



STATE OF CALIFORNIA  
**Clean Water State Revolving Fund**

and

The Water Quality, Supply, and Infrastructure Improvement Act of 2014  
(Proposition 1 – Chapter 5, Section 79723)

# INTENDED USE PLAN

STATE FISCAL YEAR 2015-2016  
(FEDERAL FISCAL YEAR 2015 CAPITALIZATION GRANT)

Prepared By: Division of Financial Assistance | Approved By: State Water Resources Control Board  
Date Approved: June XX, 2015 | Resolution No. 2015-XXXX



### **MISSION STATEMENT**

To preserve, enhance, and restore the quality of California's water resources, and ensure their proper allocation and efficient use, for the benefit of present and future generations.

### **VISION STATEMENT**

Abundant clean water for human uses and environmental protection to sustain California's future.



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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](#) established the Clean Water State Revolving Fund (CWSRF) Program to finance 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 from the Regional Water Boards. Every project is directly related to improving public health, water quality, or both.

Proposition 1 (Prop 1), the Water Quality, Supply, and Infrastructure Improvement Act of 2014 ([Assembly Bill 1471, Rendon](#)), authorized \$7.545 billion in general obligation bonds for water projects including surface and groundwater storage, ecosystem and watershed protection and restoration, and drinking water protection. The State Water Board will administer Prop 1 funds for the following general project types: wastewater, water recycling, drinking water, stormwater, and groundwater.

### A. Authority, History, and Past Achievements

In 1987 the U.S. Congress and the President amended the Clean Water Act to replace the long-standing, federal Construction Grants Program (Title II) with the more flexible CWSRF Program (Title VI). In 2014, the Congress and the President approved the [Water Resources Reform and Development Act of 2014 \(WRRDA\)](#), making a number of changes to the requirements and eligibilities included in Title VI of the Clean Water Act.

The CWSRF Program provides each state the opportunity to establish an environmental infrastructure bank capitalized by federal and state funds. The CWSRF in each state provides financial assistance with this capital and the earnings generated by the Program, interest payments and investment earnings, to fund 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 particular water quality needs. Financing options include loans, refinancing debt, purchasing or guaranteeing local debt, and purchasing bond insurance. Interest rates must be below the market rate, but not less than zero percent. Repayment periods are up to 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 on a limited basis.

California's CWSRF Program is authorized under [Water Code Sections 13475-13485](#). California operates its Program pursuant to an "[Operating Agreement](#)" between the State Water Board and the United States Environmental Protection Agency (U.S. EPA). The revolving nature of the CWSRF Program provides a sustainable source of funds for water quality protection and improvement. All 50 states and Puerto Rico are currently operating successful CWSRF Programs. The total CWSRF financing [nationwide](#) exceeds \$100 billion.

California's CWSRF has grown since its beginnings in 1989. It has executed more than \$7.3 billion in financial agreements. The Net Position of the Program exceeds \$3.6 billion, and the Program's annual repayments, after debt service and service charges are deducted, is approximately \$240 million.

California's CWSRF Program has funded a broad range of projects. About 76 percent of funds were used for wastewater treatment and water recycling facilities. About 20 percent of funds were used for wastewater collection systems. About four percent of funds were used for non-point source or estuary projects.

The State Water Board will administer Prop 1 funds in five program areas. Three of those program areas have significant commonalities with the purposes of the CWSRF Program, and in many cases entities will be able to utilize a combination of funding sources to complete their projects. For these three programs, funding authorized by Prop 1 is as follows:

- Small Community Wastewater (Chapter 5, Section 79723)- \$260 million
- Water Recycling Funding Program (Chapter 9) - \$725 million<sup>1</sup>
- Stormwater Grant Program (Chapter 7) - \$200 million

#### **B. Connections to Other Plans, Goals, and Programs of the State Water Board and the California Environmental Protection Agency (Cal/EPA)**

The CWSRF Program supports the following goals from the Water Boards' [Strategic Plan Update for 2008-2012](#).

- 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

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<sup>1</sup> Prop 1 authorized a total of \$725 million for water recycling projects. It is anticipated that the State Water Board will administer \$625 million, and the Department of Water Resources will administer \$100 million.

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 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](#): 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 CSWRF Program also supports the following [Cal/EPA Strategic Vision](#) goals. (The goals below are numbered consistent with the *Cal/EPA Strategic Vision*.)

- Goal 2 - Rivers, lakes, estuaries, and marine waters that are fishable, swimmable, support healthy ecosystems and other beneficial uses.
- Goal 3 - Groundwater that is safe for drinking and other beneficial uses.
- Goal 4 - Communities that are free from unacceptable human health and ecological risks due to exposure from hazardous substances and other potential harmful agents.
- Goal 5 - Reduce or eliminate the disproportionate impacts of pollution on low-income and minority populations.
- Goal 6 - Ensure the efficient use of natural resources.
- Goal 7 - Continuous improvement and application of science and technology.

The Division of Financial Assistance (DFA) administers the California CWSRF and additional state funded financial assistance programs that complement and leverage the financial resources of the CWSRF. These other sources of funding include:

- ❖ **Small Community Grant (SCG) Fund<sup>2</sup>** - Provides grants to small, disadvantaged communities for their wastewater projects.
- ❖ **Water Recycling Funding Program (WRFP)** - Provides grants and loans for construction of water recycling facilities.
- ❖ **Clean Beaches Initiative (CBI) Grant Program** - Provides grants to restore and protect coastal waters, estuaries, bays, and near shore waters.
- ❖ **Integrated Regional Water Management (IRWM) Grant Program** - Provides grants to protect communities from drought, protect and improve water quality, and improve local water security by reducing dependence on imported water.
- ❖ **Stormwater Grant Program** - Provides grants for reduction and prevention of stormwater contamination of rivers, lakes, and streams.

The availability of funding from these programs can vary, although many of these programs are expected to have additional grant and loan funds available beginning in 2015, as a result of voter approval of Prop 1. DFA manages the CWSRF and its other funding sources to maximize its ability to fund projects that support the Water Boards' water quality goals.

### **C. Intended Use Plan (IUP) and Federal Guidance**

This IUP is required by federal statutes and regulations. It establishes the State Water Board's business plan for California's CWSRF Program for State Fiscal Year (SFY) 2015/2016. It discusses management's general approach and its ability to successfully carry out that business plan with the available financial and programmatic resources. It also describes how management will operate the CWSRF Program in conjunction with other financing programs managed by DFA that may be used to jointly finance projects, such as Prop 1 funding. It, or an amendment, will be included in the State Water Board's application for the FFY 2015 Capitalization Grant for the CWSRF Program.

In particular, this IUP includes a forecast of the Program's cash flows (Table 1) for the next several years and identifies projects (Table 2) the State Water Board is working to finance in SFY 2015/2016. The IUP also includes performance measures to track the effectiveness of the CWSRF Program.

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<sup>2</sup> Prop 1 funds from Chapter 5, Section 79723 will supplement existing SCG authority.

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

- The [Policy for Implementing the CWSRF](#);
- The [Operating Agreement](#) between the State Water Board and U.S. EPA Region 9;
- [U.S. EPA Interpretive Guidance](#) regarding the WRRDA amendments; and
- Any additional federal requirements in the 2015 budget appropriation, the 2015 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 changes.

