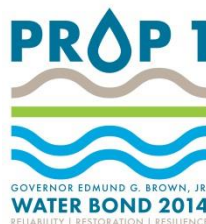


*State of California*  
**DRINKING WATER STATE  
REVOLVING FUND**

And the Water Quality, Supply, and Infrastructure  
Improvement Act of 2014  
(Proposition 1 – Chapter 5, Section 79724)

**INTENDED USE  
PLAN**

**STATE FISCAL YEAR 2015-2016  
(FEDERAL FISCAL YEAR 2015 CAPITALIZATION GRANT)**



Prepared by:  
State Water Resources Control Board, Division of Financial Assistance  
Approved August 4, 2015 | Resolution No. 2015-0053

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## I. INTRODUCTION

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

The 1996 amendments to the Safe Drinking Water Act (SDWA) responded to national drinking water infrastructure needs by establishing the Safe Drinking Water State Revolving Fund (DWSRF). The DWSRF provides financial assistance to public water systems (PWSs) in the form of low-interest financing, additional subsidy, and other technical assistance derived from federal capitalization grants, associated state match, and revolving principal and interest repayments. The DWSRF is currently managed by the Division of Financial Assistance (DFA) within the California State Water Resources Control Board (State Water Board).

The United State Environmental Protection Agency (U.S. EPA), in cooperation with the State of California (State), has also designated the State Water Board as the "primacy agency" to implement and enforce the federal SDWA. As the state primacy agency, the State Water Board regulates more than 7,500 PWSs located throughout the State. To assist in this effort, the State Water Board delegates its primacy authority to 30 local health departments, known as local primacy agencies (LPA), to regulate PWSs serving less than 200 service connections. The State Water Board 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 (SWSs) and for improving technical, managerial, and financial (TMF) capacity; and provides funding opportunities for water system improvements.

The 2015-2016 Intended Use Plan (IUP) is part of the State Water Board's application for the federal fiscal year (FFY) 2015 capitalization grant from the U.S. EPA. In establishing the terms of this IUP, the State Water Board 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 Board, and the California 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."

Based on the most recent 2011 Drinking Water Infrastructure Needs Survey, California drinking water needs are over \$2.2 billion per year for the next 20 years. For FFY 2015, California is eligible for an \$82.674 million grant from the \$900.9 million appropriated by Congress for the nation's DWSRF programs. The federal funding, in coordination with principal and interest repayments on existing loans and other debt, 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 PWSs for infrastructure

improvements. The State Water Board intends to use 18 percent (18%) of the FFY 2015 DWSRF allotment award for these set-aside activities. The remaining 82 percent (82%) of federal funds, plus 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 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 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 IUP presented, herein, is prepared and submitted in compliance with federal requirements.

In State Fiscal Year (SFY) 2015-2016, the State Water Board will continue to focus on implementing the public health aspects of the 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 2015-2016**

1. Proposition 1 (Prop 1), the Water Quality, Supply, and Infrastructure Improvement Act of 2014 (Assembly Bill 1471, Rendon)

Prop 1 authorizes \$7.545 billion in general obligation bonds for water projects including surface and groundwater storage, ecosystem and watershed protection and restoration, and drinking water protection. The State Water Board will administer Prop 1 funds for the following general project types: wastewater, water recycling, drinking water, stormwater, and groundwater.

Chapter 5, Section 79724(a) of Prop 1 allocates \$260 million for drinking water grants and loans for PWS infrastructure improvements and related actions to meet safe drinking water standards, to ensure affordable drinking water, or both. Prop 1 will be administered consistent with the DWSRF IUP and the DWSRF Policy to the extent allowed by federal regulations and State statutes. The Prop 1 funds will also supplement the additional subsidies provided by the FFY 2015 Capitalization Grant and any prior DWSRF capitalization grants that have not been committed to projects. Administering these funds as a part of the DWSRF program allows grant and/or principal forgiveness funds to be readily leveraged with the low-interest financing available through the DWSRF program. DWSRF applications are accepted on a continuous basis, and eligible projects are funded as applications are completed and approved.

2. Safe Drinking Water Small Community Emergency Grant (SDWSCEG) Fund

The Health and Safety Code Section 116760.46 creates the SDWSCEG Fund for the purpose of providing emergency grant funding to PWSs that serve small, disadvantaged and severely disadvantaged communities. The State Water

Board will initiate efforts to develop guidelines and policies for the implementation and administration of the SDWSCEG program.

### 3. Legal Entity Formation Assistance (LEFA) Program

The LEFA program was established to assist communities that are not currently being served by a PWS and have domestic wells or surface water sources with violation(s) of primary drinking water standards. The purpose of the LEFA program is to provide financial assistance in the formation of a legal entity for such communities which would have authority to own/operate a PWS; assess rates and charges for domestic water supply; or have authority to consolidate with an existing PWS. Of the twenty-one (21) LEFA applications received, fourteen (14) financing agreements were executed, one is progressing toward financing agreements, one (1) withdrew and five (5) did not result into projects that could be financed by the State Water Board. One funded LEFA project has successfully formed a not-for-profit water company, then applied and received drought funding. The LEFA pilot program is expected to be concluded in SFY 2016-2017. During the SFY 2015-2016, the State Water Board will solicit lessons learned from LEFA recipients to evaluate the effectiveness of the LEFA program as well as to assess the needs for this type of funding to whether to budget for additional set-aside funds in future years.

### 4. American Iron and Steel (AIS) Requirements

On December 16, 2014, President Obama signed Public Law 113-235, the "Consolidated and Further Continuing Appropriations Act 2015," which provides Fiscal Year 2015 full-year appropriations through September 30, 2015. Section 424 of this law continues the requirement for the use of AIS products in DWSRF projects. Details are provided in the memorandum: Application of AIS Requirements to Fiscal Year 2015 DWSRF under the Consolidated and Further Continuing Appropriations Act 2015. Pursuant to U.S. EPA's guidelines, projects with a signed financing agreement from December 16, 2014, through September 30, 2015, must conform with the AIS requirements, except where the State Water Board approved plans and specifications prior to December 16, 2014. U.S. EPA's interpretation of these provisions is described in the Implementation of AIS provisions of P.L. 113-76, Consolidated Appropriations Act of 2014.

On March 23, 2015, U.S. EPA issued a Decision Memorandum entitled Extension of the California American Iron and Steel Drought-Related Projects Waiver – Waiver Number 09-DW-001. (See [http://water.epa.gov/grants\\_funding/upload/CA-Drought-Related-Projects-Waiver-Extension-508-3-23-15\\_final.pdf](http://water.epa.gov/grants_funding/upload/CA-Drought-Related-Projects-Waiver-Extension-508-3-23-15_final.pdf).) This extension waiver extended the previous drought waiver of August 18, 2014, for projects funded in whole or in part by the California Drinking Water State Revolving Fund and that meet certain criteria related to the California drought. (See [http://water.epa.gov/grants\\_funding/upload/09-DW-0001-CA-Waiver-Request-Response-2.pdf](http://water.epa.gov/grants_funding/upload/09-DW-0001-CA-Waiver-Request-Response-2.pdf).) The waiver permits the use of non-domestic iron and steel products that would otherwise be prohibited under the Consolidated Appropriations Act of 2014. The waiver is extended through September 30, 2015,

or until the California Drought State of Emergency Proclamation is lifted, whichever is sooner.

