, defined as communities with an MHI of less than 60 percent (60%) of the statewide MHI.

The procedures for providing grants from the SCG Fund to small SDACs and small DACs are largely the same procedures used for standard CWSRF financing, specified in the CWSRF Policy. Projects that receive only state general obligation bond funds may be exempted by the Deputy Director from having to comply with certain federal cross-cutting requirements.

This IUP specifies the grant amounts available for SCG projects, and how the Prop 1, Prop 68, SCG, and CWSRF requirements will be coordinated for projects receiving these funding sources.

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<sup>16</sup> Like the administrative service charge (see Section III.G.3. below), the SCG charge is also a fee “other than program income not included as principal in CWSRF financing” for federal purposes. The SCG charge is collected, as is the administrative service charge, in lieu of an equal amount of interest that would otherwise be due on the outstanding balance of the financing agreement so that the annual payment stays the same.

<sup>17</sup> This includes approximately \$23 million remaining under Prop 1, \$8 million in SCG Fee Funds, and \$47 million in principal forgiveness.

Chapter 5 of Prop 1 allocated \$260 million to the SCG Fund for wastewater projects<sup>18</sup>. Of the \$260 million allocated, the California Legislature has appropriated

\$241.2 million<sup>19</sup> to the State Water Board for grants to eligible SCG wastewater projects. As of March 1, 2019, the State Water Board has executed approximately \$169.9 million in Prop 1 funding for wastewater projects. An additional \$47.6 million in Prop 1 funding has been approved and is awaiting execution of a funding agreement. Additional funds may be appropriated to the SCG Fund in future years. At least 10 percent (10%) of the SCG funds available from Prop 1 will be provided to SDACs. The projected revenue and SCG Fund balances through December 31, 2019 are shown in Appendix E (page 78).

All SCG funds authorized for SFY 2019-20, SCG funds that become available from prior SFYs (e.g., any funds de-obligated from previously approved projects that finish under budget), and any SCG funds appropriated in future years, will be used consistent with Appendices F, G, and H (pages 79-82) of this IUP until otherwise directed by the State Water Board.

In anticipation of the declining balance of SCG fee funds and Prop 1 SCG funds in the SCG Fund over the next few years, the State Water Board will begin applying an SCG fee-in-lieu of interest charge in SFY 19-20 to eligible CWSRF repayable financings at a rate that does not exceed the standard CWSRF interest rate. The SCG fee will be applied to generate sufficient revenue to meet the anticipated demand once Prop 1 SCG funds are fully encumbered. The SCG fee will be collected in an amount that does not jeopardize the long-term growth of the CWSRF, the State Water Board's ability to leverage the CWSRF, or the State Water Board's ability to collect sufficient fee revenue to administer the CWSRF.

In addition to capital projects, DFA is authorized to direct up to 15 percent (15%) of the funds available from Prop 1 to a multi-disciplinary technical assistance (TA) program. The State Water Board adopted the Prop 1 TA Funding Plan on November 4, 2015. The Plan outlines the general process to administer Prop 1 TA funds. The TA efforts are focused on helping small DACs develop, fund, and implement capital improvement projects. This is a multidisciplinary approach, intended to address small DACs drinking water, wastewater, groundwater quality, and stormwater needs under one program.

b. Water Recycling Funding Program (WRFP)

The State Water Board has authority to commit and spend all available Prop 1 WRFP loan and grant funds during SFY 2019-20<sup>20</sup>.

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<sup>18</sup> Wat. Code, § 79723.

<sup>19</sup> An additional \$19.6 million is available this fiscal year. The balance of the Prop 1 funds is for administration and bond sale expenses.

<sup>20</sup> This does not include Prop. 1 loan repayments that may be used for future grants. These must be appropriated by the Legislature.

As of March 1, 2019, the State Water Board had not yet committed approximately \$2.2 million in Prop 1 grant funds and approximately \$105.3 million in Prop 1 loan funds for WRFP construction projects. The State Water Board also has authority to commit approximately \$24.3 million in Prop 13 grant funds.

Chapter 11.6 of Prop 68 allocated \$80 million<sup>21</sup> to the WRFP. These funds have not been appropriated but may be appropriated in the SFY 2019-20 budget. If appropriated, it is anticipated the funds will be allocated at 50 percent for grants (\$40 million) and 40 percent for loans (\$32 million) for water recycling construction projects, and \$2 million for water recycling planning grants, pursuant to Chapter 9 of Division 26.7 of the Water Code and the WRFP Guidelines.

**Table 4: Anticipated WRFP Funds Available to Fundable List Projects**

<b>Funding Type</b>	<b>Prop 13</b>	<b>Prop 1</b>	<b>Prop 68 (contingent)</b>	<b>Total</b>
<b>Planning Grant</b>	\$17.7 million	\$0	\$ 2.0 million	\$19.7 million
<b>Construction Grant</b>	\$6.6 million	\$2.2 million	\$40.0 million	\$48.8 million
<b>Construction Loan</b>	\$0	\$105.3 million	\$32.0 million	\$137.3 million
<b>Total</b>	<b>\$24.3 million</b>	<b>\$107.5 million</b>	<b>\$74.0 million</b>	<b>\$205.8 million</b>

This IUP specifies the grant limitations for WRFP projects. Although the Fundable List identifies projects that appear to be eligible for the available WRFP grant funds, additional projects on the Fundable List may also be eligible for a grant. WRFP grant funds will be awarded to projects as they are ready to proceed to a financing agreement until all WRFP grant funds are committed.

The WRFP guidelines specify project eligibility for loans and grants and how to coordinate with CWSRF requirements for projects receiving funding from both sources.

Any water recycling project also eligible for SCG grant funding or PF may receive a combination of grant or PF funding, but the cumulative grant and PF may not exceed the maximums listed in Appendices F, G, H (pages 79-82) in the case of small SDAC and small DAC, and Appendix I (page 83) for all others. These limitations are applicable for water recycling projects receiving an executed agreement after June 5, 2018.

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<sup>21</sup> The Prop 68 allocation includes administration (5%) and bond sale costs (2.5%).

All WRFPP funds available, including funds authorized for SFY 2019-20, funds that become available from prior SFYs (e.g., any funds de-obligated from previously approved projects that finish under budget), and any funds appropriated in future years, will be used consistent with Appendix I (page 83) of this IUP until otherwise directed by the State Water Board.

Projects that receive only general obligation bond funds or other non-federally sourced funding may be exempted by the Deputy Director from having to comply with certain federal cross-cutting requirements.

c. Stormwater Grant Program (SWGP)

Chapter 7 of Prop 1 allocated \$200 million for grants for multi-benefit stormwater management projects.<sup>22</sup> Projects may include, but are not limited to, green infrastructure, rainwater and stormwater capture, and stormwater treatment facilities. During the first solicitation, grants were awarded to 27 planning projects and 29 implementation projects. A second solicitation for implementation projects will be conducted in 2019 to award the remaining funds (approximately \$95 million).

The SWGP guidelines specify the grant amounts available for stormwater projects. Stormwater projects may also be eligible for CWSRF financing, and DFA will coordinate with applicants to address the applicable requirements of both programs if applicants request funding from both sources. Applicants are advised to review the [Prop 1 SWGP Guidelines](https://www.waterboards.ca.gov/water_issues/programs/grants_loans/swgp/prop1/) ([https://www.waterboards.ca.gov/water\\_issues/programs/grants\\_loans/swgp/prop1/](https://www.waterboards.ca.gov/water_issues/programs/grants_loans/swgp/prop1/)) for information on applying for the Prop 1 SWGP, including requirements for projects to be included in [Storm Water Resource Plans](https://www.waterboards.ca.gov/water_issues/programs/grants_loans/swrp/) ([https://www.waterboards.ca.gov/water\\_issues/programs/grants\\_loans/swrp/](https://www.waterboards.ca.gov/water_issues/programs/grants_loans/swrp/)).

d. Groundwater Grant Program (GWGP)

Chapter 10 of Prop 1 provides \$800 million to the State Water Board for grants for projects to prevent or clean up the contamination of groundwater that serves or has served as a source of drinking water.<sup>23</sup> Applicants are advised to review the [Prop 1 GWGP Guidelines](https://www.waterboards.ca.gov/water_issues/programs/grants_loans/proposition1/groundwater_sustainability.html) ([https://www.waterboards.ca.gov/water\\_issues/programs/grants\\_loans/proposition1/groundwater\\_sustainability.html](https://www.waterboards.ca.gov/water_issues/programs/grants_loans/proposition1/groundwater_sustainability.html)), which were updated in December 2017. Round 1 awards were completed in early 2018, for a total of approximately \$125 million awarded to approximately 25 projects. The round 2 project solicitation has closed and awards are anticipated in late 2019. The third and final solicitation is planned for 2020.

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<sup>22</sup> Note that this figure includes administration and bond sale costs.

<sup>23</sup> Note that this figure includes administration and bond sale costs.

Septic-to-sewer projects that prevent or reduce contamination of municipal or domestic wells are potentially eligible for GWGP grants in addition to grants or principal forgiveness awarded through the CWSRF/SCG. Regardless of the criteria listed in Appendix G (page 80), GWGP funds may be available for projects benefitting large SDACs, and large DACs with wastewater rates at least 1.5% of MHI. DFA staff will coordinate with applicants to determine if septic-to-sewer projects meet the applicable requirements for GWGP funds.

e. Other Programs

Other sources of funds may become available to the State Water Board that are similar in nature to the CWSRF and its complementary funding sources. These additional funding sources will be committed consistent with the CWSRF and its complementary funding sources and with any guidelines or requirements associated with their authorization.

