

Drinking Water State Revolving Fund Draft SFY 2022-23 Intended Use Plan

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Board Workshop: Item 6

September 7, 2022

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Intended Use Plan Purpose

- **Guidance for implementing DWSRF and complementary grant funds in 2022-23**
 - Including California's 2021 and 2022 Budget Acts Appropriations for drinking water infrastructure and PFAS funding
- **Apply for and receive the 2022 Capitalization Grants from US EPA**
- **Includes new funding provided by the Bipartisan Infrastructure Law (BIL)**
 - Proposing to transfer CWSRF Emerging Contaminants to DWSRF and combine with DWSRF Emerging Contaminants BIL funding
 - New program for Lead Service Line Replacement
- **Projects Are Prioritized To:**
 - Address most serious public health risk problems
 - Ensure compliance with SDWA requirements
 - Assist those most in need on per household affordability basis

IUP Organization

Source(s) of Funds	Document
2022 DWSRF Base Program Capitalization Grant	2022-23 DWSRF IUP
2022 DWSRF General Supplemental Capitalization Grant	
2021 Budget Act Appropriations	
2022 DWSRF Emerging Contaminants Capitalization Grant & 2022 Budget Act PFAS General Fund Appropriation	DWSRF & CWSRF Emerging Contaminants Supplemental IUP
2022 DWSRF Lead Service Line Replacement Capitalization Grant	DWSRF Lead Service Line Replacement Supplemental IUP
2022 ASADRA Re-allotment Capitalization Grant	DWSRF ASADRA Revised Supplemental IUP

BIL- Financial Outlook

- Appropriated approximately \$2.5 billion over five years to CA's DWSRF for 3 objectives:
 - General Supplemental Funding for “Any Eligible Project”
 - \$977 million total – 49% Principal Forgiveness
 - Emerging Contaminants Funding
 - \$333 million total – 100% PF
 - Lead Service Line Replacement Funding
 - \$1.25 billion total – 49% PF
- Authorized approximately \$1.7 billion over 5 years for CA's DWSRF Program (i.e., any eligible project).
 - However, 2022 Capitalization Grant cut due to Congressionally directed spending (\$61 million in 2022 vs \$97 million in 2021)
 - Therefore, anticipated grants may be \$355 million over 5 years (21% of authorized amount)
 - 49% to be awarded as PF

FFY 2022 Capitalization Grants

\$ million	Loan	PF	Set-Asides	Total Cap Grant
Base Program	\$12.3	\$30.3	\$19.2	\$61.8
General Supplemental (appropriated by BIL)	\$39.7	\$77.8	\$41.3	\$158.7
“Any Eligible Project” subtotal (FFY 2021 for comparison)	\$52.0 (\$24.3)	\$108.1 (\$47.5)	\$60.5 (\$25.2)	\$220.5 (\$97.0)
Emerging Contaminants (appropriated by BIL)	\$0	\$49.3	\$17.3	\$66.6
Lead Service Line Replacement (appropriated by BIL)	\$62.5	\$122.6	\$65.0	\$250.1
ASADRA re-allotment	\$3.9	\$1.7	\$0	\$5.6
Total FFY 2022	\$118.5	\$281.6	\$142.8	\$542.9

Current Financing Demand

Application Status	No. Applications	Requested Funding, \$ millions	Estimated Funding, \$ millions
Small SDAC and Small DAC Projects with Complete Applications (On Fundable List)	77	\$272	\$272
Small SDAC and Small DAC Projects with Incomplete Applications (Not on Fundable List)	202	\$641	\$0
Projects Subject to Ranking (Requesting Placement on the Fundable List)	43	\$1,825	\$158
Rollovers from SFY 2021-22 IUP	6	\$150	\$150
Totals	328	\$2,889	\$580



Grant/PF Funding Availability

Small SDAC, Small DAC, small non-DAC, and Consolidation Projects

Funding Source	Loan
DWSRF Principal Forgiveness (FFY 2022 Base Program and General Supplemental)	\$108.1
DWSRF PF (previous capitalization grants)	\$72.5
Prop 1 and Prop 68 Grant	\$135.6
State General Fund Infrastructure Appropriation	\$397.5
Total	\$713.7



Grant/PF Funding Eligibilities

- **No Changes from the March 2022 Amendment of the 21/22 IUP**
- **Small SDAC, Small DAC, Expanded Small DAC**
- **Consolidation Projects**
- **Category A-C Projects:** high priority projects that address public health issues (waterborne disease, water exceeds primary standards or surface water is inadequately treated, insufficient source or water delivery capacity, etc.)
 - **Medium DAC**
 - **Small non-DAC**

Grant/PF Funding - Construction

Type of Community	Residential Water Rates as a % of MHI	% of Total Eligible Project Cost	Max Amount Per Connection *
Category A – C and/or Consolidation Projects			
Small DAC, Small SDAC, Eligible NTNC That Serves a Small DAC, Expanded Small DAC/SDAC, Medium DAC**, or Small Non-DAC with MHI < 150% of Statewide MHI**	N/A	up to 100%	\$60,000 (up to \$80,000 for good cause)
Category D – F Projects			
Small DAC/SDAC or Eligible NTNC That Serves a Small DAC	N/A	up to 100%	\$45,000
Expanded Small DAC/SDAC	>=1.5%		
	<1.5%	Not Eligible for PF/Grant	

* The Deputy Director of DFA may approve financing for construction projects with a total eligible project cost up to \$6 M regardless of the amount per connection.

