



Meeting Minutes

Meeting of the California Water Commission

Wednesday, February 17, 2021

Remote Meeting

Beginning at 9:30 a.m.

1. Call to Order

Chairperson Alvarado called the meeting to order at 9:30 a.m.

2. Roll Call

Assistant Executive Officer Laura Jensen called the roll. Commissioners Alvarado, Arthur, Cordalis, Curtin, Gallagher, Makler, Steiner and Swanson were present, constituting a quorum

3. Closed Session

The Commission did not hold a closed session.

4. Approval of January 20, 2021 Meeting Minutes

Vice Chair Swanson motioned to approve the January 20, 2021 meeting minutes. Commissioner Makler seconded the motion. All Commission members present voted in favor.

5. Executive Officer's Report

Executive Officer Yun reported that he participated in a panel hosted by the Public Policy Institute of California (PPIC) on agriculture and urban partnerships, informed Commissioners that the State Water Project 2020 review will be brought to the March meeting for their consideration, and noted that the Commission has been contacted regarding six projects interested in the Water Storage Investment Program (WSIP) screening process, and that further conversations with project proponents will follow.

6. Commission Member Reports

Commissioners Swanson, Steiner, and Gallagher noted that they attended the regional conveyance workshops, said that the workshops were well attended and informative, and remarked that they were pleased by the extent of stakeholder participation and engagement.

7. Public Testimony

There was no public testimony.

8. 2021 Commission Workplan

Assistant Executive Officer Laura Jensen presented an overview of Commission activities anticipated in 2021. WSIP items will be lighter in the early part of the year and ramp up later in the year as the Commission makes feasibility determinations for the projects. Conveyance work should wrap up by June. The 2020 State Water Project (SWP) review will be brought to the March meeting, and SWP briefings for 2021 will kick off in March and then happen every other month through the middle part of the year. This year's focus will be on aging infrastructure and

climate change and will feature briefings that are clustered around a unifying topic. The Commission will also hear multiple updates from DWR about the implementation of the Sustainable Groundwater Management Act and the Flexible Resources Study which will assess how the SWP can be used to help meet the state's clean energy goals. The workplan will shift to accommodate changes and may need to be revised should new items emerge.

9. Conveyance Workshop Report and Financing Mechanisms and Challenges Panel

As part of the Commission's work assessing a state role in financing resilient conveyance projects that can help meet needs in a changing climate, Stantec Facilitator Lisa Beutler presented a synthesis of the four regional public conveyance workshops that the Commission hosted. Ms. Beutler discussed the primary take-aways from the workshops, including one size does not fit all, as there are huge differences in agencies' size, resources, customer base, hydrology, climate, and physical location of conveyance systems; conveyance encompasses all scales, from watershed to premise plumbing, and includes natural infrastructures, and timing is an important factor, catching water when its available and delivering it when needed; public benefits can be viewed in multiple ways, and a flexible view of benefits would expand the list of potential projects; and achieving environmental and social justice is a continuous process – it is important to incorporate members of disadvantaged communities into publicly funded projects, and to understand the historical context of conveyance. Ms. Beutler explained that traditional funding sources only fund capital costs and funding is needed at all stages of a project, so project proponents use a blend of financing options, including bonds, public-private partnerships, low interest loans, workforce programs, taxes and surcharges, and grants.

Vice Chair Swanson said it was good to understand the breadth of communities and what elements were important to each of them; the Commission is a repository of public comment; the more we can learn and do, the better.

Commissioner Curtin asked about public-private partnerships and enhanced infrastructure financing.

Commissioner Steiner talked about local self-sufficiency, with a focus on developing new water supplies, and the need for small and disadvantaged communities to access funding.

Commissioner Makler suggested a mini workshop six months from now to see if there is a change of views, as it could be relevant to the overall analysis. Assistant Executive Officer Jensen said the information gathered will inform our recommendations, and we can consider having follow up workshops as state funding becomes more real.

Commissioner Cordalis talked about holistic management, connecting upper and lower watersheds, and asked whether there was participation in the workshop from the North Coast.

Commissioner Alvarado said purified systems between recycled and potable water was an important priority to include.

Commissioner Arthur said it was important to think about natural and green infrastructure and what conveyance actually is, and asked if we got enough information from the workshops regarding which public benefits we should focus on. Assistant Executive Officer Jensen said we

received information about public benefits and now must decide how to shape our recommendations.

Assistant Executive Officer Jensen recapped the work so far on the state's role in financing conveyance projects and introduced the panel on financing mechanisms, including the advantages and disadvantages specific to conveyance projects, and challenges associated with them. Ms. Jensen also introduced three water industry representatives invited to offer commentary on the panelist presentation: Rosemary Menard, Water Director, City of Santa Cruz; Marguerite Patil, Assistant General Manager Policy and External Affairs, Contra Costa Water District; and Alexandra Biering, Government Affairs and Communications Manager, Friant Water Authority.

Leslie Laudon, Deputy Director, Division of Financial Assistance, State Water Resources Control Board, provided a brief overview of the agency's financial assistance programs, focusing on the Drinking Water State Revolving Fund and the Clean Water State Revolving Fund (SRF). She explained where the funding comes from, the considerations for funding, and that co-funding projects with two or more funding sources requires close coordination with partners.

Lina Benedict, Loan Origination Manager, California Infrastructure and Economic Development Bank (IBank), provided a brief overview of IBank programs, including direct loan financing, direct green financing, conduit revenue bond financing, and small business support programs; the benefits of utilizing IBank loans, and the eligible applicants; and how IBank has a program that promotes Assembly Bill 32's greenhouse gas reduction goals.

