

**NOTES**  
**Division of Finance Meeting with WRCA**  
**March 9, 2017**  
**10:30 Cal-EPA Sacramento**

**Attendees:**

Leslie Laudon, Division Chief DFA

Christopher Stevens, DFA

James Maughan, DFA

Grant Davis, GM Sonoma County Water Agency

Rich Nagel, GM West Basin MWD

Mike Markus, GM Orange County Water District

Martha Davis, Inland Empire Utilities Agency

Christina Valencia, Inland Empire Utilities Agency

Paul Scuito, GM, Monterey Regional Water Pollution Control Dist.

Debby Cherney, Eastern Municipal Water District

Jennifer West, WRCA

**How did we get here – the perfect storm?**

- 1% loans for the drought -- \$860 million in CWSRF loans total
- Proposition 1 -- \$625 million in grants and loans that need additional CWSRF loans; Prop. 1 required 50% local contribution
- CW SRF extends repayment from 20 to 30 years and makes other Policy and procedural improvements to address historically high cash balances
- DFA: It is not clear if this is permanent or just a large temporary influx of project applicants. Makes it harder to assess next steps.

**Status CW SRF Funding availability for Groups 1 and 2**

- The Board had authorized selling \$1.2 billion in bonds. \$860 million has been sold. The additional \$340 million will be sold by mid 2018.
- These funds and existing funds will cover all funding for all Group 1 projects. There are 14 projects for \$664 million in this group.
- The \$1.2 billion in bond sales will fund Group 2 projects that were part of the 1% financing.

- An additional \$500 million in bonds will be needed to fully fund other Group 2 projects.
  - Other Group 2 project applications have been fully reviewed by DFA staff and are generally ready for a financing agreement.
  - DFA has not asked the Board for this funding and still assessing whether to do so. (see below)

### **CW SRF Group 3 Projects**

- Group 3 projects are considered complete applications, but additional information may be asked of the applicants.
- Group 3 projects include wastewater projects, which currently are not prioritized under the Intended Use Plan (IUP). Disadvantaged communities, recycled water projects eligible for the remaining Prop. 1 WR funds, and Green Projects eligible for loan (principal) forgiveness are prioritized.
- A small amount (in the low tens of millions) of projects in Group 3 are for disadvantaged communities and may be able to be funded without additional bond authorization/leverage.
- WR projects eligible for the remaining Prop. 1 grant and loan funds will need in the neighborhood of \$300 million; this will definitely create a need for additional leveraging.
- Financial Advisors from PFM have advised SWRCB staff that given current ratings and revenue projections, it may be able to issue up to \$2.0 to 2.5 billion in bonds beyond the \$1.2 billion already authorized. This would fund the remainder of Group 2 and Group 3, although the Board does not have the staff resources to process this many applications even if it had the financial authority to do so.
- DFA needs to assess if Board is comfortable to incur additional debt to fund recycled water projects or others in Group 3.
- DFA says the Board **may** needed additional financial assurances before it commits to selling additional bonds.

### **Ongoing revenues for CW SRF – Approximately \$350 million per year currently**

- In addition to bond sales, DFA receives the following revenues for CW SRF:
  - Approximately \$250 million per year on pay back from

outstanding CA loans. This increases on average every year by \$14 million.

- Approximately, \$100 million from the federal government.
- As leveraging increases, debt service also increases diverting more of this revenue to debt service.

### **Possible Funding Solutions: DFA and Agencies**

- Perhaps raising the ½ of the GO interest rate or doing away with a set percentage interest rate. This would have to be changed in CA statute.
- An agency suggested application fees or expedited applications fee (both would take statute change).
- DFA was open to exploring the possibility of allowing completed applications to proceed with construction, based on certain criteria, and still qualify for loan/grant monies for costs incurred prior to securing a signed financing agreement.
- DFA would like to revise 1987 formula for how states receive federal funding for SRF. CA gets the second most in the country after NY even though we have the largest population.
- There is a federal formula in the 2016 EPA report to Congress “Review of the Allotment of the CW SRF” that would raise CA allocation from \$100 to \$125 million as discussed by Mike Markus.
- Drinking Water SRF is no longer under-subscribed and is probably not a source of possible funding.

### **DFA: Need Assistance in Prioritizing Group 3 Projects**

- Important to clarify with applicants that where an agency appears on the list has no bearing on the funding decision. (perhaps alphabetize the list?)
- Prop. 1 had California geographic 40/40/20 funding split that may affect the CWSRF loans and Group 3 prioritization.
- WRCA agreed to prepare recommendations for Group 3 project criteria, and to serve as an informal advisory group.
- DFA is assessing changing the parameters of the funding program. They will need to work through a public process to get feedback for these changes.
- WRCA offered to work with DFA to hold meetings to facilitate public

feedback on program changes.

- Legal review is a bottleneck due to the mismatch of some applications with their bond covenants and disconnect with State Board “cookie cutter” review and current authorized staffing levels. Is there an opportunity to modify legal counsel support to help streamline the review process?