## II. STRUCTURE OF THE DWSRF

The DWSRF program has two main funding components: (1) financial assistance to PWSs via low-interest financing and additional subsidy, including principal forgiveness, and (2) set-aside funding for administrative support of the DWSRF and other activities.

### A. Planning and Construction Funding

The State Water Board provides assistance for the planning and construction of eligible drinking water improvements to publicly and privately owned community water systems (CWSs) and nonprofit, non-community water systems. Eligible planning, preliminary engineering studies, project design, and construction costs are described in the DWSRF Policy, Sections X. B. and XI. B. Costs of purchasing water systems may include associated water rights or watershed lands. Acquisition of real property, rights-of-way, and easements are eligible only if the acquisition is integral to a project. The eligible cost will be based on fair market value determined by an appraisal done by a California licensed appraiser. The Division will determine real property eligibility.

The focus of DWSRF assistance is to ensure safe drinking water for the State's existing population served by PWSs. Projects that are primarily intended to serve future growth or for fire protection are ineligible per federal DWSRF guidelines. However, eligible projects may be sized to accommodate reasonable growth in accordance with Capacity Limitation as outlined in the DWSRF Policy.

Whether a project is funded solely through DWSRF monies, Prop 1 Drinking Water funds, or a combination thereof, the provisions in this section shall apply.

### B. Set-Aside Funding

The DWSRF set-asides will be used to (1) administer the DWSRF program, and (2) provide additional support for the Division of Drinking Water (DDW) and its drinking water regulatory activities, and (3) assist PWSs in developing enhanced TMF capabilities for the future. The set-asides also help many SWSs build TMF capacity to assure compliance with the SDWA and, if appropriate, aid in readiness to proceed to access DWSRF funding. Additional information may be found in Section VI.

- **Administration Set-Aside** – will support DFA's DWSRF program operation and management, including technical assistance to funding recipients
- **Small Water System (SWS) Technical Assistance Set-Aside** – will enable DFA to assist small PWSs serving less than 10,000 people, particularly those systems with fewer than 200 service connections, in establishing eligibility for DWSRF funding or to provide other technical assistance in project development
- **State Program Management Set-Aside** – will support the DDW's public water system supervision (PWSS) activities and provide for the DDW's assistance in identifying

and addressing PWS TMF deficiencies under the State Water Board's Capacity Development Strategy

- **Local Assistance Set-Aside** – will enable DFA to contract with third parties to provide technical assistance to PWSs to bolster TMF capacity and will support DFA's technical assistance in identifying and addressing PWS TMF deficiencies through the TMF assessment included in the DWSRF funding applications.

### 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 PWSs. The short and long term goals developed for the DWSRF are presented below. They provide a framework that will guide the decision-making, maximization and prioritization of staff and financing resources within the State Water Board.

#### A. Short Term Goals

1. Develop and measure the performance of the streamlined DWSRF online application process, which initiated January 1, 2015 and present progress to stakeholders and the State Water Board.
2. Conduct DWSRF project staging meetings to better coordinate financial, environmental, technical and legal review of projects to reduce project processing time.
3. Increase public transparency and communication by posting application status reports online.
4. Explore the feasibility of a Regional Operations and Maintenance Cooperative Fund to help small, disadvantaged communities pay for operation and maintenance of water distribution and treatment systems.
5. Fully integrate Drinking Water and Clean Water State Revolving Fund data into one Loans and Grants Tracking System (LGTS) platform, and further develop and implement a new web-enabled LGTS database.
6. Develop a mobile application to expedite applicant access to program staff, funding and technical assistance services and information.
7. Continue marketing and outreach to PWSs via the California Financing Coordinating Committee, California Technical Assistance Providers (CalTAP) Fairs, and workshops.
8. Utilize Spanish translation services, newsletters and social media to advertise the new application process and the availability of technical assistance to assist small, disadvantaged communities.



9. Immediately seek the award of the FFY 2015 Capitalization Grant (2015 Capitalization Grant). Upon award, commit funds from the 2015 Capitalization Grant by June 30, 2016, such that the federal funds can be utilized in an efficient and timely manner in accordance with 40 CFR §35.3550(c).
10. Ensure that at least 20 percent (20%), but not more than 30 percent (30%), of the 2015 Capitalization Grant is provided to eligible recipients in the form of additional subsidy (i.e., forgiveness of principal).
11. Provide at least 15 percent (15%) of all DWSRF funds to PWSs serving fewer than 10,000 people to the extent such projects are ready to proceed to financing agreement.
12. Begin updating the State's DWSRF operating agreement with U.S. EPA to represent current California DWSRF program operations. The update to the State's DWSRF operating agreement will include, at minimum, any changes to the State's DWSRF policies and procedures, including changes in DWSRF State statutes and regulations, since the State's DWSRF operating agreement was last executed.
13. Position the DWSRF program to facilitate drought relief through expedited funding efforts to help ensure eligible PWSs, experiencing drought related drinking water emergencies or imminent threat of drought related drinking water emergencies, achieve permanent solutions.
14. Continue to ensure compliance with U.S. EPA's Notice of Non-Compliance dated April 19, 2013.
15. Continue to provide DWSRF funding to PWSs when possible for the installation of new water meters in order to promote the DWSRF Green Project Reserve.
16. Incorporate U.S. EPA's claims eligibility guidance into the State Water Board's claims guidance when such guidance is published by U.S. EPA.
17. Using a dedicated unit of drinking water technical staff, work closely with SWSs to identify problems and evaluate alternatives in facilitating SWSs eligibility for DWSRF funding.
18. Reduce instances of noncompliance with drinking water standards and requirements by providing technical assistance to SWSs that have significant SDWA violations.
19. Continue to require PWSs receiving assistance to complete TMF assessment.
20. Perform the 2015 National Drinking Water Infrastructure Needs survey.

## B. Long Term Goals

1. **Address Significant Risks to Public Health:** State Water Board staff will continue to convene regular meetings to ensure sufficient coordination between the DWSRF project managers in DFA and regulatory staff in DDW. This coordination will help target program resources and funds to address the most significant public health and compliance issues.
2. **Ensure SDWA Compliance:** The State Water Board funds improvements to PWSs 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, the State Water Board promotes the development of TMF for all PWSs (especially small CWSs) to achieve or maintain compliance with state drinking water standards and federal SDWA requirements.
3. **Develop New User Interface:** Through existing technology (e.g. internet, mobile applications, Geographic Information Systems (GIS), etc.) create a communication portal that promotes improved communication between applicants and DFA staff. Use of such technology will assist DFA staff in providing accurate and timely reporting of funding activities. The portal may include maps, ad-hoc project reports, email exchange capability with DFA staff, application upload functionality, and the ability to submit and review claims online.
4. **Improve Management of Drinking Water Spatial Data:** Maximize the use of the State Water Board's GIS to identify the drinking water infrastructure needs of PWSs, report on funded projects, and identify opportunities for consolidation.
5. **Provide Affordable Financing Alternatives:** DWSRF funding assists PWSs minimize costs of supplying reliable, safe drinking water by providing affordable financing for the construction of technically sound drinking water infrastructure projects. The State Water Board encourages PWSs to include energy efficiency and water conservation measures, including water meters, in conjunction with public health related projects. The newly adopted DWSRF Policy expands the eligibility of projects to include water meters. 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 structures as well as identify potential distribution system water loss resulting in a loss of revenue and increased operating expenditures.
6. **Acknowledge and Address Household Affordability Constraints:** Strategically use the DWSRF subsidy provision, set-aside funds, and Prop 1 drinking water funds to maximize the DWSRF's impact on achieving affordable compliance. The State Water Board will regularly reevaluate the affordability criteria to ensure that PWSs, which are in the greatest need of assistance, receive subsidy and technical assistance.
7. **Ensure Program Outcomes:** The State Water Board 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 PWSs in achieving and maintaining compliance with the SDWA. The State Water Board continues to focus on ways to streamline and expedite project selection based upon public health priority ranking as well as each project's readiness to proceed to funding.

