

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)**

**STAFF REPORT**

**EXECUTIVE SUMMARY**

<b>Borrower:</b>	State Water Resources Control Board ("State Water Board")	<b>Par Amount Requested:</b>	Not to exceed \$100,000,000
<b>Borrower Description:</b>	The State Water Board is a State entity within the California Environmental Protection Agency. Its mission is to preserve, enhance and restore the quality of California's water resources and drinking water for the protection of the environment, public health, and all beneficial uses and to ensure proper allocation and efficient use, for the benefit of present and future generations.		
<b>Type of Bonds:</b>	Tax-exempt Revenue Bonds ("Green Bonds")		
<b>Bonds Project:</b>	<p>The proceeds of the proposed California Infrastructure and Economic Development Bank Clean Water and Drinking Water State Revolving Fund Revenue Bonds, Series 2019 ("Green Bonds") (the "2019 Bonds") will be delivered by IBank to the State Water Board to finance a portion of the California Drinking Water State Revolving Fund program ("DWSRF" Program).</p> <p>The DWSRF Program provides financial assistance to local governments for public water systems for current and near term drinking water infrastructure improvement projects that address the potential health risks and help ensure that all Californians have safe and affordable drinking water.</p>		
<b>Project Sites:</b>	Statewide		
<b>Plan of Finance:</b>	The proceeds from the 2019 Bonds would be used to (1) assist the State Water Board in providing financial assistance to local governments and other eligible applicants in the State under the DWSRF; and (2) pay costs of issuance.		
<b>Type of Issue:</b>	One or more series of publicly offered securities sold in denominations of \$5,000 or any integral multiple of \$5,000 not exceeding the Amount Requested.		
<b>Tax Status:</b>	Tax-exempt		
<b>Term:</b>	Up to 17 Years (as permitted by Government code Section 63074(c))		
<b>Credit Enhancement:</b>	None		
<b>Credit Rating:</b>	Expected ratings of Aaa by Moody's Investors Service, AAA by Fitch Ratings and AAA by Standard & Poor's.		
<b>Estimated Sources of Funds:</b>		<b>Estimated Uses of Funds:</b>	
Series 2019 Par Amount	\$87,145,000.00	Drinking Water Bond Proceeds	\$100,000,000.00
Premium	\$13,813,779.60	Fund	
		Underwriters' Discount	\$348,580.00
		Cost of Issuance	\$610,015.00
		Additional Proceeds	\$184.60
<b>TOTAL SOURCES</b>	<b>\$100,958,779.60</b>	<b>TOTAL USES</b>	<b>\$100,958,779.60</b>
<b>Financing Team:</b>	<b>Bond Counsel and Disclosure Counsel</b> - Hawkins, Delafield & Wood LLP <b>Joint Senior Managing Underwriters</b> - Piper Jaffray & Co. and Morgan Stanley <b>Co-Senior Managers</b> – Backstrom McCarley Berry & Co. and George K. Baum & Company <b>Municipal Advisor</b> - Hilltop Securities Inc. <b>Agent for Sale, Trustee</b> - State Treasurer's Office		

**Public Benefits:**

The proceeds of the 2019 Bonds will be deposited into the DWSRF, enabling the State Water Board to provide low-cost financial assistance to municipalities and other qualified entities for various projects under the DWSRF Programs.

**Date of Board Meeting:**

March 27, 2019

**Resolution Number:**

19-07

**Prepared by:**

Fariba Khoie; March 14, 2019

**Staff Recommendation:**

Staff recommends approval of Resolution No.19-07 authorizing the issuance of tax-exempt revenue bonds in a par amount not to exceed \$100,000,000 for the benefit of the State Water Resources Control Board.

## SUMMARY

The State Water Resources Control Board (“State Water Board”) is requesting IBank to issue the California Infrastructure and Economic Development Bank Clean Water and Drinking Water State Revolving Fund Revenue Bonds, Series 2019 (“Green Bonds”) (the “2019 Bonds”).

