

2. DWSRF and Proposition 1 Drinking Water Terms for a PWS Serving a DAC/SDAC or a Small Disadvantaged or Severely Disadvantaged Community⁷

The following PWSs may be eligible for reduced interest rates, extended term financing, and principal forgiveness/grant for a planning or construction project in accordance with the financing terms below:

- a. A SCWS serving a DAC that is owned by a public agency or a Not-For-Profit Water Company.
- b. A SCWS serving a DAC that is owned by a For-Profit Entity or a Native American Tribe.
- c. A NTNC that serves a Small Disadvantaged Community or a Small Severely Disadvantaged Community, if such system serves solely the following:
 - a public K-12 school; and/or
 - a not-for profit K-12 private school; and/or
 - a not-for-profit daycare facility, and/or
 - a not-for profit labor camp; and/or
 - a not-for-profit elder care facility; and/or
 - a not-for-profit health care facility
- d. A PWS that is extending service to a Small Disadvantaged Community or a Small Severely Disadvantaged Community not currently served by a PWS.

The PWSs eligible for DWSRF subsidized financing listed above are determined to have financial hardship because of their system size and their general lack of economies of scale to financially operate and maintain their water systems. The Prop 1 Drinking Water local cost share may be waived for a SCWS that serves a Severely Disadvantaged Community and a NTNC that serves a Small Severely Disadvantaged Community and a PWS extending service to a Small Severely Disadvantaged Community. The Prop 1 Drinking Water local cost share may also be reduced for a SCWS that serves DAC and a NTNC that serves a Small Disadvantaged Community and a PWS extending service to a Small Disadvantaged Community, per the financing terms described below.

In making DAC determinations, the State Water Board will consider whether the households benefitting from the project are primarily second homes. In general, at least 50 percent of the dwellings or dwelling units must be the primary dwelling of permanent residents for a community to qualify for principal forgiveness, grant or combination thereof. Typically, permanent residents are those residing in the community at least six months out of the year; however, seasonal, migrant laborers can also be counted as permanent residents.

⁷ Where a state agency acts as a conduit recipient of Prop 1 funding, the qualifying characteristics of the underlying recipient PWS will be analyzed.

MHI Determinations for SCWS, NTNC & Communities Not Currently Served by a PWS

In general, the MHI determination for a SCWS will be based upon a review of the entire permitted service area of the SCWS.

A NTNC owned by a K-12 public school district is deemed to serve a severely disadvantaged community because the primary users are minor students. Minors generally have incomes below 60 percent (60%) of the statewide MHI. All other eligible NTNCs and the MHI of the small community they serve will be evaluated on a case-by-case basis based upon the intended customer base.

For the purposes of a consolidation project, the MHI of the consolidated PWS may be considered when evaluating for DWSRF or Prop 1 Drinking Water reduced interest rates, extended term financing, and principal forgiveness/grant.

If DWSRF funding is used to finance a project for the extension of water service by a PWS to a small community not currently being served by a PWS, then for purposes of providing reduced interest rates, extended term financing, and principal forgiveness, the MHI of the PWS extending service will be considered. If Prop 1 Drinking Water funds will fund such a project, then the MHI of the small community not currently being served by a PWS may be considered for the evaluation of possible Prop 1 Drinking Water reduced interest rates, extended term financing, and grant funding.

Subsidized Planning Financing Terms

Eligible SCWSs serving a DAC/SDAC, eligible NTNCs serving Small Disadvantaged Community or Severely Disadvantaged Community, and PWSs extending service to Small Disadvantaged Communities and Severely Disadvantaged Communities may receive a maximum \$500,000 grant per project for their proportional share of planning project in accordance with Table 13 below, regardless of water rates/affordability criteria. This incentive promotes timely and efficient financing for drinking water planning projects in preparation for eventual construction financing. Repayable financing may also be available from the DWSRF or Prop 1 Drinking Water programs in accordance with Table 13 below if available grant funding is insufficient to fully fund a planning project.

