

State of California
Department of Public Health



Drinking
Water State
Revolving
Fund
Intended Use
Plan

SFY
2014-15

FFY 2014 Allotment

FINAL
JUNE 2014

Table of Contents

I. INTRODUCTION	1
A. State of California's Drinking Water State Revolving Fund	1
B. New for SFY 2014-2015	2
II. STRUCTURE OF THE DWSRF	5
A. Planning and Construction Funding.....	5
B. Set-Aside Funding	5
III. DWSRF GOALS	7
A. Short-Term Goals	7
B. Long-Term Goals	8
C. Public Health/Environmental Results Goals.....	9
IV. CRITERIA AND METHOD FOR DISTRIBUTION OF FUNDS	10
A. Distribution of Funds Analysis.....	10
B. Establishing Project Priority	10
C. DWSRF Funding Process.....	11
D. Disadvantaged and Severely Disadvantaged Community Program	11
E. Small System Funding	12
F. Capacity Assessment	13
Technical Capacity.....	13
Financial Capacity.....	13
Managerial Capacity.....	13
G. Consolidation Incentive Program.....	13
H. Establishing Fundable and Comprehensive Lists	14
I. Active/Inactive, Bypass and Readiness to Proceed	14
Active/Inactive PPL.....	14
Bypass and Readiness to Proceed.....	15
J. Emergency Process	15
K. Application of Federal Cross-Cutters.....	16

V. FINANCIAL MANAGEMENT	17
A. Sources and Uses of Funds	17
Federal Capitalization Grants.....	17
TABLE 1: 2014 Capitalization Grant Payment Schedule	17
State Match Source.....	17
Loan and Interest Repayment Sources	17
Use of All Funds Available	18
TABLE 2: Sources & Uses of all DWSRF Funds.....	19
B. Financial Terms of Loans.....	20
Non-Disadvantaged Community Loans.....	20
Disadvantaged Community Loans.....	20
TABLE 3: Maximum Principal Forgiveness Funding for “Disadvantaged” Communities.....	20
Severely Disadvantaged Community Loans	20
C. Loan Disbursements.....	21
TABLE 4: 2014 DWSRF Federal Capitalization Grant Draw Schedule.....	21
TABLE 5: 2013-2014 Disbursement by Quarter.....	22
VI. SET-ASIDE ACTIVITIES.....	23
A. DWSRF Administration.....	23
B. Small Systems Technical Assistance.....	23
C. State Program Management.....	24
PWSS Program	24
D. Local Assistance and Other State Programs.....	25
Third Party Contractors.....	25
Water System TMF Capacity Development.....	25
VII. PUBLIC PARTICIPATION.....	27
DWSRF Policy Committee and Stakeholders.	27
Public Hearings and Comment Activities.....	27
Small Water System Technical Assistance.....	27
VIII. AUDITS AND REPORTING.....	28
IX. ASSURANCE AND CERTIFICATIONS.....	29

APPENDIX A

DWSRF STATE REGULATIONS

APPENDIX B

EPA NOTICE OF NON-COMPLIANCE

APPENDIX C

1. CDPH's NOTICE OF NON-COMPLIANCE RESPONSE/CORRECTIVE ACTION PLAN
2. CDPH's CORRECTIVE ACTION PLAN STATUS UPDATE

APPENDIX D

PROJECT PRIORITY RANKING CRITERIA

APPENDIX E

2014-2015 FINAL PROJECT PRIORITY LIST – MAY 2014

APPENDIX F

2014-2015 FUNDABLE LIST

APPENDIX G

2014-2015 COMPREHENSIVE LIST

APPENDIX H

SUMMARY OF PUBLIC COMMENTS AND CDPH RESPONSES/REVISIONS

I. INTRODUCTION

A. State of California's Drinking Water State Revolving Fund

The 1996 amendments to the federal Safe Drinking Water Act (SDWA) responded to the national drinking water infrastructure needs by establishing the Drinking Water State Revolving Fund program (DWSRF). The DWSRF provides financial assistance in the form of federal capitalization grants to states that in turn provide low interest loans and other assistance to public water systems (PWS).

The California State Department of Public Health, Division of Drinking Water and Environmental Management (CDPH) regulates PWS to ensure the safety of drinking water. The United States Environmental Protection Agency (USEPA) in cooperation with the State of California (State) designated CDPH as the “primacy agency” to implement and enforce the federal SDWA. CDPH regulates more than 7,500 PWS located throughout the State. To assist in this effort, CDPH delegates its primacy agency to 31 local health departments, known as local primacy agencies (LPA), to regulate PWS serving less than 200 service connections. CDPH also promotes and provides information on drought preparedness and water conservation; oversees water recycling projects; certifies drinking water treatment and distribution operators; supports and promotes water system security; provides support for small water systems and for improving technical, managerial, and financial (TMF) capacity; and provides funding opportunities for water system improvements.

The 2014-2015 Intended Use Plan (IUP) is part of CDPH’s application for the federal fiscal year (FFY) 2014 capitalization grant from the USEPA. In establishing the terms of this IUP, CDPH considered statewide policy set forth in Section 106.3 of the Water Code. Specifically, Subsection 106.3(a) declares it is the established policy of the State that “every human being has the right to safe, clean, affordable, and accessible water adequate for human consumption, cooking, and sanitary purposes.” Furthermore, Subsection 106.3(b) requires all relevant state agencies, including the Department of Water Resources, the State Water Resources Control Board, and the State Department of Public Health, to consider this state policy when “revising, adopting, or establishing policies, regulations, and grant criteria when those policies, regulations, and criteria are pertinent to the uses of water.” For FFY 2014, California is eligible for an \$83.221 million grant from the \$906.896 million appropriated by Congress for the nation’s DWSRF programs. The federal funding, in coordination with CDPH’s existing loan and interest repayments, as well as associated state match funds, will help ensure funding for drinking water projects that address the State’s highest public health priorities.

Federal and State laws allow a portion of federal funds to be used for specified set-aside activities in addition to providing financial assistance to PWS for infrastructure improvements. CDPH intends to use 22 percent (22%) of the FFY 2014 DWSRF allotment award for these set-aside activities. The remaining 78 percent (78%) of federal funds, plus all state matching funds, and all interest and repayments will be used for project funding.

Federal guidelines require that the IUP include a description of how the program is structured as well as the planned use of the capitalization grant, state match funds, principal and interest from loan repayments, other interest earnings of the DWSRF, and funds designated for set-aside activities. This IUP provides specific details on key aspects of the DWSRF program including CDPH's short and long-term goals, the priority setting process used to rank projects, and a list of projects considered eligible to receive available DWSRF funding. The California IUP presented, herein, is prepared and submitted in compliance with federal requirements.

In State Fiscal Year (SFY) 2014-2015, CDPH will continue to focus on implementing the public health aspects of SDWA and will ensure that funds are expeditiously and timely disbursed from all available sources. These efforts are instrumental in achieving the requirements of the SDWA.

B. New for SFY 2014-2015

CDPH recently released a new and improved "Universal Pre-Application" (UPA) platform. Unlike prior years when the UPA was only open to receive pre-applications for a 60 day period one time a year, the new UPA is able to accept submittals on a continuous basis year-round. The new UPA also includes questions that help CDPH staff preliminary assess a project's "readiness to proceed" to receive funding timely. The new UPA also allows CDPH district staff to interact directly with applicants via the UPA's email notification system. Finally, the continuous nature of the new UPA allows CDPH to rank projects once pre-applications are reviewed for adoption to the PPL.

