

**STATE WATER RESOURCES CONTROL BOARD
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE
NOVEMBER 15, 2016**

ITEM 4

SUBJECT

CLEAN WATER STATE REVOLVING FUND ANNUAL REPORT FOR STATE FISCAL YEAR 2015/2016

DISCUSSION

The State Water Resources Control Board (State Water Board) administers California's Clean Water State Revolving Fund (CWSRF) Program. The CWSRF is capitalized with federal and state funds. It provides affordable financing for publicly owned treatment works (wastewater and stormwater infrastructure), non-point source (NPS), and estuary projects. Many CWSRF recipients use their financing to address water quality violations and the associated enforcement actions by the Regional Water Quality Control Boards. Every CWSRF financed project improves water quality, public health, or both.

This annual update of the CWSRF Program provides results for State Fiscal Year (SFY) 2015/2016, ending June 30, 2016, and discusses recent and future developments in the Program.

A. FINANCIAL RESULTS

1. Cumulative Financial Results

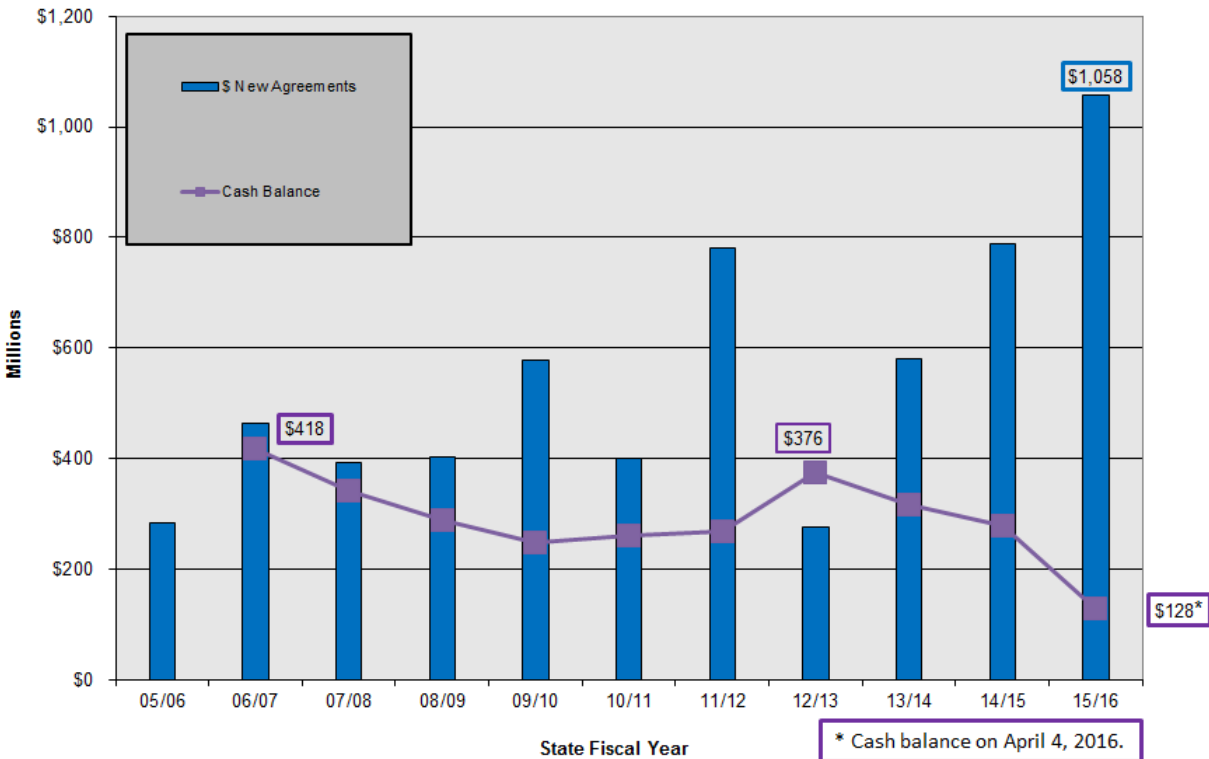
California's CWSRF has supported the health, safety, and welfare of Californians since 1989 by financing 743 eligible projects for about \$8.98 billion. CWSRF has, as of June 30, 2016, approximately \$3.70 billion in loan receivables. About ninety five (95) percent of CWSRF financing has been for publicly owned wastewater infrastructure, and five (5) percent has been used for stormwater, NPS, or estuary projects. Since inception, CWSRF has financed about \$3.04 in projects for every \$1 of capital contributed by the United States Environmental Protection Agency (U.S. EPA). This is slightly above the national average¹.