DFA may deny Prop 1 Drinking Water grant funding if the planning project has already been funded in part by other drinking water funding sources, including DWSRF and/or Prop 1 Drinking Water funding.

Table 13: Planning Project-Reduced Interest Rates and Grant for an Eligible PWS

Total Eligible Planning Project Cost	Interest Rate*	Loan Term*	Maximum Grant/project*
≤ \$500,000	n/a	n/a	\$500,000
>\$500,000	0%	Up to 5 years	\$500,000**

*Based upon the PWS’s proportional share of a planning project

**On a case-by-case basis, for good cause, the Deputy Director of the Division of Financial Assistance may approve more than \$500,000 in grant funds for the PWS’s proportional share of a planning project

Subsidized Construction Financing Terms for SCWSs that serve a DAC/SDAC

To facilitate affordable construction financing for an eligible SCWS that serves a DAC/SDAC, the financing terms in Table 14 below and Table 15 below shall apply.

Table 14: Construction Project-Principal Forgiveness/Grant for an Eligible CWS that Serves a DAC/SDAC

Affordability Criteria		Maximum Principal Forgiveness, Grant or Combination Thereof Per Construction Project		
Type of Community Served by CWS*	Residential Water Rates as a Percentage of MHI**	Percentage of Total Eligible Project Cost	Maximum Amount /Construction Project***	Maximum Amount Per Connection/ Construction Project****
DAC	<1.5%	Not Eligible for Principal Forgiveness, Grant or Combination Thereof		
	>=1.5%	up to 100%	\$5 million	\$30,000
SDAC	NA			
<p>* For the purposes of a consolidation or intertie project, the residential water rate of the consolidated or intertied system resulting from such consolidation or intertie may be considered</p> <p>***Based upon PWSs proportional share of a construction project</p> <p>****The Deputy Director of the Division may approve financing for construction projects with a total eligible project cost less than \$500,000 regardless of the amount per connection.</p> <p>SCWS with eligible projects may be eligible for both Prop 1 Drinking Water and Prop 1 Groundwater Grant Funds</p> <p>CWS with eligible projects may be eligible for Prop 1 Groundwater Grant Funds</p> <p>NOTE: DFA may deny DWSRF/Prop 1 Drinking Water grant, principal forgiveness or a combination thereof if the construction project has already been funded in part by other drinking water funding sources, including DWSRF and Prop 1 Drinking Water funding. Where a PWS is privately owned by an entity, DFA may also consider the private owner's assets and ability to afford a loan before otherwise awarding principal forgiveness, grant or combination thereof.</p>				

Table 15: Construction Project-Repayable Financing Terms for an Eligible SCWS that Serves a DAC/SDAC

Affordability Criteria		Repayable Construction Financing Terms		
Type of Community Served by SCWS	Residential Water Rates as a Percentage of MHI	Interest Rate	Maximum Financing Term**	Local Cost Share
DAC	<1.5%	0%	30 years	Amount Not Funded by Prop 1*
	>=1.5%			
SDAC	NA			Waived
<p>* The applicant may choose to fund the remainder of the total project cost (Local Cost Share) from other sources (e.g. repayable DWSRF/Prop 1 financing; grant funding from sources other than the State Water Board; or other sources)</p> <p>**Financing Term shall not exceed the useful life of the facilities being financed</p>				

Subsidized Construction Financing Terms for ESCWSs that serve an SDAC

To facilitate affordable construction financing for an eligible ESCWS that serves an SDAC, the financing terms in Table 16 below and Table 17 below shall apply.