## 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 2008](#) shows that California needs an estimated \$30.0 billion for wastewater treatment and collection, wastewater recycling, non-point source pollution elimination, and stormwater pollution prevention over the next 20 years. This includes an estimated \$24.4 billion to update aging infrastructure.

### B. Project List

The State Water Board maintains a [Project List](#) (List) that reflects projects interested in CWSRF financing. A project must be on the List to receive financing, but the List does not guarantee financing or the order of financing.

Applicants must submit a [complete application](#) that meets the *CWSRF Policy* requirements to receive financing. The List classifies each project application relative to the Water Board's water quality and sustainability priorities, and helps prioritize the Program staff's marketing and application review efforts.

### C. State Water Quality Guidance

#### 1. Small and/or Disadvantaged Communities

On July 1, 2008, the State Water Board adopted [Resolution No. 2008-0048](#)



to assist small and/or disadvantaged communities with their wastewater needs. Resolution No. 2008-0048 refers to the [Small Community Wastewater Strategy \(SC Strategy\)](#).

The *SC Strategy* provides an overview of the challenges facing small and/or disadvantaged communities. These include failing septic systems or outdated and undersized wastewater treatment plants. Small and/or disadvantaged communities generally have higher per capita costs. Disadvantaged (median household income [MHI] of less than 80 percent of the statewide MHI) and severely disadvantaged (MHI of less than 60 percent of the statewide MHI) small communities face the additional burden of lower household incomes. The result is higher, sometimes prohibitive, sewer rates.

The *SC Strategy* discusses options and offers solutions to the problems faced by these communities. The strategies outlined in Resolution No. 2008-0048 include a number of modifications, such as extended term financing (ETF) or reduced interest rates, to make the CWSRF Program more affordable for small and/or disadvantaged communities.

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

On July 16, 2008, the State Water Board adopted the [Strategic Workplan for Activities in the San Francisco Bay/Sacramento-San Joaquin Delta Estuary \(Workplan\)](#). The *Workplan* describes the actions the Water Boards will complete, in cooperation with other agencies, to protect beneficial use of water in the Bay-Delta and the associated timelines and resources needed.

*Workplan* activities are divided into nine broad elements. The CWSRF Program can help implement the *Workplan* by funding point and nonpoint source projects such as:

- Measures identified in Total Maximum Daily Loads (TMDLs);
- Stormwater and dry weather runoff reduction from Municipal Separate Storm Sewer Systems (MS4);
- Conservation measures to reduce sediment and non-point discharges;
- Ammonia discharge reduction from publicly-owned treatment works (POTWs); and
- Urban and agricultural water use efficiency to reduce demand on the Delta and reduce runoff of pesticides to the Delta.

### 3. Sustainability and Global Climate Change

The State Water Board adopted [Resolution No. 2008-0030](#) on May 6, 2008, emphasizing sustainability as a core value for all the Water Boards' activities and programs. Resolution No. 2008-0030 directed the Water Boards' staff to take a number of 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.

## III. PROGRAM CAPACITY

### A. Financial Outlook and Funding Forecast

The decision to finance a CWSRF project is based in part on staff's comparison of the project's estimated future disbursements to the Program's estimated future uncommitted cash flow. The Program's uncommitted cash flow is its cash on hand plus projected future revenues and Capitalization Grants minus projected future disbursements and expenses.

Table 1 shows the currently forecasted cash flows of the Program as of January 2015. The estimated cash flows include U.S. EPA Capitalization Grants, principal and interest on outstanding receivables, investment earnings, matching funds, disbursements to projects with executed financing agreements, disbursements to projects expected to receive agreements in the next three months, debt service payments, and Program administrative costs.

Except for Capitalization Grants, the future cash flows of the CWSRF Program can be predicted with reasonable certainty. The 2015 Capitalization Grant is based on the Omnibus Appropriation for 2015 and current estimates from U.S. EPA. The Table 1 forecast includes the FFY 2015 Grant in the estimated amount of \$105,000,000. Future Grants are conservatively estimated at \$30 million per year.

Through June 30, 2019, the estimated, cumulative, uncommitted cash available for financing new projects is approximately \$620 million.

Table 2 is a forecast of the projects likely to receive CWSRF financing during SFY 2015/2016. [Note: Table 2 will be finalized and incorporated at a later date, prior to State Water Board adoption.] Table 2 includes only projects that have

submitted at least a partial financing application to the CWSRF Program. DFA staff has evaluated the completeness of the applications submitted to date, and estimated in Table 2 when each project could be ready for a financing agreement. Table 2 includes the estimated financing agreement dates, the estimated project costs, the probable source(s) of funds for the projects, and the estimated Green Project Reserve (GPR). Each project application will be reviewed by State Water Board staff to determine that it meets all applicable eligibility rules prior to execution of a financing agreement. The cumulative financing needed for all of the projects listed in Table 2 is approximately \$[to be incorporated at a later date].

**Note that being listed in Table 2 is not a commitment to provide funding, a guarantee of the order of funding, or a guarantee that sufficient funds from the identified sources of funds will be available for the projects listed.**

**Table 2 does not include all of the projects on the Project List. DFA staff cannot predict when a project will be ready for financing based solely on the information collected for the Project List. All projects in Table 2, as well as any project on the Project List, are potentially eligible for funding, bearing in mind the principal forgiveness and GPR requirements associated with federal funds. If a project identified in this IUP is not eligible for the CWSRF Program or is not ready for a financing agreement, it may be bypassed in favor of any other project in Table 2 or on the Project List that is ready for financing.**

If complete applications are submitted for each project in Table 2, each project is eligible, each applicant signs a financing agreement, and all cash flows occur at their forecasted times, the CWSRF will need additional cash to finance all of the projects in Table 2.

Based on the program's current and recent demand for financing, the State Water Board forecasts approximately \$500 million in new financing during SFY 2015/2016. The actual level of new financing may be higher or lower depending on several factors that will be tracked throughout the year.

The State Water Board's forecast for new financing in 2015/2016 depends on a number of factors. Based on past program experience, a significant percentage of the projects in Table 2 will not be financed during SFY 2015/2016. Some projects in Table 2 will be financed in a future year or not at all for various reasons.

In addition, throughout 2015/2016 each project financing decision will depend on an updated cash flow analysis done during the project financing approval process. The cash flow forecast in Table 1 will be updated to analyze the effect of each project's estimated disbursements on the Program's cash flow.

Although staff's estimate of new financing in 2015/2016 is slightly above the average CWSRF financing level for the last eight years, approximately \$484 million per year, the estimated level of new financing is consistent with the recent trend of the Program new commitments. The level of financing in 2015/2016 may be affected, however, by the potential financing for the Sacramento Regional County Sanitation District project, No. 8025-110, anticipated in the current year, and other projects in 2014/2015. Sacramento Regional County Sanitation District has requested approximately \$1.5 billion for the upgrade of its facility to address Regional Water Board Order No. R5-2010-0114-03 (National Pollutant Discharge Elimination System Permit No. CA0077682). The Program's cash flow forecast excluding the Sacramento Regional project is comparable to the cash flow forecasts in recent years showing positive year end balances.

The anticipated disbursements for the Sacramento County Regional project are expected to take between seven and ten years. If, excluding the Sacramento Regional project, average project demand levels continue over that period, and the Sacramento County Regional project is financed, it is highly likely that additional cash will be needed through a revenue bond sale. Short-term cash flow projections indicate that given current demand for financing, the CWSRF may need an additional \$500 million to \$900 million over the next four years. On June 5, 2012, ([Resolution No. 2012-0025](#)) the State Water Board authorized the sale of up to \$300 million in revenue bonds on behalf of the CWSRF to provide additional cash for project financing. The Division, therefore, may need to request additional authority for CWSRF revenue bonds or otherwise manage demand for CWSRF loan financing in the short term.

