



**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

7-9

September 16, 1996

**To:** Board of Directors (Special Committee on Water Quality and Environmental Compliance--Action)  
(Committee on Legislation--Action)

**From:** for General Manager

**Submitted by:** Mark D. Beuhler  
Director of Water Quality

**Subject:** Policy Principle — State Revolving Fund for Water System Improvements

## RECOMMENDATION

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That Metropolitan support efforts to establish and fund a Safe Drinking Water Act State Revolving Fund.

## EXECUTIVE SUMMARY

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The federal Safe Drinking Water Act Amendments of 1996 have authorized a State Revolving Fund (SRF) program with over \$7 billion authorized through 2003. The SRF is expected to provide low-interest, and possibly no-interest, financing for qualifying projects for public water systems in California, including Metropolitan and/or its Member Agencies.

Up to \$75 million of SRF money is expected to be available to California initially, with equal or greater funding anticipated annually for fiscal years 1998 through 2003. In order to receive the SRF capitalization grant, California must establish an SRF through enabling legislation and provide matching funds equal to 20% of the grant. The match may be secured from the State's General Fund, from the proceeds of a voter-approved bond issue, or possibly through drinking water suppliers willing to provide the match.

## DETAILED REPORT

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The federal Safe Drinking Water Act (SDWA) Amendments of 1996 have authorized a State Revolving Fund (SRF) program. Under the program, capitalization grants will

be made to states that establish an SRF and deposit matching funds equal to 20% of the grant. The SRF may make low-interest, and possibly no-interest, loans to public water systems for projects that facilitate compliance with drinking water standards, provide source water protection, and for other purposes. It is very likely that Metropolitan and its Member Agencies will have drinking water quality improvement projects that will qualify for SRF loan funding.

Congress is expected to appropriate about \$1.2 billion for the initial year of the SRF program, and up to \$1 billion may be appropriated annually for fiscal years 1998 through 2003. If the initial appropriation is \$1.2 billion, California would be eligible for \$75 million. To receive this level of funding, however, California must provide \$15 million in matching funds. Matching funds will also be necessary for future capitalization grants, which are likely to be equal or greater in size.

To establish the SRF, enabling legislation is required, and the California Department of Health Services (DHS) is in the process of developing such legislation for the next legislative session. Further, a source of funds for the State's 20% match must be secured. Possible sources include the State's General Fund, the proceeds from a voter-approved bond issue, or possibly from drinking water suppliers willing to provide the match.

State General Funds may be available for funding the initial year's match. Until the Legislature reconvenes in December, it is uncertain whether there is legislative support for using General Fund monies.

Funding from the proceeds of a bond issue could secure the match for initial and subsequent SRF grants. A bond measure, targeted for the March 1998 primary, must first be approved by the Legislature and Governor. Historically, drinking water bond measures in California have had broad voter support when not packaged with less popular issues. If California is unable to secure matching funds for the initial grant by October 1999, the grant will be lost and will be reallocated to other states.

A third alternative is for financially able drinking water suppliers to provide the matching funds. There is some precedent for this option. The Clean Water Act SRF allows project proponents to provide the matching share. When the proponent provides the match, the loan is interest-free. California may find it attractive to adopt a similar approach for the SDWA SRF. This approach could enable the State to receive federal SRF money without obligating the State's current or future General Fund revenues and, if acceptable to the State and the USEPA, would eliminate the possibility that California would lose its capitalization grant.

Drinking water suppliers may benefit from this approach because the interest rate on SRF loans is expected to be no more than 50% of prevailing interest rates. For example, a 20-year loan at 50% of the prevailing market interest rate could result in a savings of \$4.6 million on a \$20 million loan, if the market rate is 6%. The savings would increase to \$8.3 million if the loan were interest-free.

Policy Principle

**Metropolitan should support legislative efforts to establish an SRF in California and find ways for securing matching funds so Metropolitan and its Member Agencies may realize the benefits of low-cost federal financial assistance to make needed drinking water quality improvements.**

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