2. Cash Flow Management

The CWSRF's cash balance continued to decrease into SFY 2015/2016 as seen in Figure 1 below. The cash balance reached approximately \$128 million on April 4, 2016, a 10-year low, shortly before the sale of the Series 2016 Bonds. The lower cash level and the issuance of bonds in April to meet cash flow needs are indicators that CWSRF funds are being used fully and expeditiously to provide water quality benefits.

¹ The national average as of the [2015 national annual report](#) was \$2.82 for every \$1 of capital from US EPA.

**Figure 1
CWSRF Yearly Financing and Year-End Cash Balances²**



3. Financial Activity

A total of 31 projects for \$1,058 million were financed in SFY 2015/2016.

Collectively, CWSRF recipients received approximately \$299 million in subsidy or grant equivalent in SFY 2015/2016. The subsidy is the cost savings recipients received as a result of the CWSRF's below market interest rates and principal forgiveness.

Approximately \$530 million was disbursed to recipients during SFY 2015/2016. This included approximately \$7.8 million in principal forgiveness.

Financing activity during SFY 2015/2016 increased the CWSRF outstanding commitment level, the amount of undisbursed funds on executed agreements, to approximately \$1.98 billion, a 36 percent increase year-over-year.

² Cash balance includes cash on deposit with the State Treasurer's Office plus funds available to draw from the US Treasury.

4. Performance Measures

Table 1 below provides the CWSRF's performance measure results for the year.

Table 1
Performance Measure Results for CWSRF by SFY

Measure	Target	12/13	13/14	14/15	15/16
% of Complete Applications Financed in 9 Months or Less	95	34	85	73	40
% of Complete Disbursement Requests Filled in 30 Days or Less	100	82	87	90	92 ³

5. Audited Financial Statements

The CWSRF's [financial statements for SFY 2015/2016](#) were independently audited by CliftonLarsonAllen LLP.

B. PROGRAM RESULTS

1. Assistance Activity

As noted earlier, a total of \$1,058 million was financed in SFY 2015/2016. Ninety-nine (99) percent of this financing went to wastewater treatment, collection system, or wastewater recycling projects; the remaining one (1) percent addressed storm drainage runoff.

In SFY 2015/2016, the State Water Board made an effort to fund green projects to address climate change and sustainability. Fourteen of the thirty-one agreements executed during SFY 2015/2016 were with communities meeting the criteria of the "[Green Project Reserve](#) (GPR)." The State Water Board also approved the use of principal forgiveness (PF) for GPR projects. During SFY 2015/2016, the State Water Board provided \$1.1 million in PF to two GPR projects; the remaining 12 GPR projects did not receive PF because they received Prop. 1 Water Recycling Funding Program grant funds in addition to CWSRF loan funds.

2. Environmental Benefits

Projects in SFY 2015/2016 helped the State Water Board achieve and maintain its water quality goals. Each project funded in SFY 2015/2016 was evaluated to determine its benefits, and the data supporting this analysis has been transmitted to U.S. EPA via the CWSRF Benefits Reporting and [National Information Management System](#) databases.

