INFRASTRUCTURE STATE REVOLVING FUND PROGRAM
STAFF REPORT

Summary terms

Applicant:	The California State Water Resources Control Board (“SWRCB”)
Project name:	US EPA Matching Funds Loan
Applicant eligibility category:	State government agency
Project eligibility category:	12. Water Treatment and Distribution
Project location:	Various within the State of California
Financing amount:	$25 million total requested; $10M for the Clean Water State Revolving Fund (CWSRF), and $15M for the Drinking Water State Revolving Fund (DWSRF)
Financing term:	60-Day Term, with no prepayment penalty
Interest rate:	Annual rate of 3.64%, assuming AA 10-year scale.
Fees:	$50,000
Source of repayment:	Cumulative interest earnings (estimated at over $1B) from each respective SRF i.e. the CWSRF and DWSRF accounts.
Security:	Unsecured, though Borrower will adhere to protective covenants with respect to the SRF interest accounts.
Applicant credit rating:	All three rating agencies have AAA ratings for CWSRF and DWSRF revenue bonds. Assume AA rating since this loan is unsecured.
ISRF funding source(s):	IBank equity
Applicant ISRF financing exposure:	None besides this request.
IBank referral source	Repeat Borrower (four prior loans for similar transactions, all paid-as-agreed.)

Executive Summary

Borrower description

The California State Water Resources Control Board (“SWRCB”) was created in 1967 to coordinate and control water quality in the State. SWRCB’s 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 water resource allocation and efficient use, for the benefit of present and future generations. The SWRCB and nine Regional Water Quality Control Boards work together to protect California’s water resources, regulating more than 7,200 public water systems statewide.

The SWRCB, through its Division of Financial Assistance (DFA), administers both the Clean Water State Revolving Fund (CWSRF) and the Drinking Water State Revolving Fund (DWSRF). CWSRF and DWSRF were each established pursuant to federal legislation (from 1987 and 1974, respectively). Both are supported by federal capitalization grants from the United States Environmental Protection Agency (EPA), supplemented with state contributions. As of FY 2024/25, CWSRF had outstanding loans receivable of $6.4B, and DWSRF had $2.5B.

Project description
As a condition of the EPA capitalization grants, the recipient state entity, i.e. the SWRCB, must provide matching funds equal to 20% of each grant. Federal law and regulations do not allow the SWRCB to use its accumulated cash reserves for state matching funds. Previously, SWRCB obtained short-term loans from the ISRF program to meet this requirement. In 2014 and 2016, ISRF made two short-term loans for a total of $53.9M in order for the DWSRF to meet its matching requirements; in 2021, ISRF made a $50M loan so that CWSRF could meet its requirement. (A $35M ST loan was also made for DWSRF in 2013 via the California Department of Public Health, the SWRCB's predecessor-in-interest.) All prior loans were paid as agreed, typically within seven days. (The proposed loan maturity is set at 60 days in case more time is needed for the repayment to move through the State's internal financial system.)

Since 2021, SWRCB has been able to rely on State General Fund or general obligation bond appropriations to meet its annual 20% EPA match requirements. However, these sources have been exhausted or are no longer available due to State budget constraints, so SWRCB is seeking to return to the prior strategy of relying on ST ISRF financing to meet its EPA matching requirements. It is now requesting a $25M loan from IBank, to be repaid within 60 days. The loan proceeds will be allocated $10M to CWSRF and $15M to DWSRF in order for the Funds to meet their respective EPA matching requirements. The transaction will enable SWCRB to access $125M of EPA capitalization grants, from a portion of the remaining EPA FY 2026 round of grant awards, as well as anticipated awards forthcoming in FY 2027.

On August 25th, 2026, the EPA provided its written approval of the proposed ISRF financing as means for meeting SWRCB's matching funds requirement. On September 1st, the SWRCB's board of directors unanimously approved a resolution to proceed with the ISRF loan request. After the IBank matching fund loan approval, the EPA will provide an award letter estimated end of September or shortly thereafter. The loan is expected to close in November 2026.

Project benefits
As noted, the IBank loan will help 'unlock' $125M in EPA capitalization grants for the CWSRF and DWSRF programs. The grants will be used to provide low-interest loans and principal forgiveness to local municipalities, for the eligible costs of planning, designing and constructing wastewater, water recycling, drinking water, and other eligible projects throughout the State. These projects will also support the SWRCB'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 Loan will also enable the SWRCB to assist small, disadvantaged communities, via principal forgiveness of their existing SRF loans, subject to meeting certain eligibility requirements. (In FY 2025, such forgiveness totaled $48M and $51M for CWSRF and DWSRF, respectively.)

