

# STATE WATER RESOURCES CONTROL BOARD

## RECYCLED WATER FUNDING FOR FISCAL YEAR 2019/20



October 18, 2018

Presented by:  
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Division of Financial Assistance (DFA)

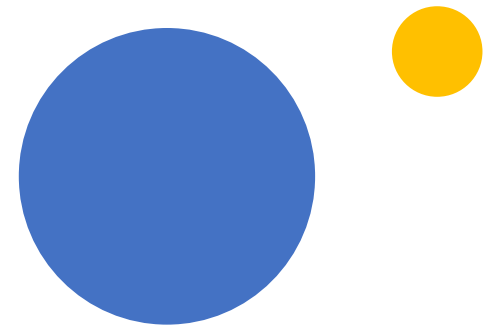


# Overview

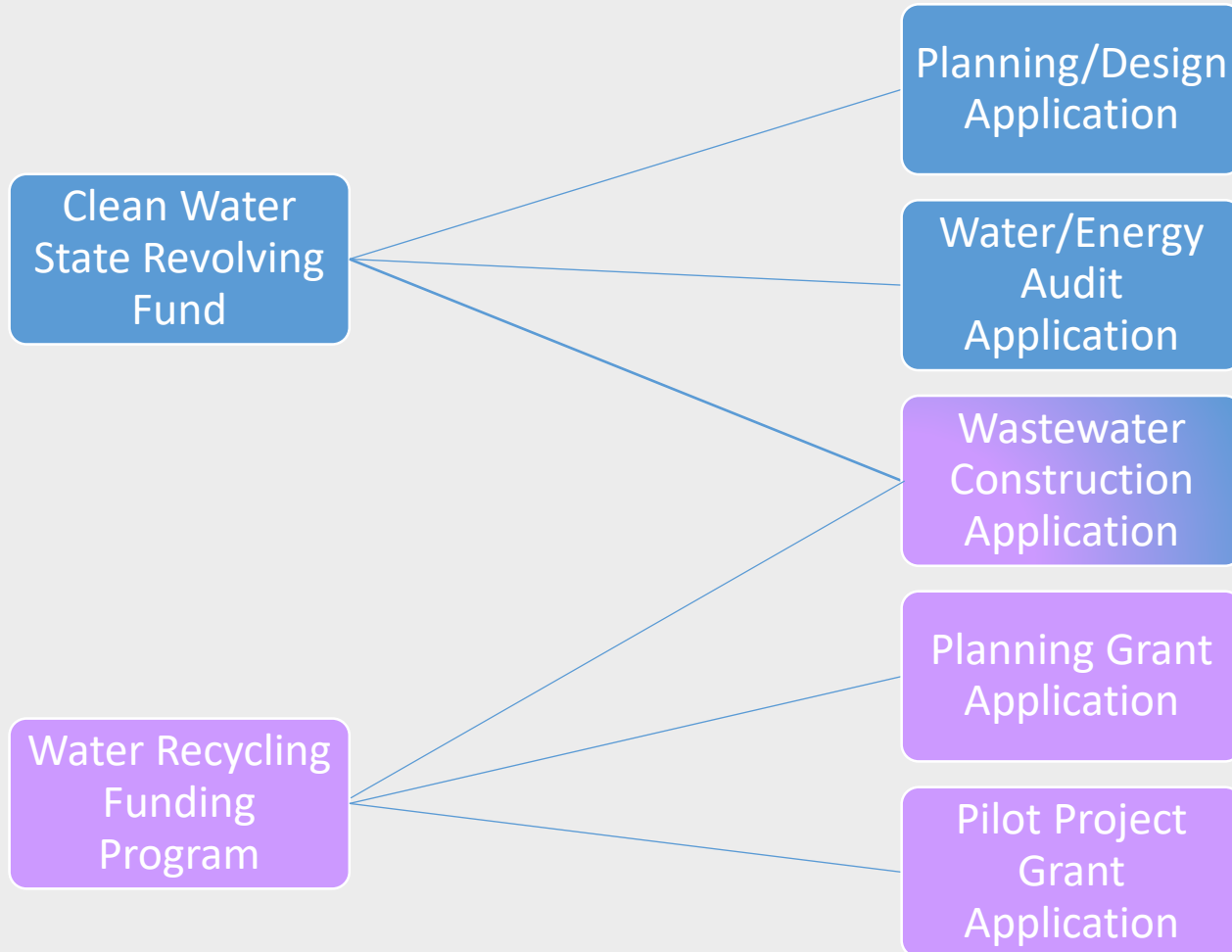
- Funding Programs
- WRFPP Funding Sources
  - Prop 1
  - Prop 68
  - Prop 3
  - Clean Water SRF
- Proposed CWSRF Policy Updates
  - Proposed Scoring System
  - Fundable List

