



May 19, 2017



Jeanine Townsend, Clerk to the Board
State Water Resources Control Board
1001 I Street, 24th Floor
Sacramento, CA 95814

Subject: Comment Letter – June 20, 2017 Board Meeting – FFY 2017 CWSRF IUP

Dear Ms. Townsend:

As a long-time user of the Clean Water State Revolving Fund (SRF) grants and loans program, we appreciate the opportunity to comment on the Draft Intended Use Plan (IUP). Eastern Municipal Water District (EMWD) has received more than \$240 million in grants and loans which have been used to significantly increase our capacity to produce recycled water in our service area. EMWD has 100% beneficial reuse of wastewater, with more than one-third of our total water supply consisting of recycled water, our most drought-resilient supply.

Over the last several years, the SRF program experienced a number of changes that made the program more attractive to users, relative to alternative financing rates in the public markets:

1. Nearly \$1 billion in loans for water recycling projects was made available at a 1% interest rate;
2. Repayment terms were extended from 20 years to 30 years; and
3. The passage of Proposition 1 added significant additional funding opportunities statewide.

These opportunities drove a significant influx of applications to the SRF program. This was particularly the case for very large agencies that, because of some of the historic aspects of the SRF program and its administrative burdens, previously chose to forgo SRF funding in favor of the public financing markets. However, with the more favorable terms, an onslaught of the large public agencies rapidly took advantage of the available SRF funding. This resulted in the demand

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for SRF loans outweighing available funds. Moreover, it is our understanding that only a limited set of criteria were established by the State Water Resources Control Board (SWRCB) to prioritize funding. This included focus on small disadvantaged communities, water recycling, and projects which impact climate change.

Many applications have been pending since 2015, with minimal transparency on where applications stand in the review process and which projects will be funded. While the SWRCB staff has made a good effort to provide status updates, there is no clear mechanism that illuminates status and likelihood of funding success. Applicant agencies are left with significant uncertainty, negatively impacting agencies' short- and long-term financial planning efforts and causing agencies to hesitate on commencing construction due to funding eligibility impacts. This uncertainty impacts the advancement of beneficial wastewater treatment and water recycling projects.

In short, the current issues with the program appear to be: (a) not enough money in the SRF to fund demand; (b) inadequate staffing at the necessary experience levels to manage and process applications; and (c) burdensome bureaucracy in the application process.

We respectfully submit the following comments:

1. Provide Greater Transparency on the Status and Timing of Pending Applications. While publishing the Intended Use Plans has provided some useful information, it is not sufficiently detailed to provide applicants with a real sense of:
 - a. Whether their projects are likely to be funded;
 - b. If projects are to be funded, at what level; and
 - c. An accurate schedule for the funding agreement.

By example, for more than a year EMWD was informed that some of its funding agreements were expected to be executed within weeks or a few months. Some of these agreements are still pending. These applications are identified in Group 2 of the IUP and some are in Group 3.

2. The Application Process Should be Streamlined to the Extent Feasible. With applications pending since 2015, EMWD has been asked to resubmit the same substantive information on multiple sets of forms, work through multiple financial reviews with SWRCB staff over multiple fiscal years, and submit new information which was not required in the initial application requirements. Applications appear to be reviewed by many departments within the SWRCB staff in a linear fashion, documents have apparently been misplaced and requested for resubmission, and information on status is only available by calling the SWRCB project managers. We suggest that clear application requirements are established at the time the application is submitted and

remain static through the process. Any new requirements should be applied only to future applications.

3. Staffing Should Be Supplemented During Times of High Demand. At our EMWD, we recognize that cyclic development demands drive the need for additional resources to serve our public; as a result, we budget for on-call consulting resources to serve those demands should they arise. While it may not be necessary or appropriate for the SWRCB to add additional full-time staff, we encourage the SWRCB to make use of contract staff and/or consultant resources to assist in reviewing applications, providing financial analysis and handling legal review. Funding for this additional staff could be achieved through an appropriate application fee, or the existing Administrative Service charge (1%).
4. The SWRCB Should Consider Additional Borrowing to Fund Additional Projects. We understand that the SWRCB's financial advisors have opined that additional borrowing would be appropriate to allow for additional funds to be made available to meet all or part of the demands of the pending Group 2 and Group 3 applications. That borrowing carries little risk of non-payment. We encourage the SWRCB to act to authorize additional bonds to be issued, consistent with the advice of its financial advisory team.
5. The SWRCB Should Consider Allowing Full Construction Costs to be Reimbursed. Currently, construction costs incurred prior to internal application sign-off by the SWRCB are not eligible to be reimbursed. However, given the long application review time, the SWRCB should reconsider this practice and allow construction costs for approved projects to be reimbursed back to the submittal date of a successful application.

EMWD looks forward to participating in the upcoming stakeholder meetings and stands ready to provide input and ideas to evaluate changes to CWSRF policy, and streamline applications and application review processes.

We appreciate the opportunity to comment on the CWSRF Intended Use Plan. If you have any questions, please contact either of us.

Sincerely,



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