California Clean Water and Drinking Water
State Revolving Fund Program Evaluation Report for SFY Ending 2025
July 24, 2026

Contents

Executive Summary

EPA conducted its annual review of the California State Water Resources Control Board (SWRCB) Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) programs in accordance with EPA's SRF annual review guidance. Based upon the programmatic and financial reviews and on-site interviews, EPA concludes that the State of California has administered the programs in compliance with the capitalization grant agreements. All financing executed by the SWRCB assisted wastewater and water systems to maintain or enter into compliance with federal and state clean water and drinking water requirements.

The SRF programs in California demonstrated strong performance in state fiscal year (SFY) 2025. In its third year of implementing the supplemental sources of funding provided by the Infrastructure Investment and Jobs Act (IIJA), SWRCB executed $811.1 million in total CWSRF assistance and $460.6 million in total DWSRF assistance and achieved among the highest fund utilization rates in the country. In light of the California SRF programs' performance and activities conducted during the review period, EPA has identified the following required action items for SWRCB to address accordingly:

1. **Equivalency reporting:** SWRCB must report additional equivalency projects to www.Sam.gov as specified in this PER, after additional assistance agreements meeting equivalency requirements are identified for the following grants:
    a. FFY 2024 CW General Supplemental grant
    b. FFY 2022, FFY 2023, and FFY 2024 DW IIJA Emerging Contaminant (EC) grants
    c. FFY 2022 and FFY 2023 DW IIJA Lead Service Line Replacement (LSLR) grants
2. **Additional subsidy:** As of June 30, 2025, SWRCB had not committed the minimum additional subsidy required for the grants listed below. At least quarterly, DFA will inform the EPA Region 9 Project Officer of its progress towards committing additional subsidy until the minimum requirements are met.
    a. FFY 2022: CW IIJA General Supplemental, DW IIJA EC, DW IIJA LSLR
    b. FFY 2023: CW IIJA General Supplemental, DW IIJA General Supplemental, DW IIJA EC, DW IIJA LSLR
    c. FFY 2024: CW IIJA General Supplemental, DW base, DW IIJA General Supplemental, DW IIJA EC, DW IIJA LSLR
3. **Annual Reports:** EPA and SWRCB have agreed to interim milestones leading to delivery of the final SFY 2025-2026 Annual Reports. SWRCB will notify EPA at least 30 days in advance of any anticipated delays. The interim milestones and deadlines are as follows, SWRCB will provide:
    a. Lists of projects executed between July 1, 2025-June 30, 2026, by October 1, 2026
    b. Draft Annual Reports by January 4, 2027
    c. Final Annual Reports by March 1, 2027
4. **ASADRA:** SWRCB will submit an official grant extension request to EPA Region 9 to ensure full drawdown of the ASADRA grant prior to expiration.
5. **Set-aside spending:** SWRCB will submit workplans to EPA for SFY 2026-2027 for all (4%, 2%, 10%, 15%) set-aside activities by October 1, 2026. The workplans will reflect all open grants with unliquidated obligations, including older FFY 2022 and FFY 2023 grants with remaining funds, that can be drawn from for eligible set-aside activities.
6. **Voluntary de-obligation of lead funds:** By October 1, 2026, SWRCB will submit its request to EPA to voluntarily de-obligate uncommitted lead funds such that other states with higher lead needs may utilize the funds.

EPA's annual review included a productive discussion with SWRCB regarding the programmatic and financial risks facing the programs. SFY 2025 was the first year to introduce new funds from Proposition 4 and the DWSRF administrative fee fund. Balancing these new sources with the prospect of leaner future federal capitalization, SWRCB is proactively managing risks through long-term financial planning, strategic consideration of its leveraging program, and continued engagement with its stakeholders and Board. EPA commends SWRCB for taking steps to keep pace with the tremendous demand for the programs by maximizing and prioritizing limited resources as it adapts to shifts in the funding landscape. EPA looks forward to its sustained partnership with California in implementing the SRF programs.

Introduction and Scope

In accordance with the Safe Drinking Water Act and the Clean Water Act, EPA provides funds to states to capitalize their DWSRF and CWSRF programs. EPA conducts oversight of each state's DWSRF and CWSRF program on an annual basis, as required by 40 CFR §35.3165(c) and 40 CFR 35.3570(c). The purpose of the annual review process is to assess the cumulative program effectiveness, fiscal health, compliance with statutes and regulations, operating agreements, and grant conditions governing the DWSRF and CWSRF programs.

SFY 2025 Accomplishments

The California DWSRF uses federal capitalization grants, state match funds, loan repayments, and interest earnings to make loans for construction of drinking water treatment facilities and support several Safe Drinking Water Act programs. As reported in EPA's SRF Data System (referred to as OWSRF), SWRCB has received $4.08 billion[1] from EPA in DWSRF capitalization grants since the inception of the program. Together with the state match and American Recovery and Reinvestment Act (ARRA) funds, the total state-federal investment is $4.8 billion[2]. Since the inception of the program, SWRCB has closed 640[3] DWSRF assistance agreements totaling $5.4 billion[4] as of June 30, 2025.

The California CWSRF uses federal capitalization grants, state match funds, loan repayments, bond proceeds and interest earnings to make loans for construction of wastewater treatment facilities, the implementation of nonpoint source water quality control projects, and the development and implementation of estuary enhancement projects. As reported in OWSRF, SWRCB has received $4.53 billion[5] from EPA in CWSRF capitalization grants since the inception of the program, including ARRA and special appropriation grant funds. Together with the state match, the total state-federal investment is $5.4 billion[6]. Since the inception of the program, SWRCB has closed 1,040[7] CWSRF assistance agreements totaling $15.2 billion[8] as of June 30, 2025.

[1] NIMS, Line 3
[2] Sum of NIMS Lines 3 and 35
[3] NIMS, Line 136
[4] NIMS, Line 130
[5] NIMS, Line 57
[6] Sum of NIMS Lines 57 and 91
[7] NIMS, Line 117
[8] NIMS, Line 110

To provide EPA with information on the progress and accomplishments of the CWSRF and DWSRF programs for the period ending June 30, 2025, SWRCB submitted draft versions of the California DWSRF and CWSRF Annual Reports to EPA on December 22, 2025, and final versions on June 9, 2026. From May 5 through 7, 2026, EPA conducted an on-site annual review of SRF program activities. During this time, EPA Region 9 conducted in-person interviews with SWRCB to discuss various aspects of the DWSRF and CWSRF programs. On May 26, 2026, EPA held an exit meeting to discuss observations and recommendations taken from the annual review.

The Program Evaluation Report (PER) covers all program activities from program inception to the present, with major emphasis on the activities performed during the last state fiscal year. This PER documents EPA's observations, recommendations and required action items based on California's administration of the SRF programs through state fiscal year 2025 (SFY 2025), or July 1, 2024 through June 30, 2025, otherwise referred to as the review period. EPA Region 9 used the *October 2025 SRF Annual Review Guidance, the SRF Annual Review Checklist, the SRF Project File Review Checklist,* data collected in OWSRF, and cumulative and annual financial indicators to ensure that all major elements of the programs were reviewed.

Programmatic Review

EPA's review assessed the State's ability to effectively administer DWSRF and CWSRF program activities. This section presents EPA's programmatic observations and action items to be incorporated into future operations, Annual Reports, or management of the program. As necessary, EPA will continue to meet regularly with the State to discuss these and other issues related to the California DWSRF and CWSRF.

Staff Capacity and Programmatic Updates

In SFY 2025, 20 unfilled SRF and non-SRF positions across all four branches of the Division of Financial Assistance were swept. The State Budget Act had previously provided 25 IIJA-funded positions prior to DFA undergoing a reorganization. Most vacancies were filled in 2024 and open vacancies that were not swept in SFY 2025 were filled. The teams supporting the two SRF programs comprised 65.8 staff and managers in the CWSRF program and 96.6 in the DWSRF program. In the CWSRF program, there were 25 engineers, 5 scientists, and 19.5 administrative and financial analysts. The CWSRF management team included 7.5 managers overseeing technical reviews, 1.6 for environmental reviews, and 7 for program administration. In the DWSRF program, there were 48 engineers, 4 scientists, and 25.5 administrative and financial staff. DWSRF management included 10 technical managers, 2.3 managers overseeing environmental reviews, and 6.4 for program administration. DWSRF managers and engineers also supported the State's extensive technical assistance program. These numbers do not reflect attorneys advising the SRF programs.