The "Legal Entity Formation Assistance" (LEFA) pilot program has been initiated, receiving a significant amount of funding applications. Given the demand expressed, CDPH decided to make available set-aside funds from both the 2012 and 2013 Federal Capitalization Grants to fund each eligible LEFA project submitted. The LEFA projects were ranked in order of readiness to proceed and posted on CDPH's website on December 20, 2013. CDPH is currently conducting an in-depth evaluation of each LEFA applicant's proposed work plan and application documentation to determine funding eligibility. Unfortunately, due to recent programmatic workload demands, in great part related to the current State of Emergency with regard to California's drought, the preparations for the proposed transfer of the drinking water program to State Water Resources Control Board (State Water Board), as well as perfecting the funding agreement format, the LEFA program has not proceeded at the pace initially anticipated. As a result, the LEFA pilot program is still in its early stages, however, CDPH continues to make progress, committing funds to projects and working with applicants throughout the application review and post commitment project phases. As CDPH continues to progress through the various stages of application review, committal of funds and monitoring project progress as it relates to the pilot program, CDPH will begin to collect data on the program's effectiveness, generating findings related to core project elements, common project hurdles, best business practices, and staffing as a means to measure the program's overall effectiveness and need. Rather than performing the program evaluation activities after each eligible project receives a funding commitment and subsequently concludes all funded activities, CDPH plans to initiate the program evaluation activities concurrently as projects progress to gain useful preliminary findings and to justify future set-aside allocations for project funding and program staffing. Until CDPH has an opportunity to evaluate the effectiveness of the pilot program, identify adequate staffing needs and gain a further perspective with regard to future funding interest, CDPH has not budgeted for additional set-aside funds for the 2014-2015 SFY. However, CDPH may amend

this IUP to include budgets for the LEFA program as the need arises.

Assembly Bill 21 (Alejo) was introduced in 2013 and approved by the Governor on October 8, 2013. AB 21 authorized CDPH to assess an annual fee in lieu of interest on eligible DWSRF loans to generate no more than \$50 million in revenue for a newly established Safe Drinking Water Small Community Emergency Grant (SDWSCEG) Fund. The purpose of the SDWSCEG fund is to provide emergency grant funding to public water systems that serve small, disadvantaged and severely disadvantaged communities. CDPH has consulted USEPA as a measure to ensure DWSRF compliance and will initiate efforts to develop regulations for the implementation and administration of the SDWSCEG program. Details on the program's regulations and implementation will be provided as such information becomes available and open for public and stakeholder review and comment.

CDPH revised its project priority ranking criteria to streamline the prioritization process and to better address problems faced by PWS. Over the last several years, the need to rely on project prioritization within the PPL health-based categories (A-G) as means to regulate available funding to those who rank highest and are ready to proceed has not materialized due to the significant amount of funding that has been available due to the program's significant amount of unliquidated obligations (ULO). Beginning in SFY 2014-2015, CDPH will begin to rely on project prioritization within PPL category H to determine which projects within category H will be invited to apply for DWSRF each invitation cycle.

In addition, CDPH modified DWSRF ranking criteria to allow community water systems and public schools which are single sourced to have second source projects placed within Category H. Potentially, there are more than 300 PWS throughout California having only one source to serve their customers. All eligible PWS with a single source would be potentially in fundable categories as a result of the modification. However, it is anticipated that prioritization within category H will be required as not all projects in the category may be invited for funding consideration. Therefore, a bonus point schedule, as detailed in Appendix D of this IUP, will be applied to category H projects.

On January 17, 2014, the federal Consolidated Appropriations Act, 2014 (Act) was enacted a Buy American requirement, otherwise known as "American Iron and Steel" on projects receiving funds from the DWSRF program per the guidelines provided by USEPA, effective April 23, 2014. Currently, the requirement remains in effect through September 30, 2014. The Act, and subsequent USEPA waivers, exempt certain DWSRF funded projects from the requirement based upon CDPH's receipt and approval of project plans and specifications by specified deadlines. CDPH has implemented the requirement, incorporated specific conditional language into its current funding agreements except where such requirements are otherwise waived.

In February 2014, Senate Bill 103 (2014) amended California's 2013 Budget Act to appropriate \$15 million to CDPH to provide grants (up to \$500,000 per project) to PWS to address drought-related drinking water emergencies or threatened emergencies (PWSDER Funding). CDPH is required to make every effort to "use other funds available to address drinking water emergencies, including federal funds made available for the drought," prior to committing PWSDER Funding. Within the DWSRF SFY 2013-2014 IUP, CDPH implemented an expedited application process specific to emergency projects including those related to drought. As a means to carry out the requirements of Senate Bill 103, CDPH has positioned the DWSRF for consideration as a potential funding source for

drought related emergencies and threatened emergencies experienced by PWS. Details on the DWSRF emergency funding process are provided in Section IV (J) (Emergency Process).

The California Governor's proposed 2014-2015 State budget includes the transfer of the State's Drinking Water Program, including the DWSRF program, to State Water Board from CDPH, effective July 1, 2014. The proposed transfer is approved by the State Legislature; the State's DWSRF program will fall under the administration of the State Water Board, Division of Financial Assistance. In preparation for the transfer, key staff of both CDPH and State Water Board has been working collaboratively planning for transfer in an effort mitigate disruptions of daily operation as a result of a transfer.

II. STRUCTURE OF THE DWSRF

The DWSRF program consists of two funding components that are primarily utilized to provide assistance public water systems and to ensure funding of administrative program support of the DWSRF loan and set-aside funds.

A. Planning and Construction Funding

CDPH provides assistance for the planning and construction of improvements to publicly and privately owned CWS and nonprofit, non-community water systems (NPNCWS) for eligible public health projects. Eligible planning and preliminary engineering studies, project design, and construction costs include but are not limited to:

1. Construction, improvement or rehabilitation of:
 - a. drinking water sources,
 - b. treatment facilities that will improve the water quality to comply with current and future primary or secondary standards,
 - c. transmission and distribution mains to prevent contamination caused by leaks or breaks,
 - d. storage facilities, including finished water reservoirs, to prevent microbiological contamination or to provide adequate pressure;
2. Costs associated with consolidation of water systems, including, but not limited to facility fees, connection fees, or similar charges;
3. Costs of purchasing water systems, water rights, or watershed lands associated with purchasing water system;
4. Costs of establishing eligibility for funding that are incurred before CDPH entered into a commitment to fund the project, i.e., Pre-application/Application Fees;
5. Acquisition of real property if the acquisition is integral to a project;
6. Operation and maintenance costs to the extent they are used in the startup and testing of the completed project.

Federal DWSRF guidelines specify projects that cannot be funded through the DWSRF; of particular note, are projects primarily intended to serve future growth. The focus of DWSRF assistance is to ensure safe drinking water for the State's existing population served by public water systems. Eligible projects may be sized to accommodate reasonable growth, not to exceed 10 percent, over the expected life of the constructed project. With this parameter in mind, CDPH will not fund projects intended to serve future growth outside of reasonable expectations as a means to help ensure the limited DWSRF funds available are directed to serve the State's existing population.

B. Set-Aside Funding

The set-asides will be used to provide additional support for the core California drinking water programs and for activities to assist a PWS in developing enhanced capabilities for the future. The set-asides help many PWS build capacity to assist in compliance with the SDWA and, if appropriate, aid their in readiness to proceed to access DWSRF funding. Additional information may be found in Section VI.

- **Administration** - to support the state operation and management of the DWSRF program, including provision of technical assistance to borrowers.
- **Water system Technical Managerial & Financial (TMF) capacity development** – to assists PWS in identifying and addressing their TMF capacity deficiencies through CDPH personnel activities and third party technical assistance providers.
- **Small water system (SWS) technical assistance** – to assist small PWS serving less than 10,000 people with the focus on PWS that serve less than 200 service connections, in establishing their eligibility for DWSRF funding or otherwise provide technical assistance in project development through CDPH personnel activities.
- **State program management** – to support Public Water System Supervision (PWSS) related activities.
- **Local assistance and other state programs** – to assist PWS achieve capacity development via Third-party Contracts.

III. DWSRF GOALS

In establishing the national DWSRF program, Congress gave states the flexibility to design a program that can be tailored to meet the needs of local PWS. The short and long-term goals developed for the DWSRF are presented below. They provide a framework that will guide the decision-making in the State's DWSRF program.

