

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)

STAFF REPORT

EXECUTIVE SUMMARY

Borrower:	State Water Resources Control Board (State Water Board)	Amount Requested:	Not to exceed \$500,000,000
Borrower Description:	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 ensure proper allocation and efficient use for the benefit of present and future generations.		
Type of Bonds:	Tax-exempt Revenue Bonds (Green Bonds)		
Bonds Project:	The proceeds of the proposed Bonds (2016 Bonds) will be delivered by IBank to the State Water Board for its Clean Water State Revolving Fund Program (CWSRF Program). The CWSRF Program provides low-cost financing for planning, design, construction, and implementation of critical wastewater management systems, storm water management systems, non-point source pollution management systems, and estuary conservation and management throughout the state (Projects).		
Project Site:	Statewide		
Plan of Finance:	The proceeds from the 2016 Bonds would be used to (1) assist the State Water Board in providing financial assistance to local agencies in the State under the CWSRF; and (2) pay costs of issuance.		
Type of Issue:	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.		
Tax Status:	Tax-exempt		
Term:	31 Years		
Credit Enhancement:	None		
Credit Rating:	Assigned rating of Aaa by Moody's Investors Service, AAA by Fitch Ratings and AAA by Standard & Poor's.		
Estimated Sources of Funds:		Estimated Uses of Funds:	
Par Amount	\$406,145,000.00	Project FundUnderwriters' Discount	\$500,000,000.00
Premium	\$97,210,818.80	Cost of Issuance	\$1,624,850.00
		Additional Proceeds	\$1729217.50
			\$2,021.30
TOTAL SOURCES	\$503,355,818.80	TOTAL USES	\$503,355,818.80
Financing Team:	Disclosure and Program Counsel —Hawkins, Delafield & Wood LLP Joint Senior Managing Underwriters —Morgan Stanley & Co. LLC and Piper Jaffray & Co. Financial Advisor —Public Financial Management (PFM) Agent for Sale, Trustee —State Treasurer's Office		
Public Benefits:	The proceeds of the 2016 Bonds will be deposited into the CWSRF, enabling the State Water Board to provide low-cost financial assistance to municipalities and other qualified entities for various projects under the CWSRF Program.		
Date of Board Meeting:	Resolution Number:	Prepared by:	
March 22, 2016	16-05	John Belmont	
Staff Recommendation:	Staff recommends approval of Resolution No.16-05 authorizing the issuance of tax-exempt revenue bonds in an amount not to exceed \$500,000,000 for the benefit of the State Water Resources Control Board.		

SUMMARY

The State Water Board is requesting IBank to issue the California Infrastructure and Economic Development Bank Clean Water State Revolving Fund Revenue Bonds, Series 2016 (2016 Bonds) in an amount not to exceed \$500,000,000.

In 1987 the Federal Clean Water Act (33 U.S.C. Sections 1251 et seq.) (Federal Clean Water Act) established the Clean Water State Revolving Fund Program. To implement the Federal Clean Water Act, in 1989, the State of California (State) established its own Clean Water State Revolving Fund Program (CWSRF Program) under the supervision of the State Water Board pursuant to the State Clean Water Act (Water Code Sections 13475-13485) (State Clean Water Act). The State Water Board operates the CWSRF Program pursuant to an Operating Agreement between the State Water Board and the United States Environmental Protection Agency (U.S. EPA). The CWSRF Program receives capitalization grants (Capitalization Grants) from the U.S. EPA pursuant to an annual Capitalization Grant Agreement between the U.S. EPA and the State Water Board. As a condition to receiving the Capitalization Grants, the State Water Board must provide additional funding in an amount equal to at least 20% of each Capitalization Grant (State Match). The 2016 Bonds will be issued to satisfy the State Water Board's State Match requirement.

The 2016 Bonds will be issued as "Green Bonds" since the proceeds will assist local governments and other public entities finance wastewater infrastructure projects statewide. This financing will enable communities to comply with the Clean Water Act, which aim at improving water quality, protecting the environment and public health. Identifying the 2016 Bonds as Green Bonds will provide the opportunity to investors to invest directly in bonds that support environmentally beneficial projects.

