

June 10, 2020

Jeanine Townsend, Clerk to the Board
State Water Resources Control Board
1001 I Street, 24th Floor
Sacramento, CA 95814

Via electronic mail: commentletters@waterboards.ca.gov

**RE: COMMENTS ON THE DRAFT FY 2020-2021 DRINKING WATER SRF
INTENDED USE PLAN**

Dear Chair Esquivel:

WaterNow Alliance appreciates the opportunity to provide comments on the draft Intended Use Plan (IUP) for the Drinking Water State Revolving Fund (DWSRF). [WaterNow](#) is a nonprofit network of 600+ local water leaders in 39 states advancing sustainable, affordable, and climate resilient water strategies in their communities. While our network is national in scope, with 172 members in California we have a particular interest in working with California to advance innovative water solutions locally. We have reviewed the IUP for the DWSRF and are encouraged that the plan recognizes that water use efficiency strategies are eligible to receive Drinking Water SRF funding.

Onsite installations and technologies distributed widely across a community, including green stormwater strategies, water use efficiency measures, watershed restoration, lead line replacements and more, supplement, extend and serve the same functions as more conventional, centralized water supply infrastructure. These [distributed approaches](#) are also often less expensive than larger public works projects keeping rates affordable, while building local resilience to disasters and ability to withstand shifts resulting from climate change. Critically, green and distributed strategies provide lasting economic benefits, including near-term permanent local green jobs and local economic development. Distributed water management strategies also go a long way to address water equity issues around access to clean water and more affordable rates, and provide other [co-benefits](#) including improved [public health](#), energy efficiency, improved air quality, reduced greenhouse gases, increased open space, increased property values and reduced crime.

Given California's commitments to making water conservation a way of life and increasing water use efficiency and sustainability, as well as the need to spur an equitable, environmentally-sound post-pandemic economic recovery, our below comments focus on opportunities the State Water Resources Control Board (State Board) has to more clearly prioritize Drinking Water SRF funding for 21st Century water infrastructure solutions.

Increase Drinking Water SRF Funding Targets

Most critically, the draft IUP for the Drinking Water SRF proposes to *lower the annual long-term lending capacity of the DWSRF program by ~27%*, from an annual lending target of

\$420 million in the previous IUP, to \$308 million in the current draft.¹ This significant reduction runs counter to statewide priorities, including but not limited to:

- The Governor’s draft 2020 Water Resilience Portfolio Recommendations 1.2 and 5.2, which call for **increasing** financial capacity to support drinking water projects through the Drinking Water SRF and other state and local funding mechanisms and piloting stormwater capture and use projects through the DWSRF, respectively;
- The growing need for increased investment in water infrastructure; and
- Critically needed local economic stimulus to address the local financial impacts of the COVID-19 pandemic.

Reducing funding capacity for such a vital program could undermine local water agencies’ essential efforts to bolster California’s investments in sustainable water infrastructure that will help stimulate the economy. For these reasons, we respectfully recommend that the State Board direct staff to re-evaluate the draft IUP funding targets and increase the targets wherever possible. At a minimum, we urge the State Board to allow additional stakeholder and Board member review of the funding capacity analysis and, if appropriate, develop a revised analysis to guide the program this fiscal year and over the long term.

Expand the Green Project Reserve

WaterNow appreciates that the draft IUP opts to make DWSRF funds available for Green Project Reserve (GPR) eligible projects. However, the draft IUP specifically limits GPR projects for SFY 2020-21 to installation of water meters, and does not recognize the human health benefits of GPR eligible projects.

WaterNow fully supports the use of water meters to promote water conservation. But the scope of GPR projects eligible for DWSRF funding is much broader, and many GPR projects provide significant human health benefits by ensuring compliance with drinking water standards as well as water use efficiency priorities. These include but are not limited to watershed protection, leak detection devices, and lead service line replacements. By restricting the use of Drinking Water SRF funds to meters, the Board is missing a key opportunity to support sustainable drinking water projects across California.

For these reasons, we urge the State Board to revise the IUP to include the following two recommendations:

¹ Drinking Water SRF Draft IUP, p. 24 (“Given current capitalization and debt levels, and assuming conservative future capitalization, loan terms and earnings levels, and bond and coverage terms, the DWSRF can operate at an estimated sustainable financing level of approximately \$308 million per year. The capacity is the amount of new lending that could be done per year with the existing loan pool and new loans pledged to potential bonds. The annual capacity is a level amount that could be originated each year for the next 20 years. The Funding Target, therefore, for SFY 2020-21 will be \$308 million in new financing.”).

- Expand the GPR eligibilities to include a broad range of eligible GPR options (beyond metering projects) including but not limited to watershed protection through conservation easements, leak detection devices, water use efficiency, and lead service line replacements; and
- Clarify that such DWSRF funds can be used by utilities to support onsite, localized strategies by specifically listing consumer incentive and/or direct installation programs as eligible for DWSRF funds and solicit distributed infrastructure projects and consumer incentive programs for SFY 2020-21.

Increase California's SRF Leveraging Ratio to Access Additional Funding Capacity

Across the country, it is possible for SRFs to increase their funding capacity by accessing untapped equity and offering innovative financing options. A [2014 Environmental Financial Advisory Board](#) report specifically identified innovative leveraging options that access excess SRF funding capacity as key mechanisms for increasing green infrastructure funding. For example, Rhode Island leads U.S. states with a leveraging ratio approaching \$5 of financial assistance for every \$1 of equity. Other states, including New York, Ohio, Iowa and Indiana also have leveraging ratios of over \$2.00. By contrast, California's ratio is in the range of \$1.65 to \$1.00 indicating that the State is missing out on an important opportunity to maximize these resources.

We respectfully recommend that the State Board direct staff to evaluate changes to the IUP that will increase California's leveraging ratio to ensure that the State is positioned to make fuller use of its SRF equity, thus expanding funding capacity.

Conclusion

Localized water infrastructure has enormous potential to not only sustainably manage our water resources now and for future generations, but to also foster long-lasting economic recovery for communities across the nation facing critical needs for jobs and renewal.

We appreciate your consideration of our recommendations and look forward to working with you to transform California's water infrastructure to secure our water future. Please feel free to contact me by email at cak@waternow.org or by phone at 415-813-8044 if you have any questions.

Sincerely,



Caroline Koch
Water Policy Director
WaterNow Alliance