A. Short-Term Goals

1. Immediately seek the award of the FFY 2014 Capitalization Grant (2014 Capitalization Grant). Upon award, commit loan funds from the 2014 Capitalization Grant by June 30, 2015 such that the federal funds can be utilized in an efficient and timely manner.
2. Ensure that at least 20 percent but not more than 30 percent of the 2014 Capitalization Grant is provided to eligible recipients in the form of additional subsidy (i.e., forgiveness of loan principal.)
3. Provide at least 15 percent (15%) of all DWSRF funds to PWS serving fewer than 10,000 people to the extent such projects are "ready to proceed" to funding.
4. CDPH will begin updating the State's DWSRF operating agreement with USEPA to represent current California SDWSRF program operations. The update to the State's DWSRF operating agreement will include, at minimum, any changes to the State's SDWSRF policies and procedures, including changes in DWSRF State statutes and regulations, since the State's DWSRF operating agreement was last executed.
5. Position the DWSRF program to facilitate drought relief through expedited funding efforts to help ensure eligible PWS, experiencing drought related drinking water emergencies or imminent threat of drought related drinking water emergencies, to achieve a permanent solution..
6. Continue to ensure compliance with USEPA's Notice of Non-Compliance dated April 19, 2013. See Appendix B for USEPA's Notice, Appendix C for CDPH's original response and associated Corrective Action Plan (CAP) as well as CAP status updates.
7. Continue to provide DWSRF funding to PWS when possible for the installation of new water meters in order to promote the DWSRF Green Project Reserve.
8. Achieve a set-aside ULO of not less than 75 percent (75%) of cumulative total set-aside funds received by June 30, 2015.
9. Disburse no less than \$621 million in DWSRF funding for the period beginning with July 1, 2012 through June 30, 2015.
10. Develop a comprehensive, written policy and guidance document on DWSRF claims eligibility and incorporate anticipated guidance from USEPA by June 30, 2015.

11. Continue to work closely with PWS in the early stages of their project development to identify problems and evaluate alternatives in an effort to create a funding pipeline of high-priority public health projects which are ready to proceed to make efficient and timely use of DWSRF funds.
12. Continue to solicit input from stakeholders on further streamlining and expediting of the DWSRF project selection process.
13. Reduce instances of noncompliance with drinking water standards and requirements by providing technical assistance to SWS that have significant SDWA violations.
14. Continue to increase outreach activities to ensure PWS are aware of and understand DWSRF assistance options and the loan application process by participating in funding fairs to publicize the DWSRF program.
15. Improve outreach and public education by conducting California Technical Assistance Providers (CalTAP) Fairs as well as participating in the California Financing Coordinating Committee.
16. Continue to improve the new UPA to ensure the process is effective and user friendly.
17. Continue to develop a new web-enabled Loans and Grants Tracking System (LGTS) database and prepare to fully implement database functionality.
18. Continue to require PWS receiving assistance to complete TMF assessment and increase the number of PWS conducting TMF tune-ups.
19. Continue to implement CDPH's Small Water System Program Plan to reduce the number of small CWS with maximum contaminant level (MCL) violations.

B. Long-Term Goals

1. **Address Significant Risks to Public Health:** CDPH uses the DWSRF funds for low interest loans and, in some cases, principal forgiveness (grants) to enable water systems to fund necessary infrastructure improvements. CDPH is targeting program resources and funds to address the most significant public health and compliance issues. CDPH will ensure sufficient coordination between the DWSRF and PWSS Programs.
2. **Ensure SDWA Compliance:** CDPH funds improvements to PWS in an effort to eliminate public health threats and ensure compliance with federal and state drinking water statutes and regulations including the SDWA. Through the set-asides, CDPH promotes the development of the TMF of all PWS (especially small CWS) to achieve or maintain compliance with state drinking water standards and federal SDWA requirements.

3. **Reduce Cost of Drinking Water:** DWSRF funding assists PWS minimize costs of supplying reliable, safe drinking water by providing affordable financing for the construction of technically sound drinking water infrastructure projects. CDPH encourages PWS to include energy efficiency and water conservation measures, including water meters, in conjunction with public health related projects. Water meters not only encourage the conservation of water, thereby producing savings related to costs of production, treatment, storage and pumping, but also allow systems to establish effective water rate structure as well as identify water loss occurring in distribution systems contributing to a loss in revenue.
4. **Acknowledge and Address Household Affordability Constraints:** Strategically use the DWSRF subsidy provision and set-aside funds to maximize the DWSRF's impact on achieving affordable compliance. CDPH will regularly reevaluate the affordability criteria to ensure that PWS which are in the greatest need of assistance receive subsidy and technical assistance.
5. **Ensure Program Outcomes:** CDPH continues to monitor and manage the DWSRF to ensure that the fund remains financially sound and self-sustaining over the long term as an ongoing source of funding to assist PWS in achieving and maintaining compliance with the SDWA. CDPH continues to assess the project priority process, focusing on ways to streamline and expedite project selection, including readiness to proceed and bypass procedures.

C. Public Health/Environmental Results Goals

The State's DWSRF program supports the USEPA Strategic Plan Goal 2, sub-objective 2.1.1 – Water Safe to Drink: *Percentage of the population served by community water systems that receive drinking water that meets all applicable health-based drinking water standards through effective treatment and source water protection.* Specifically, California established and is managing the revolving loan fund to provide affordable financing and other types of assistance to water systems to finance the cost of infrastructure projects to achieve or maintain compliance with SDWA requirements. California's DWSRF activities support USEPA Program Reporting Measure SDW-4 Fund Utilization and SDW-5 DWSRF projects that have initiated operations. Details of State's DWSRF activities supporting the National USEPA Strategic Plan will be included in the DWSRF Annual Report as well as the Drinking Water National Information Management System (NIMS) and the Drinking Water Project Benefits Report (PBR).

IV. CRITERIA AND METHOD FOR DISTRIBUTION OF FUNDS

A. Distribution of Funds Analysis

The SDWA provides each state with flexibility to determine how much of their grant should be used for infrastructure loans, disadvantaged assistance and set-aside activities. CDPH intends to use 22 percent (22%) of the FFY 2014 funds for set-aside activities. Many of the activities conducted under the set-asides enhance the TMF capacity of SWS as well as ensure the proper administration of the DWSRF program. CDPH is also committed to achieving certain set-aside ULO's as detailed in its Response to USEPA's Notice of Non-Compliance, dated July 12, 2013 (Appendix B).

The SDWA allows up to 30 percent of a federal capitalization grant to be used for "disadvantaged" community subsidies. Subsidies may be provided in the form of loan principal forgiveness, negative interest rate loans, or grants. As previously mentioned, the 2014 Capitalization Grant requires states to provide at least 20 percent (20%), but not more than 30 percent (30%), of the funds to be made available for additional subsidization. Subject to certain loan affordability criteria as detailed below, CDPH intends to provide at least 20 percent (20%) as subsidy to eligible PWS that serve "disadvantaged" and "severely disadvantaged" communities for projects that represent California's highest public health priorities and are "ready to proceed" to funding.

B. Establishing Project Priority

In accordance with federal requirements, all potential recipients must submit a pre-application to have their project included on the PPL (Appendix E) for DWSRF funding. CDPH will review, rank, and place the project in the appropriate ranking category based on the problem to be addressed. Both federal and state laws require that CDPH develop and utilize a project priority ranking system to determine the priority order of projects to be funded through the DWSRF. As the State's primacy agency, CDPH sets the funding assistance priorities for California, focused on mitigation of health risk and compliance with SDWA.

In establishing the PPL, CDPH ranks projects in the order of the degree of health risk associated with the problem that the proposed project is intended to solve. Projects solving the most serious health risks and SDWA compliance problems receive the highest ranking. In general, CDPH considers categories A through G to be high priority, categories H through K to be medium priority, and categories L through O to be low priority.

CDPH has been inviting all projects in the PPL's health-based categories (Categories A-G) for the last several years thereby eliminating the need to rely on prioritization within a category as factor when generating an invitation list. Therefore, beginning SFY 2014-2015, CDPH will rank projects based on the overall ranking category only, with the exception of projects in category H. All projects within all categories A through O, with the exception of category H will have the same priority in terms of being invited for funding consideration. CDPH anticipates that not all projects in category H may be invited, and has created a bonus point system to prioritize projects within category H to determine which projects will receive invitation. Details on the Project Priority Ranking Criteria are in Appendix D.

CDPH may update the PPL to include projects which CDPH has deemed necessary to protect public health as a result of an emergency described in Section IV (J).

C. DWSRF Funding Process

CDPH uses the UPA to solicit for projects to establish the PPL. In the past, the UPA was open once a year for a 60 day period. Beginning 2014, in order to make the program more accessible to assist projects that are ready-to-proceed, CDPH released the new and improved UPA which will allow DWSRF applicants to submit pre-applications on a continuous basis throughout the year. Periodically, CDPH reviews and ranks pre-applications and places them on the PPL for adoption following a public review period.

