

**STATE WATER RESOURCES CONTROL BOARD
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE
SEPTEMBER 19, 2012**

ITEM 14

SUBJECT

RESULTS OF THE U. S. ENVIRONMENTAL PROTECTION AGENCY'S SUSTAINABLE COMMUNITIES PILOT REVIEW OF THE CLEAN WATER STATE REVOLVING FUND (CWSRF) AND THE DIVISION OF FINANCIAL ASSISTANCE'S (DIVISION) CWSRF APPLICATION REVAMP

DISCUSSION

Starting in 2009, the U.S. Environmental Protection Agency (U.S. EPA) increased its efforts to promote sustainable design and smart growth principles for water infrastructure. These efforts included (1) participating in a Sustainable Communities Partnership with the U.S. Department of Housing and Urban Development and U.S. Department of Transportation, (2) releasing a final U.S. EPA Sustainability Policy for Clean Water and Drinking Water Infrastructure, and (3) sponsoring a pilot technical assistance program to help several states investigate ways to modify their CWSRF Programs to encourage CWSRF practices that foster sustainable communities.

From a CWSRF perspective, the term sustainable communities means providing financing for thoughtful, long-term water quality investments that emphasize maintaining and upgrading existing infrastructure, or supporting and revitalizing existing communities. To maximize water quality investments, community sustainability also requires well-rounded planning based on a triple-bottom-line (social, environmental, and financial) evaluation of alternatives.

U.S. EPA's commitment to sustainable communities dovetails with similar, recent efforts by the California CWSRF Program. Over the past several years, the State Water Resources Control Board (State Water Board) has made notable progress promoting community sustainability.

In January 2005, the State Water Board adopted [Resolution No. 2005-0006](#), declaring sustainability of water and environmental resources one of the CWSRF Program's core values. The State Water Board's staff conferred with staff from housing, transportation, and resources management agencies on many ideas to incorporate sustainability into the CWSRF's policy and future funding decisions. As a result, the State Water Board modified the CWSRF Policy to incorporate several of these recommendations. These efforts earned the State Water Board a 2005 PISCES Award from U.S. EPA.

These efforts were expanded by State Water Board [Resolution No. 2008-0030](#), which acknowledged the challenges that California faces from urban sprawl, climate change, water overdraft, and emerging pollutants. The State Water Board directed staff in Resolution No. 2008-0030 to promote and prioritize low-impact development (LID) solutions.

Building on that history, the State Water Board applied for U.S. EPA's pilot technical assistance program to help it investigate ways to modify the CWSRF program to encourage sustainable community development. Since February 2011, State Water Board staff, U.S. EPA staff, and

Northbridge Environmental Management Consultants, Inc. (Northbridge) have been examining a wide range of ideas to help ensure that the CWSRF supports prudent community development. This information item presents the results of U.S. EPA's pilot technical assistance and the Division's efforts to implement recommendations from the pilot to help the CWSRF promote community sustainability. Although [U.S. EPA's pilot technical assistance report](#) has not received final approval by U.S. EPA's management, a draft copy that substantially reflects the outcome of the pilot project is available for review.

The technical assistance pilot project proceeded in three major steps.

1. U.S. EPA first reviewed California's laws and policies related to community sustainability to help it understand the framework in which CWSRF operates. This included a synopsis of efforts at the state level to promote sustainability and smart growth, and opportunities for involvement by the California CWSRF program.
2. U.S. EPA then developed a matrix of 11 approaches to community sustainability that CWSRF might adopt. These were cross-referenced with California's current CWSRF practices with an eye to future implementation opportunities for each approach.
3. The final stage of the project was an in-depth evaluation of several options from the matrix to identify those the Division staff believes are feasible for the CWSRF.

Framework for California Sustainability Efforts

California has several efforts underway to promote community sustainability that can work with and support the CWSRF's goal of sustainable communities, as follows.