In the longer term, the Program's cash needs are less predictable, and the need for additional debt will depend on future demand and updated cash flow forecasts. Longer-term financial analysis of the CWSRF program indicates that it has a significant capacity to obtain additional cash through the municipal bond market – on the order of an additional \$1.5 to \$2.5 billion over the next 10 years depending on market conditions.

## **B. Resources Specific to the CWSRF**

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

Approximately 54 Personnel Years (PY) are budgeted for the CWSRF Program<sup>3</sup> in 2015/2016, and the number of positions is not expected to

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<sup>3</sup> In addition to those positions funded directly by the CWSRF, the State Water Board has other state funded positions associated with programs closely aligned with the CWSRF as noted earlier. Many projects, such as disadvantaged wastewater, water recycling, and stormwater projects may be financed by 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.

change. These positions are distributed among DFA, the Division of Administrative Services (DAS), four Regional Water Boards, the Office of Chief Counsel (OCC), and the Division of Information Technology (DIT) as follows:

- ❖ Six PYs for Environmental Scientists to ensure compliance with state and federal environmental and cultural resources requirements (DFA);
- ❖ 14.6 PYs for Water Resources Control Engineers to manage project applications (DFA), with one unit of approximately five staff dedicated to processing applications from small, disadvantaged communities;
- ❖ 0.4 PYs for Regional Water Board coordination and support (at four Regional Water Boards);
- ❖ 16.8 PYs for administrative support (DFA);
- ❖ Eight PYs for Program management and staff oversight (DFA);
- ❖ Five PYs for accounting, personnel, budget, and contract support (DAS);
- ❖ Two PYs for legal support (OCC); and
- ❖ One PY for information technology support (DIT).

The CWSRF Program relies on some contracted services that 1) cannot be provided economically by Water Boards staff, 2) require skills not available in the Water Boards, or 3) require independence from the Program. Approximately \$1.7 million are budgeted for contract services such as an independent accounting firm for annual audits, outside legal counsel for specialized tax and bond advice, an outside contractor to conduct credit analyses, an outside contractor to provide technical assistance to small, disadvantaged communities, a vendor to provide maintenance for the Loans and Grants Tracking System (LGTS), and an independent, external financial advisor.

## 2. Administrative Funding

Administrative funding 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). Up to 4.0 percent of the cumulative Capitalization Grants may be spent on administration. Section 13477.5(c)(1) of the California Water Code allows

the State Water Board to apply an annual service charge<sup>4</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 a reliable source of funds to administer the CWSRF Program.

The service charge rate cannot exceed 1.0 percent 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 budget established by the Governor and the Legislature for the CWSRF Program.

The State Water Board will use the Administrative Fund as its primary source of administrative funding. The Administrative Fund can only be used for CWSRF Program administration, while the administrative allowance from the Capitalization Grants may be used for both administration and local assistance financing. The federal administrative allowance serves as a backup source of administrative funding. If cash flow conditions warrant in 2015/2016, the State Water Board will disburse 100 percent of its federal Capitalization Grants for local assistance and bank the four percent administrative allowance for use in future years.

The State Water Board hereby establishes the 2015/2016 Administrative Service charge rate at 1.0 percent. This shall be the effective rate until the State Water Board establishes a different rate. Based on the budgeted positions for the program for 2015/2016 and the projected Administrative Fund balances through the end of the year (see Table 3.a), the State Water Board does not anticipate applying this charge to any additional agreements during 2015/2016.

### **C. Funding Approach**

In order to meet identified water quality financing needs, the State Water Board will attempt to fund all eligible and complete applications during SFY 2015/2016 consistent with the *CWSRF Policy*, the Operating Agreement, applicable federal

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<sup>4</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.

and state statutes, regulations, and guidance, and available, complementary state funding sources.

The *CWSRF Policy* directs staff to review and finance complete applications consistent with the classification and sustainability points systems. If the State Water Board has insufficient funds for all projects with complete applications, then it will first fund projects based on the projects' classifications, giving priority within the class to the small, disadvantaged community with the lowest median household income, and then fund the project that most effectively addresses sustainability and global climate change.

All funds available to the CWSRF Program will be distributed as described below. The CWSRF Program has committed or is in the process of processing commitments for, as of January 1, 2015, all federal Capitalization Grants through FFY 2014.

None of the FFY 2015 Capitalization Grant has been committed to date, because the State Water Board has not received the grant award. The State Water Board anticipates receiving the FFY 2015 grant in the first quarter of SFY 2015/2016 based on its current schedule. The State Water Board's priority for the CWSRF Program during SFY 2015/2016 will be committing any uncommitted FFY 2015 funds once awarded, bearing in mind the availability of complementary sources of funds and the feasibility of providing joint funding to projects that are eligible for funds from the CWSRF and other available sources. After committing all federal Capitalization Grant funds, DFA will commit payments of principal and interest or investment earnings to meet anticipated disbursement needs. If these sources are not sufficient to meet the cash needs of the CWSRF Program, DFA will evaluate prioritizing project applications, selling revenue bonds, or regulating cash disbursements.

Provisions that depend on the FFY 2015 appropriation will take effect only if the State Water Board receives the FFY 2015 Capitalization Grant, and will apply only as directed by Congress or U.S. EPA.

Without restricting the approach described in this section, the Executive Director, or designee, should update the State Water Board Members and the public at State Water Board meetings, or by other appropriate communication, on the progress of implementing the CWSRF Program, and recommend appropriate adjustments to this IUP or other changes in policy or procedure necessary to achieve the most favorable water quality results in California.

Key provisions applicable to projects receiving financing in 2015/2016 may include, but are not limited to:

## 1. Best Use of Available Financing Sources and Terms

The State Water Board 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 extended term financing (up to 30 years), reduced interest rates, principal forgiveness, the SCG Fund and other sources of funds appropriated to the State Water Board, and other state and federal funding sources, to the extent they are available and compatible with the CWSRF, to maximize the financing of water quality projects.

## 2. CWSRF Principal Forgiveness

Eligible applicants and project types, as well as conditions and limitations associated with principal forgiveness, are shown in Table 4b. WRRDA included several changes to the allowable uses of principal forgiveness effective with the 2015 Capitalization Grant. Principal forgiveness, if available, can be provided to “a municipality or intermunicipal, interstate, or State agency” if the recipient meets the state’s affordability criteria<sup>5</sup>, or if the recipient’s project will address water and energy efficiency, mitigate stormwater runoff, or encourage sustainable project planning, design, or construction. Due to the significant influx of new SCG and stormwater funds available as a result of the passage of Prop 1, which will allow the State Water Board to provide grant funding to disadvantaged communities and stormwater reduction projects, and the State Water Board’s desire to promote efforts to address climate change, principal forgiveness will be re-directed in SFY 2015/2016 toward addressing water and energy efficiency and sustainable planning, design, and construction.