8. **Ensure TMF Capacity of PWSs:** Continue to provide financial and technical assistance to PWSs through DFA and DDW under California's drinking water capacity development strategy.

### C. Public Health/Environmental Results Goals

The State's DWSRF program supports the U.S. EPA 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 DWSRF 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 U.S. EPA Program Reporting Measure SDW-4 Fund Utilization and SDW-5 DWSRF projects that have initiated operations. Details of the State's DWSRF activities supporting the National U.S. EPA 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.

## 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 DWSRF capitalization grant should be used for infrastructure financing, disadvantaged assistance and set-aside activities. The State Water Board intends to use 18 percent (18%) of the 2015 Capitalization Grant for set-aside activities. Many of the activities conducted under the set-asides enhance the TMF capacity of SWSs as well as ensure the proper administration of the DWSRF program. The State Water Board is also committed to achieving set-aside un-liquidated obligation (ULO) amounts as detailed in the California Department of Public Health's Response to U.S. EPA's Notice of Non-Compliance, dated July 12, 2013.

The SDWA allows up to 30 percent (30%) of a federal capitalization grant to be used for "disadvantaged" community subsidies. Subsidies may be provided in the form of principal forgiveness, negative interest rates, or grants. As previously mentioned, the 2015 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 affordability criteria as detailed below, the State Water Board intends to provide at least 20 percent (20%) as subsidy to eligible PWSs that serve "disadvantaged" and "severely disadvantaged" communities for projects that represent

California's highest public health priorities and are ready to proceed to financing agreement.

Prop 1 authorizes the State Water Board to make grants and loans for public water system infrastructure improvements and related actions to meet safe drinking water standards, ensure affordable drinking water or both. To maximize future state match against federal capitalization grants, the State Water Board will assign at least \$16 million in Prop 1 Drinking Water funds to be made available as DWSRF-eligible loans leaving the remaining portion of Prop 1 Drinking Water Funds available for loans, grants, technical assistance, and Drinking Water Capital Reserve. Prop 1 Drinking Water loans assigned as state match will contain a 100% principal forgiveness component.

## B. Comprehensive List

The Comprehensive List (Appendix A) identifies PWSs seeking financial assistance for specific drinking water infrastructure projects. A project must be on the Comprehensive List to be considered for DWSRF financing. Eligible projects on the Comprehensive List will generally also be considered for Prop 1 Drinking Water funding. However, placement of a project on a Comprehensive List does not constitute a commitment to provide financing.

Applicants must submit, at a minimum, the General DWSRF application package to be added to the Comprehensive List, whether ultimately funded by the DWSRF, Prop 1, or a combination. The General package must describe the nature of the project with sufficient details to enable the State Water Board to rank and place the project on the Comprehensive List. The State Water Board will review and rank the project in the appropriate ranking categories as described in Section IV. C. Priority System of this IUP.

The DWSRF application is available online via the Financial Assistance Application Submittal Tool (FAAST). The application consists of four (4) different packages (General, Technical, Environmental, and Financial), all of which can be submitted separately. An application is deemed complete when all four packages are submitted and determined complete by the State Water Board.

The Comprehensive List will generally be updated quarterly on the State Water Board's website. The Executive Director may update the Comprehensive List more frequently if necessary or less frequently if there are no new projects to be added.

## C. Priority System

DWSRF and Prop 1 Drinking Water projects are reviewed and ranked by categories and other factors described below:

### 1. Categories

Each project will be assigned to one of the following categories:

*Category A - Immediate Health Risk*

- Documented waterborne disease outbreaks attributable to the water system.
- Water systems under a court order to correct SDWA violations or to correct water outage problems.
- Total coliform Maximum Contaminant Level (MCL) violations attributable to active sources contaminated with coliform bacteria (fecal, E. coli, or total coliform).
- Severe domestic water supply outage(s) posing an imminent threat to public health and safety.
- The distribution of water containing nitrates/nitrites or perchlorate in excess of the MCL.

*Category B - Untreated or At-Risk Sources*

- Surface water or groundwater under the direct influence (GWUDI) sources that are untreated, not filtered, or have other filtration treatment deficiencies that violate federal or state regulations.
- Non-GWUDI groundwater sources that are contaminated with fecal coliform or E. coli and are inadequately treated.
- Uncovered distribution reservoirs.

*Category C - Compliance or Shortage Problems*

- Water quantity problems caused by source capacity, or water delivery capability that is insufficient to meet existing demand.
- The distribution of water containing chemical or radiological contamination in violation of a state or federal primary drinking water standard (other than nitrate/nitrite or perchlorate).
- Total Coliform Rule violations for reasons other than source contamination.

*Category D - Inadequate Reliability*

- Non-metered service connections, or defective water meters.
- CWSs, and PWSs owned by public schools, with a single source and no backup supply.
- Distribution reservoirs with non-rigid covers in active use.
- Disinfection facilities that lack needed reliability features, such as chlorine analyzers or alarms.
- Disinfection deficiencies that violate Waterworks Standards.

*Category E - Secondary Risks*

- The distribution of water that exceeds secondary drinking water standards.
- The distribution of water in excess of a published chemical notification level.
- The distribution of water which has exceeded a primary drinking water standard in one or more samples, but has not violated a running average standard.

- A standby groundwater source that exceeds a primary drinking water standard.
- Deficiencies that violate Waterworks Standards (other than those already covered above).

#### *Category F - Other Projects*

- Deficiencies attributable to the water system that address present or prevent future violations of health-based standards (other than those already covered above).

## **2. Other Factors**

A project that includes one or more of the following will receive priority over other projects within the same category:

- Project benefits a Disadvantaged Community (DAC) or Severely Disadvantaged Community (SDAC).
- Project will result in the consolidation of water system(s) or extension of service to a DAC or SDAC that is not being served by a public water system.

## **D. DWSRF and Prop 1 Drinking Water Funding Approach**

The State Water Board will fund eligible and complete applications for DWSRF and Prop 1 Drinking Water funding during SFY 2015-2016 consistent with the DWSRF Policy, applicable federal and state statutes, regulations, and guidance, including this IUP. The State Water Board will also manage all available funding sources so that the best possible financing package can be provided to drinking water applicants that are eligible for funds from the DWSRF, Prop 1 Drinking Water, and other available state sources. Existing procedures for providing DWSRF funding will govern the administration and management of Prop 1 Drinking Water Funding, to the extent feasible.