With the focus on solving health based problems, CDPH has always invited projects in Categories A through G to submit a full application twice a year. However, for the last two invitation cycles, CDPH also invited projects in Category H in effort to solicit sufficient funding requests for CDPH to meet its targeted commitment pace. The invitation packet includes a Statement of Intent (SOI), a Preliminary Financial Questionnaire, a Project Description Table, and a web-link to download and complete a DWSRF application for funding from the CDPH website at the following link:
<http://www.cdpf.ca.gov/services/funding/Pages/SRFApplication.aspx>.

Invited PWS will be given the option to either submit a full application for DWSRF construction or planning funding. Once CDPH receives a full application, a completeness review is initiated followed by a detailed review of the application once it is deemed complete. The detailed review will be conducted by CDPH technical, environmental and financial staff to determine the applicant's eligibility for DWSRF funding. CDPH will also provide third-party technical assistance to those applicants who have difficulty in establishing their eligibility. If an applicant and their proposed project are deemed eligible for DWSRF funding, then CDPH will issue a funding agreement to the applicant for the respective planning or construction project. Upon completion of a planning project, CDPH immediately invites the DWSRF applicant to submit a DWSRF construction application to ensure their priority for construction funding.

CDPH will prioritize projects for funding based on complete full application submission date and CDPH's determination of grant/loan availability for the fiscal year.

D. Disadvantaged and Severely Disadvantaged Community Program

California statutes and regulations provide for additional financial assistance to "disadvantaged" and "severely disadvantaged" communities if a PWS serving those communities cannot afford to repay the full amount of the loan needed to fund the proposed project. In California, "disadvantaged communities" are defined as those communities whose median household income (MHI) is less than 80 percent (80%) of the statewide MHI, while "severely disadvantaged communities" are defined as those communities whose MHI is less than 60 percent (60%) of the statewide MHI. As further detailed in the Financial Management Section (Section V), the interest rate for these communities is established at zero percent with the option for a 30-year loan repayment term (but not to exceed the useful life of the project) as allowed in the federal act.

Additionally, PWS that are owned by a public agency or a non-profit water system that serve “disadvantaged communities” may receive up to 80 percent (80%) loan subsidy in the form of loan principal forgiveness, subject to certain loan affordability criteria, TMF requirements, as well as project eligibility and ranking. Moreover, CWS that are owned by a public agency or a non-profit water system and serve a “severely disadvantaged” community with a population less than 10,000 people are eligible to receive 100 percent (100%) loan subsidy in the form of loan principal forgiveness, subject to certain water rate study, TMF, and project eligibility requirements.

E. Small System Funding

CDPH currently dedicates a majority of its staff resources to assisting SWS in applying, qualifying and receiving DWSRF funding. As of June 30, 2014, approximately 70 percent (70%) of all funding agreements were directed to SWS. To the extent CDPH has SWS planning and construction projects that are “ready to proceed” to DWSRF funding, CDPH will provide no less than 15 percent (15%) of all available DWSRF funding to eligible PWS that serve less than 10,000 people. CDPH closely monitors projects in the pipeline and takes necessary steps to ensure that sufficient SWS projects are identified as “ready to proceed” to meet the 15 percent goal. CDPH also increases outreach activities to large and SWS, promotes and facilitates consolidation of SWS and focuses on providing technical assistance to help SWS achieve TMF capacity.

Moreover, CDPH has implemented a SWS plan of assisting and returning a specific group of SWS to compliance, as it relates to safe drinking water standards. Specifically, CDPH has created a list currently of 183 small CWS with fewer than 1,000 service connections that have violated at least one health-based drinking water standard. CDPH has developed an implementation plan that would raise the compliance rate for SWS in the state to match the compliance rate for large water systems. Some of the challenges facing these systems are that they serve people living in rural disadvantaged communities, the water rates they charge are not sufficient for their operation and maintenance costs or for their infrastructure replacement, and the compliance standards have grown increasingly more stringent and complex.

CDPH continues to work on multiple fronts to coordinate staff and resources with the CDPH headquarters office, district offices, and local health departments as well as CDPH’s third-party contractors to target and address the needs of these systems. As part of this Implementation Plan, CDPH will continue to allocate resources to ensure that the targeted water systems are provided assistance to establish appropriate water rate structures and that these systems are brought up to a level of TMF capacity that will enable them to sustain compliance into the future.

CDPH, and the 31 LPAs, uses its enforcement authority to compel water systems to come into compliance. PWS that make no progress towards correcting deficiencies, such as applying for funds, are subject to citations, fines, or other penalties. This is not the preferred approach to achieve compliance, but is necessary in certain circumstances. USEPA is also compelling CDPH to take more rigorous enforcement actions.

To date, CDPH has helped 22 systems return to compliance, while another 85 PWS have received either planning or construction funding. CDPH has issued about \$100 million in funding to systems on this list. The SWS website includes detailed information such as the implementation plan,

monthly status updates, a 2013 annual update, and useful tools and training for the water systems.

F. Capacity Assessment

The SDWA requires that a PWS applying for a DWSRF loan demonstrate that it has the TMF capacity to ensure compliance. If a system does not have adequate capacity, assistance may only be provided if it will help the PWS achieve adequate TMF capacity. The goal of this requirement is to ensure that DWSRF funding is not used to create or support non-viable systems. As a result, CDPH conducts TMF capacity assessments of all DWSRF applicants to ensure such compliance.

Technical Capacity

To demonstrate technical capacity, PWS must show that their drinking water sources are adequate, that the PWS source, treatment, distribution and storage infrastructure are adequate, and that personnel have the technical knowledge to efficiently operate and maintain the system. As part of reviewing a funding application, CDPH reviews the engineering reports, plans and specifications (if construction), and the PWS' records to assure that the system is being properly operated and maintained.

Financial Capacity

To demonstrate financial capacity, the PWS must show that the system has sufficient revenues to cover necessary operation and maintenance costs and demonstrate credit worthiness with adequate fiscal controls. The PWS must also demonstrate financial planning for future capital improvements, and if necessary, any water rate studies to demonstrate overall financial capacity. To ensure compliance, CDPH reviews the PWS' project budget, audited annual financial reports, and other financial information to ensure the PWS has adequate financial capacity to operate and maintain its system, including the proposed project.

Managerial Capacity

To demonstrate managerial capacity, the PWS must have personnel with expertise to manage the entire water system operation. CDPH reviews the PWS' managerial capacity to assure that management is (1) involved in the day-to-day supervision of the water system, (2) responsive to all required regulations, (3) available to respond to emergencies, and (4) capable of identifying and addressing all necessary capital improvements and assuring financial viability. CDPH will also review records to ensure that the PWS is staffed with a qualified water operator in accordance with the state's operator certification program.

G. Consolidation Incentive Program:

Last SFY (2013-2014) and continuing into SFY 2014-2015, CDPH will continue to implement its new consolidation incentive program in its continuing effort to promote consolidation as a cost-effective solution to address public health concerns caused by PWS that do not meet safe drinking water standards. The consolidation incentive program utilizes its PPL ranking criteria as a means of providing an incentive to encourage a PWS to agree to consolidate with one or more PWS with higher ranked project(s) (more serious health concern.) A PWS with a project ranked in a lower PPL category (less serious health concern) that agrees to consolidate a PWS with a higher ranked project could be re-ranked into the same PPL category as the PWS with the higher ranked problem. The

higher ranking would offer the restructured PWS two major incentives: 1) its incentive project would likely be in a fundable category and invited to submit a full application, and 2) its project would be evaluated for grant funding based on the higher PPL category.

In order to take advantage of these incentives, a PWS would need to demonstrate agreement between/among consolidating entities and would need to agree to submit a DWSRF application when invited by CDPH. Additionally, the PWS incentive project will only be found eligible if, at minimum, consolidation proves to be the most cost-effective solution for the proposed consolidated system and that such consolidation will occur as part of a DWSRF funded project. This requirement is intended to assure that the consolidation project proceeds expeditiously to solve the most serious health-based problems on the PPL.

Since implementing the consolidation incentive program, CDPH has received seven (7) requests from PWS that desire to take advantage of the opportunity by consolidating nearby non-compliant systems. CDPH has approved all seven requests for re-ranking and extended invitation to apply for DWSRF funding. More detailed information on the consolidation incentive program can be found at the following website: <http://www.cdpf.ca.gov/services/funding/Pages/ConsolidationIncentive.aspx>.