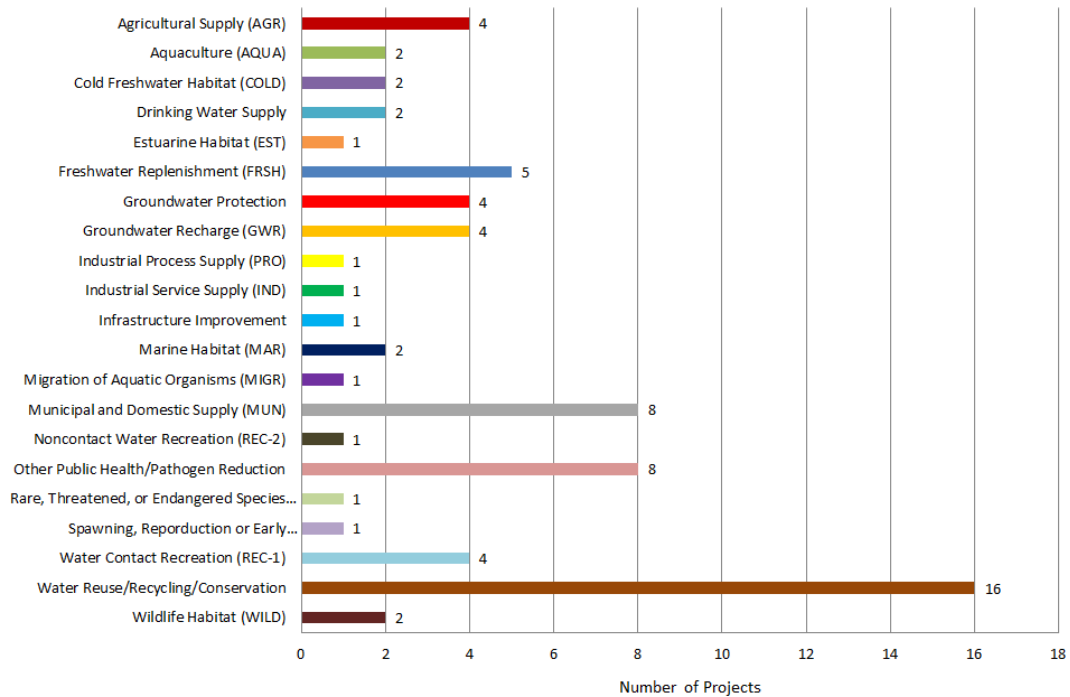
Table 2 provides the funding by category and Figure 2 provides the number of projects funded by beneficial use during SFY 2015/2016.

³ 99% of complete disbursement requests were filled in 45 days or less, and 100% of complete disbursement requests were filled in 70 days or less.

Table 2
CWSRF Funding by Category, \$ million

Category	Amount	Percentage
Secondary Treatment	\$77.9	7%
Advanced Treatment	\$767.3	72%
Sewer System Rehabilitation	\$33.6	3%
New Collectors & Appurtenances	\$87.4	8%
Storm Sewers	\$7.4	1%
Recycled Water Distribution	\$84.8	8%
Total Financed	\$1,058.4	100%

Figure 2
Number of CWSRF Projects by Beneficial Use⁴



⁴ Individual projects may address multiple uses.

3. Water Recycling Incentive (Drought Response)

In March 2014, the State Water Board offered a reduced CWSRF interest rate of 1.0 percent for water recycling projects to encourage construction of projects that can provide an alternative and resilient supply of water. To be eligible for this incentive rate, applicants were required to submit complete applications by December 2, 2015. On February 16, 2016, the State Water Board [approved 1.0 percent financing for all projects that had submitted complete applications by December 2, 2015](#). As of October 4, 2016, the Division of Financial Assistance (Division) had executed approximately \$344 million in CWSRF agreements for the incentive rate, approximately \$108 million in financing agreements were routing for approval, and approximately \$441 million in applications were under review and are expected to route in the near future for approval.

C. CURRENT AND FUTURE TRENDS

1. Proposition 1 – 2014 Water Bond

Proposition 1, the Water Quality, Supply, and Infrastructure Improvement Act of 2014, was approved by California's voters on November 4, 2014. It authorized \$7.545 billion in general obligation bonds for water related projects. In particular, it provides significant loan and grant financing that can be used in conjunction with CWSRF for small disadvantaged community wastewater infrastructure, stormwater projects, wastewater recycling projects, and technical assistance. The Division [continues to coordinate Proposition 1](#) funding appropriated to the State Water Board with the CWSRF funds to achieve the best outcomes with all available funding sources.