BACKGROUND

State Water Resources Control Board (State Water Board)

The State Water Resources Control Board (State Water Board) was created in 1967 by merging the State Water Rights Board and the State Water Quality Control Board, 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 ensure proper water resource allocation and efficient use for the benefit of present and future generations.

The CWSRF Program provides financial assistance in the form of loans and forgiveness of principal, to fund the water quality projects with monies from Capitalization Grants and State Match, along with loan interest payments and investment earnings. The revolving nature of the CWSRF Program provides a sustainable source of funds for water quality protection and improvement.

The State Water Board and 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.

Sustainability is a core value for all State Water Board activities and programs, including:

- Promoting recycled water use, water conservation, and low impact development (LID)
- Assigning higher priority to climate-related and LID projects
- Coordinating with government agencies, non-profit organizations, and private sector businesses to enhance and encourage sustainable activities

The State Water Board also assists small and/or disadvantaged communities with their wastewater needs. Small and/or disadvantaged communities generally have higher per capita costs, often resulting in higher and burdensome sewer rates for consumers.

The State Water Board prepares an annual Capitalization Grant application and a comprehensive plan (Intended Use Plan or IUP) describing the intended use of the grant and other available funding sources. The IUP sets out the State Water Board's business plan for the year. It discusses management's general approach and the capacity to successfully carry out the CWSRF Program business plan with the financial and programmatic resources available to it. In particular, the IUP estimates the CWSRF Program's cash flow for the next several years and identifies projects the State Water Board is working to finance in the federal fiscal year with its available funds. The IUP also includes performance measures to track the effectiveness of the CWSRF Program.

Since 1989, the U.S. EPA has awarded the State Water Board capitalization grants totaling \$2.857 billion. Below is a table showing the amounts of capitalization grants awarded for the past three years.

Federal Fiscal Year Ended	Capitalization Grants Amount
September 30, 2013	\$ 95.5 million
September 30, 2014	\$100.3 million
September 30, 2015	\$ 99.8 million

The State Water Board has provided the State Match in various ways, including direct appropriations from State resources (including State general obligation bonds) and loan repayments from the State's water reclamation program. In addition, certain program funding recipients have contributed a portion of the State Match in exchange for reduced interest rate on the financing.

The State Water Board's Division of Financial Assistance (DFA) has primary responsibility for administering the CWSRF Program. Currently, 54 full-time equivalent positions are dedicated to California's CWSRF Program. The positions are distributed among the State Water Board's DFA, Division of Administrative Services, the Office of Chief Counsel and the Division of Information Technology.

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 State Water Board is managed by an Executive Director.

The State Water Board will meet on March 15, 2016 to adopt a Resolution authorizing the issuance of the 2016 Bonds by IBank.

Clean Water State Revolving Fund

The Capitalization Grants and the State Match funds received by the State Water Board are deposited in the Clean Water State Revolving Fund (CWSRF).

Under the State Clean Water Act, the amounts on deposit in the CWSRF are continuously appropriated, so that the State Water Board may transfer amounts from the CWSRF as needed to fund additional Project Obligations and for other permitted purposes of the CWSRF. The State Water Board can fund projects from (i) net assets of the CWSRF that include federal grant contributions, State Match contributions and retained income and (ii) revenue bonds issued by IBank on behalf of the State Water Board.

As of June 30, 2015, the State Water Board had funded approximately \$7.951 billion to 323 borrowers for 712 water quality projects since the inception of the CWSRF Program in 1989. The Net Position of the Program exceeded \$3.6 billion as of June 30, 2015, and the Program's annual repayments, after debt service and service charges were deducted, are approximately \$240 million.

CWSRF Program Cash Flow Projection

According to a 5-Year Cash Flow Projection provided in the draft IUP for Federal Fiscal Year 2015, the estimated uncommitted cash projected to be available through June 30, 2019, for financing CWSRF Program projects is approximately \$620 million versus estimated cash needs in excess of \$4,000 million for potentially eligible projects in the IUP.

