

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK

STAFF REPORT

BACKGROUND:

The California State Department of Public Health (“CDPH”) administers the Safe Drinking Water State Revolving Fund (“SDWSRF”). The SDWSRF is used to finance infrastructure improvements to water systems throughout California that are necessary to bring drinking water in various California communities into compliance with applicable federal and state standards. The SDWSRF is supported by federal capitalization grants, as supplemented with state contributions.

Federal law requires states to match 20% of the grant amount (“State Match Funds”). CDPH is seeking a short term loan for \$35,075,000 from the I-Bank to provide the necessary State Match Funds to qualify for receiving the applicable federal capitalization grants (the “Financing”).

DISCUSSION:

In prior years, California’s state match obligation was provided first by general fund appropriation and then from proceeds of the sale of state general obligation bonds (Proposition 13, 50 and 84.) Those funds have been, or very soon will be, exhausted.

To date, CDPH has generated approximately \$85 million in interest earned on loans made under the SDWSRF. Federal law and regulations do not allow the interest payments on the SDWSRF loans (“Interest”) to be used directly as State Match Funds. However, federal law and regulations do allow Interest paid on loans made under the SDWSRF, to be used to secure and repay debt obligations, such as the obligation created by the Financing, entered into for the purpose of generating State Match Funds.

Such federal regulations do not specify a minimum term for such obligations. Consequently, the proceeds of a financing with a term as short as one day qualify for State Match Funds purposes under federal regulations. Thus, by using the Interest to secure the Financing and then repaying the Financing very shortly after it takes place, CDPH is able to use the Interest funds to acquire the type of funds deemed acceptable as State Match Funds under federal laws and regulations. Because CDPH currently has sufficient cash on hand, it expects to repay the full balance owed under the Financing within a week or less.

The I-Bank Act, in general, and, more specifically, the provisions as set forth in Government Code Sections 63048.55 through 63048.57, authorize the I-Bank to provide the Financing to CDPH. Further, CDPH has already received the U.S. Environmental Protection Agency’s (“US EPA”) preliminary approval for the transaction

contemplated by the Financing. The US EPA is expected to provide its final approval upon review of the final terms and conditions of the transaction.

By entering into the Financing, the I-Bank would enable CDPH to use Interest moneys already on deposit with CDPH, but currently ineligible for use as State Match Funds under Federal regulations, as a US EPA approved source for State Match Funds. If approved by the Board, the Financing will prevent the loss of an opportunity for California to secure valuable federal capitalization grants.

FINANCING TERMS:

Principal amount: \$35,075,000.
Interest rate: 0.246%
Loan term: 7 calendar days

The Financing is being secured by a first lien, imposed by the I-Bank, on the CDPH account that holds interest payments received on the loans it makes under its SDWSRF program (0629-01). As of October 14, 2013, the CDPH account has in excess of \$85,000,000 in cash on deposit in the California State Treasury ("Interest Account").

The Financing is memorialized in a Master Loan Agreement (the "Agreement") that, if approved by the Board, would be entered into by the I-Bank as lender and CDPH as borrower. The Agreement provides for the pledge of the Interest Account as collateral for the Financing. As part of the Financing, CDPH is required to certify and covenant that the balance on deposit in the Interest Account is not and will not fall below \$85,000,000 while the I-Bank loan is outstanding.

The Agreement is set up as a "master" agreement. This type of agreement allows CDPH to request additional short term financings ("Future Financings") from the I-Bank without entering into a new agreement each time. However, pursuant to the terms of the Master Loan Agreement, any such Future Financings would be subject to approval by the Board of Directors of the I-Bank (the "Board of Directors"). The term of the Master Loan Agreement is five (5) years.

In addition to standard and customary terms and conditions applicable to financing transactions with state agencies, the Agreement also includes other provisions to fully protect the interests of the I-Bank and its security interests in the Interest Account.

RECOMMENDATION:

Staff recommends that the Board of Directors approve Resolution 13-16 authorizing the I-Bank to enter into a short term financing with the California State Department of Public Health for the purpose of providing State Match Funds for federal capitalization grants.