H. Establishing Fundable and Comprehensive Lists

In accordance with federal regulations, CDPH has developed a 2014-2015 Fundable List (Appendix F) and a Comprehensive List (Appendix G). The 2014-2015 Fundable List consists of both planning and construction projects that total approximately total \$115 million in funding. The total amount of available funding was derived using a cash flow model in accordance with the CDPH's Corrective Action Plan (CAP) with USEPA, and represents the maximization of all available DWSRF funding for both project loans and grants.

The projects on the 2014-2015 Fundable List are those, planning and construction, projects that CDPH believes will be "ready to proceed" to a funding agreement by June 30, 2015. The 2014-2015 Comprehensive List consists of those projects that CDPH believes will be "ready to proceed" to receive a funding agreement sometime in the future and may be incorporated into the Fundable List if (1) they prove to be "ready to proceed" to a funding agreement by June 30, 2015, and (2) can replace an existing project on the 2014-2015 Fundable List that may prove "not ready to proceed" to a funding agreement by June 30, 2015. Due to federal deadlines relating to the obligation of DWSRF funds, including those deadlines detailed in the CAP, projects on the 2014-2015 Fundable List that ultimately prove "not ready to proceed" to a funding agreement in SFY 2014-2015 will be considered again for funding during SFY 2015-2016.

I. Active/Inactive, Bypass and Readiness to Proceed

Active/Inactive PPL

In an effort to operate an efficient program and to minimize the costs associated with the mailing of the invitation packet, CDPH continuously works to streamline its funding process. During the last SFY (2013-2014), CDPH revised the responses to the SOI to include options to place the project on the Inactive PPL if the applicant is not ready to submit a full application. Typical reasons to cause a project to be placed on the Inactive PPL:

- The applicant responds in the SOI that they do not intend to submit an application and requests the project to be placed on the Inactive PPL.
- The applicant responds in the SOI that they have already submitted a full application to another State funding program and request the project to be placed on the Inactive PPL.
- The applicant fails to respond to the SOI by the deadline for two consecutive invitation cycles.

The projects that are on the Inactive PPL will be reactivated upon applicant's request and CDPH will invite them to submit a full application during the next invitation cycle.

Bypass and Readiness to Proceed

In order to fund eligible ready to proceed projects in the funding pipeline, it is sometimes necessary for CDPH to bypass an application for a project that is "not ready to proceed" to a funding agreement or does not meet all eligibility requirements to receive a funding agreement. The bypass process is essential for CDPH to meet its funding obligation deadlines with USEPA and ensure the timely and expeditious use of DWSRF funding. CDPH will notify applicants when their projects are, or will be, formally bypassed. Any project that is bypassed may return to the 2014-2015 Comprehensive List; will retain its position on the current PPL and may be eligible for the next funding cycle. Typical reasons for bypassing a project include the following:

- The applicant submits an incomplete application and fails to provide additional documents by an established deadline.
- The applicant submits an application but subsequently decides not to pursue funding in the current funding year.
- The PWS is in "significant noncompliance" and the project is not designed to bring the system into compliance with the SDWA.
- The PWS does not meet the TMF capacity requirements. (CDPH will allow reasonable time for compliance and consider efforts to meet requirements.)

Projects bypassed may be funded at a later date when the project is ready to proceed to a funding agreement. Should a project on the fundable list decline the loan, the next ranked project from the comprehensive list will be offered access to all or a portion of these funds.

J. Emergency Process

If CDPH determines the project identified in the pre-application as an "emergency" project which will solve the problem caused by an emergency event, the "emergency" project will be ranked in the appropriate category and immediately placed on the comprehensive DWSRF PPL.

An emergency event is limited to a sudden or unexpected event which has occurred, is occurring or is an imminent threat, requiring immediate action to avoid or mitigate serious health effects to persons served by the PWS due to its inability to provide an adequate supply of safe drinking water to its service area. Events constituting an emergency include, but are not limited to, disruption or contamination of drinking water supplies caused by events such as fire, flood, earthquake, drought or other natural disasters.

Invitation to submit a full application will be automatically extended for DWSRF funding for a cost effective permanent long-term solution. “Emergency” projects will be subject to all applicable DWSRF requirements including environmental review. “Emergency” project applications will be processed as they are received for funding consideration.

Drought-related emergency projects, with sufficient documentation justifying a threatened emergency as defined in the PWSDER funding guidelines will be ranked in Category E for the duration of the emergency event. For SFYs 2014-2015 and SFY 2015-2016, in response to state’s requirements to assist PWS that are experiencing a drought related emergency or threatened emergency, to the extent possible, CDPH may apply banked cross-cutters to satisfy the environmental cross-cutters if there is sufficient supporting evidence that there will be no federally listed or threatened endangered species and no historic properties will be affected.

K. Application of Federal Cross-Cutters

Projects supported with funds directly made available by USEPA capitalization grants (i.e., projects funded in amounts equaling the grant), known as “equivalency projects,” must fulfill the social and environmental federal cross-cutting requirements (40C.F.R. § 35.3145). State regulations direct CDPH to establish the threshold for projects subject to federal cross-cutting requirements in each IUP. This process enables CDPH to periodically set the size of water systems and the cost of projects that will require federal cross-cutting review. Pursuant to this IUP, federal cross-cutting requirements will apply to all PWS projects that serve 1,000 service connections or more and to all construction projects with a DWSRF requested amount of \$1,250,000 or greater. In limited instances, CDPH will utilize banked cross-cutters for projects that exceed the aforementioned thresholds with preference given to “disadvantaged” PWS and those projects necessary for CDPH to satisfy its obligational deadlines. The CDPH, Environmental Review Unit may recommend the use of banked cross-cutters based on the evaluation of projects’ environmental documents.

As part of the environmental cross-cutters, all applicants applying for construction funding are required to complete a *SDWSRF Federal Cross-cutting Environmental Regulations Applicability Evaluation Checklist (Checklist) For Federally Designated Agency Coordination* or *SDWSRF Worksheet for CEQA/NEPA Determination (Worksheet)*. ERU will review the Checklist or Worksheet for any construction activities that may require consultation with a federal agency. As a federally designated state agency, CDPH will initiate consultation with the appropriate federal agency. CDPH also maintains technical staff providing coordination of social cross-cutters such as environmental justice, equal employment opportunity, and promoting the use of Disadvantaged Business Enterprise programs. All projects and activities funded with DWSRF funds are subject to federal anti-discrimination laws. CDPH includes standard provisions concerning these cross-cutting laws in all funding agreements and service contracts.

V. FINANCIAL MANAGEMENT

A. Sources and Uses of Funds

Federal Capitalization Grants

Including the 2014 Federal Capitalization Grant, CDPH will have received approximately \$1.63 billion in federal capitalization grant funding for both project loans and set-aside activities since the inception of the DWSRF program. See Table 2 below for the sources and uses of DWSRF funds, including CDPH's receipt of federal capitalization grants.

Additionally, USEPA provides for a payment schedule of the 2014 Capitalization Grant. Based upon CDPH's cash flow modeling and projected disbursements for SFY 2014-2015, CDPH has requested the following federal payment schedule from USEPA for the 2014 Capitalization Grant, as detailed in Table 1 below.

TABLE 1: 2014 Capitalization Grant Payment Schedule

FFY	DATE	AMOUNT	DESCRIPTION	SITE CODE
14	Award Date	\$3,328,840	4% Admin	DD
14	Award Date	\$1,664,420	2% SWSTA	DE
14	Award Date	\$8,322,100	10% SPM	DF
14	Award Date	\$4,993,260	15% Local Asst.	DG
14	Award Date	\$64,912,380	Loan Fund	DA

Based upon a "Loan Fund" amount of \$64,912,380 for the 2014 Capitalization Grant as well as the associated State Match of \$16,644,200, the disbursement proportionality for the 2014 Capitalization Grant is 79.59%/20.41% (Federal/State). In accordance with recommended USEPA policy, CDPH will disburse the 2014 state match prior to disbursing any funds allocated for project loans from the 2014 Federal Capitalization Grant.