During the review period, the environmental review unit actively worked with EPA Region 9 to develop major revisions to the State's CWSRF State Environmental Review Process document (SERP). Updates included revising the list of federal cross-cutters to align with new guidance from EPA and clarifying requirements for non-treatment works projects. SWRCB also initiated efforts to amend its policies governing the CWSRF and DWSRF in SFY 2024 that were later adopted in SFY 2025.

Compliance with Federal Requirements and Grant Conditions

A. Project File Review

Project file reviews confirm project eligibility and ensure the State and borrowers are complying with all applicable statutes, regulations, policies, and grant terms and conditions. For SFY 2025, EPA reviewed three CWSRF project files and six DWSRF project files representing projects funded by the base SRF and IIJA capitalization grant awards, including equivalency projects, projects receiving additional subsidization, and lead service line inventories. EPA Region 9 selected one assistance agreement that was executed in SFY 2025-2026 in order to review equivalency projects and requirements associated with the FFY 2024 capitalization grants. Some agreements were signed prior to going out for construction bid, and documents produced later during construction, such as inspection reports and American Iron and Steel (AIS) certification letters, were not available for all projects at the time of review. The project file review checklists for each of the projects listed below can be found in **Attachment B.**

CWSRF - EPA's review of CWSRF project files found the projects to be eligible and compliant with the program requirements.

Recipient	Project	Assistance Amount	Agreement Date	Project Category
San Francisco, Public Utilities Commission of the City and County of	New Treasure Island Wastewater Treatment Plant	$100,000,000	6/11/2025	FFY24 CW base equivalency project
Daly City Joint Powers Financing Authority	Vista Grande Drainage Basin Improvement Project	$67,889,860	5/19/2025	FFY23 CW IIJA General Supplemental equivalency project
Lake Berryessa Resort Improvement District	Groundwater Inflow Mitigation Project	$2,265,934	7/2/2024	Project benefitting a DAC receiving additional subsidy

DWSRF - EPA's review of DWSRF project files found the projects to be eligible and in compliance with the program requirements.

Recipient	Project	Assistance Amount	Agreement Date	Project Category
San Juan Water District	Kokila Reservoir Replacement	$12,110,000	11/7/2025	FFY25 DW base equivalency project
San Diego, City of	Alvarado 2nd Pipeline Extension	$145,691,810	10/31/2024	FFY23 DW IIJA General Supplemental equivalency project
Lukins Brothers	Phase 2 Waterline Project - James Avenue	$3,284,011	7/11/2024	Project benefitting a DAC receiving additional subsidy

Water Company				
Fullerton, City of	City of Fullerton Main Plant PFAS Water Treatment Plant Project	$3,628,384	10/1/2024	FFY22 DW IIJA Emerging Contaminants project
Sweetwater Authority	Sweet Water Authority Lead and Copper Rule Revisions Inventory and Identification Requirements	$1,018,155	12/12/2024	FFY22 DW IIJA Lead Service Line Inventory project
Montecito Water District	Montecito Water Resilience Project	$34,895,970	12/30/2024	ASADRA disaster supplemental project

EPA did not identify any issues in reviewing project files based on the documentation provided. SWRCB conducted a full technical review and completed the environmental review process for each project listed above. EPA determined that the project files reviewed included adequate documentation and confirmed the eligibility of each project and recipient. Overall, SWRCB demonstrated effective project oversight.

B. State Match

State match requirements for the federal fiscal year (FFY) 2024 grants were as follows:

FFY	Grant	Award Amount	Match	Match Amount
24	CWSRF Base SRF	$58,386,000	20%	$11,677,200
24	CWSRF IIJA General Supplemental	$162,647,000	20%	$32,529,400
24	CWSRF IIJA Emerging Contaminants	$15,208,000	0%	$0
24	DWSRF Base SRF	$50,283,000	20%	$10,056,600
24	DWSRF IIJA General Supplemental	$247,974,000	20%	$49,594,800
24	DWSRF IIJA Emerging Contaminants	$82,428,000	0%	$0

The FFY 2024 match requirements totalled $44,206,600 for the Clean Water and $59,651,400 for the Drinking Water base SRF and IIJA General Supplemental grants. As documented in Note 6 of the State's audited financial statements, during the SFY ending June 30, 2024, SWRCB contributed state match totalling $156,676,000 for Clean Water and $83,646,000 for Drinking Water to meet state match needs for the FFY 2024 and future years. SWRCB provided supplemental disbursement logs from the State's Loans and Grants Tracking System (LGTS) to demonstrate that the match amounts noted above were disbursed prior to issuance of the FFY 2024 capitalization grant awards. In summary, the FFY 2024 match requirements for the State's Clean Water and Drinking Water base SRF and IIJA General Supplemental capitalization grants have been met.

C. Reporting

SRF Data System Reporting

In accordance with the grant term and condition, SWRCB is required to enter project-specific data into the OWSRF database within the quarter following each loan execution. All 29 new CW assistance agreements funded in SFY 2025 totalling $690 million have been entered. For DW, all 37 new assistance agreements totalling $533 million are in the system. No leveraging activities were reported in OWSRF in SFY 2025, as the state decided to delay issuing its next revenue bond series for SFY 2026.

Federal Financial Accountability and Transparency Act (FFATA) Reporting

FFATA requirements are considered met when assistance agreements exceeding $30,000 and non-exempted activities funded through the DWSRF set-asides are reported to www.Sam.gov in an amount equivalent to the full capitalization grant.[9] As of April 23, 2026, the following amounts were reported to fulfill FFATA requirements in SFY 2025 for grants awarded in FFY 2024 and prior years, where additional reporting was required:

Grant	Grant Amount	Equivalency Requirement (grant less set-asides)	Sub-Awardees Reported to Date	Subaward Total Reported to Date	Future Reporting Required
CWSRF					
FFY24 CW Base	$58,386,000	$58,386,000	City & County of SF (8651-110)	$58,386,000	None.
FFY24 CW IIJA General Supplemental	$162,647,000	$162,647,000	WRD of Southern CA (8799-110), City & County of SF (8651-110), Sunnyvale (8760-110)	$112,647,000	$50,000,000
DWSRF					
FFY22 DW IIJA Emerging Contaminants	$73,336,000	$56,007,260	Orange (3010027-001C), Jurupa (3310021-020C), Fullerton (3010010-001C), Parlier (1010025-001C), Santa Clarita (1910240-001C), Anaheim (3010001-004C), Irvine Ranch (3010092-001C), Tustin (3010046-001C)	$55,060,042	$947,218

[9] As noted in the November 7, 2023, memorandum, “Clarification of Federal Funding Accountability and Transparency Act Reporting Requirements in the State Revolving Fund Programs”, many typical set-aside activities are exempt from FFATA subaward reporting. As such, the total dollar amount of DWSRF FFATA subaward reporting is typically less than the total dollar amount of the DWSRF capitalization grant.