## D. Project Scoring and Evaluation of Potential Cut-Off Scores

New projects submitted by December 31, 2018, from applicants that are not small SDACs or small DACs, that were potentially eligible to be added to the Fundable List were scored in accordance with the criteria in the CWSRF Policy. DFA scored all projects subject to scoring for potential addition to the Fundable List; the Priority Scores for all projects subject to scoring are shown on the Comprehensive List (Appendix C, page 64).

1. Cut-Off Score Scenarios

DFA compiled the project scores and evaluated four Cut-Off Scoring scenarios, based on Section IV.B of the [CWSRF Policy](https://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/docs/final_policy_1118.pdf) ([https://www.waterboards.ca.gov/water\\_issues/programs/grants\\_loans/srf/docs/final\\_policy\\_1118.pdf](https://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/docs/final_policy_1118.pdf)), to help establish the Cut-Off Score and identify additions to the Fundable List for SFY 2019-20. The total CWSRF repayable financing associated with each scenario is summarized in Table 5 (page 26). (Note that Table 5 also includes estimates of Drinking Water State Revolving Fund (DWSRF) financing that would be needed for two scenarios.) The scenarios are described and evaluated in further detail below the table (pages 27-29).

**Table 5: Cut-Off Scoring Scenarios (\$ in Millions)**

Scenario	Cutoff Score	# of New Fundable Projects	Est'd Total CWSRF Repayable Financing, M <sup>24</sup>	Est'd Total DWSRF Repayable Financing, M	Comments
X	16	0	\$40	\$0	Highest Possible Priority Score. (Note: The Estimated Repayable CWSRF Financing represents the estimated total CWSRF repayable financing that may be needed for new small SDAC & small DAC projects being added to the Fundable List.)
A	15	1	\$319	\$0	Fully Fund California American Water Desalination project @ 100% of Total Project Costs with CWSRF repayable financing
B	14	10	\$1,250	\$0	Partially Fund 2 Projects receiving Water Infrastructure Financing and Innovation Act (WIFIA) financing (San Diego Pure Water, San Mateo-Foster City Plant Upgrade) plus fund California American Water project at 52.4% of Total Project Costs; Fully Fund 7 Others @ 100% of Total Project Costs with CWSRF repayable financing
C	13	29	\$1,250	\$442	Partially Fund 5 Projects, each > \$90 M, @ 31.2% of Total Project Costs (San Diego Pure Water, San Mateo-Foster City Plant Upgrade, California American Water, IEUA RP-5 Expansion, SFPUC Headworks) & 24 Others @ 100% of Total Project Costs with CWSRF repayable financing; provide remaining funding for 2 Projects (San Diego Pure Water, California American Water) from DWSRF repayable financing
D	12	40	\$1,677	\$925	Partially Fund 5 Projects receiving WIFIA @ 51% of Total Project Costs (San Mateo-Foster City Plant Upgrade, Morro Bay New Plant, IEUA RP-5 Expansion, SFPUC Headworks, LA Tillman Purification Plant) with CWSRF repayable financing and fully fund San Diego Pure Water (51% of Total Project Cost, \$646 M) and California American Water (100% of Total Project Cost, \$279 M) with DWSRF repayable financing

a. Scenario X – Cut-Off Score = 16

Scenario X is shown for reference purposes only. No project applications subject to scoring received 16 Priority Points, the highest possible score. DFA estimates that approximately \$40 million may be needed for the repayable financing needs of small SDAC and small DAC projects.<sup>25</sup> Therefore, this loan demand is included in the cumulative repayable financing needs of the four Scoring scenarios discussed below to estimate the total demand for CWSRF repayable financing.

b. Scenario A – Cut-Off Score = 15

One project received a Priority Score of 15 and is requesting approximately \$279 million in repayable CWSRF financing. Selecting a Cut-Off Score of 15 would result in a Fundable List equal to approximately \$319 million, well below the Funding Target. Therefore, a lower Cut-Off must be selected according to Section IV.B of the [CWSRF Policy](https://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/docs/final_policy_1118.pdf) ([https://www.waterboards.ca.gov/water\\_issues/programs/grants\\_loans/srf/docs/final\\_policy\\_1118.pdf](https://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/docs/final_policy_1118.pdf)).

c. Scenario B – Cut-Off Score = 14

There are nine projects with a Priority Score of 14. Therefore, if 14 is selected as the Cut-Off Score, 10 projects will be added to the Fundable List. These 10 projects are requesting approximately \$2,156 million in repayable CWSRF financing. Approximately 92% of this amount is requested by three applicants, City of San Diego (\$1,267 million), California American Water Company (\$279 million), and San Mateo-Foster City Public Financing Authority (\$440 million). Three applicants in this Scenario, San Diego, San Mateo-Foster City, and Morro Bay, have been invited to submit full applications to WIFIA.

As a Cut-Off Score of 14 would result in total financing greater than 125% of the Funding Target if the projects were financed at the amounts requested, DFA evaluated these nine projects separately for placement on the Fundable List based on their community economic status. All of the communities are greater than 20,000 population and none of them were severely disadvantaged (<60% of statewide median household income) or disadvantaged (<80% of statewide median household income). Therefore, partial funding for one or more projects would be necessary to develop a Fundable List consistent with the Funding Target if 14 is selected as the Cut-Off Score.

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<sup>24</sup> Each Estimated Total CWSRF Repayable Financing amount includes an estimated \$40 million in repayable financing needed for new small SDAC and small DAC projects.

<sup>25</sup> Repayable financing would be offered to small SDACs and small DACs only to the extent that they can afford repayment.

Financing the three WIFIA-eligible projects at 51% of their total project costs<sup>26</sup> and the other seven projects at 100% of requested financing would require approximately \$1,420 million in CWSRF repayable financing.

As three of the projects (San Diego Pure Water, California American Water, and San Mateo-Foster City) are all considerably larger than any of the other financing requests with a score of 14 or greater<sup>27</sup>, and the applicants have either secured the remaining financing or appear capable of securing the necessary financing, partial financing should be feasible for them. Financing these three projects at 52.4% of their total project costs, along with financing the other seven projects at 100% of requested financing, would require an estimated \$1,250 million in CWSRF repayable financing.

Selection of a Cut-Off Score of 14 is feasible and can be done if selected projects are limited to partial financing. A Score of 14, however, would result in adding 10 additional scored projects to the Fundable List. The number of new CWSRF loans per year has in recent years typically been in the range of 35 to 45. Although adding only 10 new projects to the Fundable List would help reduce the present backlog of new commitments more quickly, adding 10 new projects is well below the usual number of new CWSRF loans annually.

d. Scenario C – Cut-Off Score = 13

An additional 19 projects received a Priority Score of 13. Collectively, these 19 are requesting approximately \$890 million in financing. One of these projects has also been invited to submit a full WIFIA application – Inland Empire Utilities Agency, 8173-210.

To provide a broader distribution of subsidized CWSRF financing, the State Water Board could select a Cut-Off Score of 13. It would be necessary, however, to limit the financing to several projects. Five projects with a Cut-Off Score of 13 or higher are each requesting between \$279 million and \$1,267 million (San Diego, California American Water, San Mateo-Foster City, Inland Empire Utilities Agency and San Francisco Public Utilities Commission.) Each of the five is significantly larger than any other individual project<sup>28</sup> with a score of 13 or higher. If financing were limited to 31.2% of the requested amounts for these five large projects, the total requested financing for the 29 projects with a Cut-Off Score of 13 or higher would be an estimated \$1,250 million.

Two projects under this Scenario, San Diego Pure Water and California American Water, are also eligible as water supply projects for the Drinking Water State Revolving Fund. Approximately \$442 million in DWSRF funding would be needed to provide the remaining funding for San Diego and California American Water.

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<sup>26</sup> WIFIA can provide 49% of total project costs.

<sup>27</sup> The next largest project has an estimated cost of \$66 million.

<sup>28</sup> The next largest project is requesting \$90 million.

Selection of a Cut-Off Score of 13 is feasible and can be done if selected projects are limited to partial financing. A Score of 13 would result in adding 29 additional scored projects to the Fundable List. This is closer to the typical number of CWSRF loans. financed annually.

e. Scenario D – Cut-Off Score = 12

Eleven projects received a Priority Score of 12, and they are requesting approximately \$909 million in repayable financing. One project with a Score of 12 has been invited to submit a full WIFIA application – City of Los Angeles, 8063-110.

San Diego’s and California American Water Company’s projects could be financed solely with the DWSRF. The estimated DWSRF repayable financing would be approximately \$925 million (San Diego Pure Water at 51% of total project cost and California American Water at 100% of total project costs). If the five WIFIA-eligible projects named in Table 5 above were financed at 51% of their total project costs, then the CWSRF repayable financing would be an estimated \$1,677 million. If the five WIFIA-eligible projects were financed at 36.2%, total CWSRF repayable financing would be an estimated \$1,250 million.

Selection of a Cut-Off Score of 12 is feasible and can be done if selected projects are limited to partial financing. A Score of 12 would result in adding 40 new projects to the Fundable List.