WRRDA specifies the maximum amount of principal forgiveness<sup>6</sup> that may be provided from the total CWSRF appropriation. If the total nationwide appropriation is less than or equal to \$1 billion, no principal forgiveness is allowable. If the total nationwide appropriation is more than \$1.3 billion, principal forgiveness is capped at 30 percent of the State’s Capitalization Grant. If the federal appropriation is between \$1 and \$1.3 billion, the maximum amount of principal forgiveness is capped at the percentage the nationwide appropriation exceeds \$1 billion. For example, if the nationwide appropriation is \$1.1 billion, principal forgiveness is capped at 10 percent of the Capitalization Grant.

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<sup>5</sup> Affordability Criteria must be established by September 30, 2015, after providing notice and an opportunity for public comment. The affordability criteria are to assist in identifying municipalities that, without additional subsidies such as principal forgiveness, would experience a significant hardship raising the revenue necessary to finance a publicly-owned treatment works project. The affordability criteria must consider income and unemployment data, population trends, and other relevant data.

<sup>6</sup> States have the option to select a level of principal forgiveness from zero percent to the maximum allowable regardless of the total appropriation.



The State Water Board will provide the maximum amount allowed from the FFY 2015 Capitalization Grant as principal forgiveness. Based on the Omnibus Appropriation for 2015, the estimated maximum amount of principal forgiveness allowed from the FFY 2015 Grant is approximately \$30 million.

The principal forgiveness available from prior FFYs has been committed to projects. Any principal forgiveness that becomes available from prior Capitalization Grants (for example any funds deobligated from previously approved projects that finish under budget), the estimated \$30 million in principal forgiveness from the FFY 2015 Grant, and any principal forgiveness appropriated in future years, will be used consistent with Table 4b, unless otherwise directed by the State Water Board.

### 3. Proposition 1

#### a. Small Community Grant Fund

The SCG Fund allows the State Water Board to help finance the neediest communities in California, helping those that cannot otherwise afford a loan or similar financing to move forward with water quality improvements. Section 13477.6 of the Water Code authorizes the SCG Fund. The SCG Fund receives revenue generated by charges<sup>7</sup> on CWSRF financing agreements and other funds that may be appropriated to it. The annual SCG charges are deposited into the SCG Fund, separate from the CWSRF. The revenue deposited into the SCG Fund, along with money from other sources that may be deposited into the Fund, is provided in the form of grants to small, disadvantaged communities for CWSRF-eligible wastewater projects. State law requires the State Water Board to give grant priority to projects that serve severely disadvantaged communities (defined as communities with a median household income less than 60 percent of the statewide median household income).

Prop 1, Chapter 5, Section 79723, allocates \$260 million to the SCG Fund for wastewater projects. Based on the [Governor's proposed budget](#), it is estimated that the State Water Board will be authorized to spend \$77 million in SFY 2015/2016 from the SCG Fund. This represents a combination of SCG charges and additional funds from Prop 1 identified in the Governor's 2015/2016 State Budget. Additional SCG funds may be

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<sup>7</sup> Like the service charge, 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 with 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.

appropriated in future years. The projected revenue and SCG Fund balances through the end of the year are shown in Table 3.b.

The existing procedures for providing SCG funds to disadvantaged communities will be used for Prop 1 SCG funding. These are largely the same procedures used for standard CWSRF financing, specified in the [CWSRF Policy](#), with the exception that projects that receive only state funds may be exempted from having to comply with federal cross-cutting requirements.

This IUP specifies the grant amounts available for SCG projects, and how the Prop 1, SCG, and CWSRF requirements will be coordinated for projects receiving funding from these sources. At least three public workshops, as required by Prop 1, will be held to review this draft IUP in early 2015 to allow stakeholders and the public to comment on the requirements and criteria included in the draft IUP that will be applicable to SCG projects. Staff anticipates presenting the IUP to the Board for its consideration in June 2015.

SCG funds appropriated in SFY 2010/11, 2011/2012, 2012/2013, 2013/2014, and 2014/15 have been committed to projects. Any SCG funds that become available from prior SFYs (for example any funds deobligated from previously approved projects that finish under budget), the projected \$77 million in SCG funds currently anticipated to be appropriated for SFY 2015/16, and any SCG funds appropriated in future years, will be used consistent with Table 4a, unless otherwise directed by the State Water Board.

#### b. Water Recycling Funding Program

Chapter 9 of Prop1 allocates \$725 million for water recycling and desalination projects. The Governor's proposed 2015/2016 Budget identifies \$625 million from Prop 1 for loans and grants not to exceed 50% of project costs for recycled water projects. Prop 1 requires a competitive program consistent with the State Water Board's existing WRFPP. The existing framework provides funding for construction loans and grants, research and development grants, and planning grants using past general obligation bond funds. Repayments from water recycling loans are also used for future grants and loans, extending the life of the program.

The existing WRFPP guidelines will be updated and released for public input and at least three public workshops as required by Prop 1 will be held in early 2015. Staff anticipates presenting the updated guidelines to the Board for its consideration in May 2015. The updated WRFPP guidelines will specify the loan and grant amounts available for water recycling

projects, and how the WRFPP requirements will be coordinated with CWSRF requirements for projects receiving funding from both sources.

c. Stormwater Grant Program (SWGP)

Chapter 7 of Prop 1 allocates \$200 million for grants for multi-benefit stormwater management projects. Projects may include, but not be limited to, green infrastructure, rainwater and stormwater capture, and stormwater treatment facilities.

The existing SWGP guidelines will be updated and released for public input and at least three public workshops as required by Prop 1 will be held; currently this is expected in late 2015. The updated SWGP guidelines will specify the grant amounts available for stormwater projects, and how the SWGP requirements will be coordinated with CWSRF requirements for projects receiving funding from both sources.

4. Green Project Reserve (GPR)

Based on the Omnibus Appropriation for 2015, the 2015 GPR requirement is a minimum of 10 percent of the 2015 Grant – or an estimated GPR of approximately \$10 million. As seen from the estimated demand for GPR projects in Table 2, the CWSRF has significantly more demand than the minimum GPR in 2015. Therefore, the State Water Board does not plan to solicit additional GPR projects during 2015/2016.

To ensure that California meets or exceeds the minimum GPR requirement for 2015/2016, the State Water Board will prioritize the review and approval of GPR projects until the minimum GPR is met. GPR projects will be evaluated consistent with [U.S. EPA's FFY 2012 Guidance](#) or any subsequent guidance issued by U.S. EPA.

5. Match Financing Option

The CWSRF Program has met its state matching fund requirement for several years' worth of Capitalization Grants from U.S. EPA at the currently expected levels. See Section III.D.3 below for more detail. Since additional match is unnecessary for the foreseeable future and since match financing reduces earnings for the CWSRF, the State Water Board will not offer the match financing option to CWSRF recipients until further notice.

6. Reduced Interest Rates

If the total amount of CWSRF financing to be repaid by a small, disadvantaged community qualifying for SCG funds (see Table 4) is less than \$10 million, and the community is unable to afford all or a portion of

the interest payments, the Division may approve a reduced interest rate (not less than zero percent).

If the total amount of CWSRF financing to be repaid by a non-point source or estuary management project is less than \$10 million and the project has at least one sustainability point (see Section IV.A.3 of the *CWSRF Policy*), the Division 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.

On March 18, 2014, in response to the Governor's Drought Proclamation, the State Water Board adopted [Resolution 2014-0015](#), making available up to \$800 million in CWSRF funds at 1 percent interest rate for recycled water projects that are able to submit a complete application for CWSRF financing by December 2, 2015.