# Funding Programs

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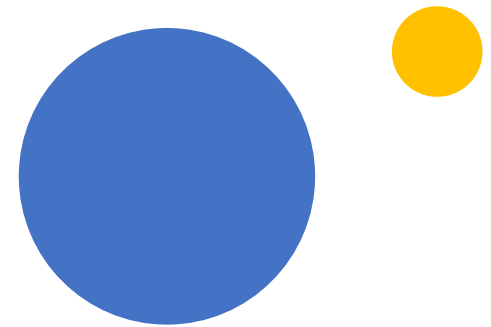


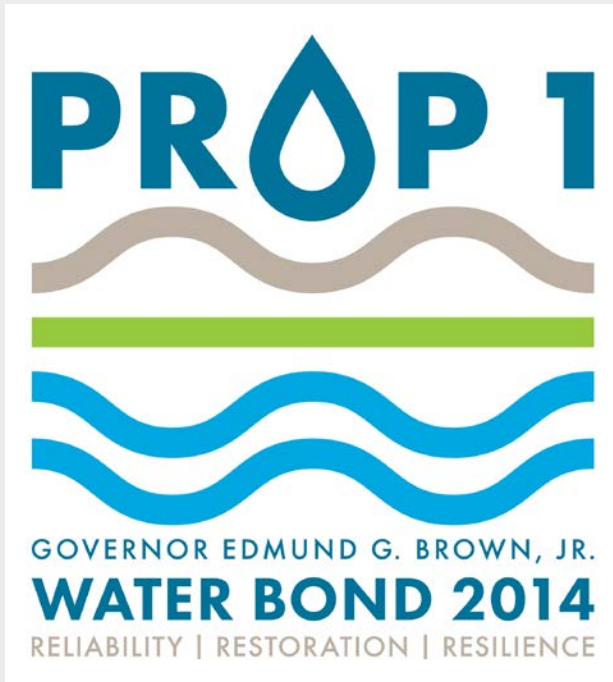
# Funding Programs & Applications



# WRFP Funding Sources

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### Initial Allowance:

- Construction Grant - \$312.5 million
- Construction Loan - \$256 million
- Research & Development - \$12.5 million

### Current Balance:

- Available grant funding has been committed
- Available loan (\$122 million) will be committed this fiscal year (FY 18/19)
- Grant from repayments/disencumber will be committed in FY 19/20



Expected Allowance:

- \$2 million for planning grant
  - \$50 million for construction grant
  - \$22 million for construction loan
- 
- Not included in FY 18/19 budget (FY 2019/20 earliest could be available)

# Prop 3

2018 Ballot Measure

If approved would provide \$400 million for Water Recycling

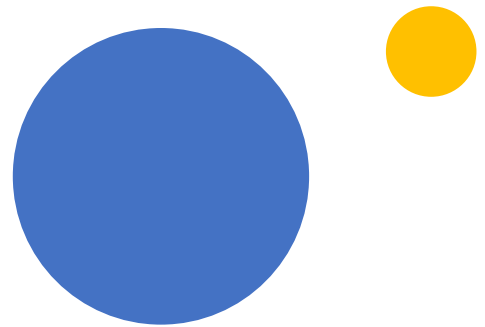
- \$200 million construction grant
  - Up to 1% for research
  - Up to 10% for planning
- 
- Not included in FY 18/19 budget (FY 2019/20 earliest could be available)