2. Recommended Cut-Off Score and the Fundable List<sup>29</sup>

Given the significant carry over of Fundable List projects and new SDAC and DAC projects for SFY 2019-20, DFA recommends the selection of 13 as the Cut-Off Score. Although it would be possible financially to select a Cut-Off Score of 12, DFA may not be able to meet its objective to finance all Fundable List projects by June 30, 2020 with the addition of 40 new projects. In addition, funding the San Diego Pure Water and California American Water projects solely with DWSRF exceeds the DWSRF’s Funding Target by a factor of two; it would represent an immediate and significant increase in demand for DWSRF funds on top of the demand from other projects eligible for DWSRF loan funds. A Cut-Off Score of 13 will result in a fairly wide distribution of funds to high scoring projects with a moderate demand on the DWSRF, and the recommended scenario appears achievable.

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<sup>29</sup> The Priority Score for City of Stockton, Project No. 8447-110, Regional Wastewater Control Facilities Modifications, was changed and the project was added to the Fundable List as a result of Change Sheet No. 1 to Item 13 approved by the State Water Board at its June 18, 2019 meeting. Project No. 8447-110 is Fundable, and is listed on the Fundable List for a maximum of \$46,800,000 in CWSRF financing. All other conditions and limitations applicable to Fundable List projects apply to the City’s projects.

Appendix B (page 51) is the Fundable List for SFY 2019-20. It includes the associated, estimated costs requested by the applicants by anticipated funding source<sup>30</sup> for applications under Scenario C. The applications on the Fundable List are organized into Groups based on the State Water Board's due diligence reviews. Projects within each Group are sorted by Region and then alphabetically by Applicant. The Fundable List includes a combination of planning, design, and construction projects<sup>31</sup>.

Consistent with Section III.A. above, all SDAC and DAC projects that have started an application have been included on the SFY 2019-20 Fundable List and will be fundable during SFYs 2018-19 and 2019-20 provided they submit a complete application, meet all other eligibility requirements, and sufficient funds are available to make the project affordable. All new SDAC or DAC applicants that start an application during SFY 2019-20 will be added automatically to the Fundable List and be fundable during SFYs 2018-19 and 2019-20, provided they submit a complete application, meet all other eligibility requirements, and sufficient funds are available to make the project affordable. All non-SDAC and non-DAC projects that were approved for the Fundable List in the SFY 2018-19 IUP that have not received an executed financing agreement as of February 2019 roll over and remain on the Fundable List. Projects subject to scoring in this IUP with a Priority Score of 13 or greater have also been placed on the Fundable List and will be fundable during SFYs 2018-19 and 2019-20 provided they meet all eligibility requirements<sup>32</sup>.

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<sup>30</sup> CWSRF funds may include available principal forgiveness.

<sup>31</sup> Water and energy conservation assessments, audits, or planning applications eligible for 100 percent (100%) PF up to \$35,000 are Fundable at any time provided they submit a complete application, meet all applicable eligibility requirements, and that sufficient PF is available.

<sup>32</sup> The amounts on the Fundable List for projects or interrelated programs that are recommended for partial repayable funding are maximum CWSRF repayable amounts. The total for each project or interrelated program may be allocated or reallocated to multiple financing agreements at the request of the applicant as long as the total CWSRF funding does not exceed the total on the Fundable List for the project or interrelated program. The Deputy Director of DFA is authorized to coordinate or limit the cash draws for projects or interrelated programs identified for partial funding to limit the collective impact of these financing agreements on the CWSRF. The Deputy Director of DFA is also authorized to coordinate or limit the cash draws for projects or interrelated programs identified for funding with a combination of the CWSRF and DWSRF to control the impact of these financing agreements on those programs. The funding amounts are subject to potential increase in a future IUP. Each applicant recommended for partial funding appears capable of obtaining the remaining financing necessary to successfully complete the projects or interrelated programs.

All projects on the Fundable List are fundable at any time during SFYs 2018-19 and 2019-20 provided they meet all eligibility requirements. Projects may receive a financing agreement as soon as it is determined the application meets all eligibility requirements. DFA will review the applications on the Fundable List with the objective of executing agreements quickly and efficiently, giving priority to SDACs and DACs, so that all applications on the Fundable List have executed agreements by June 30, 2020. Projects on the Fundable List that are not financed by June 30, 2020, will be carried over to the SFY 2020-21 Fundable List unless directed otherwise by the State Water Board or an applicant withdraws its application.

**Note: Placement on the Fundable List does not constitute a financing agreement, a guarantee of financing, a guarantee of the order of financing, a guarantee that sufficient funds from the anticipated sources of funds will be available for the project, or a determination of eligibility. Neither do position on the Fundable List, estimated agreement date, nor anticipated funding sources guarantee funding, order of funding, funding timing, funding amount, or eligibility.**

**The Fundable List only includes applications that are fundable during SFYs 2018-19 and 2019-20, and a financing agreement will be executed only if the application meets all applicable eligibility requirements.**

**SDAC and DAC projects will be added to the Fundable List automatically. Therefore, Appendix B (page 51) is not a limitation on financing SDAC and DAC projects. Any SDAC and DAC projects may receive funding during SFYs 2018-19 and 2019-20, provided they submit complete applications and meet all applicable eligibility requirements, and provided that sufficient funds are available.**

**The State Water Board expects DFA to expeditiously finance the projects on the Fundable List. The Deputy Director of DFA is authorized to remove non-SDAC or non-DAC projects from the Fundable List if the applicant is non-responsive to DFA's request for information or consultation after notifying the applicant and giving the applicant a reasonable opportunity to respond. Applicants removed from the Fundable List by the Deputy Director may be placed on the SFY 2020-21 Fundable List, provided that Policy requirements for placement have been satisfied.**

## E. Financing Forecast

The SDAC and DAC projects on the Fundable List are requesting approximately \$257 million in grant or PF funds and \$84 million in loan/repayable funds. As discussed in Section III.C.3.a above, there are approximately \$78 million in grant and PF funds available to reduce the financing costs for SDACs and DACs. The available grant and PF funds are insufficient to fulfill all the grant and PF requests from the SDAC and DAC projects on the Fundable List. There are sufficient CWSRF loan funds for all SDAC and DAC projects, and no additional leveraging would be needed to finance all SDAC and DAC projects. Therefore, DFA anticipates that all available grant and PF funds will be committed to small SDAC and small DAC projects by June 30, 2020.

Some of the non-SDAC and non-DAC applications on the Fundable List are eligible for WRFP grant and loan funds or PF. As noted earlier, if Prop 68 water recycling funds are appropriated to the State Water Board for SFY 2019-20, there will be approximately \$87.3 million in grant and PF funds for water recycling and other green projects, and there will be approximately \$137.3 million in WRFP loan funds. The projects on the Fundable List eligible for these funds are requesting \$235 million. Therefore, DFA anticipates that all available WRFP grant and loan funds and all PF can be committed by June 30, 2020 with a combination of eligible water recycling projects.

The remaining projects on the Fundable List, composed of rollovers and new scored projects, represent a combination of CWSRF repayable financing totaling approximately \$2.4 billion for 59 projects. Although the total commitment, assuming all the agreements are executed by June 30, 2020, appears higher than the sustainable financing level, the long-term average of new CWSRF repayable financing is still below the Funding Target.

The actual level of new financing discussed in this IUP may be higher or lower than the amount predicted by the Fundable List, and some projects on the Fundable List may remain unfinanced by the end of SFY 2019-20. Some projects may be financed in a future year or not at all for various reasons. Projects on the Fundable List that are not financed by June 30, 2020, will be carried over to the SFY 2020-21 Fundable List unless directed otherwise by the State Water Board or an applicant withdraws its application.

DFA plans to update applicants and stakeholders once during SFY 2019-20 on its progress implementing this IUP, its financial outlook, and its financing forecast, so that applicants can continue to evaluate the possibility of receiving CWSRF financing in the future.

## F. Future Financing Trends

Demand for CWSRF financing remains high as indicated by the Comprehensive List, and DFA expects the demand to remain high for the foreseeable future given the CWSRF's attractive terms and the large water related infrastructure needs in California as noted in Section II.A. Although the level of CWSRF financing will be below average in SFY 2018-19 and 2019-20 due to the implementation of the state's new accounting system, FI\$Cal, DFA expects that the overall pace of financing will return to a level similar to previous levels after FI\$Cal is fully implemented.

Given the lower level of new commitments and slowed pace of disbursements, the current leveraging limit of \$2.2 billion is sufficient for future cash flow, and DFA will not request that the State Water Board increase the leveraging limit for the CWSRF at the present time. Although the current leveraging authority is sufficient, additional leveraging authority may be needed in the future to finance all the projects on the Fundable List. The exact amount and timing of any additional leveraging, over and above the current limit of \$2.2 billion, would continue to depend on the total costs of the projects financed and the timing of the approvals.

In addition, the costs identified in Appendix B (page 51) are estimated project costs that may be higher or lower than estimated. Additional debt may be necessary for projects in the future depending on DFA's success executing applications on the Fundable List by June 30, 2020. Future cash flow forecasts - considering actual lending and disbursements, future capitalization grants, and earning levels - will determine the need for additional leveraging and may affect future lending levels. Potential increases in future leveraging authority will be consistent with the [SRF Debt Management Policy \(https://www.waterboards.ca.gov/drinking\\_water/services/funding/documents/srf/srf\\_debt\\_mgmt\\_policy.pdf\)](https://www.waterboards.ca.gov/drinking_water/services/funding/documents/srf/srf_debt_mgmt_policy.pdf).