As of June 30, 2026 SWRCB provided a list of potential projects, including 160 CWSRF projects totaling over $4.6B, and 160 DWSRF projects for over $2.7B, that could potentially be supported by the IBank financing.

Repayment analysis
SWRCB will repay the Loan from cumulative interest earnings from the respective CWSRF and DWSRF accounts which hold these funds. As of June 30, 2025, the CWSRF had more than $884M in accumulated interest earnings, while the DWSRF had more than $210M (See Exhibit 1; Exhibits 2 and 3

show sample flow of funds diagrams for the respective CWSRF and DWSRF components of the transaction). These are the same repayment sources used in prior ISRF financings.

As with the 2021 transaction, IBank will not take a security interest in these accounts. Taking such a lien has been deemed impractical since IBank and SWRCB are two agencies within the same legal body (i.e. the State Government). However, as with the last loan, SWRCB will covenant to not grant a lien on the accounts to any creditor during the life of the Loan. SWCRB will also covenant to not withdraw funds from the accounts except in the ordinary course of business. The account balances must also remain in excess of the Loan Amount. Since combined balances were recently over $1B, SWCRB's ability to repay the Loan from these accounts appears to be very secure.

While SWRCB's expectation that it will be able to initiate repayment of the Loan within seven days, it has decided to requeste a 60-day loan term. This is because the State Controller's Office's Fi$Cal payments system, which would be processing the repayment, recently converted to an online-only payments system (previously it handled some paper payments), which has reportedly led to some payment delays and the need for fine-tuning, as is typical with any system transition. While SWCRB hopes that its loan repayment will be processed sooner, out of an abundance of caution it has requested a longer loan term. There will be no prepayment penalty for the Loan in the event SWRCB is able to repay sooner.

The CWSRF/DWSRF interest accounts are the sole source of repayment for the ISRF loan. While the SWRCB is not making other resources available, summary balance sheets for the CWSRF and DWSRF are included as Exhibits 4 and 5 for reference. With nearly $10B in combined assets, these demonstrate financial stability and steady growth in recent years. The two funds have also issued several series of revenue bonds, all with IBank as conduit issuer. The most recent issue was a $124M revenue bond in March 2026 for the CWSRF, to refund its Series 2016 bonds. Though not directly applicable to this Loan request, all CWSRF and DWSRF revenue bonds have been rated AAA/Aaa/AAA by S&P/Moody's/Fitch. The long track record of successful coordination between SWRCB and IBank on previous bond issuances and direct loans is another positive factor supporting this transaction.

Staff Recommendation

Staff recommends that the Board of Directors approve Resolution 26-14 authorizing IBank to enter into a short-term financing of $25,000,000 with the California State Water Resources Control Board for the purpose of providing state matching funds for federal capitalization grants of $10M for the Clean Water State Revolving Fund and $15M to the Drinking Water State Revolving Fund.

IBank Staff:	Ross Culverwell and Lina Moeller
Date of Staff Report:	September 18, 2026
Date of IBank Board Meeting:	September 23, 2026
Resolution Number:	26-14

Exhibit 1

California State Water Resources Control Board
2026 State Match Financing Between the IBank and State Water Board

Clean Water State Revolving Fund*			
			Cash - CWSRF
Interest Only:			
		Total Interest Collected	934,285,798.19
		IBank Financing April 2021	-50,029,750.00
		Available for State Match Financing	884,256,048.19

*as of June 30, 2025

Drinking Water State Revolving Fund*			
			Cash - DWSRF
Interest Only:			
		Total Interest Collected	299,025,482.36
		IBank Financing November 2013	-35,075,237.00
		IBank Financing December 2014	-17,904,834.00
		IBank Financing October 2016	-36,021,617.00
		Available for State Match Financing	210,023,794.36

*as of June 30, 2025

Exhibit 2

Attachment 1A - CWSRF Flow of Funds Diagram
California State Water Resources Control Board
2026 State Match Financing Between the IBank and State Water Board