The State Water Board administers both the Clean Water Program, which focuses exclusively on wastewater management, and the Drinking Water Program. The Drinking Water Program transitioned from the California Department of Public Health to the State Water Resources Control Board on July 1, 2014. The Drinking Water Program, which includes the The Drinking Water State Revolving Fund (“DWSRF”) Program as one of its main funding sources, is responsible for the regulatory oversight of about 8,000 public water systems (“PWS”) throughout the state.

The Drinking Water Program uses DWSRF funds for eligible infrastructure projects, but also administers the disbursement of other state funds, including State Bond funds, for various drinking water purposes, including; assisting PWS’s with drought preparedness and water conservation measures, promoting water-recycling projects, certifying drinking water treatment and distribution operators, supporting and promoting water system security, providing for small water system technical assistance and mandating minimum standards for PWS technical, managerial and financial capacity from other sources of funds.

The Safe Drinking Water Act (“SDWA”), (42 U.S.C. § 300f et seq., 88 Stat. 1660 (1974)) was established in 1974 to provide a comprehensive federal regulatory framework for administration of the nation’s drinking water. The DWSRF was established by the 1996 amendments to the SDWA as a federal-state partnership to help finance compliance with the SDWA.

The DWSRF Program receives Capitalization Grants from the U.S. EPA pursuant to an annual Capitalization Grant Agreement between the U.S. EPA and the State Water Board. Capitalization Grants are an 80/20 split, and require the state to provide 20% of the total as “State Match” and the federal government to provide the remainder. The State Water Board uses the Capitalization Grants to fund the activities of the DWSRF and provide low-cost loans to eligible PWS’s for financing the costs of infrastructure projects. Other than Capitalization Grant Funding awarded as project grants, the DWSRF is intended to “revolve”; repayables of the loans made with these funds revolve back into the DWSRF with additional interest earnings.

### **DWSRF Program Cash Flow Projection**

California anticipates strong need for drinking water financing over the next 20 years: drinking water transmission and distribution repair/replacement needs of \$31.2 billion, drinking water treatment needs of \$9.2 billion and storage needs of \$7.0 billion.

The following table displays current, aggregate funding demand for drinking water projects from both DWSRF and State Bond Prop. 1 sources.

Priority Ranking	Description	Number of Applications	Total Funding Request
A	Immediate Health Risk	15	\$27,273,076
B	Untreated At-Risk Sources	14	\$168,908,520
C	Compliance or Shortage	88	\$293,355,519
D	Inadequate Reliability	36	\$64,476,704
E	Secondary Risks	10	\$18,362,500
F	Other Projects	119	\$764,754,074
<b>Total</b>		<b>282</b>	<b>\$1,337,130,393</b>

These projects may also receive other funding sources such as State Bond Prop. 68 drinking water funds and may be allocated to repay financing, as grants or technical assistance, or as Drinking Water Capital Reserve funds.

### Summary of DWSRF Fundable List for SFY 2018-19

Project Type	Projected Number of Projects	Projected Total Funding Amount	Projected Loan Amount	Projected PF/Grant Amount
Small Water System Planning	28	\$14,699,800	\$2,350,150	\$12,349,650
Large Water System Planning	3	\$2,516,500	\$2,516,500	\$0
Small Water System Construction	40	\$101,944,694	\$31,724,759	\$70,219,935
Large Water System (Including Expanded SWS) Construction	25	\$449,743,883	\$411,647,119	\$38,096,764
<b>Total</b>	<b>96</b>	<b>\$568,904,877</b>	<b>\$448,238,528</b>	<b>\$120,666,349</b>

### The State Water Board Prior Green Bonds

IBank has previously issued Bonds for the SWRCB's Clean Water State Revolving Fund (the "CWSRF"), which operates separately from DWSRF and is focused on wastewater infrastructure, as follows:

On April 28, 2016, IBank issued the California Infrastructure and Economic Development Bank Clean Water State Revolving Fund Revenue Bonds, Series 2016 (Green Bonds) (the "2016 Bonds") in the par amount of \$410,735,000.

On March 23, 2017, IBank issued the California Infrastructure and Economic Development Bank Clean Water State Revolving Fund Revenue Bonds, Series 2017 (Green Bonds) (the "2017 Bonds") in the par amount of \$450,000,000.