#### **D. CWSRF Financing and Programmatic Requirements**

##### **1. 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.

##### **2. Generally Accepted Accounting Principles (GAAP)**

WRRDA requires that recipients of CWSRF financing maintain projects 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 (GASB) establishes these standards. The State Water Board, therefore, will require as a condition of financing that applicants maintain projects accounts in accordance with generally accepted government accounting standards.

##### **3. Cost and Effectiveness Analysis**

Effective October 1, 2015, WRRDA requires CWSRF recipients that are municipal, intermunicipal, 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, taking into account construction, operation and maintenance, and replacement costs. This certification must be provided before CWSRF assistance is provided for final design or construction. This provision will apply to applicants that submit a CWSRF application<sup>8</sup> after September 30, 2015.

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

Beginning with the FFY 2015 capitalization grant, WRRDA requires that A/E contracts for equivalency projects (i.e., CWSRF financed projects specifically identified by the state that total an amount at least equivalent to the Capitalization Grant from U.S. EPA) comply with the qualifications-based procurement process described in 40 U.S.C. 1101 et seq. or an equivalent state requirement. For all equivalency projects, these procurement requirements apply to any CWSRF-funded A/E contracts<sup>9</sup>, including any new solicitation, significant contract amendments, and contract renewals for A/E services initiated on or after October 1, 2014. Proposed equivalency projects for the FFY 2015 Capitalization Grant are identified in Table 2. Equivalency projects will be required to certify that A/E contracts were procured in accordance with California Government Code Section 4525 et seq., an equivalent state requirement.

#### 5. Fiscal Sustainability Plan (FSP)

WRRDA 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. This provision applies to applicants that submit a CWSRF application<sup>10</sup> after September 30, 2014.

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<sup>8</sup> For the purpose of this requirement, submit an application means that the entire application was submitted after September 30, 2015. If any part of the financing application was submitted before October 1, 2015, then the certification is not required.

<sup>9</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.

<sup>10</sup> For the purpose of this requirement, submit an application means that the entire application was submitted after September 30, 2014. If any part of the financing application was submitted before October 1, 2014, then the certification is not required.

## 6. American Iron and Steel (AIS)

WRRDA includes provisions codifying a prior requirement for 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 interpretation of these provisions is described in [Implementation of Iron and Steel Provisions of P.L. 113-76, Consolidated Appropriations Act of 2014.](#)

## 7. Payment and Draw Schedules

Table 5 shows the State Water Board's requested payment schedule for the 2015 Capitalization Grant funds from the U.S. Treasury and the estimated draws of the 2015 funds and the CWSRF's remaining federal funds ("unliquidated obligations").

## 8. 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 Program has been awarded \$2,576,561,530 in Capitalization Grants as of September 30, 2014, that must be matched. The total matching requirement as of September 30, 2014, therefore, was \$515,312,306. The CWSRF Program has provided a total of \$645,454,048 in matching funds as of September 30, 2014, resulting in an excess contribution of \$130 million in match funds to the CWSRF. This excess match amount is sufficient to match approximately \$650 million in Capitalization Grants.

Since the CWSRF is overmatched at this point, the State Water Board will not provide any matching funds during SFY 2015/2016, and the cash draw ratio will be 100 percent federal funds.

## 9. Types of Assistance and Financing Terms

The State Water Board will provide funding for all eligible categories of projects using loans, installment sale agreements, and purchase of debt. The State Water Board will also provide optional separate planning, design, or planning and design financing during SFY 2015/2016 to applicants that can legally accept such financing.

Principal forgiveness, if available, will be provided to those applicants that meet the conditions specified in Table 4b and Section III.C.2 above.

The terms associated with financial assistance vary by applicant and financing approval date. Planning and design financing is amortized over

five or ten years 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. The interest rate applied to a financing agreement is established at the time the financing agreement is prepared for approval. 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.C.6 above.

#### 10. Binding Commitment Threshold

The State Water Board must make binding commitments in an amount equal to 120 percent of each quarterly Capitalization Grant payment from U.S. EPA within one year after the receipt of each quarterly payment (40 C.F.R., § 35.3135). As of January 30, 2015, the State Water Board made binding commitments equal to 258 percent of all Capitalization Grant payments including the American Recovery and Reinvestment Act of 2009 (ARRA). The State may bank the balance towards the binding commitment requirements of subsequent quarters if it commits more than the required 120 percent. Given the high level of binding commitments to date relative to the federal investment, the State Water Board will remain above the minimum 120 percent threshold during SFY 2015/2016.

#### 11. Timely and Expeditious Expenditure

The State Water Board will ensure timely and expeditious expenditure of all funds during SFY 2015/2016. This IUP establishes as a goal during 2015/2016 to overcommit cash and undrawn federal grant funds so as to continually disburse 100 percent 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 January 12, 2015, the State Water Board has disbursed 98.7 percent of all federal grants awarded including the ARRA grant. These results are consistent with recent trends, and indicate that the State Water Board is able to quickly and productively use federal funds.

#### 12. Federal Cross-Cutters and Environmental Reviews

Projects funded by the CWSRF Program must comply with certain federal laws known as "cross-cutters." The State Water Board will ensure that CWSRF financing recipients comply with applicable federal laws through a variety of program procedures.

CWSRF financing agreements include a list of applicable federal statutes and requirements taken from the most recent Capitalization Grant (40 C.F.R., § 35.3145). The financing recipient agrees to comply with these federal requirements by signing the financing agreement.

The State Water Board will use its [State Environmental Review Process \(SERP\)](#) to review the environmental impacts of projects during SFY 2015/2016. While the SERP generally follows the requirements of the California Environmental Quality Act, each applicant must also complete and submit an [Evaluation Form for Environmental Review and Federal Coordination](#). State Water Board staff will distribute environmental analysis documents and consult with relevant federal agencies on projects with known or suspected effects under federal environmental regulations, consistent with the Operating Agreement between the State Water Board and U.S. EPA.

In addition to the federal requirements discussed in paragraphs 1 through 6 in this section, DFA requires compliance with Disadvantaged Business Enterprise (DBE) requirements for all CWSRF financing, except planning and design financing<sup>11</sup>, and requires compliance with the Single Audit Act (Office of Management and Budget Circular A-133) compliance by all recipients that receive federal funds over the applicable threshold. DFA will use the Federal Funding Accountability and Transparency Act (FFATA) reporting system to report on all equivalency projects (i.e., projects meeting all the federal cross-cutting requirements whose sum is at least equal to or greater than the Capitalization Grant amount.)

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

The State Water Board will comply with new requirements associated with the WRRDA amendments and with all conditions included in the FFY2015 Capitalization Grant agreement. The 2015 federal appropriation may also include new requirements. The State Water Board will require that CWSRF financing recipients also comply with applicable requirements. Recipients of CWSRF financing must agree to provide information necessary to show compliance with all applicable federal requirements.

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<sup>11</sup> Planning and design financing agreements may be funded with Capitalization Grants to provide principal forgiveness for water, energy, and sustainable planning and design. DFA does not intend to apply DBE requirements to such agreements, or to Expanded Use agreements, but will ensure DBE compliance for all other construction and implementation projects totaling an amount at least equivalent to the Capitalization Grants from U.S. EPA.