- Annual Funding Target of \$1 billion
- Principal Forgiveness (PF) available for:
  - Small Disadvantaged Communities
  - Green Project Reserve
    - Green Infrastructure
    - Water Efficiency (water recycling projects are categorically eligible)
    - Energy Efficiency
    - Environmentally Innovative
- PF Limits
  - 50% of eligible costs up to \$4 million max
  - \$2.5 million max for water recycling projects
  - Cannot award PF if receiving grant funding

# Proposed CWSRF Policy Amendment



# Background

- Policy covers CWSRF and complementary financing
- Last Amended on February 17, 2015
  - Historical Average: 2 - 3 years
- Demand on the CWSRF has greatly increased
  - >\$8 billion

STATE  
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## Policy for Implementing the Clean Water State Revolving Fund



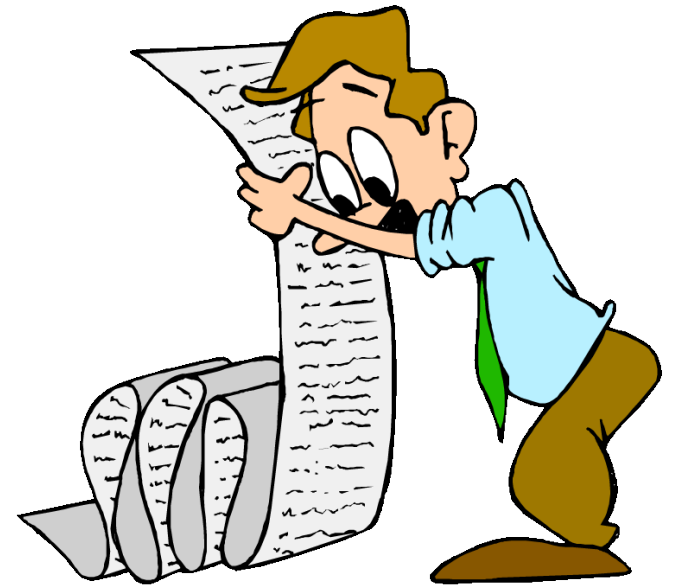
Amended  
February 17, 2015

# Drivers

- Prioritize applications
- Maintain sustainable finances
- Additional flexibility to deal with wide range of borrower credits
- Consistency between CWSRF and DWSRF Policies
- More timely funding decisions