DFA is unaware of any significant impending federal or state CWSRF capitalization increases.

Consistent with this IUP, the CWSRF Policy, and available staff resources, DFA will continue to accept and review documents related to applications that are not on the Fundable List, as well as continue to accept and review new documents, time permitting, to develop applications that can be scored and funded in future years.

## G. CWSRF Resources and Workload

### 1. Organization, Program Resources, and Skills

Approximately 45.8 Personnel Years (PYs) are budgeted for the CWSRF program<sup>33</sup> in SFY 2019-20 and the number of positions is not expected to change substantially. These positions are distributed between DFA and the Office of Chief Counsel (OCC) as follows:

- 4.0 PYs for Environmental Scientists to ensure compliance with state and federal environmental and cultural resources requirements (DFA);
- 16.3 PYs for Water Resources Control Engineers and Sanitary Engineers to manage project applications (DFA), with one unit of approximately five staff dedicated to processing applications from SDACs and DACs<sup>34</sup>
- 10.6 PYs for administrative support (DFA);
- 10.4 PYs for Program management and staff oversight (DFA);
- 3.0 PYs for legal support (OCC); and

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<sup>33</sup> In addition to positions funded directly by the CWSRF, the State Water Board has other state-funded positions associated with complementary programs closely aligned with the CWSRF as noted earlier. Many projects, such as SDAC and DAC wastewater, water recycling, and storm water projects may be financed by a combination of CWSRF and state sources of funds. Staff is trained to help applicants receive financing for their projects regardless of the funding sources; therefore, state-funded positions indirectly provide benefit to the CWSRF program and vice versa.

<sup>34</sup> These CWSRF staff members are part of the Office of Sustainable Water Solutions within DFA, which includes two supervising engineers, six senior engineers, one senior specialist, and 32 technical staff dedicated to processing applications from SDACs and DACs.

- 1.5 PYs for other environmental and engineering support of project eligibility reviews

Additional indirect cost support is provided by accounting, personnel, budget, and contract support staff in the Division of Administrative Services.

The CWSRF program relies on some contracted services that (i) cannot be provided economically by Water Boards staff, (ii) require skills not available in the State Water Boards, or (iii) require independence from the CWSRF program. Approximately \$700,000 is budgeted for the following contract services:

- Independent accounting firm for annual audits;
- Outside legal counsel for specialized tax and bond advice;
- Vendor to provide maintenance for the Loans and Grants Tracking System (LGTS); and
- Independent Municipal Advisor

## 2. Loan Servicing and Program Administration

Servicing existing agreements and fulfilling ongoing program requirements represents a significant workload for the CWSRF staff. There are approximately 433 CWSRF agreements in repayment. Payments on these agreements are collected throughout the year, and DFA conducts regular surveillance on many of these recipients. At present, the CWSRF is servicing approximately 114 agreements in disbursement. On average, staff process approximately 462 CWSRF disbursement requests per year. Staff also oversee and perform periodic construction inspections of financed projects to ensure that work is performed consistent with previous approvals, and to ensure that work is being performed in conformance with program requirements, including but not limited to, Davis-Bacon wage rates, American Iron and Steel procurement requirements, disadvantaged business solicitation rules, and environmental special conditions.

The CWSRF program's outstanding revenue bonds require separate accounting of payments from pledged obligations, semi-annual bond payments, and create specific monitoring, reporting, and continuing disclosure actions. The CWSRF program prepares annual financial statements that are audited independently. The CWSRF program is subject to yearly review by U.S. EPA and is periodically subject to audit or oversight by other federal or state agencies.

### 3. Administrative Funding

Administrative funding for the CWSRF comes from two sources, the capitalization grants awarded yearly by U.S. EPA and the State Water Pollution Control Revolving Fund Administrative Fund (Administrative Fund). Administrative spending for the CWSRF is limited to fees collected by the State Water Board for administering the CWSRF, plus the greatest of: (a) four percent of cumulative Capitalization Grants, (b) \$400,000 per year, or (c) 0.20 percent per year of the current valuation of the CWSRF program. Section 13477.5(c)(1) of the California Water Code allows the State Water Board to apply an annual service charge<sup>35</sup> on a financing agreement. The revenue generated by this service charge goes into the Administrative Fund and may be used for administration. The Administrative Fund and the capitalization grants provide reliable administrative funding to the CWSRF program.

Under state law, the service charge rate cannot exceed one percent (1%) of the outstanding balance of a financing agreement. Once the service charge is applied to an agreement, the rate remains unchanged for the duration of the agreement. Since the service charge is a percentage of the outstanding principal on each agreement, it produces a declining amount of revenue each year. Each year, the State Water Board must evaluate the need for the service charge revenue and establish an appropriate rate. The service charge will then be applied to additional agreements to maintain the Administrative Fund revenue consistent with the administrative budget established by the Governor and the Legislature for the CWSRF.

The State Water Board will use the Administrative Fund as its primary source of administrative funding for the CWSRF. The Administrative Fund can only be used for CWSRF program administration, while the administrative allowance from the capitalization grants may be used for administration, local assistance, or a combination of the two. The federal administrative allowance serves as a backup source of administrative funding. If cash flow conditions warrant in SFY 2019-20, the State Water Board will disburse 100 percent (100%) of its federal capitalization grants for local assistance. The authority to spend the administrative allowance from the 2019 Capitalization Grant will be retained for potential use in future years.

For SFY 2019-20, the State Water Board continues the Administrative Service charge rate of one percent; this shall be the effective rate until the State Water Board establishes a different rate.

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<sup>35</sup> For federal purposes, the Administrative Fund service charge is a fee “other than program income not included as principal in CWSRF financing.” The service charge is collected in lieu of an equal amount of interest that would otherwise be due on the outstanding balance of the financing agreement. The service charge is offset by the reduction in the interest rate so that financing recipients’ payments remain the same whether or not they pay the service charge.

Based on the budgeted positions for the program for SFY 2019-20 and the projected Administrative Fund balances through December 31, 2019, (Appendix J, page 84), which are declining because of decreasing existing fee-in-lieu of interest payments, the State Water Board anticipates applying this charge to additional agreements during SFY 2019-20. The State Water Board also anticipates applying this charge to additional agreements in SFY 2019-20 because of declining Prop 1 SCG and Prop 1 Water Recycling administration funds and the need to continue supporting the administration of projects jointly funded by Prop 1 and CWSRF.

## H. Risks

The following are financial or programmatic risks to the CWSRF program. DFA management will focus on identifying potential problems and acting early to maintain the integrity and success of the CWSRF program.

### 1. Application Demand vs. Resources

Demand for financing exceeds the administrative resources needed to review, approve, and finance all complete applications. Staff resources are the most inflexible aspect of the CWSRF program. Additional staff cannot be quickly added to address high demand because they must be approved through the State's budget process. In addition, hiring may be frozen or work hours reduced due to State budget concerns. DFA will prioritize applications consistent with this IUP and the CWSRF Policy. DFA may also adjust its review procedures and work with U.S. EPA or other agencies to resolve delays, schedule financing with applicants, or seek additional resources. DFA can also work with stakeholders to evaluate changes to the CWSRF Policy or further adjustments to its application and the application review process.

### 2. Applicants' Schedule Changes or Delays in Executing Agreements

Beneficial and eligible projects may not be financed if the applicants' schedules change or are delayed. To minimize and avoid delays, CWSRF program staff will coordinate regularly with applicants identified in this IUP, and with others that submit applications during the year, to maintain a consistent demand on the program. As project schedules shift, lower priority projects may be funded if they are ready for financing, bearing in mind the PF and GPR requirements established in this IUP. This funding flexibility maximizes the use of the CWSRF and increases the number of projects funded.

Beneficial and eligible projects may not be financed if DFA encounters delays completing its reviews of the applications. To minimize and avoid delays, CWSRF program staff will coordinate its internal review efforts regularly during the year to expeditiously complete its reviews and maintain consistent progress toward the goal of executing agreements for all projects on the Fundable List by June 30, 2020.

As delays are encountered, other projects on the Fundable List should continue to move forward, bearing in mind the PF and GPR requirements established in this IUP and the amount of leveraging authority approved by the State Water Board. This funding flexibility maximizes the use of the CWSRF and increases the number of projects funded.

After financing is approved, the recipient must start and complete construction promptly. Applicants are required by their financing agreements to report delays to DFA staff so that appropriate action can be taken to address those delays.

### 3. Cash Balance

The amount of disbursements requested may exceed the CWSRF's cash balance. DFA staff will maintain accurate account balances and prepare forecasts regularly to identify potential cash shortages in advance. If additional cash is needed, the CWSRF has several options. The CWSRF program has considerable assets it can leverage through revenue bond sales in the municipal bond market to obtain additional cash. The State Water Board can prioritize or limit new commitments or potentially negotiate disbursement schedules with applicants. The CWSRF program can also investigate alternative financing (e.g., providing bond insurance) to reduce cash outlays.

Excess cash may accumulate if applications, and the associated disbursements, are too low. Excess cash provides no water quality benefit for California. DFA will use its marketing, customer assistance, and project development resources to maintain a pipeline of projects ready for financing. It will closely monitor undrawn balances on outstanding financing agreements to ensure that financing recipients request funds expeditiously.