- In 2002 the Legislature established three Statewide Planning Priorities. (Gov. Code § 65041.1). The three Priorities focus on (1) getting the most out of existing infrastructure, developing areas already served by essential services, and preserving cultural and historic resources; (2) protecting the state's environment and its most valuable natural resources; and (3) encouraging efficient new development that is consistent with community priorities and appropriately planned growth, adequate public services, and a minimum of future taxpayer costs.
- The Strategic Growth Council (SGC) is a cabinet level committee tasked with coordinating and promoting sustainable community planning by state agencies. The SGC receives many grant applications for sustainability-oriented projects. Because the demand far exceeds the available funding, many deserving projects remain unfunded.
- The California Water Plan integrates water management, flood planning and water-related efforts, and incorporates data and information from the Integrated Regional Water Management Plans and Urban Water Management Plans. The California Water Plan describes innovative and sustainable water management activities that could potentially be financed with CWSRF.
- The California Business, Transportation and Housing Agency (BTHA) provides grants to metropolitan planning organizations, regional councils of government, and regional transportation planning agencies to develop comprehensive planning "blueprints." The process is intended to promote collaboration to integrate land use, housing, environmental resources, infrastructure, and transportation. Blueprints covering 97

percent of California's population have been developed or are being developed. BTHA's grants help with development of the blueprints, but not implementation.

A common element missing from these state planning activities is the CWSRF Program's role in promoting sustainable infrastructure and water quality protection. The CWSRF can and should expand its contribution to sustainable community solutions in the future.

Approaches to Community Sustainability

After reviewing the community sustainability framework in California, U.S. EPA and Northbridge developed a matrix of 11 approaches, listed below, to supporting community sustainability based on their familiarity with approaches taken in other states. The matrix was cross-referenced with the current California CWSRF practices and opportunities for future implementation associated with each approach.

1. Support existing communities by focusing on repairs and upgrades to existing infrastructure.
2. Address the backlog of capital needs to maximize previous capital investments.
3. Prioritize projects in previously developed areas suitable for economic (re)use, such as brownfields or grayfields (abandoned commercial sites).
4. Encourage adoption of internal and cross-sector planning processes; encourage comprehensive infrastructure plans that align investments in housing, transportation, utilities and other infrastructure.
5. Enable a triple-bottom-line evaluation of various alternatives.
6. Preserve open spaces through land acquisition and conservation projects.
7. Ensure that the alternatives analysis explores cost-effective solutions at a regional or watershed level.
8. Encourage sewer and stormwater capital improvement plans with established triggers for updates.
9. Consider decentralized wastewater treatment to address polluting septic systems and encourage decentralized wastewater treatment management districts/programs.
10. Encourage pricing and rate structures that reflect the full cost of construction, maintenance, operations, and infrastructure asset replacement (with appropriate consideration for disadvantaged households).
11. Consider green infrastructure approaches to addressing combined sewer overflows.

Feasible Options for Community Sustainability

After evaluating the different approaches identified by U.S. EPA and Northbridge, the list of options was narrowed and refined to the five listed below. The Division believes these options will support community sustainability and be feasible to implement with the CWSRF Program's existing resources and other priorities.

#	Option	Description
1.	Re-examine priority setting and technical review requirements	Re-examine practices and policies on prioritizing projects and technical review to ensure that thorough consideration is given to sustainable project alternatives.
2.	Standardize application processing	Reduce administrative hurdles to funding land conservation and community-based projects by standardizing the processing of applications for these types of projects.
3.	Partner with SGC to fund projects	Explore partnering with the SGC to create a “second chance” application pipeline for SGC grant applicants.
4.	Designate a “Demand Manager”	The Demand Manager would be responsible for monitoring community Capital Improvement Plans, evaluating marketing needs, making cash flow projections, and coordinating regional outreach efforts for the CWSRF Program.
5.	Provide larger utilities incentives to help small communities be sustainable	Promote an initiative for “Sustainable Project Special Financing” that provides financing incentives for large utilities to construct projects serving infill areas and small/disadvantaged communities to incorporate sustainable practices into their projects.

Associated CWSRF Application Improvements

California communities have several financing alternatives for wastewater and water quality projects. The CWSRF Program can only influence how a community implements a project if the community seeks funding from the Program. Therefore, it is vital for CWSRF to be an attractive source of financing, from both cost and administrative standpoints, when compared with other financing sources.