# Fundable List

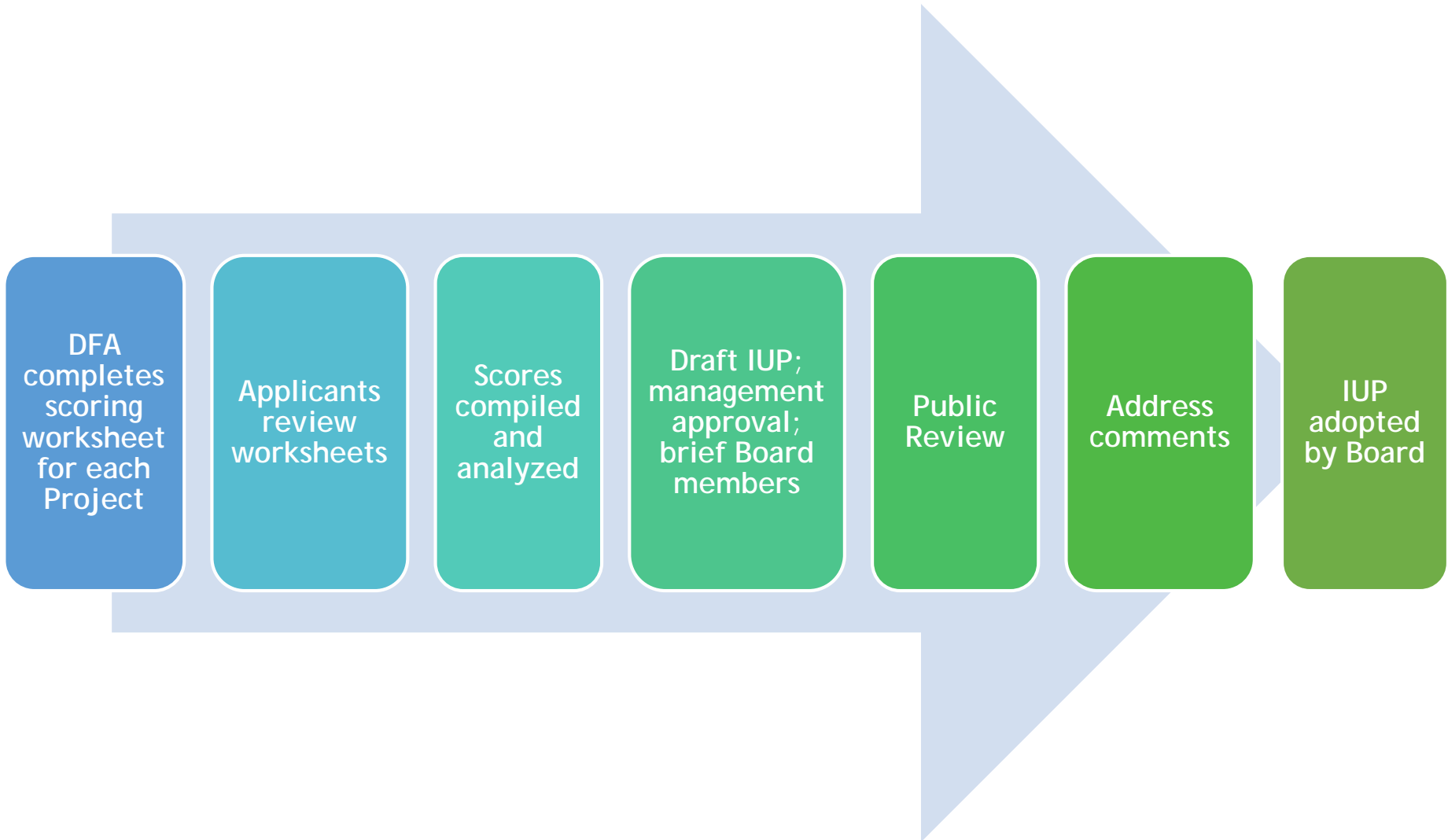
- Only projects on Fundable List will be eligible for financing
- Small SDAC, Small DAC, and Public Health Projects automatically Fundable; not subject to scoring
  - All other applications will be ranked by "Priority Score"
- All applications will be scored – complete & incomplete



# Fundable List

- 90% → 125% of sustainable funding level ~ \$ 1.0 billion/year
- Execute agreements for all Fundable applications by end of fiscal year
  - Applications roll over if not funded

# Process



# Scoring System

- Priority Score will be the sum of three components:
  1. Primary Score,
  2. Secondary Score, and
  3. Readiness Score
  
- Maximum Priority Score = 16



# 1. Primary Score

	Purpose		
Resource	Corrective	Preventive	Improvement
Drinking Water Source	9	8	7
Delta Water Quality	8	7	7
Water Recycling	--	--	7
Impaired Water Body	8	6	4
Water Quality Control Plan or Permit	8	6	4

- All applications receive a Primary Score
- One number is selected from the table
- Applications that do not fit into any category will receive a Primary Score of "2"

## 2. Secondary Score

Secondary Characteristic	Score
Applicant has adopted a “climate change” action plan or policy, and the plan or policy is applicable to the system being financed or the project will help implement the plan or policy actions.	3
Project addresses multiple water quality impairments, eliminates or reduces multiple sources of water pollution, or eliminates a discharge of waste regulated by a Regional Water Board or the State Water Board.	3
Project is cited in a multi-agency regional environmental management plan, increases the local supply of drinking water, or has multi-media environmental benefits.	2
The applicant agrees to provide funds to match federal capitalization grants by agreeing to the match financing option.	2

- May receive Secondary Score
- One number is selected from the table
- If no criteria are met, Secondary Score = “0”

# 3. Readiness Score

Application or Design Status	Score
Complete Application Received by the Division	2
Plans and Specifications as verified by Division staff	If > 49% = 1, or if > 89% = 2

- All applications receive Readiness Score
- Add the two parts together
- If application incomplete, Application Readiness = 0
- If P&S < 50 %, Construction Readiness = 0
- Design-build or similar construction procurement will be counted as 100% P & S