FFY22 DW IIJA Lead Service Line Replacement	$250,107,000	$192,241,680	San Diego (3710020-001P), Shasta (4510013-001P), Sweetwater (3710025-001P), McKinleyville (1210016-001P)	$8,915,620	$183,326,060
FFY23 DW IIJA Emerging Contaminants	$99,996,000	$77,951,120	East Orange County (3010068-001C), Sierra Park (5510016-001C), Fullerton (3010010-002C), Santa Ana (3010038-004C), Chino (3610012-008C)	$39,498,383	$38,452,737
FFY23 DW IIJA Lead Service Line Replacement	$28,650,000	$14,038,500	Burney (4510003-003P)	$485,000	$13,553,500
FFY24 DW Base	$50,283,000	$37,209,420	Chino (3610012-008C), San Juan WD (3410021-002C)	$47,110,000	None.
FFY24 DW IIJA General Supplemental	$247,974,000	$183,500,760	Santa Barbara (4210010-006C), San Diego (3710020-080C), LADWP (1910067-062C)	$191,800,000	None.
FFY24 DW IIJA Emerging Contaminants	$97,636,000	$76,204,720	Garden Grove (3010062-001C)	$12,906,284	$63,298,436

In SFY 2025, SWRCB fulfilled the equivalency reporting requirements for its FFY 2024 CW and DW base grants and its FFY 2024 DW IIJA General Supplemental grant. It made progress in reporting additional equivalency projects for prior years' IIJA supplemental grants. Additional assistance agreements will need to be reported to meet equivalency requirements for the FFY 2024 CW General Supplemental grant, FFY 2022 through FFY 2024 DW IIJA EC grants, and FFY 2022 and FFY 2023 DW IIJA LSLR grants as detailed above, totalling $196,879,560[10] for DW Lead Service Line Replacement grants and $102,698,391 for DW Emerging Contaminants across the two to three federal fiscal years, respectively. As discussed in EPA's November 2023 State Revolving Fund Equivalency Handbook:

[10] This amount is subject to change, should the State voluntarily de-obligate IIJA LSLR funding.

"If the final assistance agreement amounts are lower than the capitalization grant amount, the state should identify additional assistance agreements to make up the shortfall. It is acceptable for new assistance agreements to be signed in a later year than the original equivalency group to make up a shortfall; the SRF program should just note in the IUP and Annual/Biennial Report which assistance agreement(s) have been selected to compensate for a shortfall in prior year equivalency projects."

> **Required Action Item:** SWRCB must report additional equivalency projects to www.Sam.gov, as specified in the "Future Reporting Required" column provided in the table above, after additional assistance agreements meeting equivalency requirements are identified.

CWSRF and DWSRF Annual Reports

In accordance with its CWSRF operating agreement with EPA, SWRCB is required to submit Annual Reports to EPA within 120 days from the close of the state fiscal year. Drafts of the SWRCB's Annual Reports for SFY 2025 were submitted to EPA on December 22, 2025. Final versions of the Annual Reports were provided on June 9, 2026, 7 months from the expected due date.

EPA appreciates that SWRCB provided project and cash draw files for EPA's review in advance of finalizing the Annual Reports. EPA also acknowledges that the State did not receive audited financial statements until late November 2025, contributing to the Annual Reports' delay. In preparing the final Annual Reports in Spring 2026, the State discovered reporting errors on executed agreements in LGTS that required additional time to resolve before the Department of Financial Assistance (DFA) could finalize its Annual Report calculations. EPA appreciates SWRCB's work to ensure the accuracy of its data and acknowledges the State's improvement in providing more timely Annual Reports over the last two years. EPA and SWRCB discussed EPA's expectation to receive Annual Reports within 6 months of the expected deadline during the next state fiscal year reporting cycle.

> **Required Action Item:** As discussed at the exit conference, EPA and SWRCB agreed to interim milestones leading to delivery of the final SFY 2025-2026 Annual Reports. The interim milestones and deadlines are as follows, SWRCB will provide:
> - Lists of projects executed between July 1, 2025-June 30, 2026, by October 1, 2026
> - Draft Annual Reports by January 4, 2027
> - Final Annual Reports by March 1, 2027

D. Additional Subsidization

Since 2010, Congress has annually authorized state programs to provide additional subsidization in the form of principal forgiveness, negative interest rates, or subgrants. SWRCB provides additional subsidy in the form of principal forgiveness. Each Intended Use Plan (IUP) must identify the amount the state plans to use between the minimum and maximum amounts authorized. States are required to provide the minimum additional subsidy amount in executed loans before the seven-year grant period expires to achieve compliance. SWRCB has consistently set goals in its IUPs to provide the maximum amount of additional subsidy allowed using the State's affordability criteria. SWCRB provided detailed commitment and disbursement information on additional subsidy in the SFY 2024-2025 Annual Reports and identified assistance agreements assigned to receive additional subsidy in OWSRF.

In 2013, EPA established a goal that states should have at least the minimum additional subsidy amount in executed loans within the year following the appropriation. SWRCB met this two-year goal in SFY 2025 for its FFY 2023 CW and DW Base grants. During the on-site visit, EPA and SWRCB discussed the State's plans to commit additional CW and DW IIJA General Supplemental, EC and LSLR subsidy in SFY 2026. The table below shows SWRCB's progress towards committing the additional subsidy in loans for each open capitalization grant.

Additional Subsidy				
Grant Year and Program*	**Minimum**	**Maximum**	**Committed as of June 30, 2025**	**Minimum committed?**
2022 DW Base	$16,072,940	$30,291,310	$30,291,310	X
2022 DW IIJA General Supplemental	$77,779,170	$77,779,170	$77,779,170	X
2022 DW IIJA EC	$73,336,000	$73,336,000	$54,507,260	
2022 DW IIJA LSLR	$122,552,430	$122,552,430	$1,253,155	
2023 DW Base	$13,850,720	$26,103,280	$11,687,853	X
2023 DW IIJA General Supplemental	$111,303,500	$111,303,500	$30,249,716	
2023 DW IIJA EC	$76,204,720	$76,204,720	$19,171,219	
2023 DW IIJA LSLR	$14,038,500	$14,038,500	$485,000	
2024 DW Base	$13,073,580	$24,638,670	$1,130,000	
2024 DW IIJA General Supplemental	$121,507,260	$121,507,260	$0	
2024 DW IIJA EC	$97,636,000	$97,636,000	$0	
2022 CW Base	$16,550,600	$33,101,200	$33,101,200	X
2022 CW IIJA General Supplemental	$62,372,100	$62,372,100	$57,193,232	
2023 CW Base	$10,729,800	$21,459,600	$15,619,344	X
2023 CW IIJA General Supplemental	$73,046,750	$73,046,750	$41,999,384	
2024 CW Base	$11,677,200	$23,354,400	$15,216,371	X
2024 CW IIJA General Supplemental	$79,697,030	$79,697,030	$0	
*Additional subsidy requirements were met in prior years for grants not shown.				

Required Action Item: As of June 30, 2025, SWRCB has not committed the minimum additional subsidy required for the following grants:

- FFY 2022: CW IIJA General Supplemental, DW IIJA EC, DW IIJA LSLR
- FFY 2023: CW IIJA General Supplemental, DW IIJA General Supplemental, DW IIJA EC, DW IIJA LSLR
- FFY 2024: CW IIJA General Supplemental, DW base, DW IIJA General Supplemental, DW IIJA EC, DW IIJA LSLR

At least quarterly, DFA must inform the EPA Region 9 Project Officer of its progress towards committing additional subsidy until the minimum requirements are met.

In 2021, EPA revised its additional subsidy policy[11] such that capitalization grants may be closed before the state has disbursed the minimum additional subsidy required. States should have at least the minimum additional subsidy amount committed in executed loans before closing a capitalization grant. During the review, EPA determined that SWRCB is adhering to this requirement for closed grants.

E. Green Project Reserve

The Green Project Reserve (GPR) provision states that to the extent that there are sufficient eligible project applications, at least 10 percent of the CW capitalization grant shall be used for projects or components of projects that address energy efficiency, water efficiency, green infrastructure, or are environmentally innovative projects. The GPR requirement for a given year's appropriation is met when the minimum GPR funds required are committed in executed assistance agreements.

In SFY 2024, the State fell short of meeting its FFY 2023 CW GPR requirements of $20,272,400 by only executing $4,992,500 in GPR funds. In SFY 2025, SWRCB funded four CW GPR projects, including one project for storm drain and green infrastructure improvements and three water reuse projects. California's GPR requirements totaled $22,103,300 for the FFY 2024 CW base SRF and IIJA General Supplemental grants. As documented in its Annual Report, SWRCB executed $206,561,779 in GPR funds in SFY 2025. SWRCB far exceeded GPR requirements for its FFY 2024 grants and made up for the shortfall in SFY 2024.

