

**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 \$450,000,000
<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 ensure proper water resource 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>	The proceeds of the proposed California Infrastructure and Economic Development Bank Clean Water State Revolving Fund Revenue Bonds, Series 2017 (Green Bonds) (the "2017 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 to local governments and other eligible applicants for projects typically including planning, design, construction and implementation of critical wastewater management systems, stormwater management systems, non-point source pollution management systems and estuary conservation and management throughout the State (Projects).		
<b>Project Site:</b>	Statewide		
<b>Plan of Finance:</b>	The proceeds from the 2017 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 CWSRF; 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>	31 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>	
Par Amount	\$450,000,000	Project Fund	\$515,339,412
Premium	\$67,549,884	Underwriters' Discount	\$1,085,472
		Cost of Issuance	\$1,125,000
<b>TOTAL SOURCES</b>	<b>\$517,549,884</b>	<b>TOTAL USES</b>	<b>\$517,549,884</b>
<b>Financing Team:</b>	<b>Bond Counsel and Disclosure Counsel</b> - Hawkins, Delafield & Wood LLP <b>Joint Senior Managing Underwriters</b> - Morgan Stanley & Co. LLC and Bank of America Merrill Lynch <b>Co-Senior Manager</b> – Ramirez & Co., Inc. <b>Financial Advisor</b> - Public Financial Management (PFM) <b>Agent for Sale, Trustee</b> - State Treasurer's Office		
<b>Public Benefits:</b>	The proceeds of the 2017 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, including water quality protection and improvement throughout the State.		
<b>Date of Board Meeting:</b>	<b>Resolution Number:</b>	<b>Prepared by:</b>	
January 24, 2017	17-01	John Belmont	

**Staff Recommendation:**

Staff recommends approval of Resolution No.17-01 authorizing the issuance of tax-exempt revenue bonds in a par amount not to exceed \$450,000,000 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 2017 (Green Bonds) (the “2017 Bonds”) in an amount not to exceed \$450,000,000.

In 1969, the California State Legislature enacted the Porter-Cologne Water Quality Control Act, which is the foundation of current water protection policies in California. The Porter-Cologne Act was named after Assemblyman Carly V. Porter and Senator Gordon Cologne. Sections of this influential State law were used as the basis of the Federal Water Pollution Control Act Amendments of 1972, known as the Clean Water Act. 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.

The CWSRF Program provides financing to municipalities and other qualified entities to plan, design, construct and implement clean water projects including:

- Municipal wastewater and wastewater recycling facilities;
- Control nonpoint sources of pollution;
- Decentralized wastewater treatment systems;
- Stormwater or subsurface drainage control systems;
- Estuary conservation and management projects; and
- Other water quality projects.

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).

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. The State Water Board has used all of proceeds of the 2016 Bonds to finance Projects.

Like the 2016 Bonds, the 2017 Bonds will be issued as “Green Bonds” and the proceeds of the 2017 Bonds will assist local governments and other eligible applicants with wastewater and wastewater recycling infrastructure projects Statewide. The purpose of this financing is to enable communities to comply with the State’s regulations and mandates under the Porter-Cologne Act and the federal Clean Water Act, which aims at improving water quality, protecting the environment and public health and making the best use of limited water supplies. The 2017 Bonds will be marketed and sold as Green Bonds to 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 federal 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, nine Regional Water Quality Control Boards (Regional Water Boards) and twenty-four Drinking Water Districts 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 State fiscal year (July 1 – June 30) with its available funds. The IUP also includes performance measures to track the effectiveness of the CWSRF Program.

From 1989 through 2016, the U.S. EPA has awarded the State Water Board Capitalization Grants totaling \$3.052 billion. In general the State Water Board must match the Capitalization Grants from the U.S. EPA at a rate of 20% of the grant, however, \$280 million of the Capitalization Grants did not require the 20% match since the funds were contributions from the American Recovery and Reinvestment Act of 2009 (ARRA). The State Water Board drew \$2.630 billion in the CWSRF

federal grants as of June 30, 2016 which required the 20% match. The required match amount contributed by the State Water Board, therefore, for drawn federal grants as of June 30, 2016 was about \$526 million. The CWSRF is currently overmatched, and as of June 30, 2016, it has approximately \$112 million in matching funds remaining for future draws of federal funds.

Below is a table showing the amounts of Capitalization Grants awarded for the past three years.

<b>Federal Fiscal Year Ended</b>	<b>Capitalization Grants Amount</b>
September 30, 2014	\$100.3 million
September 30, 2015	\$ 99.8 million
September 30, 2016	\$ 95.6 million

The State Water Board's Division of Financial Assistance (DFA) has primary responsibility for administering the CWSRF Program. Currently, 54 full-time equivalent staff and management 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.