### 4. Defaults and Late Payments

Pursuant to the CWSRF Policy, DFA will implement prudent lending standards and borrower surveillance practices that safeguard the CWSRF program's equity. The State Water Board also typically contracts with a professional Municipal Advisor to provide additional financial expertise.

The CWSRF program has many tools to reduce the risk of default, including loan monitoring and surveillance, as well as enforcement remedies. For example, DFA collects and reviews audited financial statements of all borrowers for the first five years of repayment and may request audited financials for some borrowers for longer periods of time. DFA has an agreement with independent accounting firm CliftonLarsonAllen to audit select borrowers identified as having a higher risk of experiencing financial difficulties. These audits can be conducted to evaluate the financial and management capacities of an entity and provide recommended solutions. The State Water Board will also continue to provide SCG funds in SFY 2019-20 to reduce debt service and default risk for SDACs and DACs or projects that regionalize wastewater infrastructure.

Additional subsidies for SDACs and DACs will reduce borrowing costs and the risk of default. Additionally, the State Water Board can offer wastewater-related TA to SDACs and DACs in areas such as evaluating project alternatives, financial management, rate setting, and operation and maintenance.

## 5. Accountability and Oversight

The CWSRF is capitalized with public funds, and the State Water Board is responsible for using them lawfully and effectively.

The State Water Board regularly reports to U.S. EPA through the National Information Management System (NIMS) and the CWSRF Benefits Reporting (CBR) system on use of the funds. In addition, U.S. EPA reviews the management and performance of the CWSRF annually. The results are summarized in its annual [Program Evaluation Reports](#).

([http://www.waterboards.ca.gov/water\\_issues/programs/grants\\_loans/srf/pubs.shtml](http://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/pubs.shtml))

The CWSRF program produces an [annual report and audited financial statements](#).

([http://www.waterboards.ca.gov/water\\_issues/programs/grants\\_loans/srf/pubs.shtml](http://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/pubs.shtml))

Additional actions are required of the State Water Board staff to comply with provisions of the Internal Revenue Code applicable to the CWSRF outstanding bond debt. The CWSRF program's [Post-Issuance Tax Compliance Policy for Tax-Exempt Bond Issues](#)

([http://www.waterboards.ca.gov/water\\_issues/programs/grants\\_loans/srf/docs/policy\\_0513/post\\_issuance\\_compliance\\_policyfor\\_bond\\_issues.pdf](http://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/docs/policy_0513/post_issuance_compliance_policyfor_bond_issues.pdf))

provides further detail about actions required of the program's staff to help ensure that its bonds remain exempt from federal income taxes. Additional reporting is required by the program's Continuing Disclosure Agreement; information on the program's bonds can be found on the Electronic Municipal Market Access system maintained by the Municipal Securities Rulemaking Board.

DFA staff will continue to oversee projects to ensure that they meet the terms of the financing agreements by conducting periodic site visits during construction or implementation. All projects are subject to a "Final Project Inspection," and a final summary report is submitted on each project to confirm that it was completed. DFA maintains copies of inspection and final summary reports in the project files.

## IV. FINANCING AND PROGRAMMATIC REQUIREMENTS

### A. Davis-Bacon Requirements

Federal Davis-Bacon rules apply to the construction of treatment works “carried out in whole or in part with assistance made available by a State water pollution control revolving fund.” The State Water Board, therefore, will continue to require that applicants for treatment works projects comply with Davis-Bacon rules. Recipients of CWSRF financing must agree to provide information necessary to show compliance with Davis-Bacon requirements.

### B. Generally Accepted Accounting Principles (GAAP)

The CWA requires that recipients of CWSRF financing maintain project accounts in accordance with generally accepted government accounting standards, including standards relating to the reporting of infrastructure assets. Recipients must agree to comply with GAAP. For governmental entities, the Government Accounting Standards Board establishes these standards. The State Water Board, therefore, will require as a condition of financing that governmental applicants maintain project accounts in accordance with generally accepted government accounting standards.

### C. Cost and Effectiveness Analysis

Effective October 1, 2015, the CWA requires CWSRF recipients that are municipal, inter-municipal, interstate, or State agencies to certify they have conducted a cost and effectiveness analysis. This analysis includes an evaluation of the costs and effectiveness of the proposed project, and selection of a project that, to the maximum extent practicable, maximizes the potential for energy conservation, and efficient water use, reuse, recapture, and conservation, considering construction, operation and maintenance, and replacement costs. This certification must be provided before CWSRF assistance is provided for final design or construction.

### D. Procurement for Architectural and Engineering (A/E) Contracts

Beginning with the FFY 2015 Capitalization Grant, the CWA requires that A/E contracts for equivalency projects (i.e., CWSRF-financed projects specifically identified by DFA that total an amount at least equal to the capitalization grant from U.S. EPA) comply with the qualifications-based procurement process described in 40 United States Code section 1101 et seq. or an equivalent state requirement. For all equivalency projects, these procurement requirements apply to any CWSRF-funded A/E contracts<sup>36</sup>, including any new solicitation, significant contract amendments, and contract renewals for A/E services initiated on or after October 1, 2014.

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<sup>36</sup> A/E contracts include but are not necessarily limited to those for program management, construction management, feasibility studies, preliminary engineering, design, engineering, surveying or mapping.

Potential equivalency projects for the FFY 2019 Capitalization Grant are identified in Appendix C (page 64). Equivalency projects will be required to certify that A/E contracts were procured in accordance with federal guidelines or the equivalent state process.

### E. Fiscal Sustainability Plan (FSP)

The CWA requires CWSRF recipients for POTW projects to develop and implement an FSP, which includes an inventory and evaluation of critical assets, evaluation and implementation of water and energy conservation efforts, a plan for maintaining, repairing, and replacing the treatment works, and a plan for funding such activities. Applicants can self-certify that the FSP, or its equivalent, has been developed and implemented, or for applicants without an FSP, or its equivalent, the CWSRF financing agreement will include a condition setting a deadline for FSP certification, which must be prior to the final CWSRF disbursement for the project. FSPs will typically be reviewed during the final inspection.

### F. American Iron and Steel (AIS)

The CWA requires CWSRF assistance recipients, absent an exclusion or waiver, to use iron and steel products that are produced in the United States for treatment works projects. U.S. EPA implementation of these provisions is described on its [State Revolving Fund American Iron and Steel \(AIS\) Requirement](https://www.epa.gov/cwsrf/state-revolving-fund-american-iron-and-steel-ais-requirement) (<https://www.epa.gov/cwsrf/state-revolving-fund-american-iron-and-steel-ais-requirement>) website.

### G. Payment and Draw Schedules

Appendix K (page 84) shows the State Water Board's requested payment schedule for the 2019 Capitalization Grant funds from the U.S. Treasury and the estimated draws of the 2019 funds and the CWSRF remaining federal funds ("unliquidated obligations").

### H. State Match and Cash Draw Ratio

The State Water Board must provide one dollar of match for each five dollars received through U.S. EPA capitalization grants. Cumulatively, the CWSRF has been awarded approximately \$2.98 billion in capitalization grants as of December 31, 2018, that must be matched. The total matching requirement, therefore, through the estimated FFY 2019 Capitalization Grant is approximately \$596.2 million. The CWSRF program has already provided a total of \$638.3 million in matching funds as of June 30, 2018, leaving an estimated \$42.1 million in match funds for future grants. This excess match amount is sufficient to match approximately \$210.7 million in capitalization grants, or approximately two years' worth of grants at the current rate of federal capital contributions. Since the CWSRF is overmatched at this point, the State Water Board's cash draw ratio for the 2019 Capitalization Grant will be 100 percent (100%) federal funds.

## I. Types of CWSRF Assistance and Financing Terms

The State Water Board will provide funding for all eligible categories of projects using loans, installment sale agreements/purchase of debt. The State Water Board will also provide separate planning, design, or planning and design financing during SFY 2019-20 to SDACs and DACs and those projects specifically identified for planning, design, or planning and design financing on the Fundable List provided the applicants can legally accept such financing.

Principal forgiveness, if available, will be provided to those applicants that meet the conditions specified in Appendix D (page 77) and Section III.C.2 above.

The terms associated with CWSRF financial assistance vary by applicant and financing approval date. Planning and design financing is amortized over five or ten years, at the discretion of the applicant, unless rolled into a construction or implementation financing agreement. Construction or implementation financing agreements are generally amortized for periods up to 30 years or the useful life of the financed assets whichever is shorter. The interest rate applied to a financing agreement is established at the time the financing agreement is prepared for approval or financing is approved by the State Water Board. The interest rate will generally be one-half of the State's most recent general obligation bond rate rounded up to the nearest one-tenth of a percent, except as described in Section III.A.4 above. Construction costs incurred prior to approval of financing are reimbursable. However, no construction costs may be reimbursed until all eligibility requirements are met and a financing agreement has been executed or amended to establish a final budget in accordance with the CWSRF Policy.

## J. Federal Cross-Cutters and Environmental Reviews

Projects funded by the CWSRF must comply with certain federal laws known as "cross-cutters." The State Water Board will ensure that CWSRF program financing recipients comply with applicable federal cross-cutter requirements, as identified to the State Water Board in the federal capitalization grant.

CWSRF financing agreements include a list of applicable federal statutes and requirements identified in the most recent capitalization grant. CWSRF financing recipients agree to comply with these federal requirements by signing the financing agreement.