F. Small Drinking Water Systems Assistance

The Safe Drinking Water Act (SDWA) and EPA regulations at 40 CFR 35.3525(a)(5) require a state to provide at least 15% of its available funds each year from the DWSRF towards providing loan assistance to small drinking water systems. A small system is defined as a drinking water system that serves 10,000 or fewer people. The calculation is based on all monies the state plans to make available for assistance agreements as described in the State's IUP sources and uses table. A state that provides more than 15% of its available funds in one year may credit the excess toward the requirement in future years. The IUP must demonstrate how a state will meet this requirement and the state's annual reporting should include how this requirement was met.

[11] Consistent with the closeout requirements of 2 CFR 200 and 1500 and EPA Order 5700.6A2, Policy on Compliance, Review and Monitoring, the capitalization grant may be closed out before the state meets the required minimum additional subsidization requirement (i.e., before those funds have been disbursed to projects). This is noted in the November 4, 2021, memorandum, "Policy Change Regarding Additional Subsidization and Closeout of SRF Capitalization Grants".

In SFY 2025, SWRCB provided $124,372,139 in assistance to small drinking water systems. Of the 37 loans executed in SFY 2024-2025, 23 were to small systems. This dollar amount represents 15.3% of total assistance planned in SFY 2025 based on projected SFY 2024-2025 sources totaling $813,078,222, calculated by taking the sum of all sources (including the estimated beginning balance comprised of cash and undrawn federal capitalization grants), provided in the Appendix C: SFY 2024-25 DWSRF IUP Fiscal Impact Summary table. EPA applauds SWRCB for meeting this requirement in SFY 2025.

Financial Review

A. Timely and Expeditious Use of Funds

A state must agree to commit and expend all funds as efficiently as possible and in an expeditious and timely manner. Timely and expeditious use of the funds is critical to maximize the effectiveness of SRF assets and meet the public health needs of the State per 40 CFR § 35.3550(l). Both of California's SRF programs have performed exceptionally in monitoring the SRFs' cash balances and predicting and planning for the funds' ability to commit new projects. In doing so, SWRCB can reliably commit over 100% of its available DW and CW funds through executed funding agreements.

To ensure the timely and expeditious use of the funds, EPA SRF program policy encourages states to limit the number of open CW and DW SRF grants to two for each base or IIJA program. The following table lists the capitalization grants awarded as of June 30, 2025 that were reviewed as part of the SFY 2025 annual review. Reflecting amounts shown in Compass as of the writing of this PER, the unliquidated obligation (ULO) is the amount of funds remaining on the grant.

Open Capitalization Grants as of June 30, 2025				
Grant	Grant Number	Grant Amount	ULO ($)	ULO (%)
FY22 DW Base	FS98934922	61,819,000	0	0%
FY23 DW Base	FS98934923	54,183,000	3,738,659.29	6.9%
FY24 DW Base	FS98934924	50,283,000	11,062,749.58	22%
FY22 DW IIJA General Supplemental	4D98T47501	158,733,000	12,776,349.67	8%
FY23 DW IIJA General Supplemental	4D98T77601	227,150,000	131,781,464.95	58%
FY24 DW IIJA General Supplemental	4D97T11601	247,974,000	239,811,093.18	97%
FY22 DW IIJA Emerging Contaminants	4E98T47401	73,336,000	21,364,253.74	29.1%
FY23 DW IIJA Emerging Contaminants	4E98T77701	99,996,000	99,996,000	100%
FY24 DW IIJA Emerging Contaminants	4E97T11701	97,636,000	97,636,000	100%
FY22 DW IIJA Lead Service Line	4L98T47701	250,107,000	238,496,188.14	95.4%
FY23 DW IIJA Lead Service Line	4L98T77801	21,131,821	21,131,821	100%
DW ASADRA	FS98T10701	51,974,515	50,931,067	98%
FY23 CW Base	CS06000123	53,649,000	0	0%
FY24 CW Base	CS06000124	58,386,000	973,070.02	1.7%
FY22 CW IIJA General Supplemental	4C98T48001	127,290,000	0	0%
FY23 CW IIJA General Supplemental	4C98T77901	149,075,000	2,004,660.70	1%
FY24 CW IIJA General Supplemental	4C97T11801	162,647,000	2,710,783.33	2%

During the review period, the State fully drew down its FFY 2022 base CW and FFY 2022 CW IIJA General Supplemental grants. As of the writing of this PER, California also drew down 100% of its FFY 2022 base DW and FFY 2023 base CW grants, 98.33% of its FFY 2024 base CW, 99% of its FFY 2023 CW IIJA General Supplemental, and 98% of its FFY 2024 CW IIJA General Supplemental grant.

The State had three open DW base grants with ULO during the review period, the oldest of which (FFY 2022 base DW) was fully drawn down in the first quarter of SFY 2026. As of the writing of this PER, the FFY 2023 and FFY 2024 DW base grants only had 6.9% and 22% of unobligated funds, respectively. The FFY 2022 and FFY 2023 DW IIJA General Supplemental grants had 8% and 58% of funds remaining, respectively. With the exception of the FFY 2022 IIJA EC grant (29% ULO), the State's IIJA EC and LSLR grants remain largely unobligated. For these two funding sources, EPA has observed a high percentage of ULO nationally as states continue to develop their project pipelines and market these narrower eligibility funding sources.

EPA acknowledges the State's efforts to reduce the number of open grants and commends SWRCB for significantly drawing down grants in the last state fiscal year, particularly CW grants. EPA understands that SWRCB must first prioritize and liquidate state match funds provided by the General Fund, as well as revenue bond proceeds with shorter spending requirements. During the on-site review the State shared its plans to significantly expend set-aside ULOs from the FFY 2022 DW IIJA General Supplemental and IIJA LSLR grants for planned contract work.

> **Recommended Action Item:** The State should strive to reduce the number of open grants to two per grant program by drawing down all unliquidated obligations from the FFY 2022 and FFY 2023 DW grants.

ASADRA

On June 6, 2019, the "Additional Supplemental Appropriations for Disaster Relief Act, 2019" (ASADRA) was signed into law. California was allotted $41,903,000 to its DWSRF in FFY 2020 and $183,000 to its CWSRF in FFY 2021 to carry out the goals of the ASADRA capitalization grant. California transferred its $183,000 CWSRF allocation to the DWSRF program to maximize funds available to address extensive wildfire damage experienced by public water systems throughout the State. California was subsequently awarded an additional $4,253,000 through the FFY 2021 reallotment process.

Committing the remainder of ASADRA funds was an action item in last year's PER, which the SWRCB completed in May 2026. During the annual review, EPA and SWRCB discussed information needs and the process to request an individual waiver to EPA's grants policy limiting grant project periods to 7 years[12], considering the grant's current expiration date of June 30, 2027. EPA commends the State's efforts since 2020 to market the ASADRA funding and work with prospective recipients on applications given the grant's narrow eligibilities. EPA and SWRCB discussed implications for ASADRA recipients should an extension not be granted.

> **Required Action Item:** SWRCB will submit an official request to EPA Region 9 requesting a grant extension to ensure full drawdown of the ASADRA grant prior to expiration.

[12] Project period limitations are detailed in Grants Policy Issuance 11-01, "Amended Grants Policy Issuance (GPI) 11-01 – Managing Unliquidated Obligations and Ensuring Progress under EPA Assistance Agreements".

B. Financial Performance Analysis

EPA evaluates SRF financial performance indicators annually to measure the progress of the SRF programs. These financial indicators, in addition to audited financial statements and the recommended Government Accountability Office indicators, serve as tools to assess the State's financial management practices and ability to ensure the perpetuity of the SRFs. EPA has reviewed these financial indicators to evaluate SWRCB's performance in SFY 2025 as compared to the last four years and national averages. In general, these indicators are used as a suite and not individually. EPA considers all the indicators together to gain a comprehensive picture of the State's program.