Attachment A - Resolution 13-16

RESOLUTION NO. 13-16

RESOLUTION OF THE CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK APPROVING, AUTHORIZING AND DIRECTING CERTAIN ACTIONS WITH RESPECT TO A SHORT TERM FINANCING FOR THE BENEFIT OF THE CALIFORNIA STATE DEPARTMENT OF PUBLIC HEALTH

WHEREAS, the California Infrastructure and Economic Development Bank (the “I-Bank”), a public entity of the State of California (the “State”), duly organized and validly existing pursuant to the Bergeson-Peace Infrastructure and Economic Development Bank Act, as amended, constituting Division 1 (commencing with Section 63000) of Title 6.7 of the California Government Code (the “I-Bank Act”) and the laws of the State; and

WHEREAS, the State has, pursuant to Section 116760.30 of the California Health and Safety Code, established a revolving loan fund (the “SDWSRF”) to be administered by the California State Department of Public Health (“CDPH”) in implementing the California Safe Drinking Water Act, Chapter 4 (commencing with Section 116270) of the California Health and Safety Code (the “Drinking Water Act”). The Drinking Water Act, among other things, enables the State to receive federal grants awarded by the United States Environmental Protection Agency for the financing of drinking water infrastructure projects; and

WHEREAS, pursuant to the I-Bank Act, in general, and, more specifically, pursuant to the provisions set forth in Government Code Sections 63048.55 through 63048.57, the I-Bank is authorized to loan funds to CDPH for deposit into the SDWSRF and the Drinking Water Act authorizes CDPH to use certain of the assets of the SDWSRF to enter into agreements with the I-Bank, and take other actions to repay amounts loaned by the I-Bank to CDPH for deposit into the SDWSRF; and

WHEREAS, the I-Bank proposes to enter into a short-term financing (the “Initial Financing”) with CDPH whereby the I-Bank loans moneys to CDPH for the purpose of enabling CDPH to provide state match funds (“State Match Funds”) that are required as a condition for the receipt of certain federal capitalization grants associated with the SDWSRF; and

WHEREAS, to secure the Initial Financing, CDPH proposes to grant the I-Bank a first lien on the CDPH account that holds interest payments received on the loans it makes under its SDWSRF program and on terms and conditions set forth in a master loan agreement (the “Master Loan Agreement”); and

WHEREAS, the I-Bank and CDPH wish to establish a process to enable CDPH, in the future, to request additional short term financings (“Future Financings”) from the I-Bank and to have such Future Financings be subject to approval by the Board of Directors of the I-Bank (the “Board of Directors”); and

WHEREAS, final approval of the terms of the Initial Financing is now sought;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the California Infrastructure and Economic Development Bank as follows:

Section 1. The Board of Directors hereby finds that the above recitals are true and correct.

Section 2. The proposed Initial Financing is hereby approved with the following terms and conditions (i) the total amount of the Initial Financing may not exceed \$36,000,000, (ii) the interest rate charged by the I-Bank shall approximate, to the greatest extent possible, the return on investment rate, earned on the I-Bank funds used for the Financing, based on the information available as of the date of this resolution, and, in any event, may not be lower than 0.100%, (iii) the term of the Initial Financing may not exceed ten (10) calendar days, (iv) the Initial Financing must be secured by a first lien on CDPH funds in an amount not less than two (2) times the full repayment amount of the Initial Financing, (v) I-Bank funds may not be released to CDPH until the I-Bank receives written evidence of the approval of the Initial Financing by the United States Environmental Protection Agency, and (vi) the term of the Master Loan Agreement shall not exceed five (5) years.

Section 3. The Executive Director of the I-Bank (the “Executive Director”) and her assignees, and each of them acting alone (the “Authorized Officers”), are hereby authorized and directed, for and on behalf and in the name of the I-Bank to execute the Master Loan Agreement and take actions necessary or desirable to effect the Initial Financing.

Section 4. All actions heretofore taken by the officers and agents of the I-Bank with respect to the approval and entry by the I-Bank into the Initial Financing are hereby approved, confirmed and ratified, and the Authorized Officers and their authorized assignees, designees, deputies and agents are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all instruments, certificates and documents that they or legal counsel for the I-Bank may deem necessary or desirable in order to consummate the Initial Financing, to effect the transactions contemplated by the Master Loan Agreement and to otherwise effectuate the purposes of this resolution.

Section 5. Any Future Financings proposed to be entered into with CDPH pursuant to the Master Loan Agreement shall be subject to the availability of uncommitted I-Bank Funds and the approval of the Board of Directors.

Section 6. This Resolution shall take effect immediately upon its adoption.

PASSED, APPROVED AND ADOPTED at a meeting of the Board of Directors of the California Infrastructure and Economic Development Bank on October 29, 2013, by the following vote.

AYES:

NAYS:

ABSENT:

ABSTAIN:

By: _____
Teveia R. Barnes, Executive Director

Attest:

By: _____
Ruben Rojas,
Secretary of the Board of Directors