## E. Risks

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

### 1. Application Demand vs. Resources

Demand for financing may exceed the resources needed to review and approve all applications. Staff resources are the most inflexible aspect of the CWSRF Program. Because additional staff must be approved through the state's budget process, additional staff cannot be added quickly to address high demand. Also, hiring may be frozen or work hours reduced due to state budget concerns. Upon receipt of an abundance of applications, DFA will prioritize applications consistent with this *IUP* and the *CWSRF Policy*, seek changes to the *CWSRF Policy*, further adjust its review procedures, work with U.S. EPA or other agencies to resolve delays, schedule financing with applicants, or seek additional resources.

### 2. Applicants' Schedule Changes

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 principal forgiveness and GPR requirements established in this *IUP*. 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 to report delays to DFA staff so that appropriate action can be taken to address those delays.

### 3. Cash Flow vs. Application or Disbursement Demand

The amount of financing and disbursements requested may exceed the CWSRF Program's cash flow. DFA staff will maintain accurate account balances and forecast future revenue and disbursements on a regular basis to identify potential cash shortages. If additional cash is needed, the CWSRF Program has several options. The Program has considerable revenue that it can leverage through a bond sale in the municipal bond market to obtain additional cash. The State Water Board can prioritize funding requests or 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 or disbursement requests 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 and borrower surveillance practices that safeguard the Program's equity. The State Water Board contracts with California Municipal Securities, Inc. (CalMuni), a financial analysis firm, to evaluate the credit of certain CWSRF applicants before approving funding. The State Water Board also contracts with a professional financial advisor to provide additional financial expertise.

The CWSRF Program has a number of tools to reduce the risk of default. For example, during 2014, DFA staff directed independent accounting firm Clifton Larson Allen to conduct audits of three borrowers identified as having a higher risk of experiencing financial difficulties. The audits were conducted to evaluate the financial and management capacities of those entities, and to provide recommended solutions. The State Water Board will also continue to provide applicable subsidies (e.g., extended term financing, principal forgiveness, SCG funds) in SFY 2015/2016 to reduce debt service and default risk for small, disadvantaged communities or for projects that regionalize wastewater infrastructure. Additional subsidies for disadvantaged communities will reduce borrowing costs and the risk of default. Additionally, the State Water Board has contracted with the Rural Community Assistance Corporation to offer wastewater-related technical assistance to small, disadvantaged communities in such areas 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](#). The CWSRF Program produces an [annual report and audited financial](#)

[statements.](#)

Additional actions are required by the State Water Board staff to comply with provisions of the Internal Revenue Code applicable to the CWSRF's outstanding bond debt. The Program's [Post-Issuance Tax Compliance Policy for Tax-Exempt Bond Issues](#) provides further detail about actions required by the Program's staff to help ensure that its bonds remain exempt from federal income taxes.

DFA staff will continue to oversee projects 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. OUTCOMES, GOALS, ACTIVITIES, AND MEASURES

This section summarizes the activities planned for the CWSRF Program for SFY 2015/2016, and describes how those activities contribute to the expected Program outcomes. Specific projects or activities include target completion dates. The performance measurements will be used to track progress toward meeting the goals and outcomes.

##### A. Sound Finances

The State Water Board, the CWSRF Program's stakeholders, and the CWSRF bondholders expect the Program to be financially sound.

###### Long Term Goals:

1. **Maximize cash flow.** For maximum benefit, CWSRF disbursements should equal the Program's receipts, less the minimum \$25 million balance and restricted assets.
2. **Use revenue and capital effectively.** California faces tremendous water quality needs. The repayment stream to the CWSRF Program is sizeable, and the 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 balanced against the long-term financial health of the Program 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 disbursement requests requires careful and regular oversight of the cash flows (*Complete bi-monthly*).
2. **Continue regular staff level finance/audit coordination meetings** (*Complete bi-monthly*).
  - a) Review cash flows of existing and potential commitments to assess the Program's ability to meet its commitments and to evaluate the need for leveraging.
  - b) Compare actual performance with target performance measures.
  - c) Review audit issues, program control issues, and plan for upcoming audits.
4. **Continue regular project staging meetings to identify and resolve process delays and ensure an ongoing pipeline of new projects** (*Complete monthly*).
5. **Apply for and accept FFY 2015 Capitalization Grant.** The 2015 Grant application will be submitted to U.S. EPA after approval of this IUP by the State Water Board. For 2015, a Capitalization Grant application will be submitted for \$105,000,000 in federal assistance (*Complete September 2015*).
6. **Prepare Annual Report and Audited Financial Statements for SFY 2014/15** (*Complete September 30, 2015*).

Performance Measurements:

1. Total executed financing agreements > 120 percent of federal grants.
2. Disbursement rate = 100 percent of available funds less \$25 million minimum balance and restricted funds.
3. Federal funds disbursement rate = 100 percent of federal payments.
4. Undisbursed cash balance not increasing year-to-year.
5. 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.

Long Term Goals:

1. **Achieve compliance statewide with water quality objectives.**
2. **Achieve sustainable water resource management.**
3. **Finance infrastructure that will achieve or maintain compliance with federal and state water quality requirements.** Support the *California Water Action Plan*, Water Board's *Strategic Plan*, Cal/EPA's *Strategic Vision*, and U.S. EPA's [Strategic Plan](#) Goal 2 (Protecting America's Waters), Objective 2.2 (Protect and Restore Watersheds and Aquatic Ecosystems), Sub-Objective 2.2.1 (Improve Water Quality on a Watershed Basis).
4. **Assist with the State Water Board's [Plan For California's Nonpoint Source Pollution Control Program](#) and estuary Comprehensive Conservation and Management Plans.**
5. **Invest in disadvantaged communities disproportionately affected by pollution and water contamination.**
6. **Support the state's greenhouse gas reduction and climate adaptation goals to the maximum extent practicable.**

Key Short Term Activities:

1. **Provide funds for high-priority projects.** Table 2 lists projects that the CWSRF Program anticipates funding in SFY 2015/2016 that support the Water Boards' and U.S. EPA's priorities (see Table 2 for expected binding commitment [executed agreement] dates).
2. **Adopt the SFY 2015/2016 IUP.** The 2015/2016 IUP will guide marketing and assistance efforts targeting the Water Boards' and U.S. EPA's highest priorities in SFY 2015/2015 (*Complete June 2015*).
3. **Report activities supporting the *California Water Action Plan*, *State Water Board's Strategic Plan*, the *Cal/EPA Strategic Vision*, and the *U.S. EPA Strategic Plan* in the CWSRF Annual Report, CBR, NIMS, and the FFATA Reporting System (*Complete annually*).**
4. **Develop sustainability and climate change worksheet:** The Division will develop a worksheet that will be included in the CWSRF application that requires applicants to completely evaluate their projects to ensure that they address the issues of water sustainability and climate change. (*Complete July 31, 2015*)

Performance Measurements:

1. Fund utilization rate (U.S. EPA Program Reporting Measure WQ-17 Fund Utilization) > 105 percent of available funds.
2. At least 50 percent of funded projects should be identified in the IUP.
3. At least 25 percent of projects should assist disadvantaged communities.
4. FFY 2015 funds committed as principal forgiveness = maximum allowed by 2015 appropriation.
5. Percentage of FFY 2015 funds committed to GPR projects > minimum
6. GPR percentage established by FFY 2015 appropriation.