State Match Source

The SDWA requires states to provide a 20 percent (20%) match to the capitalization grants received from the federal government (State Match). For the 2014 Capitalization Grant, CDPH intends to secure its State Match through a short-term loan with California Infrastructure and Economic Development Bank (iBank). As of June 30, 2014, CDPH will have approximately \$64.7 million in interest returns on existing project loans and intends to secure its State Match with such interest returns. CDPH will also provide evidence to USEPA Region 9 that the 2014 State Match has been deposited into the DWSRF loan fund prior to the award date of the 2014 Federal Capitalization Grant.

Loan and Interest Repayment Sources

As of June 30, 2014 CDPH will have received approximately \$328 million in loan and interest repayments since the inception of the DWSRF program. For SFY 2014-2015, CDPH anticipates receipt of approximately \$57.8 million in loan repayments and interest returns. Both the loan principal returns and interest earned have and will continue to be committed to eligible DWSRF projects. The interest earned on SDWSRF loans will continue to serve as a source of repayment and collateral for the securing of future state match.

Use of All Funds Available

Including estimates for the remainder of the 2013-2014 SFY, CDPH is expected to have executed over 350 loans for a combined total of approximately \$2.1 billion since the inception of the DWSRF program. The total amount of funds received by the DWSRF for SFY 2014-2015, including the FFY 2014 grant, repayments, and interest earnings, and the intended allocation to each activity is presented in Table 2 below. As a result of available DWSRF funding, as further derived by the cash flow model, CDPH is targeting approximately \$115 million in funding commitments for the period from July 1, 2014 through June 30, 2015. CDPH has also received approximately \$175 million in set-aside funds since the inception of the program for the administration of the DWSRF program and to assist small water systems achieve TMF capacity. The details of set-aside of funding are also described in Table 2 below.

In order for CDPH to achieve its multiple funding objectives, including (1) the funding of projects that address California's public health priorities; (2) the timely and expeditious use of DWSRF funds; (3) additional subsidy assistance to PWS that serve "disadvantaged" and "severely disadvantaged" communities; and (4) minimum funding assistance to SWS, CDPH will strive to assist PWS in becoming "ready to proceed" to a funding agreement.

TABLE 2: Sources and Uses of All DWSRF Funds

		Cumulative Total through 6.30.2014**	7.1.14-6.30.15* (This IUP)	Cumulative Total through 6.30.2015*
SOURCES				
	Federal Capitalization Grants (Loans + Set-Asides, including ARRA)	\$1,548,253,032	\$83,221,000	\$1,631,474,032
	State Match			
	<i>20% Capitalization Grant</i>	\$276,891,162	\$16,644,200	\$293,535,362
	<i>SPM Set-aside 1:1</i>	\$68,731,792	\$8,322,100	\$77,053,892
	Principal Repayments	\$228,788,442	\$44,747,383	\$273,535,825
	Interest Repayments	\$99,696,715	\$13,067,631	\$112,764,346
	Investment Earnings	\$13,600,597	\$580,000	\$14,180,597
	<i>Sources Total</i>	\$2,057,673,526	\$166,582,314	\$2,224,255,840
USES				
	Loans			
	Loans to Large Systems (>10,000 population)	\$1,712,786,127	\$98,984,680	\$1,811,770,807
	Loans to Small Systems (<10,000 population)	\$225,677,092	\$36,142,527	\$261,819,619
	Additional Subsidy	\$240,538,515		
	Set-Aide Funding			
	Administration	\$59,653,945	\$3,328,840	\$62,982,785
	Small Water System Technical Assistance	\$29,009,322	\$1,664,420	\$30,673,742
	State Program Management			
	<i>Capacity Development</i>	\$28,354,547	\$0	\$28,354,547
	<i>PWSS Program</i>	\$37,816,685	\$8,322,100	\$46,138,785
	Local Assistance			
	<i>Capacity Development</i>	\$4,136,140	\$1,664,420	\$5,800,560
	<i>SWAP Support</i>	\$8,831,577	\$0	\$8,831,577
	<i>Legal Entity Formation</i>	\$3,282,560	\$0	\$3,282,560
	<i>Third Party Local Assistance Contracts</i>	\$3,150,800	\$3,328,840	\$6,479,640

*Based upon current estimates

**Based upon current reconciliation

B. Financial Terms of Loans

Non-Disadvantaged Community Loans

CDPH's interest rate for DWSRF loans for PWS that serve non-disadvantaged communities is fifty percent (50%) of California's general obligation bond rate. All loans for non-disadvantaged communities have a maximum loan repayment term of 20 years with a fixed interest rate.

Disadvantaged Community Loans

CDPH operates a "disadvantaged" community program for PWS that serve communities with challenging financial and socioeconomic conditions. The criteria used to establish that a community is "disadvantaged" are described in Section IV of this IUP. Under the DWSRF, eligible PWS that serve "disadvantaged" communities receive a zero percent (0%) interest loan rate. Such PWS may also receive up to a 30-year loan repayment term if necessary to facilitate loan affordability. Additionally, PWS that are owned by public agencies or non-profit water companies that serve "disadvantaged" communities may also receive some level of principle forgiveness if the PWS' average residential water rate exceeds the community's target consumer rate. Currently, the target consumer rate for a "disadvantaged" community is 1.5 percent (1.5%) of the PWS permitted service area's MHI. The level of principal forgiveness for a "disadvantaged" community loan is ultimately based upon a PWS' ability to afford such loan, but is also limited per Table 3 below. The limitations on principal forgiveness in Table 3 below exist so as to maximize the limited amount of principal forgiveness per applicant while maximizing the number of applicants that can benefit from such limited supply of principal forgiveness.

TABLE 3: Maximum Principal Forgiveness Funding for "Disadvantaged" Communities

PROJECT PRIORITY RANKING	LOAN PRINCIPAL FORGIVENESS NOT TO EXCEED	MAXIMUM AMOUNT OF LOAN PRINCIPAL FORGIVENESS FOR PLANNING PROJECTS	MAXIMUM AMOUNT OF LOAN PRINCIPAL FORGIVENESS FOR
A-G	80% Total Eligible Project Cost	\$500,000	\$3,000,000
H-L	65% Total Eligible Project Cost		
M-O	50% Total Eligible Project Cost		

Severely Disadvantaged Community Loans

CDPH also operates a "severely disadvantaged" community program for CWS that serve less than 10,000 people. The criteria used to establish that a community is "severely disadvantaged" are described in Section IV of this IUP. Ultimately, CDPH has found that these CWS serving "severely disadvantaged" cannot afford any form of a DWSRF loan. As a result, eligible CWS with eligible projects can receive up to 100 percent (100%) principal forgiveness subject to a maximum of \$3 million for their proportional share of a construction project and \$500,000 for a planning project.

C. Loan Disbursements

As of January 1, 2013, and in accordance with USEPA's requirement for CDPH to timely and expeditiously disburse DWSRF funds, CDPH is now requiring all DWSRF funding recipients to (1) submit claims for all costs incurred prior to a funding agreement execution date no later than 90 days following such execution date; and (2) submit claims for costs incurred in one month no later than 60 days following such month. CDPH expects a rapid increase in the disbursement of funds by essentially requiring funding recipients to submit claims as costs are incurred.

In cooperation with USEPA Region 9, CDPH has also developed a cash flow model to allow for the management of the over-commitment of DWSRF funds. The cash-flow model is an Microsoft Excel tool that accounts for the sources and uses of DWSRF funds and allows the DWSRF program's ULOs to be estimated and projected based upon certain assumptions relating to (1) both actual and projected loan and grant commitments and their estimated project disbursements; (2) both actual and projected loan amortizations and the associated loan principal and interest returns; and (3) both actual and estimated federal capitalization grants and state match.

The cash-flow model is also a planning and tracking tool where estimated future DWSRF outflows are projected against estimated future DWSRF inflows with the intent to understand and direct ULO trends, relative to realized inflows, outflows and ULOs, over time. The cash flow model is also a tool to assist in budgeting and project tracking within the DWSRF loan fund for disbursements, repayments, as well as other financial modeling for use in policy decision making.

Based upon CDPH's cash flow modeling, CDPH is projecting the following quarterly federal cash draw schedule, as detailed in Table 4. CDPH is also targeting a cumulative total of loan disbursements of \$621 million for the period beginning with July 1, 2012 and ending June 30, 2015.