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. On April 28, 2016, IBank issued the California Infrastructure and Economic Development Bank Clean Water State Revolving Fund Revenue Bonds, Series 2016 (the "2016 Bonds") in the par amount of \$410,735,000 at a premium of \$91,226,148.95. After issuance of the 2016 Bonds, the CWSRF Program's remaining authority under Resolution No. 2016-0002, is \$789,265,000 of Bonds. The 2017 Bonds will be issued under the previous plan of bond financing authorized by the State Water Board.

**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 Projects Obligations (defined below) and for other permitted purposes of the CWSRF. The State Water Board can fund projects from (i) net assets of the CSWRF that include federal grant contributions, State Match contributions and retained income, (ii) revenue bonds issued by IBank on behalf of the State Water Board, and (iii) other State sources, including Statewide bond funds.

As of June 30, 2016, the State Water Board had funded approximately \$8.98 billion to 332 borrowers for 743 water quality projects since the inception of the CWSRF Program in 1989. The Net Position of the CWSRF Program exceeded \$3.9 billion as of June 30, 2016, and the CWSRF Program's annual repayments, after debt service and service charges were deducted, are approximately \$220 million. During the State Fiscal Year 2015-16, the CWSRF provided approximately \$1.058 billion in low-cost financing to 31 eligible projects.

## **CWSRF Program Cash Flow Projection**

According to a 5-Year Cash Flow Projection provided in the September 2016 update to the State Fiscal Year 2016/2017 IUP, the estimated uncommitted cash projected to be available through June 30, 2021, available for financing new projects is approximately \$1.161 billion versus estimated cash needs in excess of \$3.825 billion for potentially eligible projects in the IUP.

Based on the financial analysis in the IUP for State Fiscal Year 2016/2017, the CWSRF program has significant additional bonding capacity. The State Water Board believes it can manage existing CWSRF commitments and continue to make new commitments because of the significant bonding capacity of the CWSRF and because actual disbursements tend to be slower than forecast in the State Water Board's cash flow projections.

The CWSRF Program staff is continually refining its cash flow projections for the program and managing demands for financing. As of December 1, 2016, the State Water Board has fully liquidated all \$500 million of the proceeds of the 2016 Bonds by disbursing them to eligible recipients. The CWSRF Program requires additional bonds to fund loans to Eligible Recipients for Projects

## **Prior Bonds**

On April 28, 2016, IBank issued the the 2016 Bonds in the par amount of \$410,735,000 at a premium of \$91,226,148.95. The coupon rate on the 2016 Bonds is between 2% – 5% with final maturity on October 1, 2035. The 2016 Bonds maturing on or after October 1, 2026 are subject to optional redemption on any date on or after April 1, 2026 at 100% of principal amount of the Series to be redeemed, plus interest, without premium. The proceeds of the 2016 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.

On December 3, 2012, IBank issued the California Infrastructure and Economic Development Bank Clean Water State Revolving Fund Refunding Revenue Bonds, Series 2012 (the "2012 Bonds") in the par amount of \$68,940,000 at a premium of \$5,988,620.65. The coupon rate on the 2012 Bonds is between 2% – 4% with final maturity on October 1, 2018. The 2012 Bonds are not subject to redemption prior to their scheduled maturity. The proceeds of the 2012 Bonds were used to refund the Clean Water State Revolving Fund Revenue Bonds, Series 2002 (the "2002 Bonds") the proceeds of which were delivered to the State Water Board to enable it to provide financial assistance to local governments for water pollution control projects. "2016 Bonds" and "2012 Bonds" are collectively referred to as the "Prior Bonds".

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 balances of the 2012 Bonds and the 2016 Bonds as of December 31, 2016 are \$17,000,000 and \$410,735,000, respectively. The Prior Bonds are not being refunded by the 2017 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 low-cost financing for planning, design, construction and implementation of critical wastewater management systems, storm water management systems, non-point source pollution management systems, estuary conservation and management, and other types of water quality projects throughout the State eligible under the Federal Clean Water Act and the State Water Board's Policy for Implementing the CWSRF (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 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

### **IBank Term Sheet** **Date: January 24, 2017**

<b>Bond Par Amount:</b>	Up to \$450,000,000; in one or more tax-exempt series
<b>Type of Offering:</b>	Public Offering in one or more series or combinations
<b>Underwriters:</b>	Morgan Stanley and Bank of America Merrill Lynch as joint senior managers, Ramirez & Co. as co-senior manager, 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:</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 31 years (as permitted by the Government Code Section 63074 (c))
<b>Collateral:</b>	Pledge of Pledged Project Obligations
<b>2017 Project</b>	IBank will assist the State Water Board by issuing bonds to (1) 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) pay costs of issuance.