Although the cash flow projection in the draft IUP for Federal Fiscal Year 2015 indicates that the CWSRF may not have sufficient cash to fulfill all current commitments in the short run, the State Water Board believes it can manage existing CWSRF commitments and continue to make new commitments in part because actual disbursements tend to be slower than assumed in the State Water Board's cash flow projections. In addition, on January 4, 2016, the State Water Board approved in Resolution No. 2016-0002 the sale of up to \$1.2 billion in bonds for the CWSRF program. The CWSRF Program staff is continually refining its cash flow projections for the program and managing demands for financing. As such, it is unknown at this time exactly when future funding from the proceeds of bonds would be needed for the CWSRF Program.

Prior Bonds

On December 3, 2012, IBank issued the California Infrastructure and Economic Development Bank Clean Water State Revolving Fund Refunding Revenue Bonds, Series 2012 (Prior Bonds) in the par amount of \$68,940,000. The proceeds of the Prior Bonds were delivered to the State Water Board to enable it to provide low-cost financing for planning, design, construction and implementation of eligible water quality projects.

The Prior Bonds were not enhanced by letters of credit or any other credit facility and were rated 'Aaa,' 'AAA' and 'AAA' by Moody's Investor's Service, Fitch Ratings and Standard & Poor's, respectively. The current outstanding balance of the prior Bonds as of December 31, 2015 is \$29,940,000. The Prior Bonds are not being refunded by the 2016 Bonds.

CWSRF PROGRAM CRITERIA

Recipients

Local governments and other qualified program participants are eligible borrowers under the CWSRF (Recipients). 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 whether the proposed project is expected to result in a demonstrable improvement in water quality.

Eligible Projects

The CWSRF Program provides financing for the planning, design and construction of wastewater treatment, nonpoint source, storm drainage, water recycling and estuary enhancement projects (Eligible Projects) eligible under the Federal Clean Water Act.

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 CWSRF Program. Project Obligations, in general, are for a term of 20 to 30 years, with repayments commencing one year after the date of completion of construction of the Eligible Project. Project Obligation repayments are made by Recipients in level annual installments throughout the Project Obligation term, and prepayments are allowed. 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 sewer system, sewer and water system, 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

Financing Terms **Date: March 22, 2016**

Bond Par Amount:	Up to \$500,000,000; in one or more tax-exempt series
Type of Offering:	Public Offering in one or more series or combinations
Underwriters:	Morgan Stanley, Piper Jaffray, or such other underwriter as may be selected by the State Treasurer's Office
Credit Enhancement and Expected Credit Rating:	No Credit Enhancement; Expected Rating on the Publicly Offered Bonds of ["A"] or better.

Interest:	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
Maturity:	Up to 31 years
Collateral:	Pledge of Pledged Project Obligations
2016 Project	IBank will assist the State Water Board by issuing bonds (1) to provide funding to enable the State Water Board to provide financial assistance to local agencies in the State under the Clean Water SRF; and (2) to pay costs of issuance.

Limited Obligations

The 2016 Bonds are special limited obligations of IBank, payable solely from, and secured by a pledge of State Water Board under the Master Trust Indenture, Series Indenture and the Master Payment and Pledge Agreement. The 2016 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.

Designation as Green Bonds

The State Water Board will issue the Series 2016 Bonds as “Green Bonds” since the projects’ meet the standards of the Federal and State Clean Water Acts. Identifying the Series 2016 Bonds as Green Bonds will provide investors the opportunity to invest directly in bonds that support environmentally beneficial projects. Holders of Green Bonds are not exposed to any specific risk with respect to any of the funded projects.

The Series 2016 Bonds are issued to help local governments and other public entities finance wastewater infrastructure projects Statewide assisting communities in compliance with Federal and State Clean Water Act. The goal is to improve water quality, protect the environment, and protect public health.

SECURITY AND SOURCES OF REPAYMENT FOR THE 2016 BONDS

Sources of Repayment

The 2016 Bonds will be repaid from pledged revenue of the Pledged Project Obligations, including any prepayments. 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 2016 Bonds will be deposited into the CWSRF, enabling the State Water Board to provide low-cost financial assistance to Recipients for Eligible Projects.