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

Applicants have many 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 disadvantaged communities.**
2. **Ensure that the application forms and review procedures are clear, flexible, up-to-date, and efficient.**
3. **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. **Marketing and Outreach.** Implement the [CWSRF Program Marketing Plan](#), which guides the Program's marketing and outreach efforts<sup>12</sup> (*Complete during 2015*).
2. **Update the CWSRF Policy to Reflect WRRDA Changes.** The CWSRF Policy changes necessary to fully implement WRRDA will be done through Policy amendments. Those changes that can be done consistent with existing state law were presented to the State Water Board for its consideration at its February 17, 2015 meeting.

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<sup>12</sup> Limited staffing and travel requires an increased focus on web-based outreach, including webinars and video training.

**Performance Measurements:**

1. 95 percent of complete applications should receive an executed financing agreement in nine months or less.<sup>13</sup>
2. 100 percent of complete disbursement requests should be fulfilled in 30 days or less.<sup>14</sup>
3. Amend financing agreements no later than 60 days after receipt of complete Final Budget Approval Package.

**V. SCHEDULE**

The estimated schedule for public comment and State Water Board adoption of the SFY 2015/2016 IUP, and the application, award, and acceptance of the 2015 Capitalization Grant is as follows:

IUP posted for public comment 30 days prior to public workshops	February 20, 2015
Public workshops in Northern, Central, and Southern California	March 24, 26, and 30, 2015
Updated IUP posted for public comment, as part of State Water Board Meeting agenda	May 22, 2015
State Water Board adopts IUP at regularly scheduled meeting	June 2, 2015
Submit FFY 2015 Capitalization Grant application to U.S. EPA	June 2015
Execute FFY 2015 Capitalization Grant agreement with U.S. EPA	September 2015

<sup>13</sup> Agreement processing time is the time from receipt of a complete application to execution of the financing agreement.

<sup>14</sup> Disbursement fulfillment time is the time from receipt of a complete disbursement request to warrant date.

**VI. TABLES****Table 1: SOURCES AND USES OF THE CWSRF <sup>1</sup>**

	SFY 2014-15	SFY 2015-16	SFY 2016-17	SFY 2017-18	SFY 2018-19
Beginning Balance <sup>2</sup>	\$361,819,680	\$374,014,302	\$201,782,995	\$191,687,435	\$360,404,113
Estimated Principal Payments + Interest Earnings	\$233,024,640	\$243,024,640	\$253,024,640	\$263,024,640	\$273,024,640
Estimated SMIF Interest Earnings <sup>3</sup>	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000
Debt Service	(\$14,713,300)	(\$14,323,300)	(\$13,808,100)	(\$9,980,925)	(\$7,600,725)
Federal Capitalization Grants Received <sup>4</sup>	\$100,277,000	\$105,000,000	\$30,000,000	\$30,000,000	\$30,000,000
Administration Allowance <sup>5</sup>	(\$4,011,080)	(\$4,200,000)	(\$1,200,000)	(\$1,200,000)	(\$1,200,000)
Estimated Disbursements <sup>6</sup>	(\$303,882,638)	(\$503,232,647)	(\$279,612,100)	(\$114,627,037)	(\$35,590,518)
<b>Estimated Year End Balances <sup>7</sup></b>	<b>\$374,014,302</b>	<b>\$201,782,995</b>	<b>\$191,687,435</b>	<b>\$360,404,113</b>	<b>\$620,537,510</b>

	SFY 2014-15	SFY 2015-16	SFY 2016-17	SFY 2017-18	SFY 2018-19
<b>Estimated Yearly Cash Flows \$ <sup>8</sup></b>	<b>\$12,194,622</b>	<b>(\$172,231,307)</b>	<b>(\$10,095,560)</b>	<b>\$168,716,678</b>	<b>\$260,133,397</b>

- Forecast dated January 2015.
- The "Beginning Balance" does not include the \$25 million set aside for the minimum balance of the CWSRF. It is excluded to reflect that it is not available for other uses.
- SMIF means Surplus Money Investment Fund.
- These numbers include a final amount for the FFY 2014 Grant that the State Water Board received on August 22, 2014. The amounts for all Grants past FFY 2014 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.
- These numbers include a final amount for the FFY 2014 Grant that the State Water Board received on August 22, 2014. The amounts allowed for administration from all Grants past FFY 2014 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 CWSRF's primary source of administrative funds is the "Administrative Fund." See Section III.B.2. Administrative Funding for further discussion. Funds from the "Administration Allowance" that are not used for program administration may be used to finance projects.
- Estimated disbursements are a forecast of the cash disbursements for projects with executed financing agreements and agreements that are expected to be executed in the next three months. 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 Grant matching requirement.
- "Year End Balances" represent a running total based on the previous year's ending balance.
- "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.



**TABLE 2: CWSRF PROJECT FINANCING FORECAST FOR SFY 2015/2016**

Note: Table 2 will be finalized and incorporated at a later date, prior to State Water Board adoption.

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**Table 3: Forecasted Administration Fund and SCG Fund Balances****TABLE 3.A: ADMINISTRATION FUND BALANCES**

	7/1/14- 12/31/14	1/1/15- 6/30/15	7/1/15- 12/31/15
Beginning Balance	\$23,108,944	\$23,285,907	\$20,015,137
Collected	\$4,164,738	\$2,883,730	\$3,575,483
Spent	(\$3,987,775)	(\$6,154,500)	(\$6,369,500)
<b>End Balance</b>	\$23,285,907	\$20,015,137	\$17,221,120

**TABLE 3.B: SCG FUND BALANCES**

	7/1/14- 12/31/14	1/1/15- 6/30/15	7/1/15- 12/31/15
Beginning Balance	\$18,870,719	\$21,304,565	\$21,425,475
Collected	\$4,544,982	\$2,167,337	\$7,403,762
Projected disbursed	(\$2,111,136)	(\$2,046,427)	(\$2,423,221)
<b>End Balance *</b>	\$21,304,565	\$21,425,475	\$26,406,016

\* This is the undisbursed balance. As of January 2015, the uncommitted balance is less than \$1 million.

**Table 4: Eligibilities and Funding Maximums: SCG and Principal Forgiveness**

**Table 4a. SCG Fund <sup>i</sup>**

<b>Eligible Applicants:</b> Public agencies, 501(c)(3) non-profit organizations, and tribes. <sup>ii</sup>				
<b>Project Types:</b> CWSRF-eligible wastewater projects. <sup>iii</sup>				
Affordability Criteria			Grant Amount <sup>iv</sup>	
Population <sup>v</sup>	Community Median Household Income (MHI)	Wastewater Rates as Percent of MHI <sup>vi</sup>	Percentage of Total Project Cost <sup>vii</sup>	Up to a Maximum of (\$ million) <sup>viii, ix, x, xi</sup>
<20,000	ANY <sup>xii</sup>	≥4.0%	50	6
	Disadvantaged Community (DAC) with MHI <80% of Statewide MHI	≥1.5%	50	4
		≥2.0%	50	6
	Severely Disadvantaged Community (SDAC) with MHI <60% of Statewide MHI	≥1.5%	75	4
		≥2.0%	75	6

**Table 4b. CWSRF Principal Forgiveness <sup>x</sup>**

<b>Eligible Applicants:</b> Any municipality, intermunicipal, interstate, or state agency (regardless of population, MHI, or wastewater rates). <sup>xiii</sup>
<b>Project Types:</b> Any CWSRF eligible project that implements a process, material, technique, or technology to address water-efficiency or energy-efficiency goals or encourages sustainable planning, design, or construction. This includes, but is not limited to: water or energy conservation assessments, audits, or plans, water reuse, water or energy reducing devices, water meters, or projects meeting the <a href="#">Green Project Reserve: Guidance for Determining Project Eligibility (see page 50 of 94)</a> .
<b>Principal Forgiveness Amount:</b> For water or energy conservation assessments, audits, or planning work, 100 percent of actual costs up to \$35,000 in principal forgiveness. For all other projects, 50 percent of total, actual costs associated with water or energy conservation or sustainable planning, design, or construction up to \$2.5 million in principal forgiveness.

