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Operator of the Hetch Hetchy Regional Water System

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Public Comment
CWSRF Policy Update
Deadline: 4/24/13 by 12 noon

April 24, 2013

RECEIVED
4-24-13
SWRCB Clerk

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

Subject: Comments on the Policy for Implementing the Clean Water State Revolving Fund

Dear Ms. Townsend:

The San Francisco Public Utilities Commission (SFPUC), Wastewater Enterprise (WWE) appreciates the opportunity to review and comment on the updated and revised *Policy for Implementing the Clean Water State Revolving Fund* (Policy). The State Revolving Fund (SRF) program administered by the State Water Resources Control Board (SWRCB) was instrumental financial support for our facilities which were constructed under the WWE Master Plan between 1977 and 1997. The SFPUC is now embarked on a new Sewer System Improvement Program (SSIP) to upgrade, repair and replace our aging infrastructure. We will be investing over $2 billion in the next ten years to ensure that our system is compliant, reliable, resilient, and capable of adapting to climate change. We estimate that the entire improvement program investment will be nearly $7 billion over the next 20 years. It is with this major capital program in mind that we have reviewed the proposed policy changes to the SRF program. Our seven (7) specific comments are listed below.

1. Priority Classes Do Not Seemingly Support Major Infrastructure Improvements

We appreciate the changes that were made to the Policy to change from a priority list to priority classes and to incorporate sustainability measures. However, the priority classes are all based on the actual or threat of noncompliance with water quality permits, standards or requirements. Across California, sewer systems are aging and these descriptions continue to focus the SRF on systems that have leaks, failures, or violations. In a way it fosters bad management. An old system, like ours at the SFPUC, that is in need of upgrade but is being well managed remains a lower priority class. The Prevent class does not appear to cover financing for ensuring compliance, reliability and resiliency. In order for us to be competitive, we suggest a new priority class be created that supports prudent upgrades of critical facilities with new technology that fosters sustainability including energy efficiency and cogeneration.

In the next ten years we will be replacing our aged digesters at the Southeast Water Pollution Control Plant. These were built in 1951 when our treatment plant was first operated as a primary treatment facility. We believe that there should be no question that these new facilities of modern, efficient and reliable digesters should rank at the highest priority class level for funding.

We also want to note a discrepancy related to eligibility. In section IX.C.1.a. under *Eligibility* on pages 45 and 46, it notes that equipment or systems that reduce energy use and effect climate change would be eligible for SRF funding. However, later in section IX.C.2.g (page 48) it states that co-generation facilities are not eligible for SRF funding. The edited version adds "*Non-wastewater*" to these eligibility criteria which we support as this would make the co-generation facilities planned for our new solid handling facilities at our Southeast Plant fully eligible for SRF funding.

2. Make Sustainability Points More Meaningful

The SFPUC is impressed with the addition and the scope of the Sustainability points. We encourage the SWRCB to make these even more meaningful by more heavily weighing those that have greater impact. For example, a project that will result in a reduction of fossil fuel based energy use, which in turn, reduces greenhouse gases and stormwater pollution, should receive higher sustainability points than a project that does not meet these same goals.

3. Financing Should Include Combined Sewer Systems

Section IX of the Policy refers to financing of "publicly owned treatment works" "…including but not limited to, wastewater infrastructure such as treatment plants, sanitary sewer systems, pumping stations, force mains, and solids handling equipment; storm water treatment and abatement measures required by a National Pollutant Discharge Elimination System (NPDES) permit…"

Under the NPDES permit rules, the Water Discharge Requirements (WDR) for Sanitary Sewer System and other regulatory requirements, it is clear that a combined sewer system and combined sewer overflow control facilities are not publicly owned treatment works. The SFPUC is only one of two cities in California with a combined sewer system and thus, would not be considered a publicly owned treatment works. Our NPDES permits have specific requirements which are based on national policy and local water quality protection. Therefore, we request that your list specifically state *"… sanitary and combined sewer systems …"* so that we may be eligible for SRF funding.

4. Finance Replacement of Projects that Have Exceeded Useful Life

Item K under the list of projects that are ineligible for funding (pages 48 and 49) the proposed Policy states that projects, which were previously funded by Clean Water Grants or SRF loans would not be eligible with certain critical exceptions. The SFPUC suggests that reaching the end of a useful life and no longer being a reliable facility should also be considered one of these exceptions. For example, the Southeast Treatment Plant received a Clean Water Grant in 1977, which has been fully utilized and amortized, and went on-line in 1982. By the time new facilities are designed and constructed, the existing facilities will be reaching the 40-year mark; near the end of its expected 40-50 year useful and reliable life. We strongly suggest that on page 49, "end of useful and reliable life" be added to the exception list.

5. Expand Consideration of Low Income and Ranking Issues

The Policy provides a higher priority for small to low income communities based on the description on page 9 under Section 5, Funding of Projects. SFPUC projects typically do not qualify under this description due to high income levels within San Francisco. However, the SFPUC does serve low income/disadvantaged communities. The SFPUC encourages the Board to expand consideration by inserting into the project funding equation, a "bang for the buck" consideration for projects that benefit large communities of which some are low income. Funding could be tied to a specific sustainability or efficiency aspect of the project. The SRF can encourage these projects with a 50/50 local/SRF match to ensure that sustainability and climate change issues are addressed with projects.

6. Create More Flexible Financing

There are several opportunities to create more flexible and therefore, more attractive financing including accommodating 30-year financing and reducing the redundancy in the financial security requirements.

a. Extended Term Financing (ETF) inserts the concept of 30-year financing which the SFPUC has supported and requested over the years. The Policy seems to assume that default financing term is still 20 years and a project has to prove 30 years are needed (see page 25). The "necessary to make project affordable" will be a subjective/difficult requirement to meet. The standard capital market term for new construction is 30 years, not 20 years. The new WWE assets which could be built with SRF funds are expected to have asset lives of 40 to 50 years (or longer). The SFPUC strongly recommends that the SRF repayment term be changed to 30 years and this additional project affordability requirement be removed.

b. The Finance Security requirements are excessive and redundant. The package requires a resolution /ordinance from the governing body pledging revenue and funds for repayment and an opinion from bond counsel that the loan does not create a conflict with other debt financing. As described, the Pledged Revenues and Funds (PRF) are significant and should provide for repayment of the loan. It seems that requiring a dedicated reserve or dedicated fund for loan repayment is redundant and requires an excessive amount of financial and legal work on the part of the local loanee. We suggest that any reference to a dedicated fund be taken out and not required. The local bond counsel and financial advisor will determine the best way to develop the PRF to assure repayment to satisfy the SWRCB.

7. Condense Requirements in Section 3 on Environmental Package

Section 3 (pages 33-35) provides the requirements for compliance with the California Environmental Quality Act (CEQA) which is essential for applying for and receiving a SRF loan in California. The SFPUC believes that sections a, b and d are necessary but do not believe that section c is necessary. Section c seems to be obvious and redundant to sections a and b. If CEQA is needed then compliance with CEQA and certification of the project under CEQA is obvious. Please review this section again to determine if it can be condensed.

The SFPUC appreciates the opportunity to provide written comments on this important program. If you have any questions regarding the comments provided, please contact Anna M. Roche at aroche@sfwater.org or 415-551-4560 and she will assist you.

Sincerely,

Tommy T. Moala
SFPUC, Assistant General Manager
Wastewater Enterprise