

**STATE WATER RESOURCES CONTROL BOARD
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE
DECEMBER 6, 2016**

ITEM 11

SUBJECT

DRINKING WATER STATE REVOLVING FUND ANNUAL REPORT FOR STATE FISCAL YEAR 2015/2016

DISCUSSION

The State Water Resources Control Board (State Water Board) administers California's Drinking Water State Revolving Fund (DWSRF) Program through the Division of Financial Assistance (Division). The DWSRF is capitalized with federal and state funds. It provides affordable financing for Public Water Systems, including infrastructure projects that address public health risk problems, are needed to achieve or maintain compliance with the Safe Drinking Water Act (SDWA) requirements, and to further the public health objectives of the SDWA. California's DWSRF has supported the health, safety, and welfare of Californians since 1996 by financing 413 eligible planning, construction and legal formation projects for approximately \$2.5 billion. Many DWSRF recipients use their financing to address drinking water quality and capacity issues, typically in response to compliance orders and enforcement actions by the Division of Drinking Water. Every project financed by the DWSRF is directly related to improving drinking water quality and public health.

This annual update of the DWSRF Program provides results for State Fiscal Year (SFY) 2015/2016, ending June 30, 2016, and discusses recent and future developments in the Program.

A. FINANCIAL RESULTS

1. Cumulative Financial Results

As of June 30, 2016, approximately eighty-four (84) percent of all available project funds had been disbursed or expended and approximately ninety-one (91) percent of all available set-aside funds had been disbursed or expended. DWSRF also has, as of June 30, 2016, approximately \$1.2 billion in loan receivables. In SFY 2015/16, approximately seventy-two (72) percent of DWSRF financing was provided for drinking water treatment, eleven (11) percent was provided for Transmission and Distribution projects, eight (8) percent was provided for Other project categories, three (3) percent was provided for Storage projects, three (3) percent was provided for Planning and Design, two (2) percent was provided for Source projects, and one (1) percent was provided for Land Acquisition. Since inception, DWSRF has financed about \$1.70 in projects for every \$1 of capital contributed by the United States Environmental Protection Agency (U.S. EPA).

A DWSRF capitalization grant requirement, set by U.S. EPA, is to provide 15 percent of cumulative available DWSRF funds to small water systems to the extent that such projects are ready to proceed. The Division provided approximately \$32.4 million in new DWSRF assistance to small water systems in SFY 2015-16, totaling approximately

\$309.8 million then over the life of the program. Approximately, 12.54% of available DWSRF funds have been provided to small water systems over the life of the DWSRF program. The DWSRF program has awarded 68 percent of all funding agreements to small water systems over the life of the DWSRF program.

Another DWSRF capitalization grant requirement, set by U.S. EPA, is to provide 20-30 percent of the 2015 Capitalization Grant as additional subsidy to DWSRF recipients. The State Water Board awarded approximately \$29.8 million in principal forgiveness to DWSRF funding recipients in SFY 15-16, including additional principal forgiveness to prior year funding recipients. It assigned the principal forgiveness to available additional subsidy authority for prior year Capitalization Grants as well as the 2015 Capitalization Grant. As a result, approximately 2 percent of the 2015 Capitalization Grant was committed as additional subsidy to eligible recipients in SFY 2014-15. The State Water Board intends to commit the remaining 28 percent of the 2015 Capitalization Grant as additional subsidy in SFY 2016-17.