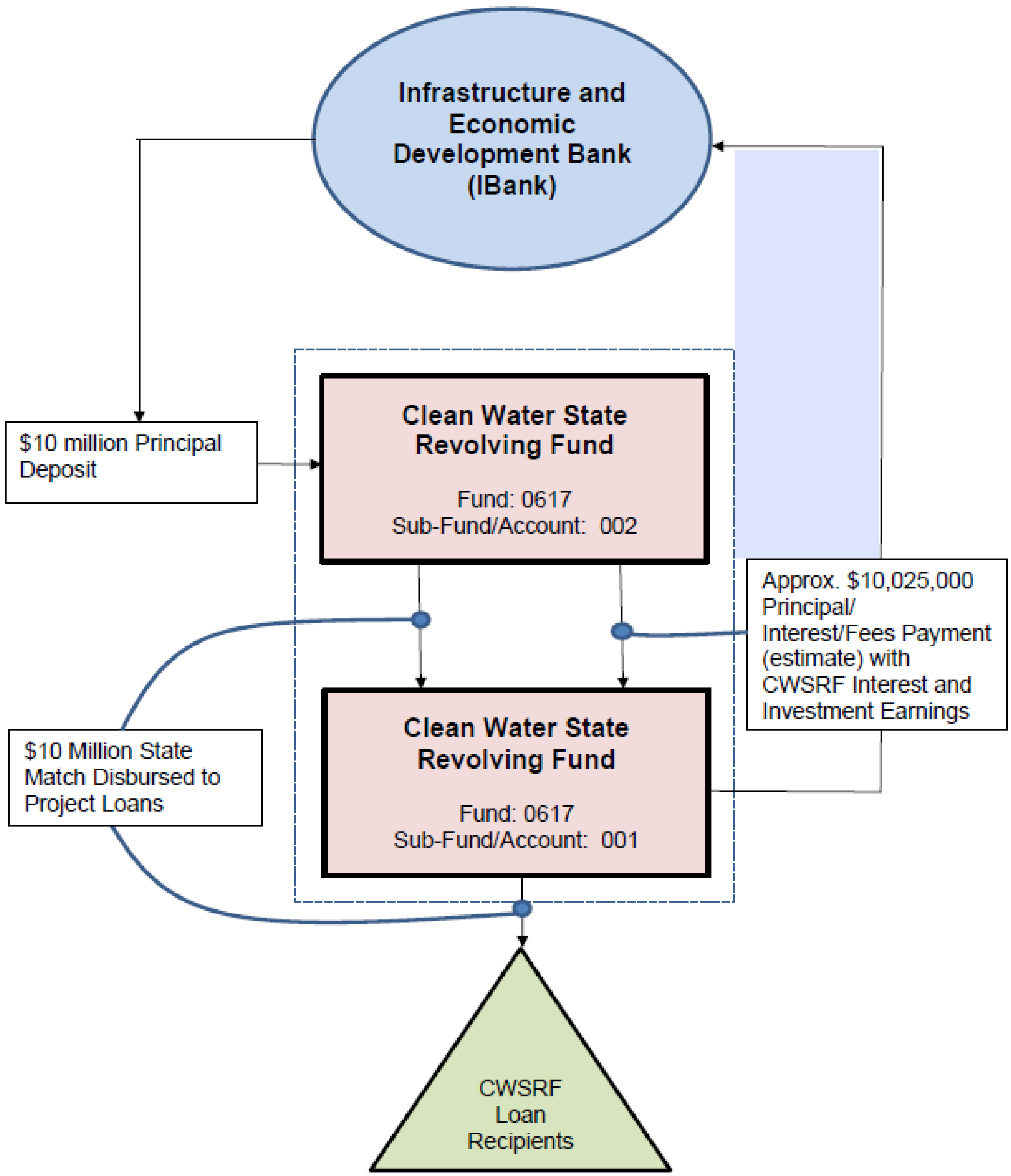

Exhibit 3

Attachment 1B - DWSRF Flow of Funds Diagram
California State Water Resources Control Board
2026 State Match Financing Between the IBank and State Water Board