** Except for case-by-case exceptions, maximum of \$20 million per project for Medium DAC or Small Non-DAC.

Grant/PF Funding - Planning

Affordability Criteria		Grant Amount	
Size	Community MHI	Percent of Total Project Cost	Maximum Grant/PF Per Project
<3,300 connections or <10,000 persons	<80% of Statewide MHI	Up to 100%	N/A

- Max grant/PF based on all funding the community receives in a 5-year period (planning, TA, & construction)
- DFA may require an evaluation of consolidation prior to reimbursement of other planning activities.



DWSRF Funding Availability/Capacity

- DWSRF Sustainable Loan Capacity = \$300 million
- Additional Supplemental Appropriations for Disaster Relief Act, 2019 (ASADRA)
 - \$62 million
- DWSRF Emerging contaminants
 - \$55 million (includes transfer of CWSRF Emerging Contaminant funding)
 - \$65 million for PFAS from General Fund appropriations
- DWSRF Lead Service Line Replacement
 - \$185 million (\$122 PF / \$62 loan)

DWSRF Lending Capacity

- Lending capacity remains at \$300 Million
 - Sustainable long-term capacity calculation
 - Similar to last year's IUP
 - Used to determine Fundable List development
 - Rollover projects or grant/PF eligible applicants are not affected

	SFY 2017-18	18-19	19-20	20-21	21-22
No. of Agreements	11	8	10	10	14
Loan \$, millions	\$252	\$214	\$122	\$244	\$849

Average annual loans of \$336 million per year (5-year average)

Fundable List Development

- Fundable List Identifies Projects DFA Is Allowed to Finance
 - Anticipate financing by June 30, 2023
 - Grant/PF eligible projects may receive financing if
 - A complete application is submitted, staff determines they are ready for a financing agreement, and funds are available
 - Previous year's Fundable List projects "rollover" or are removed
- Repayable loan projects are prioritized by:
 - Projects which address the most serious risk to human health
 - Necessary to ensure compliance with SDWA
 - Readiness to proceed
- Loan Demand Exceeds Loan Capacity
 - Scoring/Ranking of Projects, is warranted due to demand

Fundable List (Repayable Loan Projects)

Summary	Projected Number of Projects	Estimated DWSRF Loan Amount, \$ millions
Small Water System Planning	1	\$0.3
Large Water System Planning	0	\$0
Small Water System Construction	1	\$2
Large Water System Construction	13	\$306
TOTAL	15	\$308

Emerging Contaminants (BIL)

- Funds available to DWSRF eligible projects which address emerging contaminants, with a focus on Per- and Polyfluoroalkyl Substances (PFAS)
 - Per US EPA's Contaminant Candidate List (CCL)
 - Examples: PFAS, 1,2,3-TCP, Manganese, 1,4-Dioxane
- Approximately \$73 million available from BIL for FY 2022
 - Includes transfer of \$6.7 million CWSRF allocation to DWSRF
- Additional \$65 million available for PFAS from Budget Acts 2021 and 2022
- All available EC funds will be provided as PF regardless of size or MHI

Applications for SFY 2022/23 due December 31, 2022

Emerging Contaminants (BIL)

FUNDING CRITERIA

Type of Community	Percentage of Total Eligible Project Cost	Maximum Amount of Grant/PF
DAC/SDAC or Systems That Serve a Population Under 25,000	100%	\$5,000,000 or maximum grant/PF per base program
Non-DAC Systems That Serve a Population Over 25,000	50%	\$5,000,000

- DAC max grant/PF may be eligible for higher grant amounts per the base program
- May increase grant amount if sufficient additional applications are not received by December 31, 2022

Lead Service Line Replacement (BIL)

- Funds available to DWSRF eligible projects that consist of:
 - Lead service line replacement
 - ...or...
 - Associated activity directly connected to the identification, planning, design, and replacement of lead service lines
- Approximately \$185 million available for FY 2022
- Funding awarded as \$49 PF to \$25 loan (at 0% interest)
- Project must serve a DAC
 - Entire service area qualifies as DAC, or
 - Disadvantaged area served by a larger non-DAC water system

Build America Buy America (BABA)

- New federal requirement expanding domestic sourcing requirements
- Includes construction materials and manufactured goods in addition to the existing American Iron and Steel (AIS) requirements
- EPA Adjustment Period Waiver issued September 2, 2022
 - Project initiated design planning prior to May 14, 2022
 - e.g. Issued RFP, submitted preliminary engineering report, executed SRF agreement that includes design, submitted (incomplete) plans and specs to state authority.
 - If project cannot provide documentation, request opinion from EPA

Key Performance Indicators

- Execute 90% of projects with complete applications, on Fundable List, by June 30, 2023
- Provide TA assistance to 90% of Category A-C projects who require TA to complete their applications
- Fulfill 75% of complete disbursement requests in 60 days or less.

Process Improvements

- For 100% nonrepayable planning projects, limited financial review, but planning project will address future financial capacity
- For consolidations, Receiving Water System must satisfy financial capacity requirements not the system being consolidated
- Reduced financial review requirements for Receiving Water Systems that meet specific criteria
- Change Order contingency increased from 10% to 20% for grant/PF projects
- Clarified which federal requirements are not necessary for non-SRF funding sources

Schedule

Item	Date
Draft IUP Posted for 30-Day Public Comment	August 24, 2022
Board Workshop/Webinar	September 7, 2022
Deadline to Submit Written Comments	September 23, 2022, (Noon)
Board Meeting for Adoption of IUPs	October 3, 2022
Evaluate Progress of Fundable List Rollovers	Quarterly
Start Developing SFY 2023-24 Fundable List	December 31, 2022
Execute Agreements for All 2022-23 Fundable Projects	June 30, 2023

Questions