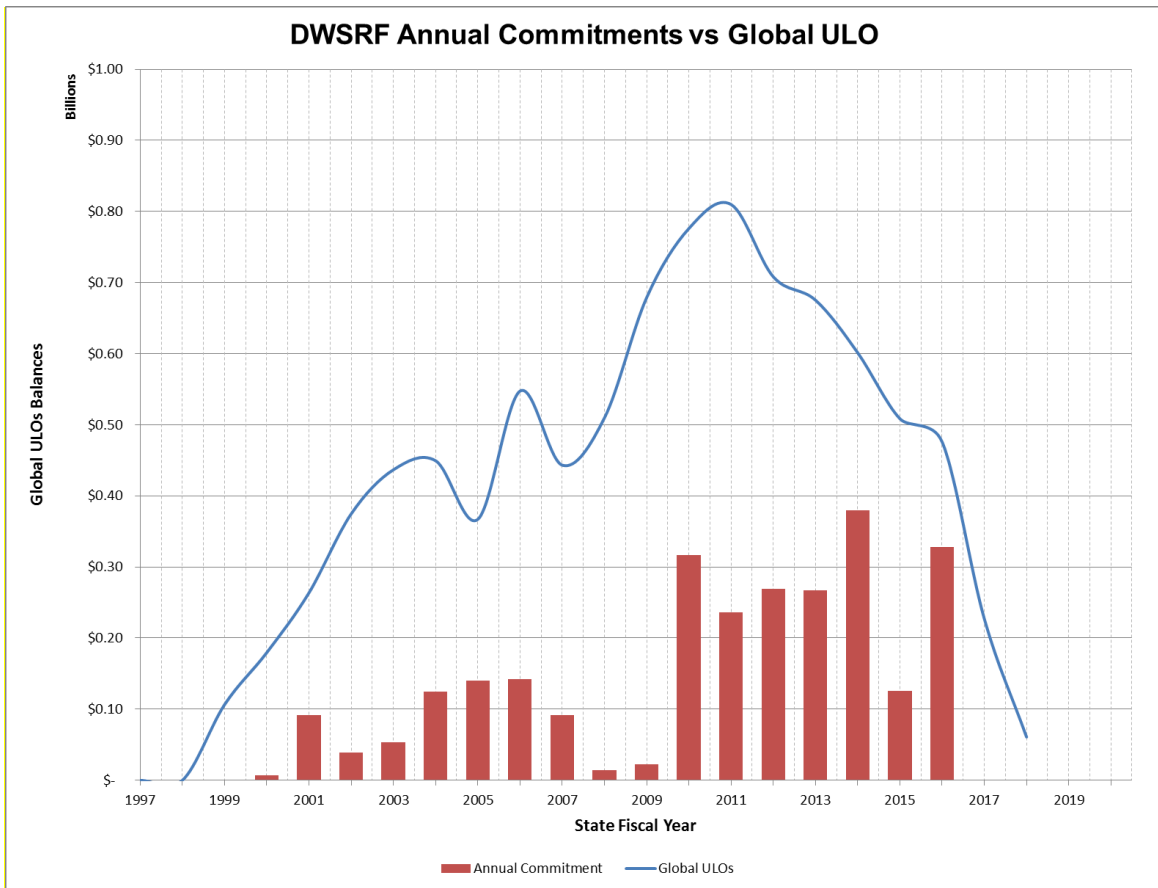
**Figure 1
Additional Subsidy Totals 2010 -2015 Capitalization Grant Years**

FFY Grant	SFY	Grant Award Amount	Minimum Subsidy Amount by FFY Grant [1]	Maximum Subsidy Amount by FFY Grant[3]	Committed Subsidy Amount by FFY Grant Assignment[2]	Uncommitted Subsidy Amount by FFY Grant Assignment[3]	Disbursed Subsidy Amount by SFY[4]	Undisbursed Subsidy Amount by SFY[5]
2010	2010-2011	\$126,958,000.00	\$38,087,400.00	\$38,087,400.00	\$38,087,400.00	\$0.00	\$475,501.49	\$0
2011	2011-2012	\$86,698,000.00	\$26,009,400.00	\$26,009,400.00	\$26,009,400.00	\$0.00	\$6,383,939.66	\$0
2012	2012-2013	\$85,358,000.00	\$17,071,600.00	\$25,607,400.00	\$25,607,400.00	\$0.00	\$9,295,930.38	\$0
2013	2013-2014	\$78,770,000.00	\$15,754,000.00	\$23,631,000.00	\$23,631,000.00	\$0.00	\$12,441,320.03	\$0
2014	2014-2015	\$83,521,000.00	\$16,704,200.00	\$25,056,300.00	\$25,056,300.00	\$0.00	\$15,940,787.48	\$0
2015	2015-2016	\$83,069,000.00	\$16,613,800.00	\$24,920,700.00	\$1,809,694.61	\$23,111,005.39	\$29,523,638.88	\$89,251,082.08
Totals		\$544,374,000	\$130,240,400	\$163,312,200	\$140,201,194.61	\$23,111,005.39	\$74,061,117.92	\$89,251,082.08
Grand Total					\$163,312,200	\$163,312,200		
[1] USEPA requirements dictate that additional subsidy must be awarded within a minimum and maximum range of a DWSRF capitalization grant. The State Water Board has further directed DFA to utilize the full maximum additional subsidy of the Capitalization Grant allowed.								
[2] In accordance with USEPA procedures, these amounts represent the additional subsidy committed to eligible DWSRF projects and assigned under the additional subsidy authority of the respective DWSRF capitalization grant as of 6/30/2016.								
[3] In accordance with USEPA procedures, these amounts represent the additional subsidy balances under the maximum authority of the respective DWSRF capitalization grant that have not yet been committed to eligible DWSRF projects as of 6/30/2016.								
[4] These amounts represent the additional subsidy disbursements of the assigned projects per California State fiscal year. In accordance with USEPA Policy, additional subsidy is encumbered and expended from any available funding sources within the DWSRF (i.e. federal capitalization grants, state match, repayments funds).								
[5] This amount represents the total encumbering balance as well as the additional subsidy authority not yet encumbered as of 6/30/2016.								