The DWSRF Policy directs staff to review and approve financing for eligible projects that have complete application packages in the order they are ranked and are ready to proceed to a financing agreement. Once DFA deems an application complete (all the packages have been submitted including responsive attachments), DFA will conduct a detailed technical, environmental and financial review to determine the applicant's eligibility for DWSRF and Prop 1 Drinking Water funding. If the State Water Board has insufficient funds to finance all eligible projects with complete application packages, it will first fund eligible projects based on project categories, giving priority within a category to the small, disadvantaged community with the lowest median household income and to consolidation or extension of service projects.

The State Water Board may limit funding to amounts necessary to enable a PWS to meet primary drinking water standards, as defined in the California Health and Safety code, commencing with Section 116270. A funded system must also demonstrate TMF, regardless of the amount or type of funding provided.



At least three public workshops, as required by Prop 1, will be held to review this draft IUP in June of 2015 to allow stakeholders and the public to comment on the requirements and criteria for the awarding and administration of Prop 1 funds. DFA anticipates presenting this IUP to the State Water Board for its consideration in August 2015.

### **E. Disadvantaged and Severely Disadvantaged Community Funding**

California DWSRF statutes and Prop 1 provide for additional financial assistance to “disadvantaged” and “severely disadvantaged” communities if a PWS serving those communities cannot afford to repay the full amount needed to fund the proposed project. See Section V(B) of this IUP for the subsidization and reduced terms provided to PWSs that serve “disadvantaged” or “severely disadvantaged” communities.

### **F. Small Water System Funding**

In July 2014, the State Water Board formed a new section, now entitled the Office of Sustainable Water Solutions, which is dedicated to serve the drinking water and wastewater needs of small and disadvantaged communities throughout California. This new section is composed of existing staff from the drinking water program and the wastewater program at the State Water Board. Within the new section, the Small Communities Drinking Water Unit will assist SWSs in applying for funding and will oversee successful implementation of drinking water projects.

As of June 30, 2015, approximately 70 percent (70%) of all DWSRF funding agreements were directed to SWSs. To the extent there are SWS planning and construction projects ready to receive funding, the State Water Board will provide no less than 15 percent (15%) of all available DWSRF funding to eligible PWSs that serve fewer than 10,000 people. The State Water Board will closely monitor projects in development to maximize the likelihood that sufficient SWS projects are identified as ready to proceed to a financing agreement. The State Water Board will also focus outreach activities to SWSs to promote and facilitate consolidation of SWSs, as well as provide technical assistance to help SWSs achieve TMF capacity. The State Water Board will also use Prop 1 Drinking Water funds to provide technical assistance to SWSs.

DFA will continue to coordinate with the DDW on the implementation of the DDW Small Water System Plan, which targets technical and financial assistance to a group of approximately 183 small community water systems with less than 1,000 service connections that have violated at least one health-based drinking water standard. DFA will also continue to coordinate with the DDW on providing DWSRF and Prop 1 funding, both for compliance projects and for technical assistance.

### **G. Capacity Assessment**

The State Water Board conducts TMF capacity assessments of all DWSRF and Prop 1 Drinking Water applicants to ensure sustainability, resilience, and responsible use of public funds. If a system does not have adequate TMF capacity, DWSRF assistance may only be provided if it will help the PWSs achieve TMF capacity.

### Technical Capacity

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

### Managerial Capacity

To demonstrate managerial capacity, the PWS must have personnel with expertise to manage the entire water system operation. The State Water Board reviews the PWS's 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. The State Water Board 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.

### 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, including any water rate studies to demonstrate overall financial capacity. The State Water Board reviews the PWS's 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.

## H. Consolidation Incentive Program

The State Water Board is currently processing applications under the DWSRF Consolidation Incentive Program. Since implementing the consolidation incentive program, the State Water Board has received seven (7) funding requests from PWSs to consolidate nearby non-compliant systems. The State Water Board has approved all seven requests for re-ranking and are currently processing their applications for DWSRF funding.

In order to participate in the Consolidation Incentive Program, a PWS would need to demonstrate agreement between/among consolidating entities as part of the DWSRF funding application. Additionally, the PWS incentive project will not be found eligible unless 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 ensure that the consolidation project proceeds expeditiously to solve the most serious health-based problems.



Consolidation, as defined under Section 116681 of the Health and Safety Code, subsection (e), means “joining two or more public water systems, state small water systems, or affected residences not served by a public water system, into a single public water system.”

During SFY 2015-2016, the State Water Board will continue to explore and develop additional incentives to encourage the consolidation of PWSs, especially those systems with serious drinking water public health problems. Incentives for consolidation may include, but are not limited to:

- Using the financial assistance terms that the smaller consolidating entity would be eligible for.
- Funding to replace any capacity lost as a result of the consolidation.

Other incentives may be considered and consolidating agencies are encouraged to discuss other potential incentives with Water Board staff.

## I. Fundable List

The 2015-2016 Fundable List consists of both planning and construction projects that the State Water Board believes will have executed financing agreements by June 30, 2016, and totals approximately \$693.6 million in DWSRF funding (Appendix B). Prop 1 funding will serve as DWSRF state match and/or a source of co-funding for some of these projects based upon the cash flow needs of the DWSRF and criteria for Prop 1 project funding contained herein. Due to federal deadlines relating to the obligation of DWSRF funds, including those deadlines detailed in the Corrective Action Plan with U.S. EPA, projects on the 2015-2016 Fundable List that do not receive a signed financing agreement in SFY 2015-2016 will be bypassed and considered for the subsequent fiscal year's DWSRF Fundable List. DFA staff will also work closely with those bypassed applicants to ensure that they will be prepared to receive funding in the next fiscal year.

## J. Project Removal/Bypass

### Project Removals

DFA will monitor projects on the Comprehensive List to ensure that applicants are proceeding expeditiously with their projects. The State Water Board's Executive Director will remove a project from the Comprehensive List when:

- The project has been on the list for at least four (4) consecutive quarters, and the applicant has been non-responsive or has not requested that the project remain on the Comprehensive List;
- The State Water Board so instructs;
- The project has received DWSRF financing or alternative financing;
- The water system ceases to exist or becomes ineligible;
- The problem no longer exists or has been corrected; or
- The applicant requests that the project be removed.

## Project Bypass

Pursuant to the DWSRF Policy, the State Water Board may bypass any project where it determines that it is not currently feasible to fund the project. Bypassed projects will remain on the Comprehensive List and may be funded at a later date when it becomes feasible to fund the project or the project becomes ready to proceed.

## K. Application of Federal Cross-Cutters

Construction projects partially or fully funded by the DWSRF Program must comply with federal laws generally known as “cross-cutters.” The State Water Board will ensure that DWSRF financing recipients comply with applicable federal laws through a variety of program procedures. The DWSRF financing agreements include a list of applicable federal statutes and requirements taken from the most recent Capitalization Grant.

All applicants applying for drinking water construction funding will have provided complete information for the DWSRF federal environmental cross-cutters by completing each of the sections in the Environmental Package of the Construction Application in preparation of the DWSRF Construction Application. DFA staff will review the Environmental Package of the Construction Application in preparation for consultation with federal agencies.

The State Water Board will use its State Environmental Review Process (SERP) to review any potential environmental impacts of projects during SFY 2015/2016. The State Water Board staff will consult with the appropriate federal agency on projects that will or are likely to have an effect under federal regulations.

