

Association of California Water Agencies

Draft Scope of Work: California Water Infrastructure Financing Program Feasibility Study

Project Background

California's water agencies face significant and ongoing infrastructure investment needs to maintain reliable water supplies, comply with regulatory requirements, improve climate resilience, modernize aging infrastructure, and support long-term economic growth. While federal and state grant programs provide important support, the majority of water infrastructure investments are financed through local ratepayer revenues and municipal debt, placing increasing pressure on affordability.

As part of its Vision for Our Water Future (Vision) initiative, the Association of California Water Agencies (ACWA) has identified the need for a sustainable, long-term state investment strategy that supports critical water infrastructure while minimizing impacts to local ratepayers. Specifically, Vision calls for the creation of a reliable state funding source that provides predictable, ongoing investment in water infrastructure and leverages federal, regional, and local resources.

Recognizing California's fiscal constraints and the need to maximize the impact of limited public resources, ACWA is interested in the state creating a reliable sustainable state funding source for water infrastructure that provides predictable, long-term investment; one example could be a state fund. Similar programs have been successfully implemented in states such as Texas and New York, where initial state investments have been leveraged to create long-term financing capacity, reduce borrowing costs for local agencies, and support delivery of critical infrastructure.

To inform development of Vision recommendations for California's next Governor and Administration, ACWA seeks consultant support to evaluate successful state financing models, assess their applicability to California, and develop recommendations regarding governance, capitalization, financial sustainability, affordability benefits, and implementation considerations for a California water infrastructure financing program. The study should focus on state-supported financing approaches and is not intended to evaluate new statewide taxes, fees, or ratepayer assessments as potential funding sources.

Project Objectives

The consultant shall:

- 1) Evaluate successful state-supported financing programs for water infrastructure.
- 2) Assess the feasibility of establishing a California Water Infrastructure Financing Program.
- 3) Evaluate the potential affordability and economic benefits associated with low-interest infrastructure financing.
- 4) Develop recommendations regarding program design, capitalization, and long-term sustainability.
- 5) Develop a policy framework and implementation roadmap for consideration by California's next Governor and Administration.

Tasks, Objectives and Deliverables

1) Comparative Review of State Financing Programs

- **Objective:** Evaluate successful state-supported financing programs for water infrastructure and identify lessons applicable to California.
- **Deliverables:**
 - Review of water infrastructure financing programs in states such as Texas and New York.
 - Assessment of:
 - Program purpose and objectives
 - Governance and administration
 - Initial capitalization and funding sources
 - Loan terms and financing structures
 - Affordability and financing considerations for disadvantaged communities, low-income households, and small water systems
 - Eligible applicants and project types
 - Leveraging mechanisms
 - Long-term financial sustainability
 - Program outcomes and performance
 - Assessment of current related legislative efforts underway in California.
 - Identification of best practices and key considerations for California.

2) California Financing Program Feasibility Assessment

- **Objective:** Identify potential dedicated revenue streams to establish/fund for a State water infrastructure financing program. evaluate the feasibility of establishing a program that provides low-interest financing for water infrastructure projects, reduces borrowing costs for local agencies, and maximizes the impact of state investments.
- **Deliverables:**
 - Evaluation of alternative revenue streams, program structures, and administration models
 - Recommendations regarding
 - Governance and administration
 - Initial capitalization requirements and potential funding sources
 - Leveraging opportunities
 - Long-term financial sustainability
 - Assessment of the capitalization requirements and associated lending capacity.
 - Recommendation regarding whether California should establish a new financing program, expand an existing financing entity, or pursue a hybrid approach.

- Recommended framework for a state infrastructure Financing Program.

3) Affordability and Economic Impact Analysis

- Objective: Evaluate the potential benefits to public agencies associated with establishing a California Water Infrastructure Financing Program.
- Deliverables:
 - Comparison of financing costs under existing borrowing approaches and a financing program, including impacts on agency debt service and ratepayer affordability.
 - Evaluation of how low-interest financing could reduce borrowing costs for local agencies.
 - Analysis of potential affordability benefits for ratepayers.
 - Development of two or three illustrative case studies demonstrating the impacts of alternative financing scenarios.

4) Governor's Recommendations and Implementation Framework

- Objective: Develop a policy recommendation for consideration by California's next Governor and Administration regarding sustainable, long-term financing for water infrastructure.
- Deliverables:
 - Recommendation regarding how California should establish a state-supported low-cost financing program and the rationale for the recommended approach.
 - Recommended program framework, including:
 - Preferred administrative structure
 - Preferred revenue sources
 - Recommended capitalization approach
 - Key principles for long-term financial sustainability
 - Assessment of the relative advantages, tradeoffs, and fiscal considerations associated with the recommended approach.
 - Governor's Transition Brief summarizing:
 - Key findings from the study
 - Recommended financing approach
 - Anticipated affordability and infrastructure investment benefits
 - Key considerations for future implementation