On March 8, 2018, IBank issued the California Infrastructure and Economic Development Bank Clean Water State Revolving Fund Revenue Bonds, Series 2018 (Green Bonds) (the "2018 Bonds") in the par amount of \$449,225,000.

The 2016, 2017 and 2018 Bonds were all issued as Green Bonds.

## BACKGROUND

### California State Water Resources Control Board (State Water Board)

The State Water Board was created in 1967 by merging the State Water Rights Board and the State Water Quality Control Board, thus integrating water rights and water quality decision-making authority. The mission of the State Water Board is to preserve, enhance, and restore the quality of California's water resources and drinking water for the protection of the environment, public health, and all beneficial uses,

and to ensure proper water resource allocation and efficient use, for the benefit of present and future generations.

The State Water Board and the nine Regional Water Quality Control Boards (Regional Water Boards) work together to protect California's water resources. The State Water Board's role in protecting water quality includes setting statewide policy, coordinating and supporting the Regional Water Boards' efforts, reviewing petitions contesting Regional Water Boards' actions, and administering several financial assistance programs. The State Water Board is also solely responsible for allocating surface water rights throughout the State and regulating drinking water systems.

The State Water Board's Division of Financial Assistance ("DFA") has primary responsibility for managing and administering the CWSRF Program and DWSRF Program. Currently, 77.4 full-time equivalent staff and management positions are dedicated to both California's CWSRF Program and California's DWSRF Program.

The State Water Board is governed by five full-time salaried board members, each filling a different specialty position (See Attachment A, Governance and Management). Board members are appointed to four-year terms by the Governor and confirmed by the State Senate.

The increased number of funding requests and growth of the DWSRF Program revenue indicate that the DWSRF Program has significant bonding capacity.

## **Drinking Water State Revolving Fund PROGRAM CRITERIA**

### **Recipients**

Local governments and other qualified program participants are eligible borrowers (Recipients) under the DWSRF. The State Water Board may determine the eligibility and priority of applicants by considering a variety of factors, including an applicant's ability to repay, the feasibility of the proposed project and the proposed project's potential to produce a demonstrable improvement in water quality.

### **Eligible Projects**

The DWSRF Program provides low-cost financing for planning, design, construction and implementation of critical public water systems for drinking water infrastructure improvements necessary to mitigate drinking water risks to human health and other types of water quality projects throughout the State eligible under the Federal Safe Drinking Water Act and the State Water Board's Policy for Implementing the DWSRF ("Eligible Projects").

### **Financing Terms**

The State Water Board enters into loan contracts, installment sale agreements and similar contracts ("Project Obligations") with Recipients to provide financing from the DWSRF Program. Project Obligations, in general, are for a term of 20 to 30 years, with repayments typically commencing one year after the date of completion of construction of the Eligible Project. Project Obligation repayments are typically made by Recipients in level annual installments throughout the Project Obligation term. Prepayments were historically allowed, but newer obligations require DFA's consent for prepayment. Project Obligation interest rates are fixed and capped at one-half of the true interest rate charged on the most recent issue of State general obligation bonds.

All Project Obligations also identify the revenues dedicated or otherwise expected to be used to repay the Project Obligations, such as the gross or net revenues from the Recipient's drinking water system, and special assessments or capacity charges. Some Project Obligations are secured by a senior lien on

dedicated revenues or other pledged assets, but other Project Obligations may be secured on a parity or subordinate basis (or for some older Project Obligations, no provision regarding priority may be provided). Project Obligations allow Recipients to issue additional debt with a parity lien on the pledged revenues or other assets securing or used to pay the Project Obligations, but in no such case is a lien on pledged revenues allowed senior to the Project Obligation.