In addition to the federal environmental requirements, DFA requires compliance with other cross-cutters, such as Disadvantaged Business Enterprise (DBE) solicitations, for all DWSRF financing. All projects funded through the DWSRF or as state match will be required to comply with federal cross-cutters.

## V. DWSRF AND PROP 1 FINANCIAL MANAGEMENT

### A. Sources and Uses of Funds

#### Federal Capitalization Grants

Including the 2015 Federal Capitalization Grant, the State Water Board will have received approximately \$2.2 billion in federal DWSRF capitalization grant funding for both project financing and set-aside activities since the inception of the DWSRF program. See Table 3 and Table 4 below for the sources and uses of DWSRF funds, including the State Water Board's receipt of federal capitalization grants.

U.S. EPA provides for a payment schedule of the 2015 Capitalization Grant. Based upon the State Water Board's cash flow modeling and projected disbursements for SFY 2015-

2016, the State Water Board has requested the following federal payment schedule from U.S. EPA for the 2015 Capitalization Grant, as detailed in Table 1 below.

**TABLE 1: 2015 Capitalization Grant Payment Schedule**

FFY	DATE	AMOUNT	DESCRIPTION	SITE CODE
15	Award Date	\$ 3,306,960	4% Admin	DD
15	Award Date	\$ 1,653,480	2% SWSTA	DE
15	Award Date	\$ 8,267,400	10% SPM	DF
15	Award Date	\$ 1,653,480	15% Local Asst.	DG
15	Award Date	\$67,792,680	Loan Fund	DA

Finally, the 2015 Capitalization Grant provides additional subsidy to PWSs that serve disadvantaged communities. In accordance with the 2015 Capitalization Grant terms and conditions, the State Water Board is required to commit a minimum 20 percent (20%), and no more than 30 percent (30%), of the 2015 Capitalization Grant to additional subsidy for eligible DWSRF projects. The minimum and maximum additional subsidy amounts for the 2015 Capitalization Grant are provided in Table 2 below:

**TABLE 2: 2015 Capitalization Grant Additional Subsidy Amounts**

2015 CAPITALIZATION GRANT	MINIMUM AMOUNT	MAXIMUM AMOUNT
Additional Subsidy (i.e. principal forgiveness)	\$16,534,800	\$24,802,200

Any additional subsidy available from prior DWSRF capitalization grants will also be utilized to fund eligible projects for the SFY 2015-2016.

#### **DWSRF 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). The 2015 State Match will be provided through Prop 1. A minimum of \$16,534,800 of the anticipated \$67.5 million Prop 1 appropriation for drinking water funding in SFY 2014-2015 will be allocated as 2015 State Match for grant/principal forgiveness funding to drinking water projects eligible under both the DWSRF and Prop 1, as set forth in this IUP. The State Water Board will provide evidence to U.S. EPA Region 9 that this Prop 1 State Match has been appropriated to the State Water Board prior to the award date of the 2015 Federal Capitalization Grant.

Based upon a "Loan Fund" amount of \$67,792,680 for the 2015 Capitalization Grant as well as the associated 2015 State Match of \$16,534,800, the disbursement proportionality for the 2015 Capitalization Grant is 80.39% / 19.61% (Federal/State). In accordance with U.S. EPA guidance, the State Water Board will disburse the 2015 State Match prior to disbursing funds allocated for project financing from the 2015 Federal Capitalization

Grant. If the expenditure rate of the 2015 State Match begins to substantially slow or stall the disbursement of the 2015 Capitalization Grant, then the State Water Board will disburse the 2015 State Match on a proportional basis with the 2015 Capitalization Grant.

### **DWSRF State Program Management-PWSS 1:1 State Match**

DWSRF federal statutes and regulations require an additional 1:1 State Match for the amount budgeted under State Program Management Set-Aside. For SFY 2015-2016, the State Water Board is budgeting the full ten percent (10%) of the 2015 Capitalization Grant (\$8,267,400) for the State Program Management Set-Aside. A 1:1 State Match for the State Program Management Set-Aside equals \$8,267,400 and is anticipated under a California State budget appropriation to the DDW's Safe Drinking Water Account in SFY 2015-2016 totaling approximately \$15.5 million. The source of funds for such an appropriation is derived from the fees and billable hours charged to California's PWSs for the permitting, inspection, compliance, monitoring and enforcement activities performed by the DDW.

### **Principal and Interest Repayment Sources**

As of June 30, 2015, the State Water Board has received approximately \$390.7 million in principal and interest repayments since the inception of the DWSRF program. For SFY 2015-2016, the State Water Board anticipates receipt of approximately \$60.2 million in principal repayments and interest earnings. Both the principal repayments and interest repayments have and will continue to be committed to eligible DWSRF projects.

### **Use of All DWSRF Funds Available**

Including estimates for the remainder of the 2014-2015 SFY, the State Water Board is expected to have executed over 370 funding agreements for a combined total of approximately \$2.2 billion since the inception of the DWSRF program. The total amount of funds received by the DWSRF, including estimates for SFY 2014-2015 and SFY 2015-2016 is presented in Table 3 below. As a result of available DWSRF funding, as further derived by a cash flow model, the State Water Board is targeting a minimum of \$279 million in funding commitments for the period from July 1, 2015 through June 30, 2016. Including the set-asides from the 2015 Capitalization Grant, the State Water Board will have received approximately \$197.5 million in set-aside funds since the inception of the program. The details of set-aside of funding are also described in Table 3 and Table 4 below.

TABLE 3: Sources of All DWSRF Funds

Description	Cumulative Total through 6/30/2015**	7/1/15-6/30/16* (This IUP)	Cumulative Total through 6/30/2016*
Federal Capitalization Grants			
<b>Loans (including ARRA)</b>	\$1,363,322,055	\$67,792,680	\$1,431,114,735
<b>Set-Asides (including ARRA)</b>			\$0
Administration	\$56,982,878	\$3,306,960	\$60,289,838
Small Water System Technical Assistance	\$27,493,742	\$1,653,480	\$29,147,222
State Program Management			\$0
<i>Capacity Development</i>	\$26,206,562	\$0	\$26,206,562
<i>PWSS Program</i>	\$48,244,740	\$8,322,100	\$56,566,840
Local Assistance			\$0
<i>Capacity Development</i>	\$5,800,560	\$1,653,480	\$7,454,040
<i>Source Water Protection Support</i>	\$8,831,577	\$0	\$8,831,577
<i>Legal Entity Formation Assistance</i>	\$3,282,560	\$0	\$3,282,560
<i>Third Party Local Assistance Contracts</i>	\$6,479,640	\$0	\$6,479,640
<i>Wellhead Protection</i>	\$2,600,940	\$0	\$2,600,940
			\$0
State Match			\$0
<i>20% Capitalization Grant Match</i>	\$276,226,696	\$16,534,800	\$292,761,496
<i>State Program Management Set-Aside 1:1 Match</i>	\$66,129,202	\$8,267,400	\$74,396,602
			\$0
Principal Repayments	\$276,878,678	\$48,342,332	\$325,221,010
Interest Repayments (incl. Penalties)	\$113,894,815	\$11,902,923	\$125,797,738
Investment Earnings	\$13,898,269	\$580,000	\$14,478,269
<b>Sources Total</b>	<b>\$2,296,272,914</b>	<b>\$168,356,155</b>	<b>\$2,464,629,069</b>