The State Water Board will use its [State Environmental Review Process](http://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/docs/policy0513/appendix_i_envguide.pdf) (SERP [http://www.waterboards.ca.gov/water\\_issues/programs/grants\\_loans/srf/docs/policy0513/appendix\\_i\\_envguide.pdf](http://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/docs/policy0513/appendix_i_envguide.pdf)) to ensure compliance with CWSRF environmental requirements during SFY 2019-20.

While the SERP generally follows the requirements of the California Environmental Quality Act, each applicant must also complete and submit an [Environmental Package \(https://www.waterboards.ca.gov/water\\_issues/programs/grants\\_loans/srf/docs/forms/application\\_environmental\\_package.pdf\)](https://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/docs/forms/application_environmental_package.pdf) and associated supporting documents. The State Water Board staff will review environmental documents received from applicants to ensure completeness/adequacy and determine if consultation with relevant federal agencies is necessary, consistent with the [Operating Agreement \(https://www.waterboards.ca.gov/water\\_issues/programs/grants\\_loans/srf/docs/policy0513/oa\\_revised\\_2019.pdf\)](https://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/docs/policy0513/oa_revised_2019.pdf) between the State Water Board and the U.S. EPA.

In addition to the federal requirements discussed in paragraphs A through F in this section, the State Water Board requires compliance with Disadvantaged Business Enterprise (DBE) requirements for CWSRF financing, except planning and design financing.<sup>37</sup> It also requires that CWSRF funding recipients comply with federal audit requirements (Uniform Grant Guidance, 2 CFR, § 200(f)).

The State Water Board will use the Federal Funding Accountability and Transparency Act (FFATA) reporting system to report on all equivalency projects (i.e., projects that meet all of the federal cross-cutting requirements, the combined assistance amounts of which projects are at least equal to or greater than the capitalization grant amount).

#### K. Capitalization Grant Conditions and Other Federal Requirements

The State Water Board will comply with all conditions included in the 2019 Capitalization Grant agreement. Provisions specific to the FFY 2019 appropriation will take effect only if the State Water Board receives the FFY 2019 Capitalization Grant and will apply only as directed by Congress or U.S. EPA. The State Water Board will require that CWSRF financing recipients also comply with applicable federal pass-through requirements. Recipients of CWSRF financing must agree to provide information necessary to show compliance with all applicable federal requirements.

#### L. Other State Requirements

Other state laws not specific to the CWSRF may also apply. These may include but are not limited to laws affecting urban water suppliers, charter cities, agricultural water users, projects located in the Sacramento-San Joaquin Delta, labor regulations, prevailing wages, and debt reporting.

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<sup>37</sup> Planning and design financing agreements may be funded with capitalization grants to provide PF for water, energy, and sustainable planning and design. DFA does not intend to apply DBE requirements to such agreements, or to other agreements that do not finance POTWs, but will ensure DBE compliance for all other construction and implementation projects totaling an amount at least equivalent to the capitalization grant from U.S. EPA.

Although the CWSRF Policy authorizes reimbursement of eligible construction costs for projects on the Fundable List going back to the notice to proceed date for the project, applicants should note that **CONSTRUCTION COSTS INCURRED BEFORE EXECUTION OF A FINANCIAL ASSISTANCE AGREEMENT ARE AT THE APPLICANT'S RISK.** Various factors may restrict reimbursement of costs incurred prior to execution of a funding agreement, including, but not limited to failure of the applicant to adopt a satisfactory reimbursement resolution, appropriations limits of funding sources, and other factors. **Further, starting construction before the State Water Board has completed its environmental review may render the project ineligible for funding.** Additionally, changes to laws or requirements that occur prior to execution of a financial assistance agreement may affect some or all funding eligibility.

For all loans, the applicant will be expected to submit a resolution authorizing the transaction prior to execution of the agreement by DFA.

### M. Timely and Expeditious Expenditure

The State Water Board will ensure timely and expeditious expenditure of all funds during SFY 2019-20. This IUP establishes as a goal during SFY 2019-20 to overcommit cash and undrawn federal grant funds to continually disburse 100 percent (100%) of those funds less a minimum cash balance of \$25 million plus any assets restricted for other uses, (i.e., bond payments and administration). The State Water Board will continue to use and refine its existing procedures. These procedures are designed to quickly identify and approve projects, execute financing agreements, and disburse funds to recipients. As of April 19, 2019, the State Water Board has disbursed 97.5 percent (97.5%) of all federal grants awarded. These results are consistent with recent trends and indicate that the State Water Board can quickly and productively use federal funds once awarded.

### N. Cross-Collateralization

The State Water Board will implement cross-collateralization between the CWSRF and the DWSRF loan programs as necessary to support the goals and objectives of the State Water Board as documented in the [Operating Agreement between the California State Water Resources Control Board and the United States Environmental Protection Agency Region IX for Activities and Functions in Managing the State Water Pollution Control Revolving Fund Program](#) ([https://www.waterboards.ca.gov/water\\_issues/programs/grants\\_loans/srf/docs/policy0513/oa\\_revised\\_2019.pdf](https://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/docs/policy0513/oa_revised_2019.pdf)), as amended March 2019.

## V. OUTCOMES, GOALS, ACTIVITIES, AND MEASURES

### A. Sound Finances

The State Water Board, the CWSRF program's stakeholders, and the owners of CWSRF bonds expect the CWSRF to be financially sound.

#### Long-Term Goals:

1. **Maximize non-restricted and restricted cash flows:** For maximum benefit, CWSRF disbursements of non-pledged assets should equal non-restricted receipts, less a minimum balance necessary to meet six month's forecasted disbursements. Disbursement of pledged receipts should ensure timely and full payment of all bond payments and reserve requirements. Excess pledged receipts should be periodically evaluated to determine if they should be used to originate a new pledged loan or released from the lien of the Master Indenture.
2. **Use revenue and capital effectively:** California faces significant water quality needs. The CWSRF repayment stream is sizeable, and the CWSRF program continues to receive new capital from U.S. EPA. The CWSRF program's net position may make additional debt to finance water quality projects feasible and desirable. Additional debt, though, should be consistent with the *SRF Debt Management Policy* and the federal requirement to maintain the CWSRF in perpetuity.
3. **Maintain financial integrity:** Financial integrity is a core value of the CWSRF program. Effective internal controls ensure that the program's finances are dependable and trustworthy. Prudent lending practices and reasonable interest rates ensure the stability and continued growth of the CWSRF program.

#### Key Short-Term Activities:

1. **Prepare and review cash management reports regularly:** Ensuring that sufficient cash is available to fulfill project disbursement requests, make bond payments, fulfill reserve requirement, if necessary, and pay for other program expenses requires careful and regular oversight of the cash flows. (*Completed quarterly*)
2. **Continue regular staff level finance/audit coordination meetings:**
  - a. Review cash flow forecasts of existing and potential commitments and upcoming expenses to assess the CWSRF program's ability to meet its commitments and to evaluate the need for leveraging or other actions to regulate cash outflows. (*Completed quarterly*)
  - b. Compare actual performance with target performance measures. (*Completed quarterly*)

- c. Review audit issues, program control issues, and plan for upcoming audits.  
(*Completed quarterly*)
3. **Apply for and accept FFY 2019 Capitalization Grant:** The 2019 Grant application will be formally submitted to U.S. EPA after approval of this IUP by the State Water Board. For 2019, a capitalization grant application will be submitted for \$150 million<sup>38</sup> in federal assistance. (*Complete July 2019*)
4. **Maintain compliance with the *SRF Debt Management Policy*.** (*Ongoing Annually*)
5. **Prepare Annual Report and Audited Financial Statements for SFY 2018-19.**  
(*Complete October 30, 2019*)
6. **Comply with all reporting requirements and compliance obligations associated with outstanding revenue bonds, as set forth in the related continuing disclosure agreements, the Post-Issuance Tax Compliance Policy for Tax-Exempt Bond Issues, the Amended and Restated Master Payment and Pledge Agreement, and the Amended and Restated Master Trust Indenture.**  
(*Ongoing Through the Year*)

Performance Measurements:

1. Total executed financing agreements > 120 percent (120%) of federal grants.
2. Disbursement rate = 100 percent (100%) of available funds less minimum six-month's disbursement balance and restricted funds.
3. Federal funds disbursement rate = 100 percent (100%) of federal payments.
4. Default ratio = 0.

## B. Fund the Most Beneficial Projects

The CWSRF program has finite funds and resources. These limitations require the State Water Board to prioritize so that the most pressing water quality problems are addressed first.

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<sup>38</sup> This number is preliminary, and subject to change. The FFY 2019 capitalization grant application will be submitted for a higher amount (\$150 million) than the estimated grant award to avoid amending this IUP and resubmitting the application should the actual award be greater than the currently estimated capitalization grant of \$114 million. If the actual 2019 grant award is less than the grant application, then the award can be made by U.S. EPA without the State Water Board submitting an amended IUP and grant application.

