May 24, 2020

E. Joaquin Esquivel, Chair  
State Water Resources Control Board  
1001 I Street  
Sacramento, CA 95814  
Email: commentletters@waterboards.ca.gov

SUBJECT: COMMENTS FOR JUNE 15, 2021 BOARD MEETING  
DRAFT FY 2021-2022 CWSRF IUP

Dear Chair Esquivel,

The California Association of Sanitation Agencies (CASA) and WateReuse California appreciate the opportunity to provide comments on the draft Intended Use Plan for the Clean Water State Revolving Fund. CASA’s member agencies are engaged in advancing recycled water production and beneficial reuse, generating renewable energy supplies, and producing and beneficially using biosolids and other valuable resources. The mission of WateReuse California is to promote responsible stewardship of California’s water resources by maximizing the safe, practical and beneficial use of recycled water.

As you know, during discussions regarding last year’s IUP, we raised a number of concerns about aspects of the CWSRF program, including the reduction in the annual funding capacity and the small number of new projects proposed for funding. Since then, we have been working collaboratively with State Water Board staff to improve our understanding of the issues and challenges facing the program and to identify opportunities for our associations to assist in increasing the impact of the CWSRF, which continues to be a critical source of financing for projects that promote sustainability, enhance water resources, and protect public health, while ensuring that such investments are affordable for rate payers.

Last month, the Office of Water Programs at the California State University of Sacramento (OWP) launched a program review of the CWSRF, using a scope of work developed jointly by our associations and State Water Board staff. The six-month review will evaluate CWSRF program practices, procedures, policies, timelines, staffing levels, and other aspects of program implementation to identify potential efficiencies, improvements, or enhancements that would facilitate timely review, processing, and execution of loan agreements. The researchers will examine the program disbursement process to make the disbursement requests above-referenced be more efficient, gain broad stakeholder support/concurrence, and improve timeliness of payments. The review will also include a benchmarking component to look at other selected states’ programs and identify transferable processes and best practices.

We appreciate the Board providing the Deputy Director with authority to add the 18 projects with a score of 13, and welcome her decision to add these projects to the funding list in the fall based upon progress resolving the prior year backlog.
Our associations are pleased to work in partnership with the State Water Board on this important task and look forward to the insights and recommendations the study will yield.

The Executive Summary Helps to Facilitate Stakeholder Review

The annual IUPs contain a great deal of information, and must satisfy a number of obligations related to the federal requirements. Many stakeholders are interested primarily in the highlights: how many projects are being funded, what are the financing terms, what funding sources are available, etc. The addition of an Executive Summary is a helpful start at improving the transparency and accessibility of the key information regarding the program, and we appreciate its inclusion in the draft IUP. We thank you for its inclusion and encourage staff to continue to look for opportunities to use graphs and charts, including the creation of a financial “dashboard” for the program.

In Light of the Number of Carry-Over Projects, We Support the Staff Recommendation to Fund Scenario C

Scenario C of the alternative funding scenarios includes funding for 21 new projects requesting $720 million. This level of new funding is below the long-term average. However, we concur with staff that the 52 projects pending from this year’s fundable list should be carried over to the FY 2021-22 fundable list. When the new projects from Scenario C are added to the carry-over projects, a total of 73 applications (plus DAC’s other automatically eligible projects) will need to be processed by June 2022. While we appreciate staff’s goal to meet this timing, we are uncertain that this level of activity is realistic. We hope that the OWP review will identify efficiencies or changes in practice and process (by the Water Board and applicants) that will allow future IUPs to be more ambitious while still meeting performance metrics.

The Annual Sustainable Financing Capacity Remains of Concern for Future Funding

The reduction in the annual sustainable financing capacity was a major issue in our comments on the FY 2020-21 IUP. One of our concerns was that the development of the capability analysis was not transparent to stakeholders. We identified a lack of clarity regarding the assumptions and estimates that were used in the financial model. To help respond to these concerns, staff convened two sessions with the Water Board’s financial advisor in which the model was reviewed in detail. The financial advisors explained the factors that influence the long-term capacity, and how adjustments or changes to those elements would change the calculation. For example, obtaining an appropriated unburdened state match would increase the sustainable funding capacity by about 18 percent. These discussions were very helpful in increasing our understanding of changes we might advocate in order to bring the capacity closer to the $1 billion that was used in past IUPs. More recently, our attention has been focused on developing the scope of work for the OWP review, but we intend to return to these conversations with the goal of increasing the financial capacity.
This year, the sustainable financing capacity is stated as $625 million, slightly up from last year’s $586 million. If the Board agrees to fund Scenario C, an additional $720 million in new projects will be funded, which is toward the top of the target funding range of $540 to $750 million. We believe this is reasonable under the current circumstances, including workload.

**California Needs to Make the Most of Available Dollars Through Greater Leveraging**

We remain concerned that California is not sufficiently leveraging the funding available. California’s leveraging ratio is in the range of $1.65 to $1.00. Other states, including New York, Ohio, Iowa, and Indiana have leveraging ratios of over $2.00. Factors that affect this ratio include:

- Appropriating rather than borrowing state match;
- Maximizing income through higher loan rates offset by reduced coverage and reserves for lower risk borrowers;
- Providing planning and design loans to enable applicants to fully design projects and generate accurate costs rather than encumber funds for less defined projects,
- Multi-year commitments rather than encumbering estimated project costs at award date; and
- Frequent coordination with the State Treasurer to optimize investment activity.

In every communication regarding the CWSRF over the past several years, our associations have advocated greater leveraging. We again commit to working with the Water Board to make the most of the capital available within the bounds of rating agency criteria/expectations and fiscal prudence.

**The Board and Stakeholders Would Benefit from More Frequent CWSRF Updates**

In the last several years, the Board has implemented a practice of periodic updates on programs where no action is planned. These updates are a useful tool for staff to highlight work underway or interim accomplishments, as well as to receive feedback from the Board and interested persons. The past year is an example of a year in which there have been numerous productive discussions and collaborative efforts regarding the CWSRF, but the Board as a whole and stakeholders may not have had an opportunity for a briefing. Going forward, a four-month or six-month check in would provide the Board and the public with information as to progress on resolving the backlog, moving new projects forward, the status of the program review, and other important metrics.
Conclusion

We look forward to working with the Water Board to improve and enhance the CWSRF through the program review now underway. CASA and WateReuse CA value our partnership with the State Water Board and share the goal of ensuring that the CWSRF is predictable, robust, effective, and ambitious in funding essential infrastructure for years to come.

Sincerely,

Adam D. Link  
Executive Director  
CASA

Jennifer West  
Managing Director  
WateReuse California

cc: Members, State Water Resources Control Board
Leslie Laudon (Leslie.Laudon@waterboards.ca.gov)
Christopher Stevens (Christopher.Stevens@waterboards.ca.gov)