### **Limited Obligations**

The 2017 Bonds are special limited obligations of IBank, 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 2017 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 2017 Bonds as “Green Bonds” since the projects’ meet the standards of the Federal and State Clean Water Acts. Identifying the 2017 Bonds as Green Bonds will provide investors the opportunity to invest directly in bonds that support environmentally beneficial projects. The 2017 Bonds will not be certified or otherwise approved, audited, or monitored by any third party service providers.

The 2017 Bonds are issued to help local governments and other public entities finance wastewater infrastructure projects Statewide assisting communities to comply with Federal and State Clean Water Act.

### **Term of the 2017 Bonds**

The 2017 Bonds will mature up to 31 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 2017 Bonds.

## **SECURITY AND SOURCES OF REPAYMENT FOR THE 2017 BONDS**

The 2017 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 Master Indenture, payments received from federal or State sources related to Bonds issued under the Master 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 2017 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, including water quality protection and improvement throughout the State.

## **RECOMMENDATION**

Staff recommends approval of Resolution No. 17-01 authorizing the issuance of tax-exempt revenue bonds in a par amount not to exceed \$450,000,000 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>State Water Resources Control Board Members</b>		
<b>Name/Title</b>	<b>Specialty Position</b>	<b>Expiration of Term</b>
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	Water quality expert	January 15, 2018

\* At the expiration of their terms, these members may continue to serve at the pleasure of the Governor, pending reappointment within 60 days.

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

<b>Executive Management</b>	
Thomas Howard	Executive Director
Eric Oppenheimer	Chief Deputy Director
Jonathan Bishop	Chief Deputy Director
Leslie Laudon	Acting Deputy Director
James Maughan	Assistant Deputy Director

**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>
Brentwood, City of	\$15,969,065	0.00%	1/31/2023	1	Wastewater Capital Reserve Fund
Chico, City of	31,104,136	2.40%	12/31/2029	1	Sewer
Corona, City of	15,503,295	2.50%	9/30/2025	1	Recycled Water Fund
Delta Diablo	4,438,586	2.60%	4/30/2033	1	Sewer
Delta Diablo	4,753,149	0.08%	12/31/2030	1	Special Assessment
Eastern Municipal Water District	68,788,190	0.42% - 1.00%	7/31/2032 - 3/31/2033	2	Water & Sewer
Fontana, City of	11,817,823	0.00%	3/31/2028 - 8/31/2028	3	Sewer
Hayward, City of	32,732,118	0.00%	9/30/2028	1	Sewer
Inland Empire Utilities Agency	74,647,577	0.00% - 2.60%	7/31/2024 - 12/31/2034	8	Sewer
Laguna County Sanitation District	3,794,712	2.40%	7/31/2023	1	Wastewater Capital Reserve Fund
Los Angeles County Sanitation District	182,817,217	0.00% - 2.70%	12/31/2022 - 8/31/2035	12	Sewer
Los Angeles County Sanitation District	16,294,152	0.00%	11/30/2023	1	Sewer - District 32 (Santa Clarita)
Los Angeles County Sanitation District	21,485,909	0.00% - 2.40%	5/31/2024 - 12/31/2024	2	Wastewater Capital Reserve Fund
Los Angeles, City of	108,843,860	0.00%	8/31/2024	1	Sewer
Modesto, City of	121,879,769	2.60%	12/31/2035	1	Sewer
Novato Sanitary District	67,091,444	2.40%	12/31/2030	1	Sewer
Orange County Water District	238,764,892	0.00% - 2.60%	6/30/2024 - 1/31/2036	6	Sewer
Palo Alto, City of	12,302,173	0.00% - 2.60%	6/30/2029 - 11/30/2030	2	Sewer
Pismo Beach, City of	6,092,595	0.00%	2/28/2026	1	Sewer
Redding, City of	73,768,092	1.00% - 2.60%	2/28/2023 - 4/30/2034	9	Sewer
San Diego, City of	63,860,516	0.00% - 2.70%	1/31/2024 - 9/30/2035	5	Sewer
Sonoma Valley County Sanitation District	8,946,579	2.30% - 2.60%	11/30/2027 - 8/31/2034	3	Sewer
South San Francisco, City of	18,261,048	2.40% - 2.50%	4/30/2026 - 7/31/2028	2	Sewer
South San Francisco, City of	17,970,265	2.60%	8/31/2022	1	Wastewater Capital Reserve Fund

Tahoe-Truckee Sanitation Agency	30,724,653	2.60%	10/31/2027	1	Sewer
Vacaville, City of	98,118,605	2.60% - 2.60%	8/31/2033 - 6/30/2035	2	Sewer
Vacaville, City of	37,928,026	2.70%	7/31/2025	1	Wastewater Capital Reserve Fund
Yucaipa Valley Water District	38,931,316	2.40% - 2.70%	9/30/2028 - 12/31/2032	2	Sewer
<b>Total</b>	<b>\$1,453,040,998</b>			<b>78</b>	

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