2. Cash Flow Management

The DWSRF's federal cash balance decreased from \$455 million in late 2012 to approximately \$89.8 million at the conclusion of the DWSRF Corrective Action Plan (6/30/2016). The decreasing federal cash levels are an indication that DWSRF funds are being used expeditiously to support California's drinking water infrastructure need to provide the public with reliable and safe drinking water. The DWSRF Program's current spending rate meets the new federal drawdown rules in which no more than two capitalization grants are to remain open at any one time, resulting in a federal cash balance not to exceed the average of two annual capitalization grants.

**Figure 2
DWSRF Annual Commitments vs Global Unliquidated Obligation (ULO)**



3. Financial Activity

A total of \$325 million was financed in new agreements in SFY 2015/2016. Collectively, DWSRF recipients were awarded approximately \$29.8 million in subsidy in the form of principal forgiveness.

Approximately \$200 million was disbursed to recipients during SFY 2015/2016. This included approximately \$29.5 million in principal forgiveness.

Financing activity during SFY 2015/2016 increased the DWSRF outstanding commitment level to approximately \$750 million.

Table 1 below provides the DWSRF's performance measure results for the year.

**Table 1
Performance Results for DWSRF by SFY**

Measure	Target	12/13	13/14	14/15	15/16
% Complete Construction Applications Financed ≤ 9 Months	95%	33%	44%	40%	61%
% Complete Planning Applications Financed ≤ 9 Months	95%	0%	14.3%	0%	70%
% of Complete Disbursements Filled ≤ 30 Days	100%	14.7%	8.4%	21.9%	74.3%
Number of Disbursements	N/A	327	367	512	474

4. Notice of Non-Compliance and Corrective Action Plan (CAP)

On April 19, 2013, the U.S. EPA issued a Notice of Non-Compliance to the California Department of Public Health (CDPH), the department formerly with primacy over the DWSRF program. The U.S. EPA determined that the CDPH “had not timely and efficiently committed and expended funds in the DWSRF, nor employed adequate financial resources to operate the SDWSRF in a sound financial manner....” The CDPH did not dispute the findings and had already implemented strategies addressing these issues as demonstrated by the DWSRF program’s increase in its fund utilization rate.

The CDPH was given 60 days from the date of receipt of the notice to either remedy the issues addressed or submit a CAP outlining the methods in which the issues would be addressed and resolved. On June 24, 2013, the CDPH submitted the CAP to the U.S. EPA and at the request of the U.S. EPA, submitted a revised version of the CAP on July 12, 2013. The U.S. EPA accepted and approved the revised CAP on July 23, 2013. The State Water Board assumed primacy over the DWSRF program on July 1, 2014 and continued to fulfill remaining CAP commitments.

In a letter to U.S. EPA Region 9, dated March 30, 2016, the Division formally requested the closure of the DWSRF CAP. In a subsequent letter dated May 17, 2016, U.S. EPA Region 9 approved the Division's request to close the CAP. Specifically, U.S. EPA Region 9 acknowledged that the California DWSRF program had been successfully restored to compliance with 40 Code of Federal Regulations (CFR)§35.3550(e)(1), 40 CFR §35.3550(c), and 40 CFR §35.3560(d) based upon the actions taken by the CDPH and the State Water Board.