CWSRF

Fund Utilization Rate (Pace)

This indicator shows how quickly funds are committed to finance CWSRF projects. This is one of the most significant metrics EPA utilizes to evaluate the effectiveness with which the CWSRF is being managed. The table below shows California's performance against the national average. Please note that historical values can change slightly from prior PERs because of data clean-up efforts in OWSRF.

Table 1.

CWSRF Fund Utilization (NIMS Line 309, Cumulative)	SFY 2021	SFY 2022	SFY 2023	SFY 2024	SFY 2025
National (%)	97.2	98.7	98.8	98.8	100.1
California (%)	108.6	121.5	116	108.1	110.9

California's CW cumulative fund utilization rate for SFY 2025 was 110.9%, reflecting an almost 3% increase from SFY 2024. This increase in pace can be attributed to the State issuing over $811.1 million in assistance (comprising new agreements and amendments) in SFY 2025 while new funds available, via capitalization grants, state match, loan principal and interest repayments, and interest earnings (minus any bond principal and interest expenses), were the lowest observed since 2019. Whereas new funds available (NIMS Line 282) was $1 billion in SFY 2023 and $695.9 million in SFY 2024, it was $396.9 million in SFY 2025, reflecting the State's decision to not leverage or contribute new match (due to prior years' overmatch) for the year. At 110.9%, CA's pace continues to exceed the national average of 100.1% and represents the 6th highest pace in the CW program nationally. The State's pace reflects its use of cash flow modeling to inform lending capacity decisions and its ability to anticipate disbursement needs at any given time. It also indicates a strong and steady project pipeline supported by adequate staffing.

New in SFY 2025, EPA evaluated the State's uncommitted funds ratio to determine the speed with which the State is executing commitments. Taken by dividing total annual assistance in SFY 2025 by the State's uncommitted funds balance in SFY 2024, California CW's uncommitted funds ratio was -1.33, supporting the conclusion that California CW has met the statutory requirement of committing all funds within a year.

Cumulative Disbursement as a Percent of Executed Loans

While the fund utilization indicator reflects the California CWSRF's ability to commit funds to projects, disbursement as a percent of assistance provided reflects how quickly the California CWSRF disburses the committed funds (i.e., federal cap grants, state match, and repayments) to active projects. Full fund utilization coupled with timely disbursement indicates a well-functioning SRF program. These taken together maximize environmental benefits and protect public health.

This metric increased slightly for CA CW in SFY 2025 by 0.5%, from 83.6% to 84.1%. Of $15.2 billion in cumulative assistance provided, 84.1% of executed agreements have been disbursed. As shown in Table 2, this indicator for the State's CWSRF has historically fallen below the national average. Due to high annual disbursements exceeding $761 million in SFY 2025 (the second highest level achieved in CA since program inception), California's CWSRF program was able to continue improving this metric and keep momentum with its prior year's performance in SFY 2024.

Table 2.

CWSRF Disbursements as a Percent of Assistance Provided (NIMS Line 311, Cumulative)	**SFY 2021**	**SFY 2022**	**SFY 2023**	**SFY 2024**	**SFY 2025**
National (%)	89.5	88.6	88	88	87.2
California (%)	82.4	75.1	76.4	83.6	84.1

As discussed in the PER for SFY 2024, the Division of Financial Assistance oftentimes executes assistance agreements prior to projects going out to bid. Construction typically begins within 6 months of loan signing. The lag between loan execution and when a project's first claims are submitted, as well as the State's prioritization of disbursing other funding sources before the federal capitalization grants, are likely the key factors pushing this metric to fall below the national average. As in the past, another driver for the lower percentage is the State's high cumulative assistance provided. CA CW's ratio of cash-to-average annual disbursements (discussed in the next section) further indicates that SWRCB is efficiently disbursing funds and managing cash flows for executed agreements. EPA commends SWRCB for improving this metric in SFY 2025 by achieving high annual disbursements, responding to the very high dollar amount of projects signed in SFY 2022 that have begun disbursement.

Undisbursed Funds to Average Disbursement (Years to Disburse)

This indicator takes the sum of all undisbursed funds that a state has and divides it by the three-year average annual disbursement figure. It is a leading indicator to gauge how effectively SRF funds are revolving through the program and approximates the number of years it would take to fully disburse any undisbursed funds based on a state's typical annual disbursement. A high number indicates a state has significant cash on hand and may not be disbursing funds in a timely manner. A memorandum issued by EPA Headquarters on January 31, 2024, titled "Maximizing Water Quality and Public Health Benefits by Ensuring Expeditious and Timely Use of All State Revolving Fund Resources" identified 2 years as adequate performance for this indicator.

California’s CWSRF undisbursed funds to average disbursements ratio has historically exhibited better performance than the national average, as shown in Table 3.

Table 3.

CWSRF Undisbursed Funds to Average Disbursements (Years to Disburse) (NIMS Line 311.1)	**SFY 2021**	**SFY 2022**	**SFY 2023**	**SFY 2024**	**SFY 2025**
National	3.0	2.9	3.3	3.2	3
California	2	1.7	2.5	1.8	1.3

The State’s CW undisbursed funds to average disbursements ratio for SFY 2025 was 1.3 years, representing an improvement from 1.8 in SFY 2024 by a factor of 0.5. This result is below the national average and surpasses the 2-year goal identified in the “Maximizing Water Quality and Public Health Benefits” memo. California disbursed over $761 million to pay CW reimbursement claims during the review period, increasing its 3-year disbursement average by $25 million to $733 million. CA CW achieved its second highest level of disbursements in SFY 2025 since the inception of the program, second to its annual disbursements in SFY 2024. The State expects this high level of disbursement to continue as projects signed in SFY 2022, totalling over $2 billion in CW assistance, continue construction activities and request reimbursement.

Total Net

This indictor seeks to gauge if an SRF program is growing. Programs with little to no Total Net are not growing and funds are not revolving. The five-year trend for this metric is shown in Table 4.

Table 4.

CWSRF Total Net	**SFY 2021**	**SFY 2022**	**SFY 2023**	**SFY 2024**	**SFY 2025**
California	$352,617,793	$409,965,335	$114,404,172	$131,108,072	$184,737,143

California’s CWSRF program had a total net of $184.7 million in SFY 2025, an increase of $53 million due to receiving $38.9 million more in loan principal repayments, and $17 million more in retained earnings (comprised of loan interest payments and interest earnings on investments, the sum of which exceeded higher annual interest expenses) from the previous year. As discussed last year with SWRCB, the higher total nets observed in 2020 through 2022 reflect years when the State experienced a substantial number of early pre-payments during the historically low-interest rate environment observed during the Covid-19 pandemic. Starting in 2023, total net reflects more typical, lower pre-payment conditions with annual principal repayments closer to the $200 million range. In SFY 2025, loan principal repayments were $255.7 million compared to $216.7 million in SFY 2024, reflecting an increase in the number loans signed in SFY 2022 and SFY 2023 entering amortization. SWRCB expects total net to dip in SFY 2026 with planned revenue bond sales and additional revenue bond principal and interest expenses to account for.

EPA will monitor this indicator as the State carries out its leveraging activities to ensure it stays above $0.

Net Interest Margin

This indicator measures net earnings the SRF is generating from its total assets through loans and investments, after accounting for the interest expenses associated with match and leveraged bonds. Simply stated, it is a measurement comparing the net interest income generated from the SRF loans with the outgoing interest it pays to bondholders. This indicator seeks to gauge if an SRF program is growing through interest earnings. A negative percentage indicates that a state's costs to leverage exceed its interest earnings to pay for the expense. The five-year trend for this metric is shown in Table 5.

Table 5.

CWSRF Net Interest Margin	SFY 2021	SFY 2022	SFY 2023	SFY 2024	SFY 2025
California	-0.14%	-0.13%	-0.02%	0.13%	0.38%

In previous PERs EPA Region 9 calculated net interest margin multiple ways, using the State's audited financial statements to account for aspects of the data that the State suggested had incorrectly skewed the calculation (e.g., missing construction period interest in OWSRF and mixing accruals- and cash-based equation terms in the same calculation). For SFY 2025, EPA Region 9 chose to analyze net interest margin using OWSRF alone given SWRCB's work over the last year to make historical corrections to its OWSRF data.