\*Based upon current estimates

\*\*Based upon current reconciliation

**TABLE 4: Uses of All DWSRF Funds**

Description	Cumulative Total through 6/30/2015**	7/1/15-6/30/16* (This IUP)	Cumulative Total through 6/30/2016*
<b>Loans/Repayable Financing</b>			
To Large Systems (>10,000 population)	\$1,857,320,402	\$594,777,341	\$2,452,097,743
To Small Systems (<10,000 population)	\$255,728,977	\$98,823,579	\$354,552,556
Additional Subsidy	\$246,603,373	N/A	N/A
<b>Set-Aside Funding</b>			
Administration	\$61,267,870	\$3,424,111	\$64,691,981
Small Water System Technical Assistance	\$29,218,270	\$1,688,065	\$30,906,335
State Program Management			\$0
<i>Capacity Development</i>	\$22,823,689	\$0	\$22,823,689
<i>PWSS Program</i>	\$42,316,734	\$12,000,000	\$50,638,834
Local Assistance			\$0
<i>Capacity Development</i>	\$2,565,170	\$1,675,729	\$4,240,899
<i>Source Water Protection Support</i>	\$8,831,577	\$0	\$8,831,577
<i>Legal Entity Formation Assistance</i>	\$2,236,662	\$0	\$2,236,662
<i>Third Party Local Assistance Contracts</i>	\$3,934,818	\$3,170,633	\$7,105,451
<i>Wellhead Protection</i>	\$0	\$0	\$0

\*Based upon current estimates

\*\*Based upon current reconciliation

**Proposition 1 Drinking Water Funds**

Section 79724 of the Water Code allocates \$260 million for drinking water grants and loans for PWS infrastructure improvements and related actions to meet safe drinking water standards, ensures affordable drinking water, or both. For SFY 2014-2015, \$67.5 million of Prop 1 appropriation was provided to the State Water Board for eligible drinking water financing. Based on the Governor's proposed SFY 2015-2016 budget, an additional \$174,300,000 in Prop 1 appropriation is currently estimated for drinking water infrastructure financing.

## B. DWSRF and Prop 1 Financial Terms

### Standard DWSRF and Prop 1 Financing Terms

The State Water Board's interest rate for DWSRF and Prop 1 financing is fifty percent (50%) of California's average general obligation bond rate obtained by the State Treasurer the previous calendar year. The standard repayment term is a maximum of 20 years and shall not exceed the useful life of the financed project.

### Disadvantaged Community Financing

#### 1. Definitions

- a. "Disadvantaged Community" or "DAC" means the entire service area of a community Water System (CWS) in which the median household income (MHI) is less than eighty percent (80%) of the statewide MHI.
- b. "Non-transient Non-community Water System" or "NTNC" means a public water system that is not a community water system and that regularly serves at least 25 of the same persons over six months per year.
- c. "Not-For-Profit Water Company" means a mutual benefit water company, homeowner's association, or cooperative, that is exempt from taxes under Section 501(c) of the United States Internal Revenue Code.
- d. "Severely Disadvantaged Community" or "SDAC" means the entire service area of a CWS in which the MHI is less than sixty percent (60%) of the statewide MHI.
- e. "Small Community Water System" or "SCWS" means a CWS that serves no more than 3,300 service connections or a yearlong population of no more than 10,000 persons.
- f. "Small community" means a community with a population less than 10,000 people.

#### 2. DWSRF and Prop 1 Financing Terms for PWSs Serving DACs

SCWSs serving a DAC with financial hardship, PWSs serving a small DAC with financial hardship, and specific NTNC water systems (serving facilities such as a public school, a not-for profit private school, a daycare, a labor camp, an elder care facility, or a health care facility), which are owned by a public agency or a not-for-profit water company, may be eligible for reduced interest rates as low as zero percent (0%) under the DWSRF and Prop 1 and have a maximum repayment term of 30 years that shall not exceed the useful life of the financed project. Criteria for evaluating financial hardship and ability to repay are outlined in Table 5 below.

### 3. Principal Forgiveness and Prop 1 Grants for DACs

SCWSs serving a DAC with financial hardship, PWSs serving a small DAC with financial hardship, and specific NTNC water systems (serving facilities such as a public school, a not-for profit private school, a daycare, a labor camp, an elder care facility, or a health care facility), which are owned by a public agency or a not-for-profit water company may be eligible to receive principal forgiveness from the DWSRF or grants from Prop 1. The amount and limitations on the award of principal forgiveness or grants are defined in Table 5 below.

DWSRF loans or repayable financing to SDACs are currently barred under state statutes. If pending legislation changes this eligibility bar during the term of this IUP, the Division may consider DWSRF loans or other repayable financing as part of an assistance package to an eligible SDAC. Otherwise eligible SDACs may also qualify for Prop 1 loans.



**Table 5: Criteria for DWSRF Principal Forgiveness and Prop 1 Grants**

Affordability Criteria		Maximum Principal Forgiveness, Grant, or Combination Thereof	
Type of Small Community Served by PWS <sup>1</sup>	Average Residential Water Rate as Percent of MHI <sup>2</sup>	Percentage of Total Eligible Project Cost <sup>3,4</sup>	Maximum Amount <sup>5,6</sup> for Construction
DAC	< 1.5%	Not eligible for reduced interest rates, extended financing terms, or principal forgiveness/grants for construction	
	1.5%-2%	up to 80%	\$5 Million
	> 2%	from 90% up to 100% <sup>7</sup>	
SDAC <sup>8</sup>	NA	up to 100%	

**Notes:**

1 PWSs applying for projects that will address a small community not currently served by a CWS may be considered to serve a small DAC or small SDAC, when that small community's MHI is less than eighty (80%) of the statewide MHI, or less than sixty percent (60%) of the statewide MHI, respectively. These projects, along with projects for PWSs owned by federally recognized Indian tribes and state Indian tribes listed on the Native American Heritage Commission's California Tribal Consultation list, or for PWSs owned public utilities regulated by the California Public Utilities Commission are eligible for grant under Prop 1 only, subject to all other requirements and limitations. Such projects, when serving a small DAC with financial hardship, may also be approved for reduced interest rates or extended financing terms under Prop 1 only, consistent with all other requirements and limitations.

2 For the purposes of calculating average residential water rate as percentage of MHI, service charges plus other costs specifically related to the drinking water system may be considered, including but not limited to, dedicated sales tax revenue, assessments, and fees.

3 The applicant may choose to fund the remainder of the total project cost (Local Cost Share) from other sources (e.g. repayable DWSRF/Prop 1 financing; grant funding from sources other than the State Water Board; or other sources). For funding applications with a completed financial review as of the date this plan is adopted, the Deputy Director of DFA has the discretion to approve funding consistent with the principal forgiveness amount and financing terms approved in the existing financial review, if the financing agreement is executed by December 4, 2015.

4 Regardless of water rates, projects addressing a small DAC may receive 100 percent (100%) of eligible planning costs, not to exceed a maximum of \$500,000 in principal forgiveness, grant, or a combination thereof, under the DWSRF and Prop 1. For a regional planning project, the Division may elect to approve more than \$500,000, but not to exceed \$500,000 per small DAC or small SDAC included in the regional planning effort.