RECOMMENDATION

Staff recommends approval of Resolution No. 16-05 authorizing the issuance of tax-exempt revenue bonds in an amount not to exceed \$500,000,000 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:

State Water Resources Control Board Members		
Name/Title	Specialty Position	Expiration of Term
Felicia Marcus, Chair	Attorney qualified in Water Supply and Water Rights	January 15, 2019
Frances Spivy-Weber, Vice Chair	Public Member	January 15, 2017
Tam M. Doduc, Board Member	Civil Engineer qualified in Water Supply and Water Rights	January 15, 2017
Steven Moore, Board Member	Sanitary Engineer qualified in Water Quality	January 15, 2020
Dorene D'Adamo, Board Member	Attorney	January 15, 2018

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

Executive Management	
Thomas Howard	Executive Director
Eric Oppenheimer	Chief Deputy Director
Jonathan Bishop	Chief Deputy Director

ATTACHMENT B – PLEDGED PROJECT OBLIGATIONS

Borrower	Outstanding Balance	Interest Rate	Final Maturity¹	Number of Loans	Pledged Revenue
Brentwood, City of	\$15,969,065	0.000%	1/31/2023	1	Wastewater Capital Reserve Fund
Chico, City of	31,104,136	2.400%	12/31/2029	1	Sewer
Corona, City of	17,022,722	2.500%	9/30/2025	1	Recycled Water Fund
Delta Diablo	4,644,195	2.600%	4/30/2033	1	Sewer
Delta Diablo	4,753,149	0.077%	12/31/2030	1	Special Assessment
Eastern Municipal Water District	230,636,098	0.422% - 2.700%	7/31/2032 – 2/29/2036	4	Water & Sewer
Fontana, City of	12,802,642	0.000%	3/31/2028 – 8/31/2038	3	Sewer
Hayward, City of	35,459,619	0.000%	9/30/2028	1	Sewer
Inland Empire Utilities Agency	76,723,864	0.000% - 2.600%	7/31/2024 – 12/31/2034	8	Sewer
Laguna County Sanitation District	4,287,196	2.400%	7/31/2023	1	Wastewater Capital Reserve Fund
Los Angeles County Sanitation District	283,022,886	0.000% - 2.700%	12/31/2022 - 8/31/2035	16	Sewer
Los Angeles, City of	122,449,342	0.000%	8/31/2024	1	Sewer
Modesto, City of	114,811,589	2.600%	12/31/2035	1	Sewer
Novato Sanitary District	67,091,444	2.400%	12/31/2030	1	Sewer
Orange County Water District	233,087,101	0.000% - 2.600%	6/30/2024 – 12/31/2034	6	Sewer
Palo Alto, City of	13,130,311	0.000% - 2.600%	6/30/2029 – 11/30/2030	2	Sewer
Pismo Beach, City of	6,092,595	0.000%	2/28/2026	1	Sewer
Redding, City of	76,863,942	1.000% - 2.600%	2/28/2023 - 4/30/2034	9	Sewer
San Diego, City of	61,486,185	0.000% - 2.700%	1/31/2024 - 9/30/2035	5	Sewer
San Diego, City of	23,531,895	0.000%	3/31/2020 - 1/31/2023	4	Wastewater Capital Reserve Fund
Santa Margarita Water District	5,401,228	2.300%	11/30/2027	1	Sewer
Santa Rosa, City of	52,298,325	2.400% - 2.700%	12/31/2022 - 8/31/2035	8	Sewer
Santa Rosa, City of	7,468,865	2.700%	3/31/2022	1	Wastewater Capital Reserve Fund
Sonoma Valley County Sanitation District	9,505,439	2.300% - 2.600%	11/30/2027 – 8/31/2034	3	Sewer
South San Francisco, City of	19,756,052	2.400% - 2.500%	4/30/2026 – 7/31/2028	2	Sewer
South San Francisco, City of	20,705,346	2.600%	8/31/2022	1	Wastewater Capital Reserve Fund
Tahoe-Truckee Sanitation Agency	33,111,258	2.600%	10/31/2027	1	Sewer
Vacaville, City of	98,194,822	2.600%	8/31/2033 – 6/30/2035	2	Sewer
Vacaville, City of	41,607,947	2.700%	7/31/2025	1	Wastewater Capital Reserve Fund
Yucaipa Valley Water District	41,079,288	2.400% - 2.700%	9/30/2028 – 12/31/2032	2	Sewer
Total	\$1,764,098,548			90	

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