#### Long-Term Goals:

1. **Achieve compliance statewide with water quality objectives.**
2. **Achieve sustainable water resource management consistent with the [Human Right to Water](#) ([https://www.waterboards.ca.gov/board\\_decisions/adopted\\_orders/resolutions/2016/rs2016\\_0010.pdf](https://www.waterboards.ca.gov/board_decisions/adopted_orders/resolutions/2016/rs2016_0010.pdf)).**
3. **Finance infrastructure that will achieve or maintain compliance with federal and state water quality requirements:** Support the [California Water Action Plan](http://resources.ca.gov/docs/california_water_action_plan/Final_California_Water_Action_Plan.pdf) ([http://resources.ca.gov/docs/california\\_water\\_action\\_plan/Final\\_California\\_Water Action Plan.pdf](http://resources.ca.gov/docs/california_water_action_plan/Final_California_Water_Action_Plan.pdf)), [State Water Board's Strategic Plan](https://www.waterboards.ca.gov/water_issues/hot_topics/strategic_plan/docs/2010/final_strategic_plan_update_report_062310.pdf) ([https://www.waterboards.ca.gov/water\\_issues/hot\\_topics/strategic\\_plan/docs/2010/final\\_strategic\\_plan\\_update\\_report\\_062310.pdf](https://www.waterboards.ca.gov/water_issues/hot_topics/strategic_plan/docs/2010/final_strategic_plan_update_report_062310.pdf)), and [U.S. EPA's Strategic Plan](https://www.epa.gov/sites/production/files/2018-02/documents/fy-2018-2022-epa-strategic-plan.pdf) (<https://www.epa.gov/sites/production/files/2018-02/documents/fy-2018-2022-epa-strategic-plan.pdf>), Goal 1 (Core Mission), Objective 1.2 (Provide for Clean and Safe Water).
4. **Assist with the State Water Board's [Plan for California's Nonpoint Source Pollution Control Program](#) ([http://www.waterboards.ca.gov/water\\_issues/programs/nps/plans\\_policies.shtml](http://www.waterboards.ca.gov/water_issues/programs/nps/plans_policies.shtml)) and Estuary Comprehensive Conservation and Management Plans.**
5. **Invest in small SDACs and small DACs disproportionately affected by pollution and water contamination consistent with the Capacity Development Strategy.**
6. **Support the State's greenhouse gas reduction and climate adaptation goals to the maximum extent practicable consistent with State Water Board [Resolution No. 2017-0012](#) ([https://www.waterboards.ca.gov/board\\_decisions/adopted\\_orders/resolutions/2017/rs2017\\_0012.pdf](https://www.waterboards.ca.gov/board_decisions/adopted_orders/resolutions/2017/rs2017_0012.pdf)).**

#### Key Short-Term Activities:

1. **Provide funds for high-priority projects:** Appendix B, the Fundable List, (page 51) identifies projects that the CWSRF program anticipates funding in SFY 2019-20 that support the Water Boards' and U.S. EPA's priorities along with their expected executed agreement dates.
2. **Adopt the SFY 2019-20 IUP:** The SFY 2019-20 IUP will guide marketing and assistance efforts targeting the Water Board and U.S. EPA's highest priorities in SFY 2019-20. (*Complete June 2019*)

3. **Report activities supporting the [California Water Action Plan](http://resources.ca.gov/docs/california_water_action_plan/Final_California_Water_Action_Plan.pdf) ([http://resources.ca.gov/docs/california\\_water\\_action\\_plan/Final California Water Action Plan.pdf](http://resources.ca.gov/docs/california_water_action_plan/Final_California_Water_Action_Plan.pdf)), [State Water Board's Strategic Plan](https://www.waterboards.ca.gov/water_issues/hot_topics/strategic_plan/docs/2010/final_strategic_plan_update_report_062310.pdf) ([https://www.waterboards.ca.gov/water\\_issues/hot\\_topics/strategic\\_plan/docs/2010/final\\_strategic\\_plan\\_update\\_report\\_062310.pdf](https://www.waterboards.ca.gov/water_issues/hot_topics/strategic_plan/docs/2010/final_strategic_plan_update_report_062310.pdf)), and [U.S. EPA's Strategic Plan](https://www.epa.gov/sites/production/files/2018-02/documents/fy-2018-2022-epa-strategic-plan.pdf) (<https://www.epa.gov/sites/production/files/2018-02/documents/fy-2018-2022-epa-strategic-plan.pdf>) in the CWSRF Annual Report, CBR, NIMS, and the FFATA Reporting System. (Completed annually)**

#### Performance Measurements:

1. Fund utilization rate (U.S. EPA Program Reporting Measure WQ-17 Fund Utilization) > 105 percent (105%) of available funds.
2. Execute financing agreements for 100 percent (100%) of projects with complete applications listed on the Fundable List, Appendix B (page 51) of this IUP, by June 30, 2020.
3. At least 25 percent (25%) of the number of projects executed during SFY 2019-20 should assist SDACs or DACs.
4. FFY 2019 funds committed as PF = maximum allowed by 2019 appropriation.
5. Percentage of FFY 2019 funds committed to GPR projects > minimum GPR percentage established by FFY 2019 appropriation.

#### C. Efficient Service, Up-to-Date Policies and Procedures, and Recognizable Products

Applicants have several choices for their financing needs. The CWSRF program should attract high-value projects that support the policies and goals of the State Water Board.

#### Long-Term Goals:

1. **Provide good customer service with a special emphasis on assisting SDACs and DACs.**
2. **Ensure that the application forms and review procedures are clear, flexible, up-to-date, and efficient.**
3. **Clearly communicate to applicant their statuses and expectations for funding.**
4. **Ensure staff is well trained and ready to help applicants resolve technical, legal, environmental, and financial issues needed to receive financing.**

Key Short-Term Activities:

1. **Continue regular internal coordination meetings to identify and resolve delays affecting applications on the Fundable List, coordinate and prioritize application reviews, and ensure all projects with complete applications on the Fundable List receive an executed agreement by June 30, 2020.** (*Completed monthly*)
2. **Provide a Mid-Year Informational Update to stakeholders on DFA's progress implementing the SFY 2019-20 IUP.** (Complete November 2019)

Performance Measurements:

1. Execute financing agreements for all projects with complete applications identified on the Fundable List before July 1, 2020.
2. In 45 days or less<sup>39</sup>, fulfill 100 percent (100%) of complete disbursement requests.
3. Amend financing agreements to establish final project budget no later than 90 days after receipt of complete Final Budget Approval Package.

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<sup>39</sup> Disbursement fulfillment time is the time from receipt of a complete disbursement request to warrant date.

## VI. SCHEDULE

The estimated schedule for public comment and State Water Board adoption of the SFY 2019-20 IUP, and the application, award, and acceptance of the 2019 Capitalization Grant is as follows:

Draft IUP posted for public comment	April 27, 2019
Informational Workshop/Webinar	April 30, 2019
Deadline for Public Comments on Draft IUP	May 28, 2019
State Water Board adopts IUP at regularly scheduled meeting	June 18, 2019
Submit FFY 2019 Capitalization Grant application to U.S. EPA	May 15, 2019
Execute FFY 2019 Capitalization Grant agreement with U.S. EPA	September 2019

## VII. APPENDICES

### APPENDIX A: Current Sources and Uses of the CWSRF<sup>40</sup>

	Projected SFY 2018-19	Projected SFY 2019-20	Projected SFY 2020-21	Projected SFY 2021-22	Projected SFY 2022-23
Beginning Balance	\$1,290,047,415	\$747,136,871	\$975,816,259	\$496,587,279	\$390,371,815
Estimated Principal Payments + Interest Earnings	\$300,159,536	\$315,009,536	\$329,859,536	\$344,709,536	\$359,559,536
Estimated SMIF <sup>41</sup> Interest Earnings	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000
Revenue Bond Proceeds <sup>42</sup>		\$500,000,000	\$500,000,000		
Debt Service– 2016, 2017 & 2018 Revenue Bonds	(\$122,155,500)	(\$136,471,900)	(\$138,406,425)	(\$138,972,200)	(\$139,991,250)
Debt Service – 2019 & 2020 Revenue Bonds (preliminary)		(\$25,000,000)	(\$55,000,000)	(\$79,000,000)	(\$97,000,000)
Federal Capitalization Grants Received <sup>43</sup>	\$114,792,000	\$90,000,000	\$70,000,000	\$70,000,000	\$70,000,000
Administration Allowances <sup>44</sup>	(\$4,591,680)	(\$3,600,000)	(\$2,800,000)	(\$2,800,000)	(\$2,800,000)
Estimated Disbursements <sup>45</sup>	(\$811,535,075)	(\$991,991,697)	(\$663,452,017)	(\$297,154,394)	(\$95,713,769)
Estimated Year-End Balances <sup>46</sup>	\$768,216,696	\$496,582,810	\$1,017,517,353	\$394,870,221	\$485,926,332

	SFY 2018-19	SFY 2019-20	SFY 2020-21	SFY 2021-22	SFY 2022-23
Estimated Yearly Cash Flows <sup>47</sup>	(\$521,830,719)	(\$250,554,061)	\$41,701,094	(\$101,717,058)	\$95,554,517

<sup>40</sup> Forecast dated April 2019. These amounts are preliminary and subject to change.

<sup>41</sup> SMIF means Surplus Money Investment Fund.

<sup>42</sup> DFA will determine based on the CWSRF cash flow needs if future revenue bond sales are necessary. The 2019-20 and 2020-21 Revenue Bond sales are only estimated projections and subject to change.

<sup>43</sup> These numbers include a final amount for the FFY 2018 grant that the State Water Board received on September 17, 2018. The amounts for all grants after FFY 2018 are estimated. The forecasted capitalization grants are listed in the aggregate amounts. Principal forgiveness, if available, is included in the aggregate grant amount in the forecast.