5 The maximum amount of principal forgiveness, grant, or a combination thereof, under the DWSRF and Prop 1 for a small DAC's or small SDAC's proportional share of a construction project shall not exceed \$25,000 per service connection without State Water Board approval, and up to a maximum of \$5 million. DFA reserves the right to deny principal forgiveness, grant, or combination thereof from the DWSRF or Prop 1 if such principal forgiveness or grant is for a project that has already been funded in part by the DWSRF or Prop 1.

6 Projects are considered to provide regional benefit if the project addresses a public health issue that is ranked in categories A to C; involves three or more participating communities; and at least one of those participants is a small DAC. Regional benefit project may receive a combination of principal forgiveness and/or grant of not more than \$50,000 per service connection without State Water Board approval, up to \$5 million per each participating small DAC and up to a total of \$20 million.

7 If water rates exceed 2.0% of the small DAC's MHI, and if the credit review shows inadequate revenues to afford repayment of the remaining project costs, the principal forgiveness/grant percentage may be increased to as high as 100 percent, as necessary to approve financing for the project. Even if 100 percent principal forgiveness/grant is approved, prior to construction financing approval, the PWS must document adequate revenues to operate and maintain the project.

8 NTNC-water systems serving facilities such as a public school, a not-for-profit private school, a daycare, a labor camp, an elder care facility, or a health care facility, that are owned by a public agency or a not-for-profit water company may be determined to be a small SDAC with financial hardship and to be eligible to receive up to one hundred percent (100%) principal forgiveness, grant, or a combination thereof under the DWSRF and Prop 1.

### C. Disbursements

As of January 1, 2013, and in accordance with U.S. EPA's requirement for the State Water Board to timely and expeditiously disburse DWSRF funds, the State Water Board will continue to require all DWSRF funding recipients, unless otherwise authorized by DFA, 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.

In accordance with the DWSRF Corrective Action Plan, the State Water Board is also targeting a cumulative total of disbursements of \$878 million for the period beginning with July 1, 2012 and ending June 30, 2016.

**TABLE 6: 2015 DWSRF Federal Capitalization Grant Draw Schedule**

The following table represents the State Water Board's anticipated federal draw schedule for SFY 2015-2016. The State Water Board will also disburse the 2015 State Match in accordance with procedures detailed in Section V (A) of this IUP.

State Fiscal Year	2015-2016				
State Quarter	Q1	Q2	Q3	Q4	TOTAL
Federal Local Assistance Draws	\$41,673,474	\$37,505,404	\$49,425,893	\$54,880,924	\$ 183,485,695
State Match Draw	\$0	\$0	\$17,900,000	\$0	\$ 17,900,000
Federal Set-Aside Draws	\$ 5,489,634	\$ 5,489,634	\$ 5,489,634	\$ 5,489,634	\$ 21,958,536

**TABLE 7: SFY 2015-2016 Disbursement by Quarter**

The following table represents the State Water Board's projected DWSRF project disbursements, per quarter, for SFY 2015-2016.

Fiscal Year	Q1	Q2	Q3	Q4	Total Projected Disbursement
SFY 2015-2016 (As of June 24, 2014)	\$41,673,474	\$67,505,404	\$79,425,893	\$84,880,924	\$ 273,485,695

## 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 DWSRF and DDW program activities, including the administration of the DWSRF; PWS capacity development; SWS technical assistance; DDW program management; and special activities. For SFY 2015-2016, the State Water Board plans to use a total of 18 percent (18%) of the 2015 Capitalization Grant for set-aside activities. The State Water Board will submit detailed work plans to U.S. EPA for approval before it expends these funds and will report on the progress of set-aside activities to U.S. EPA in its DWSRF Annual Report.

### A. DWSRF Administration Set-Aside

<b>Max Allowed:</b>	4%	
<b>Budgeted from FFY 2015 Grant:</b>	4%	(\$3,306,960)

The DWSRF Administration Set-Aside funds will be used to subsidize DFA's costs for administering the DWSRF fund, including the review and processing of drinking water funding applications, project management, and oversight of DWSRF construction and planning projects; funding of support contracts; and all accounting, legal, budget, and general DWSRF administration costs. The DWSRF Administrative Set-Aside Work Plan for SFY 2015-2016 contains detailed information about the specific tasks and full-time equivalent personnel that will be supported in DFA by the DWSRF Administration Set-Aside.

**Contracts:** None, \$0

The State Water Board will use DWSRF Administration Set-Aside ULO funding from prior year's DWSRF capitalization grants to fund the following State support contracts:

**Contracts:** California Department of General Services-Environmental Services, \$100,000  
DWSRF Repayment Audit, \$100,000

### B. Small Water Systems Technical Assistance Set-Aside

<b>Max Allowed:</b>	2%	
<b>Budgeted from FFY 2015 Grant:</b>	2%	(\$1,653,480)

The Small Water Systems Technical Assistance Set-Aside will be used to provide technical assistance to SWSs by DFA staff to assist such SWSs in qualifying for DWSRF, Proposition 84 and Proposition 1 drinking water infrastructure financing. The DWSRF Small Water Systems Technical Assistance Workplan for SFY 2015-2016 contains detailed information about the specific tasks and full-time equivalent personnel that will be supported in DFA by the DWSRF Small Water Systems Technical Assistance Set-Aside.

**Contracts:** None, \$0

The State Water Board will use Small Water System Technical Assistance Set-Aside ULO funding from prior year's DWSRF capitalization grants to fund the following State support contracts:

**Contracts:** California Department of General Services-Environmental Services, \$200,000

**C. State Program Management Set-Aside**

<b>Max Allowed:</b>	10%	
<b>Budgeted from FFY 2015</b>	10%	(\$8,267,400)
<b>1:1 State match (Safe Drinking Water Account):</b>		(\$8,267,400)

The State Program Management (SPM) Set-Aside funds will subsidize the PWS permitting, inspection, compliance and monitoring activities of the DDW in accordance with the SDWA and its delegated public water system supervision responsibilities by U.S. EPA. The State Program Management Set-Aside funds will also support the DDW's PWS capacity development activities associated with such PWSS activities as well as subsidize the general administration of the DDW. The DWSRF State Program Management Set-Aside Work Plan for SFY 2015-2016 contains detailed information about the specific tasks and full-time equivalent personnel that will be supported in DDW by the DWSRF State Program Management Set-Aside.

**Contracts:** none, \$0

**D. Local Assistance Set-Aside**

<b>Max Allowed:</b>	15%	
<b>Budgeted from FFY 2015</b>	2%	(\$1,653,480)

The Local Assistance Set-Aside funds will be used to support DFA's PWS TMF capacity development staff activities. The DWSRF Local Assistance Set-Aside Work Plan for SFY 2015-2016 contains detailed information about the specific tasks and full-time equivalent personnel that will be supported in DFA by the DWSRF Local Assistance Set-Aside.