TABLE 4: 2014 DWSRF Federal Capitalization Grant Draw Schedule

The following table represents CDPH's anticipated federal draw schedule for SFY 2014-2015. It's anticipated that CDPH will draw the following federal funds from the 2010 Federal Capitalization Grant through the 2013 Federal Capitalization Grant. CDPH will also disburse 100 percent (100%) state match for such federal capitalization grants prior to disbursing such federal capitalization grants to projects.

Federal Fiscal Year	2014-2015				
	Q1	Q2	Q3	Q4	TOTAL
Federal Local	\$23,845,759	\$33,734,000	\$59,217,115	\$59,047,819	\$175,844,693
State Match Draw	\$13,731,000	\$32,039,000	\$0	\$0	\$45,770,000
Federal Set-Aside	\$3,750,000	\$3,750,000	\$3,750,000	\$3,750,000	\$15,000,000

TABLE 5: FFY 2013-2014 Disbursement by Quarter

The following table represents CDPH's actual disbursement per quarter for SFY 2013-2014.

Fiscal Year	Q1	Q2	Q3	Q4	Total Disbursed By Year
SFY 2013-2014 (As of June 24, 2014)	\$14,085,618	\$47,199,042	\$45,987,118	\$64,600,798	\$171,872,577
Total Disbursed SFY 2013/2014					\$171,872,577
Pending Disbursements of Quarter 4					\$5,038,457
Total Including Pending Disbursements					\$176,911,034

VI. SET-ASIDE ACTIVITIES

The SDWA allows each state to set aside up to 31 percent (31%) of its federal capitalization grant to support various drinking water programs including administration, water system capacity development, technical assistance, state program management and special activities. For SFY 2014-2015, CDPH plans to use a total of 22 percent (22%) of the 2014 Capitalization Grant for set-aside activities. CDPH will submit detailed work plans to USEPA for approval before we expend these funds and will report on the progress of set-aside activities to USEPA in annual performance status reports. For CDPH's multi-year contracts with third-party assistance providers, CDPH will fund the contract each year through only that year's set-asides.

A. DWSRF Administration

Max Allowed:	4%
Taken from FFY 2014 Grant:	4% (\$3,328,840)

The maximum allowable administration set-aside funds will be used to fund costs of administering the DWSRF fund, including the development of the PPL, the review and processing of applications, management and oversight of individual project, management of contracts with other agencies, and all accounting and legal costs. The fund is used to support DWSRF funding staff and to cover the costs of an external audit contract.

A portion of the Administration set-aside funds positions of the Fiscal Support Team in the Accounting Section of the CDPH Administration division. This team provides the point of contact with the State Controller's Office. In addition, the administration set-aside supports several information technology positions and activities to assist with maintenance and enhancement of data management resources necessary for program management. The Administrative Workplan for SFY 2014-2015 contains detailed information about Administrative set-aside utilization and goals.

B. Small Systems Technical Assistance

Max Allowed:	2%
Taken from FFY 2014 Grant:	2% (\$1,664,420)

These funds will be used to provide technical assistance to SWS. There are more than 7,300 of California's 7,500 PWS that are designated as SWS, serving populations of less than 10,000. However, this set-aside for SWS emphasizes the 1,900 CWS serving less than 200 service connections.

The Sciences and Environmental Services Section with CDPH implements the following to assist SWS to:

- Maintain an "Assistance Referral Database" to prioritize and assign assistance requests and track third party contract deliverables.
- Manage the services provided by third party contractors.
- Conduct annual meetings with the technical assistance providers (CalTAP) to provide opportunity to identify and implement more effective and meaningful methods of providing technical assistance to smaller and disadvantaged water systems.

- Provide technical assistance to SWS pursuing DWSRF funding in preparation of state and/or environmental documents.
- Advise local primacy agencies on how to provide technical assistance to SWS that have significant violations of the primary drinking water standards.
- Ensure that the LPAs are verifying that SWS under their regulatory jurisdiction are in compliance with TMF requirements and implementing the resources available to SWS to help improve TMF capacity where needed.

Additionally, CDPH identified a list of small CWS with fewer than 1,000 service connections that are in violations of at least one primary health-based drinking water standard. CDPH developed an implementation plan that would raise the compliance rate for such SWS to match the compliance rate for large water systems (LWS). CDPH will continue its effort in the following activities:

- Coordinate staff and resources with local health departments and third-party contractors to target and address the needs of these small CWS.
- Ensure that these small CWS are receiving technical assistance such as establishing appropriate water rate structures.
- Allocate necessary resources to ensure that these small CWS have TMF capacity and sustainability into the future.

C. State Program Management

Max Allowed:	10%
Taken from FFY 2014	10% (\$8,322,100)
State match:	(\$8,322,100)

These funds will be used to address additional program requirements of the PWSS program outlined by the SDWA. This set-aside requires a one-to-one state match beyond the 20 percent (20%) state match for federal capitalization grants. CDPH will provide the match through the current PWSS grant and previous years' credits.

PWSS Program

FFY 2014 Grant and State Matching Funds: \$16,644,200

CDPH will use funds from this set-aside to support PWSS activities. CDPH will increase the frequency of inspections and surveys of smaller water systems, evaluate treatment and infrastructure improvement needs, review plans and specifications in relation to and for conformance with treatment requirements, assist managers and operators of PWS with compliance, and enhance emergency preparedness and terrorism/disaster response preparedness of CDPH and PWS. CDPH will also use the funds to enhance CDPH's data management and reporting capabilities.

In addition, CDPH will reserve \$500,000 from this set-aside for an In-kind service contract through USEPA to assist California with the 2015 Drinking Water Infrastructure Needs Assessment.

D. Local Assistance and Other State Programs

Max Allowed: 15%
Taken from FFY 2014 6% (\$4,993,260)

Funds for this set-aside will be used to support the implementation of local drinking water protection initiatives, including TMF capacity development. Federal regulations state that no more than 10 percent (10%) of the federal capitalization grant can be allotted to any one of these activities.

Third Party Contracts

FFY 2014 Grant: 4% (\$3,328,840)

CDPH will use this set-aside to fund assistance providers that will include the Rural Community Assistance Corporation (RCAC), the California Rural Water Association (CRWA), and the Self Help Enterprises (SHE). Each organization will be under contract with CDPH to provide specific activities such as the following:

- Assist in preparing preliminary engineering, funding application, required documents for a DWSRF loan, and navigating the DWSRF loan process.
- Develop and conduct training workshops covering all aspects of water system operation and maintenance and legal responsibilities of water system board members.
- Develop and conduct workshops for the treatment of arsenic and nitrate.
- Conduct income surveys to determine a community's median household income.
- Conduct water rate studies.
- Participate in networking and outreach events to increase water system sustainability by promoting regionalization and consolidation efforts.
- Assist SWS in procuring necessary engineering and other contracting services.
- Provide community education services, i.e. facilitate public meetings to inform customers of utility rate increases needed to cover operation and maintenance costs as a result of new treatment facilities.
- Monitor the requirements for funding placed on SWS to ensure that conditions for funding are met within stated timelines.
- Assist SWS in assessing the current level of TMF capacities.
- Assist existing SWS with permit applications.
- Assist SWS in the consolidation, annexation, and formation of joint power agreements between two or more public water systems.
- Assist SWS with the submittal of claims and processing of payments to contractors for planning and infrastructure improvement projects funded by CDPH.

Water System TMF Capacity Development

FFY 2014 Grant: 2% (\$1,664,420)

Water system capacity is defined as the TMF elements that will enable a system to provide safe and reliable drinking water that meets all standards. By assisting PWS to identify and address their TMF capacity deficiencies, the capacity development program seeks to improve a PWS' operational programs to assure that acceptable levels of operation can be met and sustained.

CDPH will also continue its contract with the University of California, Davis – Center for Affordable Technology for Small Water Systems (UCD) to provide assistance to small PWS that lack the funds and expertise to obtain these services on their own. UCD's activities include:

- Prepare preliminary engineering reports for disadvantaged SWS which will help such SWS establish their eligibility for DWSRF funding.
- Conduct training and research relevant to the activities of CDPH particularly in terms of issues associated with SWS in California.
- Assist SWS as identified by CDPH in developing appropriate solutions for their problems.