## PLAN OF FINANCE

**IBank Term Sheet**  
**The State Water Resources Control Board**  
**Date: March 27, 2019**

<b>Bond Par Amount:</b>	Up to \$100,000,000; in one or more tax-exempt series
<b>Type of Offering:</b>	Public Offering in one or more series or combinations
<b>Underwriters:</b>	Piper Jaffray & Co. and Morgan Stanley as joint senior managers; Backstrom McCarley Berry & Co. and George K. Baum & Company as co-senior managers; and such other underwriters as co-managers as may be selected by the State Treasurer's Office.
<b>Credit Enhancement</b>	None
<b>Expected Credit Rating:</b>	Aaa/AAA/AAA
<b>Interest Rate*:</b>	Any combination of fixed interest rates, depending on market conditions on the pricing date of the Bonds, the blended rate across all of the Bonds will not exceed [8%], and in any case, the blended rate will not exceed the maximum rate permitted by law
<b>Maturity*:</b>	Up to 17 years (as permitted by the Government Code Section 63074 (c))
<b>Collateral:</b>	Pledge of Pledged Project Obligations
<b>Transaction:</b>	The Bonds are special, limited obligations payable solely from payments made by the Borrower under the Transaction Documents, and IBank shall not be directly or indirectly or contingently or morally obligated to use any other moneys or assets of IBank for all or any portion of payment to be made pursuant to the Bonds.

*\*Interest Rate and Maturity are subject to change.*

## **Terms of the 2019 Bonds**

IBank issued the State Water Board's prior Green Bonds for the CWSRF Program pursuant to the Master Trust Indenture, dated as of November 1, 2012 ("Original Master Trust Indenture"). The Original Master Trust Indenture will be amended as the Amended and Restated Master Trust Indenture ("Master Trust Indenture") to allow financing the CWSRF Program under the CWSRF Act and the DWSRF Program under the DWSRF Act. The 2019 Bonds will be issued pursuant to the Master Trust Indenture, as supplemented by the 2019 Series Indenture.

The 2019 Bonds will be the first SWRCB Bonds to be cross-collateralized between assets of the CWSRF and DWSRF. Under the Master Trust Indenture, funds from the CWSRF Program can be used to secure the DWSRF Program and vice versa. Cross-collateralization allows the State Water Board to use assets from the CWSRF program and the DWSRF to secure the SWRCB Bonds for both the CWSRF and DWSRF programs. The proceeds of the 2019 Bonds will be allocated to the respective CWSRF and DWSRF Funds in the same portion as they are used for security of the Bonds. The assets of CWSRF and DWSRF Programs will not otherwise be combined and assets of one Program will not be used to fund the general operations for the other Program. The State Water Board expects utilizing the strong cash flows of the CWSRF Program as collateral will produce a better pricing outcome for DWSRF Program Bonds. Cross-collateralization was specifically approved by the U.S. EPA and is standard practice for many Clean Water and Drinking Water State Revolving Funds across the country. If funded, debt service reserves of CWSRF and DWSRF Programs will remain separate.

The 2019 Bonds will mature up to 17 years from the date of issuance. Government Code Section 63074 (c) permits maturity of up to 50 years for public agency revenue bonds such as the 2019 Bonds. The Series 2019 Bonds will be issued in fully registered form in denominations of \$5,000 and any integral multiple thereof. The 2019 Bonds are not required to have debt service reserve fund.

## **Designation as Green Bonds**

The State Water Board has decided to issue the 2019 Bonds as "Green Bonds" since the projects meet the standards of the Federal and the State Clean Water Acts. Identifying the 2019 Bonds as Green Bonds will provide investors the opportunity to invest directly in socially responsible bonds that support environmentally beneficial projects and help local governments and other public entities finance public water systems statewide, assisting communities to comply with the Federal and State Clean Water Act. The 2019 Bonds will not be certified or otherwise approved, audited, or monitored by any third party service providers. This is consistent with the State Water Board's approach to the 2016, 2017 and 2018 Bonds for the CWSRF. The 2019 Bonds are the State Water Board's first bonds for the DWSRF Program.

## **Limited Obligations**

The 2019 Bonds are special limited obligations of IBank and the State Water Board, payable solely from, and secured by a pledge of State Water Board assets under the Master Trust Indenture, Series Indenture and the Master Payment and Pledge Agreement. The 2019 Bonds do not constitute an indebtedness of the State Water Board, IBank, the State or any instrumentality or political subdivision thereof within the meaning of any constitutional debt limitation or restriction nor are a pledge of the faith and credit or taxing power of the State or any instrumentality or political subdivision thereof. Neither the State Water Board nor IBank has any taxing power.