Table 16: Construction Project-Principal Forgiveness for an Eligible ESCWS that Serves an SDAC

Affordability Criteria		Maximum Principal Forgiveness Per Construction Project		
Type of Community Served by ESCWS	Residential Water Rates as a Percentage of MHI*	Percentage of Total Eligible Project Cost**	Maximum Amount/ Construction Project**	Maximum Amount Per Connection/ Construction Project**
DAC	NA	Not Eligible for Principal Forgiveness		
SDAC	<1.5%	Not Eligible for Principal Forgiveness		
	>=1.5%	Up to 50%	\$5 million	\$30,000

*For the purposes of a consolidation or intertie project, the residential water rate of the consolidated or intertied system resulting from such consolidation or intertie may be considered

**Based upon PWS's proportional share of a construction project

ESCWS with eligible projects may be eligible for Prop 1 Groundwater Grant Funds

Note: DFA may deny DWSRF/Prop 1 Drinking Water grant, principal forgiveness or a combination thereof if the construction project has already been funded in part by other drinking water funding sources, including DWSRF and Prop 1 Drinking Water funding. Where a PWS is privately owned, DFA may also consider the private owner(s)' assets and ability to repay a loan beyond residential water rate considerations before otherwise awarding principal forgiveness, grant or combination thereof.

Table 17: Construction Project-Repayable Financing Terms for an Eligible ESCWS that Serves an SDAC

Affordability Criteria		Repayable Construction Financing Terms		
Type of Community Served by ESCWS	Residential Water Rates as a Percentage of MHI	Interest Rate	Maximum Financing Term*	Local Cost Share**
SDAC	<1.5%	½ General Obligation Bond Rate***	30 Years	Waived
	>=1.5%	0%	30 Years	

* Financing Term shall not exceed the useful life of the facilities being financed

** The applicant may choose to fund the remainder of the total project cost (Local Cost Share) from other sources (e.g. repayable DWSRF/Prop 1 financing; grant funding from sources other than the State Water Board; or other sources)

*** See "Standard DWSRF and Prop 1 Financing Terms" for additional information.

Subsidized Construction Financing Terms for NTNCs that Serve a Small Disadvantaged Community

To facilitate affordable construction financing for an eligible NTNC that serves a Small Disadvantaged Community, the financing terms in Table 18 below shall apply. Principal forgiveness/grant funds may only be awarded to an eligible NTNC to the extent such NTNC cannot afford the full cost of repayable financing. The current operating budget shall be evaluated when determining an eligible NTNC’s ability to afford repayable financing. An eligible NTNC owned by a public school district is determined to have limited repayable financing capacity and is therefore automatically eligible for maximum principal forgiveness/grant, subject to all other eligibility rules and requirements.

Table 18: Construction Project-Repayable Financing Terms and Principal Forgiveness/Grant for an Eligible NTNC that Serves a Small DAC or a Severely Disadvantaged Community

Repayable Construction Financing Terms					
Type of Community Served by NTNC	Maximum Grant/ Construction Project*	Maximum Principal Forgiveness/Grant Amount/ Connection/ Construction Project*	Interest Rate	Maximum Financing Term**	Local Cost Share***
Small Disadvantaged Community	\$5 million	\$30,000	0%	30 years	Amount Not Funded by Prop 1
Small Severely Disadvantaged Community					Waived

*Based upon NTNC’s proportional share of a construction project.

**The financing term shall not exceed the useful life of the facilities being financed.

***The applicant may choose to fund the remainder of the total project cost (Local Cost Share) from other sources (e.g. repayable DWSRF/Prop 1 financing; grant funding from sources other than the State Water Board; or other sources).

NOTE: DFA may deny a DWSRF/Prop 1 Drinking Water grant, principal forgiveness or a combination thereof if the construction project has already been funded in part by other drinking water funding sources, including DWSRF and Prop 1 Drinking Water funding.