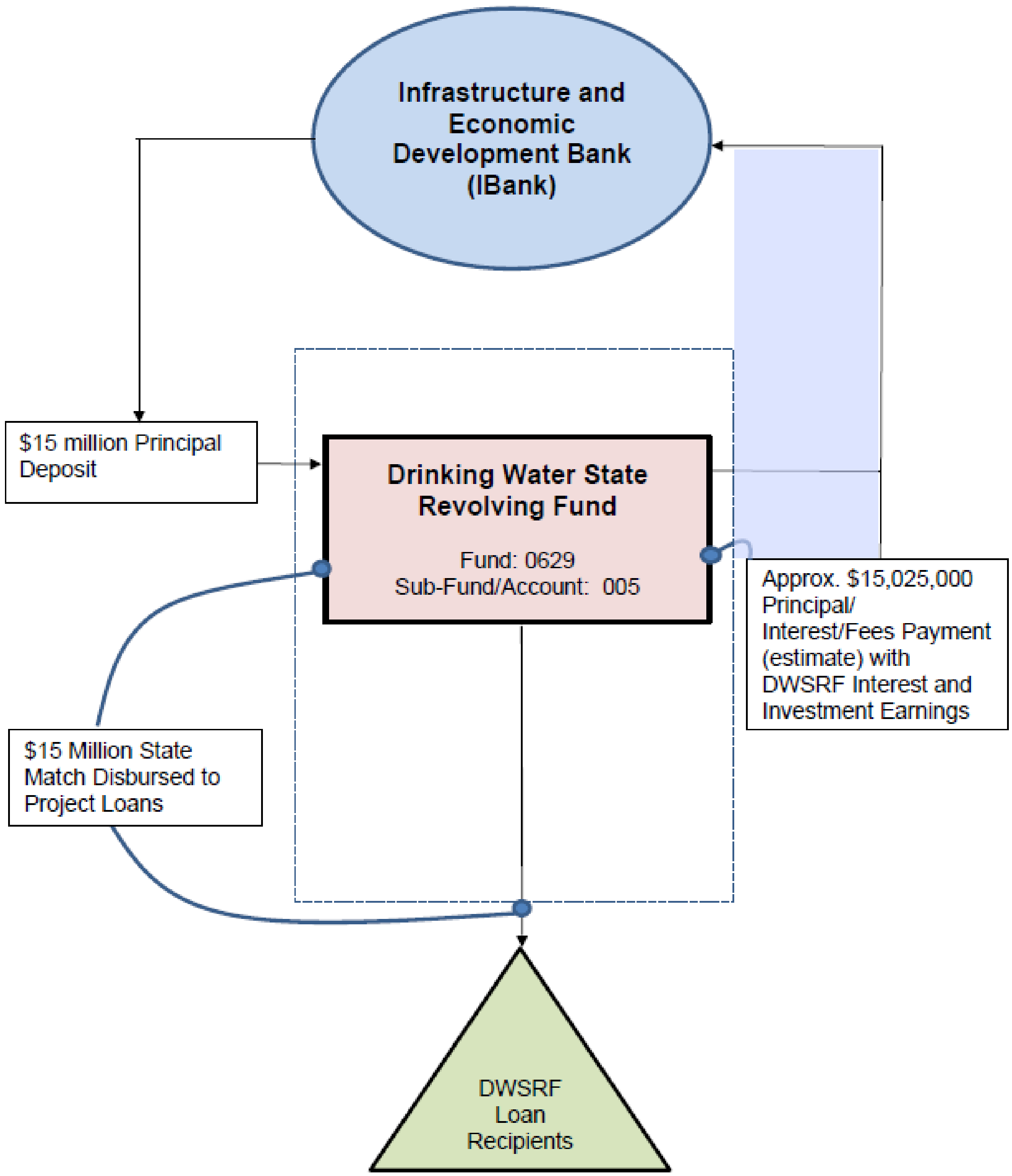

Exhibit 4: CWSRF Balance Sheets

Table 1
Net Position
(in thousands)

	June 30,		
	2025	**2024**	**2023**
ASSETS			
Cash and cash equivalents	$ 793,107	$ 1,005,708	$ 909,802
Loans receivable	6,380,407	5,917,799	5,322,055
All other assets	40,605	41,027	31,346
Total assets	**7,214,119**	**6,964,534**	**6,263,203**
LIABILITIES			
Current liabilities	136,553	138,501	133,203
Noncurrent liabilities	1,564,414	1,679,250	1,493,758
Total liabilities	**1,700,967**	**1,817,751**	**1,626,961**
NET POSITION			
Restricted			
Debt service	293,570	399,410	500,118
Security for revenue bonds	3,518,061	3,218,553	3,097,871
Subtotal restricted assets	**3,811,631**	**3,617,963**	**3,597,989**
Unrestricted	1,701,521	1,528,820	1,038,253
Total net position	**$ 5,513,152**	**$ 5,146,783**	**$ 4,636,242**

Exhibit 5: DWSRF Balance Sheets

Table 1
Net Position
(in thousands)

	June 30, 2025	June 30, 2024	June 30, 2023
ASSETS			
Cash and cash equivalents	$ 238,437	$ 176,599	$ 153,197
Loans receivable	2,463,843	2,306,244	2,140,213
All other assets	19,618	17,471	25,371
Total assets	**2,721,898**	**2,500,314**	**2,318,781**
LIABILITIES			
Current liabilities	19,280	18,003	28,969
Noncurrent liabilities	55,300	61,522	64,273
Total liabilities	**74,580**	**79,525**	**93,242**
NET POSITION			
Restricted			
Debt Service	53,468	62,861	64,369
Security for revenue Bonds	621,795	648,764	672,939
Subtotal restricted assets	675,263	711,625	737,308
Unrestricted	1,972,055	1,709,164	1,488,231
Total net position	**$ 2,647,318**	**$ 2,420,789**	**$ 2,225,539**