VII. PUBLIC PARTICIPATION

DWSRF Policy Committee and Stakeholders

CDPH plans to convene the internal DWSRF policy committee no less often than quarterly to discuss program progress and potential modifications. In addition, CDPH will continue to hold an annual round-table meeting with stakeholders to evaluate current program or potential modification of the program structure or resource utilization. Stakeholder groups will include representatives from small and large public water systems, LPAs, environmental justice groups, and other interested parties.

Public Hearing and Comment Activities

To ensure that the public has an opportunity to review CDPH's proposed plans for the DWSRF, this draft 2014-2015 IUP, PPL, Fundable List and Comprehensive List are made available 30 days for public review and comment. A public hearing is held on the last day of the review period. To ensure that interested parties are made aware of the public meeting date, CDPH publishes announcements on its website (<http://www.cdpf.ca.gov/services/funding/Pages/SRF.aspx>) and notifies them via emails.

CDPH welcomed input on all elements of the IUP either through written comments or at the hearing. The hearing provides a forum for discussing the overall purpose, format and content of the IUP including the types of assistance being provided through the DWSRF loan account and set-aside account, the long- and short-term goals of the program, the project priority ranking system used to rank individual projects and the proposed list of projects to receive funding from SFY 2014-2015 funds. Issues that arose at the public hearings and in written comments were discussed in depth in Appendix H of this IUP.

SWS Technical Assistance

The SWS technical assistance program strategy was developed with the assistance of interested groups such as CRWA, RCAC, Community Development Block Grant program, California Conference of Directors of Environmental Health, local environmental health agencies, Self Help Enterprises, American Water Works Association and others. CDPH staff annually participates in a series of funding fairs targeting public water systems throughout the state, as well as small water system workshops sponsored by CRWA, RCAC and similar organizations. This outreach helps to ensure that the interested public has ongoing opportunities to provide input on the funding and support needs of water systems throughout the state.

VIII. AUDITS AND REPORTING

Ensuring transparency and accountability, all program materials are posted on our website (<http://www.cdph.ca.gov/services/funding/Pages/SRF.aspx>).

CDPH commits to entering project and benefits data into the EPA Drinking Water National Information Management System and Project and Benefits Reporting (PBR) System to evaluate the benefits of the California DWSRF program. Among other parameters, the reporting systems will evaluate the number of California DWSRF projects that provide the following public health benefits:

- Achieve compliance with SDWA;
- Maintain compliance with SDWA; and
- Meet future requirements of SDWA.

CDPH will enter project benefits information into PBR by the end of the quarter in which the assistance agreement is signed.

CDPH will produce an annual report on the uses of the DWSRF funds each year after the end of the SFY. The reports will cover both the loan and set-aside fund account activities. In addition, the annual report will reflect accomplishments of the work-plan specific activities.

IX. ASSURANCES AND CERTIFICATIONS

The State has the authority to establish a Fund and to operate the DWSRF program in Accordance with the SDWA

In California, the responsibility for regulating PWS and overseeing the safety of drinking water rests with the CDPH. USEPA designated CDPH as the “primacy agency” for purposes of implementing and enforcing the federal SDWA.

The State will comply with State Statutes and Regulations

State statutes governing California’s DWSRF program are set forth in California’s Health & Safety Code, Division 104, Part 12, Chapter 4.5, commencing with section 116760 (current as of April 2014). CDPH has adopted regulations governing its implementation of the DWSRF program; the regulations are set forth in Title 22 of the California Code of Regulations, Division 4, Chapter 12 commencing with section 63000. The state statutes and regulations, while not identical to, are in conformance with federal DWSRF law and regulations and guidelines. California will implement its DWSRF program in compliance with all applicable state and federal laws, regulations and guidelines in effect at the time this IUP is prepared.

The State will deposit all Capitalization Grant funds in the Loan Fund or Set-aside Account

CDPH will maintain identifiable and separate accounts for all portions of the Capitalization Grant to be used. The Capitalization Grant will be deposited into either the loan fund or the set-aside account. Cash draws from the Automatic Clearing House for loan or set-aside activities will not be allowed until a negotiated work plan between EPA and the State is approved as part of the Grant agreement.

The State will provide an amount at least equal to 20 percent of the Capitalization Grant (State Match) in the Fund

The State of California provides the 20 percent (20%) State match through a short-term loan with California Infrastructure and Economic Development Bank (iBank). A total of \$16,644,200 is earmarked to provide for the required State Match for the 2014 Federal Capitalization Grant. CDPH will also provide evidence to USEPA Region 9 that the 2014 State Match has been deposited into the DWSRF loan fund prior to CDPH’s use of the 2014 Federal Capitalization Grant.

The State will deposit net bond proceeds, interest earnings, and repayments into the Fund

All interest, earnings, repayments, and other proceeds will be deposited into the DWSRF loan fund.

The State will match Capitalization Grant funds the State uses for 1542(g)(2) set-asides

In addition to the 20 percent (20%) match for the overall Grant, CDPH will provide a 100 percent (100%) match for dollars spent on any of the 1452(g)(2) activities as required. This match will be provided by CDPH with 50 percent (50%) will come from allowable “credit” for FFY 1993

expenditures. This credit has been documented previously. The other 50 percent (50%) will be provided by the 1:1 match from the PWSS Overmatch.

The State will use Generally Accepted Accounting Principles

CDPH contracts with State Controllers Bureau of State Audits to perform an annual comprehensive audit in accordance with the requirements of the Single Audit Act, which is promulgated by the Federal Office of Management and Budget (OMB) Circular A-133. OMB Circular A-133 requires that the auditors issue an opinion on the financial statements along with the changes in financial position and cash flows in conformity with generally accepted accounting principles.

Due to the federal deadlines on obligation of the available funds, projects that are not ready to proceed to funding agreement will be by-passed for that particular funding cycle. Any project that is by-passed will retain its position on the PPL and be eligible for the next funding cycle.

The State will have the loan and set-aside fund account audited annually in accordance with Generally Accepted Government Auditing Standards (GAGAS)

CDPH contracts with State Controllers Bureau of State Audits to perform an annual comprehensive audit in order to ensure that the DWSRF Program is in compliance with internal control over financial reporting in accordance with GAGAS. A primary purpose of this audit is to ensure that CDPH has in place provision and guidance to prevent waste, fraud and abuse of funds derived from the Grant.

The State will adopt policies and procedures to assure that borrowers have a dedicated source of revenue for repayments (or in the case of a privately owned system, demonstrated that there is adequate security)

CDPH has developed policies and procedures for ensuring that borrowers have a dedicated source of revenue and that privately-owned systems have adequate security. These policies and procedures are discussed in the CDPH DWSRF project loan guidelines. CDPH processes DWSRF invoices and payments. The forms are available for easy access on the CDPH website. In addition, CDPH offers a claims submittal tutorial with each issued funding agreement and has staff available to answer claims processing questions.

The State will commit and expend funds as efficiently as possible, and in an expeditious and timely manner

The IUP provides the basis for how CDPH will use funds. CDPH will commit and expend both grant and state match funds as efficiently as possible, and in an expeditious and timely manner. CDPH will enter into binding commitments with recipients of fund assistance equal to the total amount of each grant payment and proportional state match within one year of the grant payment.

Funds will be used in accordance with the IUP

The IUP directs the manner in which the Capitalization Grant will be used. The IUP underwent public review and comment so that each component could be considered prior to developing the final IUP.

The State will provide EPA with a Biennial Report

CDPH will produce an annual report on the uses of the DWSRF funds each year after the end of the state fiscal year. The reports will cover both the loan and set-aside fund account activities. In addition, the annual report will reflect accomplishments of the work-plan specific activities. The annual reports submitted to USEPA meet the biennial report requirements.

The State will comply with all Federal cross-cutting authorities

All set-aside activities will be performed in accordance with the Civil Rights Act of 1964, section 504 of the Rehabilitation Act of 1973, and the Age Discrimination Act of 1975. All other cross-cutters applicable to the set-aside activities will be adhered to. The State has developed policies and procedures to ensure that the State and all Project Fund loan recipients conform to applicable Federal cross-cutter requirements. Required documentation will be provided for each of these requirements. To the extent necessary, cross-cutter requirements will be incorporated as conditions in the loan contracts.