(continued on next page)

**Table 4, Notes:**

<sup>i</sup> This includes funds available through the CWSRF Program's annual SCG allocation, any available residual general obligation bond funds (including those specifically identified in State Water Board Resolution No. 2013-004, and any additional residual general obligation bond funds that may become available), and general obligation bond funds available as a result of Prop 1. At least 10 percent of the SCG funds available per Prop 1 will be provided to SDACs.

<sup>ii</sup> Federally recognized tribes, and state tribes on the Native American Heritage Commission consult list.

<sup>iii</sup> Includes only projects approved for funding after July 1, 2015. In addition to capital projects, the Division of Financial Assistance (Division) is authorized to direct up to fifteen percent of the funds available per Prop 1 to a multi-disciplinary technical assistance program for small DACs and SDACs.

<sup>iv</sup> Regardless of wastewater rates, any small DAC or SDAC may receive 100 percent of eligible planning costs, not to exceed \$500,000 in SCG funding, for wastewater planning activities, including but not limited to feasibility/engineering studies, environmental studies, legal analyses, and financial/rate analyses. Any State Water Board grants or principal forgiveness provided as part of such agreement, will count toward the maximum grant amount for which the community is eligible. Upon the Division's determination of sufficient planning funding needs, more than 15 percent of the funds available per Prop 1 may be used to fund planning and technical assistance activities.

<sup>v</sup> To qualify for SCG funds, a project must be geared toward addressing primarily residential needs. Also, at least 50 percent of the dwellings or dwelling units must be the primary dwelling of permanent residents for a community or community area to qualify for SCG funds. Typically, permanent residents are those residing in the community at least six months out of the year; however, seasonal, migrant laborers can also be counted as permanent residents.

<sup>vi</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. For publicly-owned systems serving facilities such as schools or labor camps, and for which wastewater user rates or service charges are not charged, the Division may elect to approve 100 percent grant up to a maximum of \$6 million. Even if 100 percent grant is approved, Division staff will review projected revenues and expenses to confirm adequate revenues to operate and maintain the project.

<sup>vii</sup> For small DACs and small SDACs with wastewater rates at least 2.0 percent of community MHI, if the community's credit review shows inadequate revenues to finance the remaining project costs, the grant percentage may be increased to as high as 100 percent, as necessary to approve financing for the project. In addition, for small DACs or small SDACs, the Division has discretion to increase the grant percentage to as high as 100 percent, if the community's unemployment rate is at least 2 percent higher than the statewide average, or low population densities impact the community's ability to afford financing. Even if 100 percent grant is approved, Division staff will review projected revenues and expenses to confirm adequate revenues to operate and maintain the project.

<sup>viii</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. For these projects, and for projects that either reduce contaminants in drinking water supplies, or prevent further contamination of drinking water supplies, the maximum grant amount per community is increased to \$8 million.

<sup>ix</sup> If components related to water or energy efficiency result in higher capital costs, the Division may make a determination that the incremental increase in capital costs (resulting from installation of such water or energy efficiency components) will be provided as additional grant, above and beyond what would otherwise be the maximum grant amount for the project.

<sup>x</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 principal forgiveness funding in any given five year period.

<sup>xi</sup> Any project with a cost per household exceeding \$30,000 is considered non-routine, and any construction funding agreement for such a project will be subject to State Water Board approval.

<sup>xii</sup> Communities not qualifying as disadvantaged are required to fund a local cost share of not less than 50 percent of the total costs of the project. As part of requesting disbursements, such communities will be required to submit backup documentation substantiating that the community paid the local cost share.

<sup>xiii</sup> Municipality includes an Indian tribe or an authorized Indian tribal organization.

**TABLE 5: CWSRF CAPITALIZATION GRANT PAYMENT(S) AND DRAW(S) PAYMENT(S)****PAYMENT(S)**

	FFY 15 – Q1	FFY 15– Q2	FFY 15– Q3	FFY 15 – Q4
FFY 2015 Grant				\$105,000,000

**DRAW(S)**

	FFY 15 – Q1	FFY 15 – Q2	FFY 15 – Q3	FFY 15 – Q4
FFY 2014 Grant	\$62,400,960	\$37,876,040		
FFY 2015 Grant				\$65,435,979
<b>Cumulative Draws – FFY 15</b>	<b>\$62,400,960</b>	<b>\$37,876,039</b>	--	<b>\$65,435,979</b>
	FFY 16 – Q1	FFY 16 – Q2	FFY 16 – Q3	FFY 16 – Q4
FFY 2015 Grant	\$18,773,853	\$10,395,084	\$10,395,084	
<b>Cumulative Draws – FFY 16</b>	<b>\$18,773,853</b>	<b>\$10,395,084</b>	<b>\$10,395,084</b>	

**VII. INDEX OF ACRONYMS**

<b>Administrative Fund</b>	State Water Pollution Control Revolving Fund Administrative Fund
A/E	Architectural and Engineering
AIS	American Iron and Steel
ARRA	American Recovery and Reinvestment Act of 2009
<b>Bay-Delta</b>	San Francisco Bay/Sacramento-San Joaquin Estuary
<b>Cal/EPA</b>	California Environmental Protection Agency
CalMuni	California Municipal Securities, Inc.
CBI	Clean Beach Initiative
CBR	Clean Water State Revolving Fund Benefits Reporting
CWSRF	Clean Water State Revolving Fund
<b>DAC</b>	Disadvantaged Community
DAS	Division of Administrative Services
DBE	Disadvantaged Business Enterprise
DFA	Division of Financial Assistance
DIT	Division of Information Technology
<b>ETF</b>	Extended Term Financing
FFATA	Federal Funding Accountability and Transparency Act
FFY	Federal Fiscal Year
FSP	Fiscal Sustainability Plan
<b>GAAP</b>	Generally Accepted Accounting Principles
<b>IRWM</b>	Integrated Regional Water Management
IUP	Intended Use Plan
<b>LGTS</b>	Loans and Grants Tracking System
LID	Low Impact Development
<b>MHI</b>	Median Household Income
MS4	Municipal Separate Storm Sewer Systems
<b>NIMS</b>	National Information Management System

(continued on next page)

**(Index of Acronyms – Continued)**

OCC	Office of Chief Counsel
POTW	Publicly Owned Treatment Works
PY	Personnel Years
Prop 1	Proposition 1 or the Water Quality, Supply, and Infrastructure Improvement Act of 2014
Regional Water Boards	Regional Water Quality Control Boards
SCG	Small Community Grant
SC Strategy	Small Community Wastewater Strategy
SDAC	Severely Disadvantaged Community
SERP	State Environmental Review Process
SFY	State Fiscal Year
SMIF	Surplus Money Investment Fund
State Water Board	State Water Resources Control Board
TMDL	Total Maximum Daily Load
U.S. EPA	United States Environmental Protection Agency
WRFP	Water Recycling Funding Program
WRRDA	Water Resources Reform and Development Act of 2014