

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK

STAFF REPORT

BACKGROUND AND REQUEST:

The California State Water Resources Control Board (“SWRCB”) administers the Clean Water State Revolving Fund (“CWSRF”). The CWSRF is used to finance infrastructure improvements to wastewater systems throughout California that are necessary to bring clean water in various California communities into compliance with applicable federal and state standards. The CWSRF is supported by federal capitalization grants from the United States Environmental Protection Agency (“US EPA”). CWSRF is also supplemented with state contributions.

As a condition of the US EPA capitalization grants, the recipient state entity, i.e. the SWRCB, must provide matching funds equal to 20% of each grant. The matching funds must be deposited in to the CWSRF on or before the date of each capitalization grant payment from US EPA.

SWRCB is therefore seeking a short-term loan for \$50,000,000 from IBank (the “Financing”) to provide the necessary state matching funds to qualify for receiving the applicable federal capitalization grants for the fiscal years 2020-2022.

IBANK HAS MADE THREE PRIOR SHORT TERM LOANS TO THE SWRCB:

On several prior occasions IBank has provided short-term loans to the SWRCB (or its predecessor-in-interest) for its Drinking Water State Revolving Fund (“DWSRF”). The DWSRF is similar to the CWSRF in that it is a revolving fund used to finance necessary water infrastructure and is capitalized primarily by US EPA grants. The difference is that the DWSRF, as its name implies, finances infrastructure to provide potable water. The CWSRF finances wastewater infrastructure and related projects.

The prior DWSRF short-term loans were also used to provide state matching funds for the federal capitalization grants to the DWSRF. On October 29, 2013, IBank entered into a Master Loan Agreement (“DWSRF Agreement”) with the SWRCB’s predecessor for the DWSRF, the California State Department of Public Health (“CDPH”). The DWSRF Agreement was entered into for the purpose of providing state matching funds for federal capitalization grants for the DWSRF. SWRCB took over the DWSRF in or about 2014 and the DWSRF Agreement was amended to reflect this change. The DWSRF Agreement provided for subsequent short-term financings for state match funds for federal capitalization grants.

Under the DWSRF Agreement, IBank provided three short-term loans as follows:

1. In 2013, a 7-day loan for \$35,075,000 to California Department of Public Health.

2. In 2014, a 7-day loan for \$17,925,000 to SWRCB
3. In 2016, a 7-day loan for \$36,000,000 to SWRCB

All three loans were repaid as agreed.

SWRCB REQUESTS THE FINANCING TO SATISFY FEDERAL REQUIREMENTS TO RECEIVE LARGE GRANTS FROM THE US EPA

The Financing will allow the SWRCB to maximize its share of US EPA capitalization grants. In order to receive grant money from the US EPA, the SWRCB must first show it has on hand certain “matching funds.” The SWRCB runs a successful revolving fund loan program and so has ample cash reserves to satisfy the state matching funds requirement, but unfortunately, Federal law and regulations do not allow the SWRCB to use its accumulated cash for state matching funds. However, federal law and regulations do allow the SWRCB to borrow state matching funds and use accumulated interest from CWSRF loan repayments to repay the borrowing. The SWRCB would repay the financing from its accumulated loan interest. The CWSRF currently has more than ample cash on hand to repay the Financing.

Federal regulations do not specify a minimum term for borrowed state matching funds. Consequently, the proceeds of a financing with a term as short as one day qualify under federal regulations. SWRCB currently has sufficient cash on hand to repay the Financing immediately, however, it requests a 30-day term to allow it sufficient time to process the payment request and work with its fiscal agent to wire the repayment money to IBank.

The IBank Act authorizes IBank to provide the Financing to SWRCB.

SWRCB has already received the 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. Evidence US EPA final approval will be a pre-disbursement requirement of the Financing.

The Financing will enable SWRCB to secure valuable federal capitalization grants. Without the Financing, SWRCB would likely not obtain the federal grants and as a consequence, California would miss-out on millions of dollars of federal money.

FINANCING TERMS:

Principal amount: \$50,000,000. (Includes a \$20,000 Loan Fee)

Interest rate: 0.234%

Loan term: 30 calendar days

The SWRCB is requesting a 30-day loan as the expectation is that payment can be initiated within seven days, however it may take an additional 10-14 days for the payment to reach IBank. In order to give the State Controller's Office adequate time to process and transact the payment, a 30-day loan term is requested.

The Financing is unsecured. However, as of February 28, 2021, the SWRCB has in excess of \$275,000,000 in accumulated funds from its lending activities in an un-pledged account. Interest money in this account will be used to repay the Financing. Staff is working with SWRCB management to clarify how much of this amount represents interest payments, however for now they have indicated that the amount greatly exceeds the Financing amount and all interest that might accrue.