California's net interest margin for the CWSRF program in SFY 2025 was 0.38%, a slight increase from SFY 2024 by 0.26%, attributable to the higher interest rate environment (relative to the Covid-19 pandemic when SWRCB's interest rates ranged from 0.8-1.5%), as well as the State not issuing new revenue bonds in SFY 2025. California expects its CW net interest margin to plateau or decline in SFY 2026, skewing closer to zero percent, due to leveraging activities in SFY 2025-2026 that will increase their revenue bond interest expenses. In discussing this metric during the on-site, SWRCB shared that their bond program is modeled to achieve a net interest margin as close to 0% as possible. The State's goal is to provide subsidized assistance to communities at low interest rates – and maximize those interest earnings through leveraging – to generate greater long-term lending capacity without impacting the corpus of the CW fund. EPA will continue to monitor this indicator to ensure that California's CWSRF leveraging interest expenses do not exceed the fund's interest earnings by a large margin.

DWSRF

Fund Utilization Rate (Pace)

This indicator shows how quickly funds are committed to finance DWSRF projects. This is one of the most significant metrics EPA utilizes to evaluate the effectiveness with which the DWSRF is being managed. Table 6 shows California's performance against the national average. Please note that historical values may have changed slightly from prior PER's due to data clean-up efforts in OWSRF.

Table 6.

DWSRF Fund Utilization (NIMS Line 419, Cumulative)	SFY 2021	SFY 2022	SFY 2023	SFY 2024	SFY 2025
National (%)	96	97	95	91	91
California (%)	107	125.3	109.2	102	102.2

California's DW cumulative fund utilization for SFY 2025 was 102.2%, reflecting a 0.2% increase from SFY 2024. This pace result can be attributed to the State's assistance provided ($460.6 million) being roughly equal to the new funds available (totalling $439.5 million, comprised of federal capitalization grants, state match, loan repayments, and interest earnings minus bond expenses), keeping this indicator essentially level with the prior year. CA's pace continues to exceed the national average of 91% and represents the 7th highest pace in the DW program in the country for SFY 2025. This result demonstrates that SWRCB is anticipating funds received and planning for their use prior to having them deposited. SWRCB has demonstrated a commendable capacity to properly manage the flow of funds over the life of the program.

New in SFY 2025, EPA evaluated the State's uncommitted funds ratio to determine the speed with which the State is executing commitments. Taken by dividing total annual assistance in SFY 2025 by the State's uncommitted funds balance in SFY 2024, California DW's uncommitted funds ratio was -4.74, supporting the conclusion that California DW has met the statutory requirement of committing all funds within a year.

Disbursements as a Percentage of Assistance Provided – Based on Cumulative Activity

While the fund utilization indicator reflects the California DWSRF's ability to commit funds to projects, disbursement as a percent of assistance provided reflects how quickly the California DWSRF disburses the committed funds to active projects. Full fund utilization coupled with timely disbursement indicates a well-functioning SRF program. These taken together maximize environmental benefits and protect public health.

This metric increased for CA DWSRF by over 2% in SFY 2024, from 75.8% to 78%. Of $4.9 billion in cumulative assistance provided, 78% of executed agreements have disbursed. As shown in Table 7 and similar to the State's CWSRF, California DWSRF disbursements as a percent of executed loans have historically been below the national average.

Table 7.

DWSRF Disbursements as a Percent of Assistance Provided (NIMS Line 420, Cumulative)	SFY 2021	SFY 2022	SFY 2023	SFY 2024	SFY 2025
National (%)	87	85	85	84	81
California (%)	84.4	72.5	75.8	78	78.3

SWRCB and EPA discussed multiple reasons why the State's results have remained below the national average for the past five years, similar to the CW program, including California's execution of agreements prior to bid, the State's disbursement of funding sources with stricter spending deadlines before the federal capitalization grants, and CA DW's high cumulative assistance provided. In SFY 2025, SWRCB disbursed $372.4 million in reimbursement claims, an increase from $299 million in SFY 2024 disbursements and over $100 million more than its historical annual disbursement of ~$260 million in the DWSRF program, as discussed during the on-site visit. This increase in annual disbursements can be attributed to more assistance agreements that were executed in SFY 2022 that are entering the construction stage. Given the State's higher cash-to-average disbursements ratio in the DWSRF program, EPA will continue to monitor this metric.

Undisbursed Funds to Average Disbursement (Years to Disburse)

This indicator looks at all undisbursed funds that a state has and divides it by the prior three-year average annual disbursement figure. It is a leading indicator to gauge how effectively SRF funds are revolving through the program and approximates the number of years it would take to fully disburse any undisbursed funds based on the state's typical annual disbursement. A high number indicates a state has significant cash on hand and may not be revolving funds in a timely manner. A memorandum issued by EPA Headquarters on January 31, 2024, titled "Maximizing Water Quality and Public Health Benefits by Ensuring Expeditious and Timely Use of All State Revolving Fund Resources" identified 2 years as adequate performance for this indicator.

California's DWSRF undisbursed funds to average disbursements ratio has historically exhibited better performance than the national average, as shown in Table 9. Compared nationally, California's DWSRF has kept less cash on hand than other states.

Table 9.

DWSRF Undisbursed Funds to Average Disbursements (Years to Disburse) (NIMS Line 420.1)	SFY 2021	SFY 2022	SFY 2023	SFY 2024	SFY 2025
National	2.9	3	3.8	4.8	5.1
California	1.4	1.3	3.1	3.9	3.5

California DWSRF's disbursement ratio decreased by a factor of 0.4, from 3.9 in SFY 2024 to 3.5 years of cash on hand in SFY 2025. The national average climbed to 5.1 for the year in review. This metric's improvement was due to the State's significant annual disbursements in SFY 2025, contributing to the Undisbursed Funds balance growing only by $67 million, compared to increases of $251 million in SFY 2024 and $401 million in SFY 2023. The DWSRF program's annual disbursements of $372.4 million increased the 3-year disbursements average to $302.7 million (from an average of $251.8 million the prior year). EPA expects this ratio to improve further once the DWSRF program voluntarily de-obligates ~$140 million in unused IIJA LSLR funding, anticipated in late 2026, and as additional emerging contaminant agreements are executed. With SFY 2025 representing a potential inflection point from the trend of cash on hand increasing since the introduction of the IIJA grants, EPA will continue to monitor this metric.

Set-Aside Spending Rate

This indicator gauges the pace at which a state is spending its set-aside funds across base SRF and IIJA supplemental DW grants. The five-year trend is shown in Table 8. In SFY 2025, California's DWSRF set-aside spending rate was 62%, down 3% from SFY 2024 and 14% below the national average of 76%. Annual set-aside expenditures were higher during the review period than the prior year ($43.2 million in SFY 2025 compared to $32.9 million in SFY 2024). However, total set-asides awarded increased by $98 million, due to continued increased set-asides provided by the IIJA capitalization grants. This increase in set-asides awarded caused the overall spending rate to drop despite the State's higher expenditures from the set-asides during the year in review.

Table 8.

DWSRF Set-Aside Spending Rate (NIMS Line 424, Cumulative)	**SFY 2021**	**SFY 2022**	**SFY 2023**	**SFY 2024**	**SFY 2025**
National (%)	91	91	85	79	76
California (%)	92.3	92.2	72.2	65.2	62

To better assess the State's set-aside usage, EPA reviewed set-aside expenditures by individual set-aside. Whereas California's global set-aside spending rate is 62%, its individual spending rates for SFY 2025 were:

- Administration: 85.4%
- Small water systems technical assistance: 61.2%
- State program management: 65.5%
- Local assistance: 42.3%

During the on-site visit, SWRCB relayed plans to substantially reduce ULO over the next two years in the local assistance (15%) set-aside to fund the Division of Drinking Water's WaterTap database development, estimated at $55 million. The State is now also drawing significantly from the small water systems set-aside, as DFA has shifted to using the 2% set-aside to fund staff for its technical assistance program in place of state support sources that have been fully exhausted. To improve upon its management of the set-asides, DFA is working in conjunction with the Division of Drinking Water to retrofit the set-aside workplans to no longer be tied to individual grant years. EPA enthusiastically supports this change and expects it will provide more transparency and facilitate easier tracking of the set-aside workplans into the future.

