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May 18, 2017

Felicia Marcus, Chair
Members of the State Water Resources Control Board
State Water Resources Control Board
1001 I Street, 24th Floor
Sacramento, CA 95814
Attn: Jeanine Townsend, Clerk to the Board



SUBJECT: COMMENT LETTER – JUNE 20, 2017 BOARD MEETING – FFY 2017 CWSRF IUP

Dear Chair Marcus and Members of the Board:

The Western Recycled Water Coalition thanks you for the opportunity to review and comment on the Clean Water State Revolving Fund (CWSRF) draft Intended Use Plan (IUP). The WRWC is a partnership of 19 cities, water and wastewater districts, and investor-owned water utilities developing drought-resistant recycled water supplies in California and Hawaii. We appreciate how you and staff have provided a commitment to funding CWSRF applications, including the \$893 million (M) that was approved at 1% interest for 35 water recycling projects as part of Resolution Nos. 2014-0015 and 2016-0008. For some time, we've understood the value of this low-interest financing and have promoted these opportunities and advocated for increased federal funding. We're pleased that the program has been so successful.

The State Water Resources Control Board (SWRCB) has been the leader at getting grants and loans out to applicants to construct these important projects, and we'd like to encourage you to continue to maximize funding for CWSRF projects. We understand the increasing demand this success has put on resources, including capital funding and administration. This letter provides comments on the resource issues of funding and staffing as identified in the draft IUP.

Staffing Resources

Page 23 of the IUP states that "demand for financing exceeds the administrative resources needed to review, approve, and finance all complete applications". Up to 4 percent of the capitalization grants awarded may be used for program administration. For the last 7 years, this has been about \$4M per year. Based on past annual reports and this IUP, the SWRCB has consistently banked the excess administrative funds (IUP, p. 23). The CWSRF Annual Report for SFY 2015-2016 showed a CWSRF administration fund balance of \$21.7M and stated that it would "be banked for potential use in the future."¹ This IUP shows a slightly lower fund balance of \$20.2M, and states that the 4% would again be banked. While the administrative allowance from capitalization grants may be used for both administration and local assistance financing, the IUP states that demand exceeds administrative resources. For this reason, we recommend that the SWRCB use these funds in the coming fiscal year to add staff (contract, temporary or permanent) to process CWSRF applications. Any efforts to streamline reviews would also be beneficial.

We recognize that the SWRCB may perceive a risk in adding staff given the uncertainty of future workload. However, we believe strongly that this increased number of applications reflects a new norm for project financing. While the recycled water incentive program was a unique opportunity, overall we

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believe there will continue to be significant demand for CWSRF financing, especially with the implementation of Executive Order B-37-16, *Making Water Conservation a California Way of Life*, and upcoming rulemaking that will expand recycled water use. Adding staff can allow for more efficient implementation of the program and provide benefit to the applicants. We suggest the approach of staffing up using existing administrative funds versus pursuing strategies that seek to limit future financing applications, workloads, or making the financing terms less favorable.

Cash Flow and Capital Funding

This IUP identifies the risk that the amount of disbursements requested may exceed the CWSRF cash flow (page 24). Instead of the State Board prioritizing or limiting new commitments as suggested on page 24, we strongly suggest that the SWRCB seek to increase capital funding. We suggest this for the following reasons:

- 1) We support approaches that encourage more water recycling development throughout the State. We don't support proposals that pit ready-to-go projects against one another other, especially proposals that would prioritize funding to recycled water projects claiming higher AFY production over smaller projects. A project providing smaller AFY may be just as critical to the community it will serve as a larger project. The SWRCB should continue to expeditiously fund all eligible, complete applications as projects are ready to proceed.
- 2) Smaller cost projects should have the same access to CWSRF funds as larger cost projects. In 1999, the SWRCB established a \$25M funding cap per fiscal year per loan recipientⁱⁱ. Sometime later, a \$50M funding cap was applied, with the ability for the Board to exceed the cap at its discretion, "...so long as it does not unduly limit other applicants' ability to receive funding commitments..."ⁱⁱⁱ By 2014 there was no funding cap, and the State Board was able to approve \$1.6B in FY 2014/2015 to finance the EchoWater project. This same annual report stated that many water quality projects undertaken today are expensive and large, and the "ability of the CWSRF to fund such large projects is one of its greatest strengths"^{iv}. We are seeing more high cost projects applying for CWSRF financing. We appreciate the SWRCB's willingness to finance these projects, and believe the SWRCB should secure additional funds in order to continue to finance current and future CWSRF projects, both large and small.
- 3) We support the Board seeking additional authority for the sale of bonds to increase CWSRF funds because the needs have previously been identified and are increasing. Over \$5B in California recycled water funding needs has been confirmed in various surveys since 2013, and was realized in the >\$2B in funding applications submitted by 2015 for the 1% interest loans. Increasing needs are also reflected in nationwide surveys, such as the 2012 Clean Watershed Needs Survey^v, which was the 16th survey since enactment of the Clean Water Act in 1972. In 2012 dollars, California showed over \$26B in capital investment needs to address recycled water distribution, secondary wastewater treatment, advanced wastewater treatment, conveyance system repair, new conveyance systems, combined sewer overflow correction and stormwater management programs^{vi}. The needs for the categories of reusing wastewater effluent (Category X) and repairing and replacing the existing conveyance infrastructure (Category III) increased from the previous survey. While the report may capture needs over a period of up to 20 years, nearly all needs it included are for projects that will be completed within 5 years^{vii}. More money is needed – and it will take a combination of funds including local, state and federal to help address these needs.