The SWRCB will offer customary representations and covenants, including a representation that the account is free of any lien or pledge, that the SWRCB will not grant a lien against the account until the Financing is repaid, and that it will only transfer money from the account only in the ordinary course of business and that any such transfers will leave a balance of at least \$51,000,000 (an amount more than sufficient to repay the Financing).

As noted, evidence of final approval from US EPA for the grants for which the Financing is intended to serve as matching funds will be a pre-disbursement condition.

BENEFITS

- The state match will result in significant federal funds from US EPA, which will be used to finance wastewater and related projects for local municipalities that will restore and maintain water quality in California.
- These projects will also assist the State Water Board's goal of mitigating the effects of climate change, promoting water and energy efficiency, and providing for a sustainable source of clean water for future generations.
- The Financing will also assist small disadvantaged communities. The US EPA capitalization grants enabled by the Financing may be used to provide affordable funding to disadvantaged communities for their wastewater projects via principal forgiveness loans.

RECOMMENDATION:

Staff recommends that the Board of Directors approve Resolution 21-07 authorizing IBank to enter into a short-term financing of \$50,000,000 with the California State Water Resources Control Board for the purpose of providing state matching funds for federal capitalization grants.

Attachment A - Resolution 21-07

RESOLUTION NO. 21-07

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 CLEAN WATER STATE REVOLVING FUND PROGRAM OF THE CALIFORNIA STATE WATER RESOURCES CONTROL BOARD

WHEREAS, the California Infrastructure and Economic Development Bank (“IBank”) is 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 “Act”);

WHEREAS, the United States of America, pursuant to the Federal Water Pollution Control Act, as amended by, among other laws and regulations, the Water Quality Act of 1987 (33 U.S.C. Section 1251 *et seq.*) (the “Clean Water Act”), requires each state to establish a water pollution control revolving fund to be administered by an instrumentality of such state as a condition to receipt of capitalization grants under the Clean Water Act;

WHEREAS, the State has, pursuant to Chapter 6.5 (commencing with Section 13475) of Division 7 of the California Water Code, as amended (the “CWSRF Act”), established a water pollution control revolving fund (the “Clean Water SRF”) to be used for purposes of the CWSRF Act and the Clean Water Act;

WHEREAS, the California State Water Resources Control Board (the “Water Board”), through its Clean Water State Revolving Fund Program, administers the Clean Water SRF;

WHEREAS, pursuant to the Act, IBank is authorized to loan funds to the Water Board for deposit into the Clean Water SRF and the CWSRF Act authorizes Water Board to use certain of the assets of the Clean Water SRF to enter into agreements with IBank, and take other actions to repay amounts loaned by IBank to the Water Board for deposit into the Clean Water SRF;

WHEREAS, IBank intends to enter into a short-term financing (the “Financing”) with the Water Board, on terms and conditions to enable the Water Board 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 Clean Water SRF; and

NOW, THEREFORE, BE IT RESOLVED by the IBank Board of Directors (the “IBank Board”) as follows:

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

Section 2. The Board authorizes and approves providing the Financing subject to the execution of a loan agreement (the “Loan Agreement”) between IBank and the Water Board. The

Loan Agreement shall include the following terms and conditions (the “Financing Terms”): (i) the principal amount of the Financing may not exceed \$50,000,000, (ii) IBank’s origination fee for the Financing shall be \$20,000, which sum may be deducted from the principal amount of the Financing, (iii) the interest rate charged by IBank shall be 0.234% based on a year of 360 days, (iv) the term of the Financing may not exceed thirty calendar days, and (v) IBank funds may not be disbursed to the Water Board until IBank receives written evidence of the United States Environmental Protection Agency’s approval of the Financing and determination that the Financing constitutes a permissible source of State Match Funds. Additionally, the Loan Agreement shall include such other customary, necessary, and/or advisable terms and conditions as determined by the Executive Director (as defined below).

Section 3. The Executive Director of IBank (the “Executive Director”) and his or her assignees, each acting alone (the “Authorized Officers”), are hereby authorized and directed, for and on behalf of IBank to execute the Loan Agreement and take actions necessary or desirable to effect the Financing.

Section 4. All actions heretofore taken by the officers and agents of IBank with respect to the approval and entry by IBank into an agreement for the Financing are hereby approved, confirmed and ratified, and the Authorized Officers and their 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 may deem necessary or desirable in order to consummate the Financing, to effect the transactions contemplated by hereby and to otherwise effectuate the purposes of this Resolution.

Section 5. 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 March 24, 2021, by the following vote:

AYES:
NAYS:
ABSENT:
ABSTAIN:

By: _____
Scott Wu,
Executive Director

ATTEST:

By: _____
Stefan R. Spich,
Secretary of the Board of Directors