> **Required Action Item:** SWRCB will submit workplans to EPA for SFY 2026-2027 for all (4%, 2%, 10%, 15%) set-aside activities by October 1, 2026. The workplans will reflect all open grants with unliquidated obligations, including older FFY 2022 and FFY 2023 grants with remaining funds, that can be drawn from for eligible set-aside activities.

Total Net

This indictor seeks to gauge if an SRF program is growing. Programs with little to no Total Net are not growing and funds are not revolving. The five-year trend for this metric is shown in Table 10.

Table 10.

DWSRF Total Net	**SFY 2021**	**SFY 2022**	**SFY 2023**	**SFY 2024**	**SFY 2025**
California	$174,010,629	$112,476,356	$126,066,378	$121,120,186	$152,588,189

California's DWSRF program had a total net of $152.5 million in SFY 2025, an increase of $31 million from SFY 2024. The increase is due to approximately $27.6 million more in loan principal repayments received and $3.5 million more in interest earnings on investments and interest paid on loans than in SFY 2024, with relatively similar interest paid on bonds and leveraged bond principal repaid as in the prior year. Total net for the DWSRF program is growing and remains higher than it was in SFY 2022, its lowest point in the last five years. EPA will continue to monitor this indicator to ensure it stays above $0.

Net Interest Margin

This indicator measures net earnings the SRF is generating from its total assets through loans and investments, after accounting for the interest expenses associated with match and leveraged bonds. Simply stated, it is a measurement comparing the net interest income generated from the SRF loans, with the outgoing interest it pays to bondholders. This indicator seeks to gauge if an SRF program is growing through interest earnings. A negative percentage indicates that what it costs a state to leverage is more than what it is earning in interest to pay for the expense.

As with net interest margin for the CWSRF program, for SFY 2025, EPA Region 9 chose to analyze net interest margin using OWSRF alone given SWRCB's work over the last year to make historical corrections to its OWSRF data. The five-year trend for this metric is shown in Table 11.

Table 11.

DWSRF Net Interest Margin	**SFY 2021**	**SFY 2022**	**SFY 2023**	**SFY 2024**	**SFY 2025**
California	1.11%	1.09%	1.15%	1.07%	1.11%

California's net interest margin for the DWSRF program in SFY 2025 was 1.1%, representing a slight increase from SFY 2024. As the DWSRF program has not recently issued revenue bonds as it has in the CWSRF program, EPA expects this metric to hold steady unless the State leverages in the future.

C. Compliance with Audit Requirements

On November 19, 2025, the State's independent auditor issued the CWSRF and DWSRF program audited financial statements for SFY 2025. The audit included an unmodified opinion on the financial statements, indicating that they are fairly stated in accordance with generally accepted accounting principles. On the same day, the independent auditors issued the Single Audit which included reports on internal controls and compliance for each major program. There were no findings or recommendations in the audit reports.

D. Transaction Testing

Cash draws from the U.S. Treasury for SRF expenses must be based on eligible incurred project or set-aside costs. Any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements is considered an improper payment. In response to the Improper Payments Elimination and Recovery Act of 2012, the EPA Office of the Chief Financial Officer directed that the SRFs be subjected to testing of a random selection of SRF transactions to develop a national estimate of improper payments from these programs. For this review, EPA's Office of Water selected 5 DWSRF and 14 CWSRF program cash draws to test for the state fiscal year ending June 30, 2025, and arranged for a contractor to review the supporting documentation. The transactions selected reflected all appropriations for which the State made draws during the review period.

SFY 2025 Cash Draw Transactions Reviewed			
Grant Number	Date	Draw Amount	Improper Payment
CS06000124	3/19/2025	$5,120.00	$0
CS06000124	4/7/2025	$47,021.00	$0
4C97T11801	3/27/2025	$6,467,074.00	$0
4C97T11801	3/27/2025	$3,508,760.00	$0
4C97T11801	4/11/2025	$6,032,380.00	$0
4C97T11801	4/11/2025	$3,808,965.00	$0
4C97T11801	9/8/2025	$4,723,963.00	$0
4C98T48001	10/29/2024	$2,602,190.00	$0
4C98T77901	11/12/2024	$8,773,362.00	$0
4C98T77901	11/14/2024	$5,681,783.00	$0
4C98T77901	1/16/2025	$3,540,115.00	$0
4C98T77901	1/24/2025	$3,889,992.00	$0
4C98T77901	1/29/2025	$10,511,303.00	$0
4C98T77901	3/3/2025	$3,802,736.00	$0
4E98T47401	2/21/2025	$3,628,384.00	$0
4D98T77601	9/12/2025	$1,083,473.00	$0
4D98T77601	5/28/2025	$10,959,203.00	$338.62
FS98934923	3/27/2025	$1,600,000.00	$0
4L98T47701	1/10/2025	$292,902.69	$0
Total		$80,958,726.69	

Improper Payments

One DW improper payment from grant 4D98T77601 totalling $338.62 was identified. The improper payment was an overpayment caused by a duplicate invoice, resulting in the recipient being reimbursed twice. As the project is closed, SWRCB will request remittance from the recipient in the amount of $338.62. The State expects the improper payment to be resolved in 3-4 weeks (mid-August 2026). All other invoices reviewed for the $10,959,203 cash draw from which the improper payment came were found to be properly made for eligible expenditures and were appropriately recorded in SWRCB's accounting records.

SWRCB has internal review procedures in place to help identify duplicate invoices. Staff are expected to review all invoices submitted with a disbursement request, including comparing subconsultant invoices to the applicable prime consultant invoices and billing periods to identify potential duplicate costs. The $338.62 overpayment was unique in that the recipient submitted the same subconsultant invoice in two separate prime consultant invoices. The State has shared this finding with disbursement staff to reinforce internal invoice review procedures and help prevent similar occurrences.

Negative Draws

A negative cash draw occurs when the state returns money to its capitalization grant. The EPA reviews all negative draws to ensure they are eligible and proper. During SFY 2025, SWRCB made one negative cash draw from grant CS06000124 for $352,500 on June 27, 2025. EPA originally awarded the State's FFY 2023 CW base grant (CS06000123) with $352,500 as "in-kind" for a Region 9 contract solicitation. When the contract did not come to fruition, EPA obligated the $352,500 balance by way of a grant amendment issued on June 5, 2025. SWRCB subsequently completed a book entry reducing a draw from the State's FFY 2024 CW base grant CS06000124, causing the balance to increase, and charged it to the CS06000123 grant (causing the balance to decrease), resulting in the negative draw. In summary, the negative draw was an eligible expenditure adjustment to adhere to the first-in-first-out policy and was not an improper payment.

Programmatic and Financial Risks

EPA's annual review included a productive discussion with SWRCB regarding the programmatic and financial risks facing the programs. Ongoing barriers to entry associated with federal SRF requirements, construction inflation, uncertainty surrounding future federal capitalization, and the broad impacts of reduced DWSRF grants all present significant challenges. Reduced DWSRF funding could affect program administration, technical assistance, the Public Water System Supervision program, and disadvantaged community assistance provided through principal forgiveness. SWRCB is actively navigating these risks and planning for a range of future scenarios.

Despite these challenges, the annual review demonstrated the State's commitment to sustaining current assistance levels and supporting communities in accessing funding where water infrastructure needs are the greatest. Through its financial capacity analysis, DFA is evaluating a variety of funding scenarios that may require SWRCB to leverage as frequently as annually to keep pace with demand, particularly within the CWSRF program. In SFY 2025-2026, the State issued $600 million in revenue bonds to meet CWSRF disbursement needs and is planning to pursue short-term financing in SFY 2026-2027 to secure additional state match.