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Increased Capitalization Grants and Resource Needs

We continue to advocate to our Federal elected leaders on the importance of increased appropriations to the CWSRF. The Trump campaign originally supported a tripling of the CWSRF, and bills have been introduced (DeFazio/Duncan/Napolitano - *Water Quality Protection and Job Creation Act of 2017* and Blumenauer/Duncan – *Water Infrastructure Trust Fund*, H.R. 1647) that will provide increased and new funds for the CWSRF program, if passed. While bill and appropriation outcomes are not in our control, California would be well served to provide additional resources to help meet its increasing clean water needs.

Return on Investment

We recognize the risk and costs that the SWRCB is taking to pursue additional bond capacity and sales. Given the need shown through various national, state and regional surveys, we believe that the risk is small as the funds will be used with the terms remaining favorable. While there may be additional costs to the SWRCB, these costs are minimal compared to the return on investment that these recycled water and wastewater projects will bring through increased water supplies, improved water quality and jobs. A recent report titled *The Economic Benefits of Investing in Water Infrastructure* further demonstrated the nation's water funding needs and investment value, including generating upwards of fifteen jobs for every \$1M invested in water infrastructure^{viii}. The lack of adequate infrastructure financing may have its own costs in reduced productivity, service disruption, environmental impacts, and delayed compliance with water supply and quality goals.

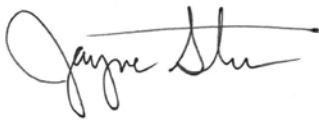
Conclusion

The SWRCB's implementation of the CWSRF currently provides the best financing available for public agencies. We greatly appreciate all that the Board and staffs have done to provide critical financing through the CWSRF, and we strongly encourage the SWRCB to continue to be the leader – adding staff and capital resources to help meet what has been and will continue to be a huge infrastructure financing demand.

Sufficient, clean water is essential for life, health, and prosperity. It is frequently taken for granted – being overlooked and undervalued. Additional funds contributed by the State will be worth the return on investment to help meet the goals of California and the Federal Clean Water Act.

Again, thank you for your hard work and dedication to funding these projects.

Sincerely,



Jayne Strommer
Executive Director
Western Recycled Water Coalition

ⁱ CWSRF Annual Report for SFY 2015-2016, page 15

http://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/docs/cwsrf_annual_report_15_16.pdf

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ⁱⁱ SWRCB Agenda Item 3 (9/22/2005). https://www.waterboards.ca.gov/board_info/agendas/2005/september/0922-03.pdf

ⁱⁱⁱ SWRCB FAQs http://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/docs/srf_faq.pdf

^{iv} CWSRF Annual Report SFY 2014-2015, State Water Resources Control Board, page 25

http://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/docs/cwsrf/cwsrf_annual_report_14-15.pdf

^v EPA, Clean Watersheds Needs Survey 2012, Report to Congress, EPA-830-R-15005 (January 2016)

https://www.epa.gov/sites/production/files/2015-12/documents/cwns_2012_report_to_congress-508-opt.pdf

^{vi} Clean Watersheds Needs Survey 2012, California Factsheet https://www.epa.gov/sites/production/files/2015-10/documents/cwns_fs-ca.pdf

^{vii} EPA, Clean Watersheds Needs Survey 2012, Report to Congress, EPA-830-R-15005 (January 2016)

^{viii} The Economic Benefits of Investing in Water Infrastructure, Value of Water Campaign (2017).

http://thevalueofwater.org/sites/default/files/Economic%20Impact%20of%20Investing%20in%20Water%20Infrastructure_VOW_FINAL_pages.pdf