Richard Welsh, Principal Deputy Regional Director, U.S. Bureau of Reclamation (USBR), described federal funding for conveyance, explaining the difference between Reserved Works (owned and operated by USBR) and Transferred Works (owned by USBR but operated and maintained by a contractor) and how they are funded; and describing specific legislation such as the Water Infrastructure Improvements to the Nation (WIIN) Act for storage and other water supply projects like desal, recycling and reuse.

Assistant Executive Officer Jensen then asked the water industry representatives what experience they had working with these financing mechanisms, have they used them in combination, and what is the importance of the state as a financing partner.

Ms. Menard said they have an IBank loan and a Drinking Water SRF loan. The challenge in trying to mix and match various funding and share levels is complex and can be hard to figure out how to get through. Having a state partner is critically important to help mitigate some of the financial impacts that will occur.

Ms. Patil said they use a combination of state and federal and local funding, like to explore grant funding when they can, but have to be nimble and do it in order to take advantage of money. They used SRF funding in the past. Ms. Patil noted that, when the State is a financing partner and getting a benefit from the project, it is important to the local partners that the state is paying their fair share, and that there should be equity across how entities share financing as well as risks.

Ms. Biering said they are in a hard situation because they do not own the federal facility that they operate. She explained that they looked at private bonding and received some WIIN Act funding, and that what works for one in financing might not work for another. She noted that, if the state has a vested interest in what a facility can do, there is probably a role for the state as an investor.

Commissioner Makler asked Ms. Patil to explain her comment on how parties share financing can also share risk. Ms. Patil explained, if the state has skin in the game at every stage, it makes a huge difference toward a project being successful. Ms. Biering compared it to the chicken and egg concept: if the project is not too far along, funders ask why they should contribute money, and if it is further down the line, funders want to see changes made to the project.

Commissioner Makler asked if it is better to have grant money available to use for early stage development. Ms. Patil said it's about flexibility: it's either a good fit for the state or it isn't. Ms. Laudon recognized the constraints they have in funding. Ms. Benedict said they can do 100 percent financing on projects.

Vice Chair Swanson said it seems like all projects only get more expensive, many are saddled with existing debt, and asked, how to advantage of record low interest rates. Ms. Menard said low rates exist when the economy is struggling, and it is counterintuitive to pursue capital projects and incur debt. Ms. Laudon said their interest rate is 0.9 percent right now. Ms. Biering said they do not have a lot of assets they can borrow against, and it is not feasible for them to take advantage of low interest loans.

Commissioner Makler asked about the 20- versus 30-year loan interest rate benefit, and if it is appropriate to finance over the longer 40- to 50-year term. Ms. Laudon said they are limited by federal statute and are looking to go the 20-year term as the demand is to get more capital in the program.

Chair Alvarado called for a half-hour lunch break.

Larry J. Kosmont, Chairman and CEO, Kosmont Companies, described the flexibility and versatility of Enhanced Infrastructure Financing Districts (EIFDs). EIFDs work better with a city/county partnership, are more likely to win state grant funding, and do not need to be adjacent. The ability for multiple public agencies in separate areas to share funding is a compelling feature and has great applicability to the water industry.

Commissioner Curtin said that conveyance is a complex process with issues that cross jurisdictional lines, and discussion continued about EIFD applicability, how they can be applied to non-contiguous areas and used over long distances, and how they are tailor-made for large scale regional delivery infrastructure. Commissioner Gallagher asked how EIFDs would work for a rural community.

Eric Sandler, Assistant General Manager of Business Services/Chief Financial Officer, San Francisco Public Utilities Commission, described the Green Bond Program, and how proceeds are used for certified green projects with climate mitigation and/or adaptation benefits. Mr. Sandler explained that there has been an increase in the investor base and a lot of demand for

green bonds, paired with increasing transparency on project selection and environmental impacts.

Zack Knight, Chief Executive Officer, Blue Forest, described how their nonprofit investment firm works to connect the dots between ecosystem services and investor capital by partnering with public and private entities to support natural infrastructure development in watersheds through issuing Forest Resilience Bonds that allow multiple groups to collaboratively finance projects that benefit all parties.

Caitrin Chappelle, Associate Director of the Water Policy Center and Research Fellow, PPIC, provided an overview of financing in the water sector and challenges in raising local revenue for water projects, the impacts of Propositions 13, 218 and 26, and considerations for creating sustainable funding sources.

Assistant Executive Officer Jensen asked the speakers what is the best way that the state can align with and support some of these financing mechanisms. Mr. Kosmont said the state should have a mechanism where they can redirect funding sources into EIFDs and partnerships.

Commissioner Makler asked if a water agency in the north could enter into an EIFD with a water agency in the south. Mr. Kosmont said potentially, but traversing counties could be a challenge because they collect taxes differently. Commissioner Curtin asked if it takes a public vote, a Board of Director majority vote, or a two-thirds vote to adopt an EIFD. Mr. Kosmont explained the process of setting up an EIFD.

Commissioner Curtin asked Mr. Knight if the water quality after forest fires affects finding investors. Chairperson Alvarado and Commissioner Makler asked what the expectation from investors is for a return on investment. Mr. Sandler and Mr. Knight explained investor interest and rates of return.

10. Consideration of Items for Next California Water Commission Meeting

The next meeting of the Water Commission is currently scheduled for March 17, 2021. The Commission will kick-off its 2021 SWP briefings with updates on the SWP strategic plan and 2021 SWP priorities, DWR's Climate Vulnerability Assessment, and aging infrastructure issues; review the statutorily required 2020 SWP report; receive an update on DWR's Flexible Resources Study to assess the SWP's potential to support the state's clean energy policy; and receive a briefing on the status of the Groundwater Sustainability Plans required by the Sustainable Groundwater Management Act.

11. Adjourn

The Commission adjourned at 2:20 p.m.