<sup>44</sup> These numbers include a final amount for the FFY 2018 grant that the State Water Board received on September 17, 2018. The amounts allowed for administration from all grants after FFY 2018 are based on estimates of the future grant amounts. The numbers reflect the percentage of the capitalization grants that may be used for program administration. The primary source of administrative funds for the CWSRF is the Administrative Fund. See Section III.G.3. (Administrative Funding) for further discussion. Funds from the Administration Allowance that are not used for program administration may be used to finance projects.

<sup>45</sup> Estimated disbursements are a forecast of the cash disbursements for projects with executed financing agreements. The estimated cash disbursements include the local match credits on past projects that used match financing. Local match credits are contributions made by financing recipients in exchange for using match financing; match credits are used to meet the federal capitalization grants matching requirement.

<sup>46</sup> Estimated Year End Balances represent a running total based on the previous year's ending balance.

<sup>47</sup> Estimated Yearly Cash Flows represent the projected difference between revenues and capitalization grants (inflows) and disbursements and expenses (outflows) for each year, and do not include the previous year's ending balance. Positive numbers indicate that inflows are projected to be greater than outflows for that year. Negative numbers indicate that outflows are projected to be greater than inflows for that year.





























































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residents who reside in the community at least six months out of the year, except that seasonal, migrant laborers can be counted.

<sup>53</sup> Wastewater systems that solely serve a K-12 public school are deemed to serve a SDAC, as the primary users are minor students with incomes below 60 percent (60%) of the statewide MHI. In the case of oversubscription, grants may be limited to Title I schools.

<sup>54</sup> For the purposes of calculating rates as a percentage of MHI, service charges plus other costs specifically related to the wastewater system may be considered, including but not limited to, dedicated sales tax revenue, assessments, and fees. If a CWSRF-eligible wastewater project consists of improvements to the drinking water system, the drinking water rates and charges may be considered in lieu of wastewater rates and charges. For systems serving facilities such as labor camps or mobile home parks, DFA may elect to approve up to 100 percent (100%) grant up to a maximum of \$6 million. Even if 100 percent (100%) grant is approved, DFA staff will review projected revenues and expenses to confirm adequate revenues to operate and maintain the project.

<sup>55</sup> To ensure that available funds are distributed to a large cross-section of communities throughout California, a single community may not receive cumulatively more than \$8 million in SCG and PF funding in any given five-year period.

<sup>56</sup> For projects that connect previously unsewered areas or join communities to regionalize wastewater treatment works consistent with the CWSRF Policy, SCG funds will be allocated to each community served by the project on a per community basis, rather than a per project basis.

<sup>57</sup> Even if 100 percent (100%) grant is approved for a project, the recipient is required to demonstrate financial capacity to operate and maintain the wastewater system.

<sup>58</sup> On a case-by-case basis, for good cause, the Deputy Director of DFA may approve additional construction grant funds over the maximum grant amount for interest and fees related to bridge loan financing. These fees will only be paid for active construction projects experiencing a delay of reimbursements exceeding 45 days.

<sup>59</sup> For small DACs with wastewater rates at least two percent (2%) of community MHI, if the community's credit review shows inadequate revenues to afford repayment of the remaining project costs, the grant percentage may be increased to as high as 100 percent (100%), as necessary to approve financing for the project. In addition, for small DACs with wastewater rates at least 1.5 percent (1.5%) of community MHI, DFA has discretion to increase the grant percentage to as high as 100 percent (100%), if the community's unemployment rate is at least two percent (2%) higher than the statewide average, or if declining population trends or low population densities impact the community's ability to afford financing.

## APPENDIX H: SCG Planning Grants Eligibility Criteria<sup>60</sup>

Eligible Applicants:	Public agencies, 501(c)(3) non-profit organizations, federally recognized tribes and state tribes on Native American Heritage Commission consult list		
Affordability Criteria		Grant Amount	
Population	Community MHI	Percent of Total Project Cost	Maximum Grant Per Project <sup>61</sup>
<20,000	DAC <80 percent of Statewide MHI	100 percent	\$500,000

<sup>60</sup> Where an applicant cannot demonstrate financial capacity to operate and maintain the wastewater system, it may be eligible for a planning grant if the scope of planning work assists in establishing the financial capacity to operate and maintain the system, including a proposed infrastructure project, in preparation for an eventual construction funding agreement. Examples of tasks that assist in establishing financial capacity include wastewater rate studies, budget development, Proposition 218 technical assistance, and capital improvement planning.

<sup>61</sup> For a regional planning project, the Deputy Director of DFA may approve more than \$500,000 in SCG funds, not to exceed \$500,000 in SCG funding per community included in the regional plan. A community may not receive more than \$1,000,000 in total planning costs (\$500,000 for treatment plant upgrades plus \$500,000 for collection system improvements). On a case-by-case basis, for good cause, the Deputy Director of DFA may approve additional planning grant funds. Upon the Deputy Director of DFA's determination of sufficient planning funding needs, more than 15 percent (15%) of the funds available per Prop 1 may be used to fund planning and technical assistance activities.

## APPENDIX I: WRFPP Grant and Loan Calculations

Eligible Applicants:	See WRFPP Guidelines		
Funding Type	Eligible Project Costs <sup>62</sup>	Percentage of Total Eligible Project Cost	Maximum Grant or PF Amount Per Project <sup>63</sup>
Planning Grant	Planning	50%	\$150,000
Construction Grant	Construction, not including construction allowances <sup>64</sup>	35%	\$5,000,000
Construction Loan	Planning, Design, and Construction <sup>65</sup>	50% <sup>66</sup>	N/A
Note: Where the eligibility criteria and grant and loan calculations for the WRFPP described in this IUP and appendices conflict with the WRFPP Guidelines, the IUP and appendices will supersede.			

<sup>62</sup> Eligible project costs are defined in the WRFPP Guidelines.

<sup>63</sup> Except for SDAC and DAC projects, no project receiving CWSRF PF or grant will receive more than 50 percent (50%) combined PF and grant funding, regardless of the funding source. Grant funding includes any funding that does not require repayment by the recipient.

<sup>64</sup> Construction allowances are defined as construction change orders, construction management, and engineering during construction and are not eligible for WRFPP construction grant funding.

<sup>65</sup> Eligible planning, design, and construction costs as defined by WRFPP Guidelines and CWSRF Policy.

<sup>66</sup> At least 50 percent local cost share match must be provided by the applicant, whether through repayable CWSRF financing, the applicant's own revenues, or other repayable financing. Local cost share match may be reduced for communities that meet the Small Disadvantaged Community criteria established in the CWSRF Policy and IUP.

APPENDIX J: Administration Fund Balance

	7/1/18 – 12/31/18	Projected 1/1/19 – 6/30/19	Projected 7/1/19 – 12/31/19
<b>Beginning</b>	\$15,300,323	\$15,271,362	\$12,968,563
<b>Collected</b>	\$4,471,039	\$2,197,201	\$13,795,886
<b>Spent</b>	(\$4,500,000)	(\$4,500,000)	(\$9,000,000)
<b>End Balance</b>	<b>\$15,271,362</b>	<b>\$12,968,563</b>	<b>\$17,764,449</b>

APPENDIX K: CWSRF Capitalization Grant Payments and Draw Payments

<b>Payments*</b>				
	SFY 19-20 Q1	SFY 19-20 Q2	SFY 19-20 Q3	SFY 19-20 Q4
FFY 2019 Grant	\$117,000,000 (Date of Award)			
<b>Draws *</b>				
FFY 2017 Grant	\$5,142,957	\$5,930,936	\$12,310,198	\$3,169,523
FFY 2018 Grant	\$0	\$0	\$0	\$0
FFY 2019 Grant	\$0	\$0	\$0	\$0
<b>Cumulative Draws</b>	<b>\$5,142,957</b>	<b>\$5,930,936</b>	<b>\$12,310,198</b>	<b>\$3,169,523</b>

## VIII. ACRONYMS

A/E	Architectural and Engineering
AIS	American Iron and Steel
ARRA	American Recovery and Reinvestment Act of 2009
CalEPA	California Environmental Protection Agency
CBR	Clean Water State Revolving Fund Benefits Reporting
CFR	Code of Federal Regulations
CWA	Clean Water Act
CWSRF	Clean Water State Revolving Fund
DAC	Disadvantaged Community
DBE	Disadvantaged Business Enterprise
DFA	Division of Financial Assistance
FFATA	Federal Funding Accountability and Transparency Act
FFY	Federal Fiscal Year
FI\$CAL	Financial Information System for California
FSP	Fiscal Sustainability Plan
GAAP	Generally Accepted Accounting Principles
GPR	Green Project Reserve
GWGP	Groundwater Grant Program
IUP	Intended Use Plan
LGTS	Loans and Grants Tracking System
LID	Low Impact Development
MHI	Median Household Income
NIMS	National Information Management System
OCC	Office of Chief Counsel
PF	Principal Forgiveness
POTW	Publicly Owned Treatment Works
PY	Personnel Years
SCG	Small Community Grant
SDAC	Severely Disadvantaged Community
SERP	State Environmental Review Process
SFY	State Fiscal Year
SWGPP	Stormwater Grant Program
TA	Technical Assistance
U.S. EPA	United States Environmental Protection Agency
WIFIA	Water Infrastructure Finance and Innovation Act
WRFP	Water Recycling Funding Program
WRRDA	Water Resources Reform and Development Act of 2014