**NOTE: Fundable applications that had an incomplete application and P & S < 49% may be subject to deadlines for submitting the complete application and substantial P & S to remain on the Fundable List.**

# Priority Score Calculation Example: Critical Improvements at a WWTP

Primary Score: Verify the purpose of the project and the resource or impact associated with the project

Project would **prevent** future water quality permit violations

**Primary Score = 6**

Secondary Score: Verify which secondary characteristic best describes the project

The applicant has adopted a detailed Climate Change Action Plan; the Project would help implement the plan's objectives

**Secondary Score = 3**

Readiness Score: Verify the status of the application and Plans & Specifications

Application Status: 100 % complete; Application Readiness = 2  
P & S Status: 100% Complete; Construction Readiness = 2

**Readiness Score = 4**

Priority Score = Primary Score + Secondary Score + Readiness Score

**Priority Score = 13**

# Developing the Fundable List

- Iterative Process
- After applicants review scores, all scores will be compiled and sorted highest to lowest
- Applications with the same score either Fundable or not Fundable
- Pick a cutoff score:
  - If total \$ < 90% of funding target, pick a lower score
  - If total \$ > 90% and < 125%, then ✓
  - If total \$ > 125%, then modify scores = or > proposed cutoff score

# Scoring Modifications

- 2 Potential modifications
- If Draft Fundable List > 125% of target, then add points for community status
  - Only to those = or > proposed cutoff score

Status	Score
Project serves a large disadvantaged community	2
Project serves a large severely disadvantaged community	3

- If still > 125%, then partial financing is applied
  - 100% funding to greatest extent
  - Partial funding applied uniformly

# Credit Review

- Allow Deputy Director discretion in cases where applicants have existing debt programs and are highly rated
  - Can accept existing definitions and covenants
- New Credit Review appendix (Appendix N)
  - Allows Deputy Director to update process consistent with Policy requirements
- Debt Service Coverage
  - Increased senior and parity coverage from 1.1 to 1.2 times
  - Lowered subordinate coverage to 1.0 times



# Other Changes

## 1. Eligible Start Date

- Redefining term to allow construction costs to be eligible starting with Notice to Proceed

## 2. Planning/Design Loans

- Changing from refinance to restructure to match DWSRF Policy
- Also, Planning/Design Loan Application is subject to scoring and must be on Fundable List



# Other Changes (cont.)

3. Align Water Conservation and Management with current State Law
  - Water Suppliers must certify meeting Division 6 of Water Code
  - Non-Water Suppliers must certify that area water suppliers meet Division 6
  
4. Dropping Pledged Revenues Fund Resolution, but must submit a closing resolution consistent with Gov. Code §5852.1

# Other Changes (cont.)

5. Appraisal requirement dropped for purchase of land or easements, but will be required if land is used as security
6. Policy generalized to apply to all types of project (i.e., "Project" Financing)
  - No longer using term " Expanded Use" Projects
7. Pre-Payments require consent

# Pros

- Better manage demand on CWSRF Program
- Maintain strong finances
- Allow applicants to self-score and self-select applications
- Credit Reviews
  - Improve clarity and transparency of financial review process
- Improve consistency between CWSRF and DWSRF



# Cons

- New scoring system will require adaptation from applicants and DFA staff
- Scoring system may produce unpredictable results
- Adjustments or improvements may be needed



# Schedule

Task	Date(s)	Remarks
Begin Comment Review Period	9/14/2018	Draft Policy posted on the web
Stakeholder Workshops	9/18/2018	Central Valley Regional Water Quality Control Board
	9/21/2018	East Bay Municipal Utility District
	9/25/2018	Irvine Ranch Water District
End Comment Review Period	10/19/2018	At noon
Board considers <i>Policy</i> amendment	11/27/2018	Regular Board meeting
Scoring	January 2019	<b>Based on applications as of 12/31/2018</b>
Draft SFY 2019-2020 <i>Intended Use Plan</i> posted on the web	Early April 2019	
Adoption of SFY 2019-2020 <i>Intended Use Plan</i>	June 2019	



# Thank You

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