2. GPR/Climate Change

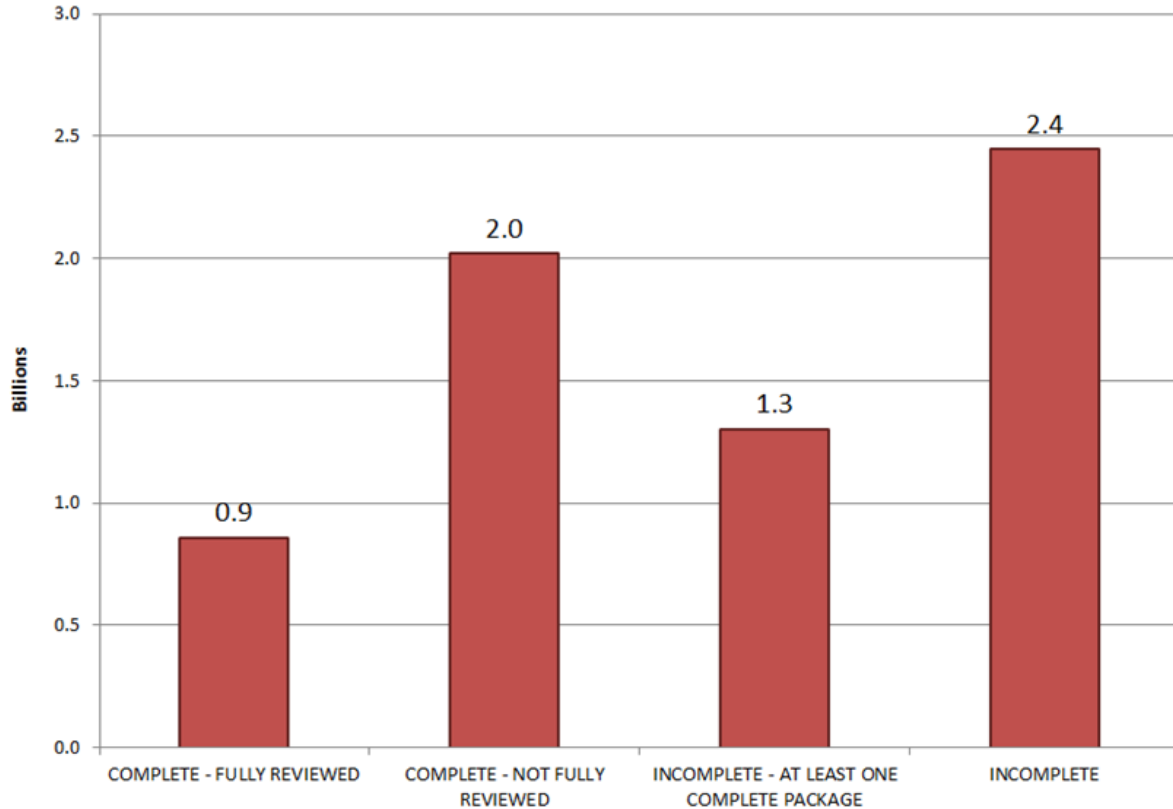
The State Water Board is committed to ensuring that its policies and programs help mitigate greenhouse gas emissions and support adaptation to climate change. Since 2010, the capitalization grants from U.S. EPA have required that a certain percentage of each grant be used for GPR projects. Many of these activities or projects help support the State Water Board's climate change objectives. The SFY 2015/2016 Intended Use Plan redirected the principal forgiveness from the 2015 capitalization grant to GPR Projects. Approximately \$30 million in principal forgiveness is available from the 2015 capitalization grant for GPR projects. The CWSRF application forms were modified and posted so applicants can identify projects or portions of projects that meet GPR criteria. As noted earlier, two projects received approximately \$1.1 million in principal forgiveness during SFY 2015/2016. Numerous additional CWSRF projects have been identified, and are being reviewed as potential GPR projects. Additional GPR projects are expected to receive PF as part of their financing during SFY 2016/2017.

3. Significant Financing Demand and Additional Bonds

Recent improvements and enhancements to the CWSRF procedures and policies have greatly increased demand on the CWSRF Program. Commitment levels have increased significantly over the last three years as seen in Figure 1 above, and current application demand is high as seen in Figure 3 below. Higher commitment levels also increase the average disbursement rate. The Division's disbursement forecasts for SFY 2016/2017 indicate total project disbursements in excess of \$700 million, and the following year will likely be higher. The Division anticipates that it will fully utilize the authority given by the

State Water Board in [Resolution 2016-0002](#) to sell up to \$1.2 billion new CWSRF bonds to meet the cash needs of financing recipients.

Figure 3
CWSRF Applications as of September 13, 2016



Current demand levels exceed the financing capacity of the CWSRF even with maximum leveraging. Cash flow management and forecasting remain critical, and the program will continue to stress and strengthen internal controls so that it can maintain its high credit rating and access to the municipal bond market. It will also be important to share information periodically with potential borrowers to ensure that they understand the availability of CWSRF funding for their projects. The Division will publish periodic updates of the CWSRF Intended Use Plan (IUP) during the course of the year to keep potential applicants informed about the program's financial outlook.

POLICY ISSUE

None at this time; informational item.

FISCAL IMPACT

None at this time; informational item.

REGIONAL BOARD IMPACT

None at this time; informational item.

STAFF RECOMMENDATION

None at this time; informational item.

State Water Board action on this item will assist the Water Boards in reaching Goal 5 of the *Strategic Plan Update: 2008-2012* to improve transparency and accountability by ensuring that the Water Boards' 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.