## **SECURITY AND SOURCES OF REPAYMENT FOR THE 2019 BONDS**

The 2019 Bonds will be repaid from pledged revenue of the Pledged Project Obligations set forth on Attachment B hereto, including any prepayments, the principal and investment earnings on Investment Obligations as defined in the Amended and Restated Master Trust Indenture ("Master Trust Indenture"), payments received from federal or State sources related to Bonds issued under the Master Trust Indenture and any other amounts held under the Master Trust Indenture and designated as Pledged Revenues. Pledged Project Obligations consist of the Project Obligations that have been assigned and pledged as security for the benefit of the Bonds.

## **PUBLIC BENEFITS**

The proceeds of the 2019 Bonds will be deposited into the DWSRF, enabling the State Water Board to provide low-cost financial assistance for public water systems for drinking water infrastructure improvement projects that address the potential health risks and to improve drinking water quality throughout the State.

## **RECOMMENDATION**

Staff recommends approval of Resolution No. 19-07 authorizing the issuance of tax-exempt revenue bonds in a par amount not to exceed \$100,000,000 for the benefit of the State Water Resources Control Board.

**ATTACHMENT A - GOVERNANCE AND MANAGEMENT**

The State Water Board consists of five full-time salaried members, each filling a different specialty position. Board members are appointed to four-year terms by the Governor and confirmed by the State Senate. The current Board members are:

<b>The State Water Board Members</b>		
<b>Name/Title</b>	<b>Specialty Position</b>	<b>Expiration of Term</b>
E. Joaquin Esquivel Chair	Public Member	January 15, 2021
Laurel Firestone Board Member	Attorney	January 15, 2023
Tam M. Doduc, Board Member	Civil Engineer	January 15, 2021
Sean Maguire, Board Member	Sanitary Engineer	January 15, 2020
Dorene D'Adamo, Board Member	Water quality expert	January 15, 2022

The State Water Board Executive and CWSRF Program and DWSRF Program Management staff includes:

<b>Executive and Division Management</b>	
Eileen Sobeck	Executive Director
Eric Oppenheimer	Chief Deputy Director
Jonathan Bishop	Chief Deputy Director
Leslie Laudon	Deputy Director, DFA
James Maughan	Assistant Deputy Director, DFA

**ATTACHMENT B – PLEDGED PROJECT OBLIGATIONS**

<b>Borrower</b>	<b>Outstanding Balance</b>	<b>Interest Rate</b>	<b>Final Maturity<sup>1</sup></b>	<b>Number of Loans</b>	<b>Pledged Revenue</b>
El Dorado Irrigation District	\$8,245,529	2.4517%	10/1/2028	3	Water Rate Surcharge
Fresno, City of	\$2,237,555	2.2923%	1/1/2032	2	Net Revenues Water Fund
Los Angeles, City of Acting by and through the Department of Water & Power	\$29,692,921	2.0850% - 2.6000%	1/1/2047	3	Net Revenue Water Fund
Olivenhain Municipal Water District	\$14,252,283	2.3035%	7/1/2034	1	Net Revenue Water Fund
Placer County Water Agency	\$18,474,343	2.2923% - 2.3035%	7/1/2035	2	Net Revenue Water Fund
San Diego, City of	\$27,113,288	2.3035% - 2.5017%	1/1/2032	2	Net Revenue Water Fund
San Luis Obispo County Flood Control and Water Conservation District	\$16,992,204	2.6000%	7/1/2030	1	Net Revenues Lopez Flood Fund
Santa Barbara, City of	\$30,241,271	2.5017% - 2.5132%	7/1/2035	2	Net Revenues Water Fund
Yuba City, City of	\$18,161,503	2.2836% - 2.5017%	7/1/2032	2	Net Revenues Water Fund
<b>Total</b>	<b>\$165,410,897</b>			<b>18</b>	

1- The Maturity Dates for Projects with more than one loan, display the shortest and the longest maturity dates of the Loans.