**Contracts:** none, \$0

The State Water Board will use Local Assistance Set-Aside ULO funding from prior year's DWSRF capitalization grants, under allowable PWS capacity development activities, to fund the following third-party PWS technical assistance:

**Contracts:** California Rural Water Association, \$1,395,892  
Rural Community Assistance Corporation, \$ 1,323,146  
Self-Help Enterprises, \$451,595

- Assist in preparing preliminary engineering, funding application, required documents for DWSRF financing, and navigating the DWSRF funding process.
- Develop and conduct training workshops covering all aspects of PWS operation and maintenance and legal responsibilities of PWS 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 PWS sustainability by promoting regionalization and consolidation efforts.
- Assist SWSs 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 SWSs to ensure that conditions for funding are met within stated timelines.
- Assist SWSs in assessing the current level of TMF capacities.
- Assist existing SWSs with permit applications.
- Assist SWSs in the consolidation, annexation, and formation of joint power agreements between two or more PWSs.
- Assist SWSs with the submittal of claims and processing of payments to contractors for planning and infrastructure improvement projects funded by the State Water Board.

In addition to the base-line PWS technical assistance provided under the DWSRF Local Assistance Set-Aside, DFA is authorized to direct up to fifteen percent (15%) of the funds available per Prop 1 to a multi-disciplinary technical assistance program. DFA will develop a Technical Assistance Funding Plan or similar document and bring such document before the State Water Board for consideration at a future date.

## VII. AUDITS AND REPORTING

Ensuring transparency and accountability, all program materials are posted on the following State Water Board website:

([http://www.waterboards.ca.gov/drinking\\_water/services/funding/SRF.shtml](http://www.waterboards.ca.gov/drinking_water/services/funding/SRF.shtml))

The State Water Board commits to entering project and benefits data into the EPA Drinking Water National Information Management System and Project and Benefits Reporting 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.

The State Water Board will enter project benefits information into the Project Benefits Report by the end of the quarter in which a funding agreement is signed.

The State Water Board will also use the Federal Funding Accountability and Transparency Act (FFATA) reporting system to report on all DWSRF equivalency projects (i.e., projects meeting all the federal cross-cutting requirements whose sum is at least equal to or greater than the Capitalization Grant amount less any non-applicable set-aside funds.)

The State Water Board will also produce a SFY 2015-2016 DWSRF Annual Report on the uses of the DWSRF funds during SFY 2015-2016, and provide a final draft of the SFY 2015-2016 DWSRF Annual Report to U.S. EPA Region 9 no later than January 1, 2017. The report will document the projects funded through the DWSRF; financial and programmatic outcomes of the DWSRF; and reflect upon the accomplishments of the DWSRF program as it relates to the long-term and short-term goals contained within this IUP and the tasks included in the associated DWSRF work plans.

## **VIII. 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 PWSs and overseeing the safety of drinking water rests with the State Water Board. U.S. EPA recognized California's primacy status beginning in 1978 and has acknowledged the State Water Board's primacy authority, effective July 1, 2014.

### **The State will comply with State Statutes and DWSRF Policy Handbook**

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. The State Water Board's adoption of the DWSRF Policy superseded and nullified state DWSRF regulations, effective January 1, 2015. The state statutes and DWSRF Policy Handbook conform to federal requirements. California will implement its DWSRF program in compliance with all applicable state and federal laws, regulations, and guidelines.

### **The State will deposit all Capitalization Grant funds in the DWSRF Fund or Set-Aside Accounts**

The State Water Board 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 DWSRF fund or the set-aside accounts. Cash draws from the Automatic Clearing House for project financing or set-aside activities will not be allowed until a negotiated work plan between U.S. EPA and the State is approved as part of the 2015 DWSRF grant agreement.

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

The 2015 State Match will be provided through an anticipated \$67.5 million State budget appropriation of Chapter 5, Section 79724(a)(1) of Prop 1. A minimum of \$16,644,200 of the \$67.5 million appropriation will be allocated as 2015 State Match for grant or principal forgiveness funding to eligible drinking water projects under the DWSRF and Prop 1 as well as this IUP. The State Water Board will also provide evidence to U.S. EPA Region 9 that the 2015 State Match has been appropriated to the State Water Board by the California Legislature prior to the award date of the 2015 Federal Capitalization Grant.

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

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

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

As detailed in Section V(A) of this IUP, a 1:1 State Match for the State Program Management Set-Aside (Section 1542 (g)(2)) will be provided under a California State budget appropriation to the DDW's Safe Drinking Water Account, totaling \$8,322,100.

**The State will adopt policies and procedures to ensure 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)**

The State Water Board has developed policies and procedures for ensuring that borrowers have a dedicated source of repayment and that privately-owned systems have adequate security. These policies and procedures are discussed in the State Water Board's DWSRF Policy Handbook.

**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 the State Water Board will use DWSRF funds. The State Water Board will commit and expend both 2015 Capitalization Grant and 2015 State Match funds as efficiently as possible, and in an expeditious and timely manner. The State Water Board will enter into binding commitments with recipients equal to the total amount of each 2015 Capitalization Grant payment and proportional 2015 State Match within one year of such a 2015 Capitalization Grant payment.

**DWSRF Funds will be used in accordance with this SFY 2015-2016 IUP**

The State Water Board will use DWSRF funds in SFY 2015-2016 in accordance with this SFY 2015-2016 IUP.

**The State will provide EPA with an Annual Report on the performance of the DWSRF**

As detailed in Section VII of this IUP, the State Water Board will publish a SFY 2015-2016 DWSRF Annual Report on the uses of the DWSRF funds during SFY 2015-2016, and provide a final draft of the SFY 2015-2016 DWSRF Annual Report to U.S. EPA Region 9 no later than January 1, 2017.

**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 Water Board has developed policies and procedures to ensure that the State Water Board and all DWSRF financing 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 financing agreements.



## INDEX OF ACRONYMS

<b>AIS</b>	American Iron and Steel
<b>CalTAP</b>	California Technical Assistance Providers
CDPH	California Department of Public Health
CWSs	Community Water Systems
CWS	Community Water System
<b>DAC</b>	Disadvantaged Community
DBE	Disadvantaged Business Enterprise
DDW	Division of Drinking Water
DFA	Division of Financial Assistance
DWSRF	Drinking Water State Revolving Fund
<b>FAAST</b>	Financial Assistance Application Submittal Tool
FFATA	Federal Funding Accountability and Transparency Act
FFY	Federal Fiscal Year
<b>GWUDI</b>	groundwater under the direct influence
<b>IUP</b>	Intended Use Plan
<b>LEFA</b>	Legal Entity Formation Assistance
LGTS	Loans and Grants Tracking System
LPA	Local Primary Agency
<b>MCL</b>	Maximum Contaminant Level
MHI	Median Household Income
<b>NIMS</b>	National Information Management System
<b>PWSs</b>	Public Water Systems
PWS	Public Water System
PWSS	Public Water System Supervision
<b>SDAC</b>	Severely Disadvantaged Community
SDWA	Safe Drinking Water Act
SDWSCEG	Safe Drinking Water Small Community Emergency Grant
SERP	State Environmental Review Process
SFY	State Fiscal Year
SHE	Self-Help Enterprises

SPM	State Program Management
State	State of California
State Water Board	State Water Resources Control Board
SWS	Small Water System
SWs	Small Water Systems
<b>TMF</b>	Technical, Managerial and Financial
<b>ULO</b>	Un-liquidated Obligation
U.S. EPA	United States Environmental Protection Agency