Projects that “Provide Regional Benefit”

Notwithstanding the foregoing, projects that Provide Regional Benefit may be eligible for no more than \$60,000 in grant and/or principal forgiveness per service connection-per participating SCWS serving a DAC/SDAC, or NTNC serving a Small Disadvantaged Community or Small Severely Disadvantaged Community. Projects that Provide Regional Benefit may receive up to \$5 million in grant and/or principal forgiveness per each participating SCWS serving a DAC/SDAC, or NTNC serving a Small Disadvantaged Community or Small Severely Disadvantaged Community per Table 14, Table 15, and/or Table 18 above. Projects that Provide Regional Benefit may not exceed a total of \$20 million in principal forgiveness/grant funding and such principal forgiveness/grant funding may not necessarily be limited to the proportional share of the participating SCWS serving a DAC/SDAC, or NTNC serving a Small Disadvantaged Community or Small Severely Disadvantaged Community. Principal forgiveness/grant funding awarded for a Project that Provides Regional Benefit may only be allocated for the benefit of participating SCWSs serving a DAC/SDAC and/or NTNCs serving a Small Disadvantaged Community or Small Severely Disadvantaged Community.

Consolidation Incentive

Up to \$10 million in zero percent interest rate financing may be awarded for a construction project (Incentive Project) that benefits an eligible PWS, if such a PWS completes a full consolidation with a water system serving a small disadvantaged or small severely disadvantage community, or if such a PWS completes an extension of water service to at least 15 connections with a disadvantaged or severely disadvantaged population currently not served by a PWS. The subsidized financing for the Incentive Project is an addition to any subsidized financing for the full consolidation project. A full consolidation is defined as the restructuring of two or more public water systems into a single public water system, as discussed in the DWSRF Policy. If the consolidation or extension of water service project is not fully constructed, in successful operation, or permitted by DDW, then the standard interest rate at the time will apply to the Incentive Project, and may be applied retroactively as well. In the case where a single construction project benefits the remaining entity and the consolidated water system, zero percent interest rate may apply to the portion of the project costs that has been deemed ineligible for principal forgiveness or grant funding, up to \$10 million, as determined by DFA.

Subsidized Construction Financing Terms for Eligible Extension of Water Service Projects

A project involving a PWS extending water service to a Small Disadvantaged Community or a Small Severely Disadvantaged Community not currently served by a PWS may be eligible for financing terms included in Table 19 and Table 20 below.

Table 19: Construction Project-Principal Forgiveness/Grant for an eligible PWS Extending Water Service to a Small Disadvantaged Community or Small Severely Disadvantaged Community Not Currently Served by a PWS

Affordability Criteria		Maximum Grant Per Construction Project		
Type of Community Served by PWS	Residential Water Rates as a Percentage of MHI*	Percentage of Total Eligible Project Cost**	Maximum Principal Forgiveness/Grant Amount /Construction Project**	Maximum Amount Per Connection/ Construction Project**
Small Disadvantaged Community	<1.5%	Not eligible for principal forgiveness, grant or combination thereof		
	>=1.5%			
Small Severely Disadvantaged Community	NA	up to 100%	\$5 million	\$30,000

* For the purposes of an extension of water service project, the average residential rate of the community resulting from the extension of water service from a PWS may be considered.

** Based upon proportional share of a construction project.

NOTE: DFA may deny a DWSRF/Prop 1 Drinking Water grant, principal forgiveness or a combination thereof if the construction project has already been funded in part by other drinking water funding sources, including DWSRF and Prop 1 Drinking Water funding.

Table 20: Construction Project-Repayable Financing Terms for an eligible PWS Extending Water Service to a Small Disadvantaged Community or Small Severely Disadvantaged Community Not Currently Served by a PWS

Affordability Criteria		Repayable Construction Financing Terms		
Type of Community Served by PWS	Residential Water Rates as a Percentage of MHI	Interest Rate	Maximum Financing Term**	Local Cost Share*
Small Disadvantaged Community	<1.5%	0%	30 years	Amount Not Funded by Prop 1
	>=1.5%			
Small Severely Disadvantaged Community	NA			Waived

* The applicant may choose to fund the remainder of the total project cost (Local Cost Share) from other sources (e.g. repayable DWSRF/Prop 1 financing; grant funding from sources other than the State Water Board; or other sources)

**Financing Term shall not exceed the useful life of the facilities being financed.