To mitigate anticipated reductions in DWSRF set-aside funding, the State began collecting administrative fees for loans entering repayment in SFY 2025-2026. Fee revenue, for which approximately $3.5 million in expenditure authority has been proposed in the next State budget, is expected to partially compensate for reductions in federal set-aside funding. During the on-site interviews, DFA also shared that the Division of Drinking Water is evaluating additional fee structures, including fees related to permitting, inspection, monitoring, and other activities, to generate supplemental support funding. EPA commends SWRCB for establishing this new administrative fee revenue source to help maintain critical program functions that have historically relied on federal DWSRF set-asides.

In SFY 2025, California voters approved Proposition 4, a General Obligation bond measure that will provide $610 million in grants and loans for clean water and drinking water projects. Although this new funding source will help offset the expiration of Propositions 1 and 68, which together provided approximately $1.1 billion in State funding for water projects, the State budget simultaneously underfunded the Safe and Affordable Drinking Water Fund. This Fund serves as SWRCB's primary source of principal forgiveness for small and disadvantaged community drinking water projects. As a result of this budget shortfall, DFA anticipates the need to stretch reduced DWSRF resources across multiple programs to continue addressing the substantial needs of communities throughout the State.

EPA recognizes the State's efforts to prepare for a range of future funding scenarios through its annual financial capacity analysis and applauds SWRCB for its proactive engagement with stakeholders, the California Legislature, and its municipal financial advisor to better understand and advocate for the programs. During the annual review, DFA also noted that stakeholders have introduced legislation that would raise the statutory interest rate ceiling for the CWSRF. If enacted, this potentially significant change would provide greater flexibility in allowing DFA to set financing terms for CWSRF assistance. Under current law, CWSRF interest rates are capped at one-half of the interest rate on the State's most recent General Obligation bond sale.

As a follow-up to an action item identified in the SFY 2024 PER, EPA and SWRCB also discussed the State's plans to return uncommitted IIJA LSLR funding due to the limited presence of lead service lines identified through inventory efforts statewide. Consistent with its February 20, 2026 proposal, SWRCB intends to use the public comment period for the SFY 2026–2027 DWSRF Intended Use Plan to evaluate plans to de-obligate more than $140 million in projected uncommitted lead funding. Funds returned by California will be redistributed through EPA's reallotment process to address lead in other states. EPA again commends SWRCB for carefully assessing its lead project pipeline and taking appropriate action to maximize the overall benefit of these resources.

> **Required Action Item:** By October 1, 2026, SWRCB will submit its request to EPA to voluntarily de-obligate uncommitted lead funds such that other states with higher lead needs may utilize the funds.

Status of Action Items from Prior PERs

The purpose of a PER is to document findings, observations, and recommendations. PERs also serve to track and monitor the ongoing performance of SRF programs by acting as a reference point for which progress on prior findings and recommendations can be checked and verified. This section serves to summarize the status of follow-up items from the last PER issued on September 29, 2025.

SWRCB made progress on or completed the required actions that EPA identified in the SFY 2024 PER as follows:

1. CA reported additional equivalency projects to Sam.gov to meet FFATA requirements. Grants for which more future equivalency reporting is required are listed in this PER's action items.
2. CA committed the minimum additional subsidy required for its FFY 2022 DW IIJA General Supplemental and FFY 2023 base CW and DW grants and made notable progress in additional subsidy commitments for its other FFY 2023 grants.
3. CA achieved interim milestones in developing the SFY 2024-2025 Annual Reports and notified EPA of its delayed submission of the final Annual Reports due to a data reporting error that staff discovered. SWRCB subsequently was not able to submit its SFY 2024-2025 Annual Reports by the March 30, 2026 deadline set in the last PER. Despite the delay this year, EPA Region 9 and DFA discussed the State's capacity to provide the SFY 2025-2026 Annual Reports on a more aggressive schedule for the next reporting cycle.
4. CA committed all ASADRA funds before the June 2026 deadline.

5. CA met with EPA Region 9 on January 27, 2026 and submitted a subsequent plan on February 20, 2026 detailing a proposal to voluntarily de-obligate over $140 million in projected uncommitted lead funds following the public comment period for the draft SFY 2026-2027 DWSRF Intended Use Plan.

Summary of Action Items

The action items identified in this PER are generally intended to address isolated or minor deficiencies, small one-time errors, or suggest best practices and efficiencies that would strengthen the programs. Findings, by contrast, are meant to address major, significant issues that place the state at risk for non-compliance or misuse of funds. EPA made no findings for the review period.

In light of SWRCB's SRF program performance and activities conducted during SFY 2025, EPA has identified the following required or recommended action items for SWRCB to address accordingly:

Required:

1. **Equivalency reporting:** SWRCB must report additional equivalency projects to www.Sam.gov as specified in the FFATA section of this PER, after additional assistance agreements meeting equivalency requirements are identified for the following grants:
    a. FFY 2024 CW General Supplemental grant
    b. FFY 2022, FFY 2023, and FFY 2024 DW IIJA Emerging Contaminant grants
    c. FFY 2022 and FFY 2023 DW IIJA Lead Service Line Replacement grants
2. **Additional subsidy:** As of June 30, 2025, SWRCB had not committed the minimum additional subsidy required for the grants listed below. At least quarterly, DFA will inform the EPA Region 9 Project Officer of its progress towards committing additional subsidy until the minimum requirements are met.
    a. FFY 2022: CW IIJA General Supplemental, DW IIJA EC, DW IIJA LSLR
    b. FFY 2023: CW IIJA General Supplemental, DW IIJA General Supplemental, DW IIJA EC, DW IIJA LSLR
    c. FFY 2024: CW IIJA General Supplemental, DW base, DW IIJA General Supplemental, DW IIJA EC, DW IIJA LSLR
3. **Annual Reports:** EPA and SWRCB have agreed to interim milestones leading to delivery of the final SFY 2025-2026 Annual Reports. SWRCB will notify EPA at least 30 days in advance of any anticipated delays. The interim milestones and deadlines are as follows. SWRCB will provide:
    a. Lists of projects executed between July 1, 2025-June 30, 2026, by October 1, 2026
    b. Draft Annual Reports by January 4, 2027
    c. Final Annual Reports by March 1, 2027
4. **ASADRA:** SWRCB will submit an official request to EPA Region 9 requesting a grant extension to ensure full drawdown of the ASADRA grant prior to expiration.
5. **Set-aside spending:** SWRCB will submit workplans to EPA for SFY 2026-2027 for all (4%, 2%, 10%, 15%) set-aside activities by October 1, 2026. The workplans will reflect all open grants with unliquidated obligations, including older FFY 2022 and FFY 2023 grants with remaining funds, that can be drawn from for eligible set-aside activities.
6. **Voluntary de-obligation of lead funds:** By October 1, 2026, SWRCB will submit its request to EPA to voluntarily de-obligate uncommitted lead funds such that other states with higher lead needs may utilize the funds.

Recommended:

1. **Open grants policy:** The State should strive to reduce the number of open grants to two per grant program by drawing down all unliquidated obligations from the FFY 2022 and FFY 2023 DW grants.

Annual Review Participants

SWRCB: Heather Bell, Amanda Benitez, Jamie Bix, Melky Calderon, Mike Downey, Matthew Francis, Jean Fung, James Garcia, Lisa Hong, Sunny Kals, Ahmad Kashkoli, Jennifer Larsen, David Maurer, Rebecca O'Brien, Mike Parra, Wendy Pierce, Darren Polhemus, Lance Reese, Anabel Ruiz, Stefan Spich, Denise Walker, Stephanie White, Matt Wilson, Romana Wortell, Josh Ziese

EPA Region 9: Hector Aguirre, Elizabeth Borowiec, Mimi Soo-Hoo

Supporting Attachments

Attachment A: Annual Review Checklist
Attachment B: CWSRF & DWSRF Project File Checklists