In addition, the DWSRF CAP included final targets and deliverables scheduled for June 30, 2016. The Division demonstrated completion with all of those targets, except for the target pertaining to disbursements over the period beginning with June 30, 2012 and ending June 30, 2016. However, U.S. EPA Region 9 acknowledged that the California DWSRF program had met the intent of the disbursement target by disbursing more than twice as much DWSRF funds in the last four years (approximately \$738 million) than it did in the four years prior (approximately \$336 million). As of the end of SFY 2015-16, the DWSRF CAP has been officially concluded and the DWSRF program has returned to compliance.

The U.S. EPA issued a letter dated May 17, 2016, closing out the CAP and recognized that California's DWSRF program has returned to compliance, a month and a half ahead of the required June 30, 2016, deadline.

5. Audited Financial Statements

The DWSRF's [financial statements for SFY 2015/2016](#) were independently audited. The audit for SFY 2015/2016 was completed by CliftonLarsonAllen LLP on September 30, 2016. CliftonLarsonAllen provided the following opinion regarding the financial statements of the DWSRF:

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Safe Drinking Water Revolving Fund as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

B. PROGRAM RESULTS

1. Assistance Activity

A total of \$325,348,303 in new DWSRF funding agreements were entered into in SFY 2015-16. Funds are provided to enhance drinking water treatment, distribution, storage, meters, ensure water systems improve reliability with interties, and the consolidation of systems. Due to the continuing severe drought in California, both water quantity and quality issues were addressed by DWSRF projects in SFY 2015-16 as groundwater and surface water continued to diminish. Water quality issues such as arsenic, nitrate, groundwater under direct influence, and disinfection by-product formation continue to be addressed.

In recent years, the State Water Board has made a concerted effort to address SDWA compliance by small, disadvantaged communities. The DWSRF plays an important role in this effort by providing Technical Assistance, principal forgiveness, and reduced interest rates to lower financing costs for small, disadvantaged communities. Seventeen of the twenty-three agreements executed during SFY 2015/2016 were with communities meeting the definition of a small, disadvantaged community. During SFY 2015/2016, the State Water Board provided \$26.5 million in DWSRF principal forgiveness to small, disadvantaged communities.

2. Public Health Benefits

The contributions of the DWSRF program to water quality are diverse. The program has the strength and versatility to address a wide range of water-quality issues. To the maximum extent possible, priority is given to projects which address the most serious risks to human health, are necessary to ensure compliance with SDWA requirements, and assist water systems in need the most on a per household basis. Each project funded in SFY 2015/2016 was evaluated to determine its benefits and the data supporting this analysis has been transmitted to U.S. EPA via the DWSRF Project Benefits Reporting database.

Table 2 below provides the DSWRF funding by category during SFY 2015/2016.

**Table 2
DWSRF Funding by Category**

Category	Amount	Percentage
Treatment	\$235,402,530	72%
Transmission and Distribution Pipelines	\$34,372,964	11%
Other	\$27,368,460	8%
Planning and Design Only	\$8,806,563	3%
Storage	\$8,476,114	3%
Source Reliability	\$7,011,892	2%
Land Acquisition	\$3,909,780	1%
Total Financed	\$325,348,303	100%

C. NOTEWORTHY EFFORTS AND ACTIVITIES

1. Proposition 1 – 2014 Water Bond

Proposition 1, the Water Quality, Supply, and Infrastructure Improvement Act of 2014, was approved by California's voters on November 4, 2014. It authorized \$7.545 billion in general obligation bonds for water related projects. In particular, it provides \$260 million for drinking water grants and loans for public water system infrastructure improvements and related actions to meet safe drinking water standards, ensure affordable drinking water, or both. The Division is coordinating Proposition 1 funding appropriated to the State Water Board with the DWSRF funds to optimize utilization of available funding sources.

In SFY 2015/2016, Prop 1 recipients received approximately \$32 million in grant and DWSRF principal forgiveness for drinking water projects.

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

<p>State Water Board action on this item will assist the Water Boards in reaching Goal 5 of the <i>Strategic Plan Update: 2008-2012</i> to improve transparency and accountability by ensuring that the 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.</p>
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