California’s current CWSRF application process is perceived to be cumbersome and inefficient. It can be especially daunting for small and disadvantaged communities with limited resources. Therefore, the Division needs to improve the application process to ensure that it does not discourage applicants and in turn interfere with the State Water Board’s goal of promoting community sustainability through the CWSRF program.

Although California’s CWSRF Program has a good track record of using its funds expeditiously, since 2005 the Program has had sufficient funds to finance every project that is ready for financing. Since there is currently little or no competition for funding from the CWSRF, the Program’s prioritization structure currently has no effect on project selection. If the Program can create demand for financing that exceeds the available funds, then the State Water Board can influence the selection of projects that promote sustainable practices through its priority system. To achieve this goal of creating significantly more demand, the CWSRF Program should emphasize changes that encourage more applications and avoid changes that tend to discourage applications and thereby undercut the State Water Board’s goal of financing sustainable projects.

The Division’s current effort to revamp the CWSRF application and financing approval process is critical to making the CWSRF an attractive financing option.

The application and instructions are being updated and streamlined to remove outdated, redundant, or unnecessary requirements with the objective of significantly reducing the effort of State Water Board staff and the applicants. In conjunction with U.S. EPA's sustainable communities pilot review, Division staff has been working with Northbridge to update and streamline the Program's application and financing approval process. Northbridge conducted an on-site review in December 2011. This was followed by a subsequent meeting and several revised versions of the CWSRF application materials. Staff is currently reviewing the revised CWSRF application, and a group of outside stakeholders has been contacted to test the new application. The test group includes small, disadvantaged communities as well as larger municipalities throughout the state. Stakeholder feedback will be considered in moving forward with the updated and streamlined application process. Specific changes in the SRF application process are proposed as follows:

- Use the existing Financial Assistance Application Submittal Tool (FAAST) to allow online submission of CWSRF applications for those with Internet access
- Increased use of standardized certifications
- Streamlined due diligence documentation
- Streamlined application review and approval process

Once stakeholder input has been considered and the new application process is finalized, staff will determine which proposed changes require a change in the CWSRF Policy. Staff will submit a corresponding Policy amendment to the Board for its consideration to implement any Policy changes associated with revamping the application process. Corresponding changes would then be made to the Division's webpages to reflect the new process and better guide applicants towards suitable funding sources.

Conclusion

Implementing the recommendations of the sustainability pilot project and the application revamp will require a variety of actions by the Division's staff. Option #1 can be done through a Policy amendment. Option #2 will require additional research by the Division to investigate how other states have successfully funded these types of projects and how those approaches can be adapted for California. Working with the SGC (Option #3) can be incorporated over time into the Division's normal marketing efforts. Designating a Demand Manager (Option #4) may require additional staff resources or internal reorganization. Option #5 will require coordination with stakeholders. Currently staff is discussing with the California Association of Sanitation Agencies how larger agencies might assist small and disadvantaged communities with sustainability and other issues in mind.

Division staff will update the State Water Board on a yearly basis on its progress implementing the recommendations from the pilot technical assistance report and the effect of those changes on supporting community sustainability.

POLICY ISSUE

None at this time; informational item.

FISCAL IMPACT

None at this time; informational item.

REGIONAL BOARD IMPACT

None at this time; informational item.

STAFF RECOMMENDATION

None at this time; informational item.

State Water Board action on this item will assist the State Water Boards in reaching Goals 1, 2, and 5 of the Strategic Plan Update: 2008-2012 to implement strategies to fully support the beneficial uses for all 2006-listed water bodies by 2030 (Goal 1), improve and protect groundwater quality in high-use basins by 2030 (Goal 2), and improve transparency and accountability by ensuring that State Water Boards goals and actions are clear and accessible, by demonstrating and explaining results achieved with respect to the goals and resources available, by enhancing and improving accessibility of data and information, and by encouraging the creation of organizations or cooperative agreements that advance this goal, such as establishment of a statewide water data institute water bodies by 2030 (Goal 5).