

**State of California**  
**Department of Public Health**



Drinking  
Water State  
Revolving  
Fund  
Intended Use  
Plan

*SFY*  
*2013*

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**FINAL**  
September 2013

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## I. INTRODUCTION

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

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

In California, the responsibility for regulating PWSs and overseeing the safety of drinking water rests with the Department of Public Health, Division of Drinking Water and Environmental Management (CDPH). The United States Environmental Protection Agency (USEPA) in cooperation with the State of California (State) designated CDPH as the "primacy agency" to implement and enforce the federal SDWA. CDPH regulates more than 7,700 PWS located throughout the State. To assist in this effort, CDPH delegates the responsibility for enforcement of the State's drinking water requirements to 31 local health departments to regulate PWSs serving less than 200 service connections. CDPH also promotes and provides information on drought preparedness and water conservation; oversees water recycling projects; certifies drinking water treatment and distribution operators; supports and promotes water system security; provides support for small water systems and for improving technical, managerial, and financial (TMF) capacity; and provides funding opportunities for water system improvements.

This Intended Use Plan (IUP) is part of CDPH's application for the federal fiscal year (FFY) 2013 capitalization grant from the USEPA. For FFY 2013, California is eligible for a \$78.77 million grant from the \$861 million appropriated by Congress for the nation's DWSRF programs. The federal funding, in coordination with CDPH's existing loan and interest repayments as well as associated state match funds, will help ensure funding for drinking water projects that address the State's highest public health priorities.

Federal and State laws allow a portion of federal funds to be used for specified set-aside activities in addition to providing financial assistance to PWSs for infrastructure improvements. CDPH intends to use 23 percent (23%) of the FFY 2013 DWSRF allotment award for these set-aside activities. The remaining 77 percent (77%) of federal funds, plus all state matching funds, and all interest and repayments will be used for project funding.

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

In State Fiscal Year (SFY) 2013-2014, CDPH will continue to focus on implementing the public health aspects of SDWA and will ensure that funds are expeditiously and timely disbursed from all available sources. These efforts are instrumental in achieving the requirements of the SDWA.

## B. What's New for 2013

On July 1, 2013 CDPH adopted new regulations to amend the sections relating to DWSRF. A copy of the California DWSRF regulations is included in Appendix A. Following is a summary of the changes:

1. Remove the \$20 million cap in funding per project for non-zero percent interest bearing loan projects, subject to the applicant's ability to repay a loan and the availability of funds. This change in regulation will help reduce un-liquidated obligations (ULO) from prior years' capitalization grants.
2. Extend the maximum completion deadline for planning projects from 18 months to 36 months. Numerous PWS have demonstrated a need for a greater time frame to complete their planning projects.
3. Extend eligible DWSRF planning costs to include costs for environmental review and documentation, water rate studies, and engineering costs.
4. Require an applicant who receives grant funding from the DWSRF to implement procurement procedures for professional engineering services that assure the services are engaged on the basis of demonstrated competence and qualifications for the types of services to be performed and at reasonable prices.
5. Require a PWS that serve "severely disadvantaged" communities who receive 100 percent (100%) grant funding from the DWSRF to conduct a water rate study for the operation and maintenance of the PWS including the proposed project and implement all rate increases in accordance with such study.

Over the last six months, CDPH has been actively seeking ways to improve California's DWSRF funding process. The following tasks are being considered for implementation:

- Revise current pre-application form to include questions that could help staff to quickly assess project's readiness and eliminate questions that are no longer necessary.
- Coordinate with Information Technology staff to develop a more functional web-based pre-application.
- Reexamine by-pass procedure.
- Explore the concept of an open application process for projects in health-based categories (A through G).

Also, CDPH has renamed the "Pre-planning and Legal Entity Formation Assistance" to just "Legal Entity Formation Assistance" to more accurately reflect the activities that may be undertaken under the program. All other aspects of the program remain the same as previously proposed.

## II. STRUCTURE OF THE DWSRF

The DWSRF program consists of two funding components that are utilized to provide assistance to PWSs and ensure proper administration of the DWSRF.

### A. Planning and Construction Funding

CDPH provides assistance for the planning and construction of improvements to publicly and privately owned community water systems (CWS) and nonprofit, non-community water systems (NPN-CWS) for eligible public health projects. Eligible project types include treatment works, transmission and distribution, source, and storage projects.

Federal DWSRF guidelines specify projects that cannot be funded through the DWSRF; of particular note are projects primarily intended to serve future growth. The focus of DWSRF assistance is to ensure safe drinking water for the current California population. Eligible projects may be sized to accommodate for reasonable growth (not more than 10 percent) during the expected life of the infrastructure. However, CDPH will not fund projects intended to serve future growth outside of reasonable expectations and remains vigilant to ensure the limited DWSRF funds available are directed to serve the State's existing population.

### B. Set-Aside Funding

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

- **Administration** - to support the state operation and management of the DWSRF, including provision of technical assistance to borrowers.
- **Water system TMF capacity development** – to assist PWS to recognize and address their TMF capacity deficiencies.
- **Small water system (SWS) technical assistance** – to assist a small PWS serving less than 10,000 people with the focus on a PWS that serve less than 200 service connections through state personnel or agreements with third party assistance providers.
- **State program management** – to support Public Water System Supervision (PWSS) related activities.
- **Local assistance and other state programs** – to assist capacity development via Third-party Contracts and Legal Entity Formation related activities.

### III. DWSRF GOALS

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

#### A. Long-Term Goals

- 1. Address Significant Risks to Public Health:** CDPH uses the DWSRF funds for low interest loans and, in some cases, principal forgiveness (grants) to enable water systems to fund necessary infrastructure improvements. CDPH is targeting program resources and funds to address the most significant public health and compliance problems. CDPH will ensure sufficient coordination between the DWSRF and the PWSS Program.
- 2. Ensure SDWA Compliance:** CDPH funds improvements to PWSs to eliminate public health threats and ensure compliance with federal and state drinking water laws and regulations including the SDWA. Through the set-asides, CDPH promotes the development of the TMF of all PWS (especially small CWS) to achieve or maintain compliance with state drinking water standards and federal SDWA requirements.
- 3. Reduce Cost of Drinking Water:** DWSRF funding helps PWS minimize cost of supplying reliable, safe drinking water by providing affordable financing for the construction of technically sound drinking water infrastructure projects. CDPH encourages PWS to include energy efficiency and water conservation measures, including water meters, in conjunction with public health related projects. Water meters encourage the conservation of water, and thereby produce savings related to costs of production, treatment, storage and pumping.
- 4. Acknowledge and Address Household Affordability Constraints:** Strategically use the DWSRF subsidy provision and set-aside funds to maximize the DWSRF loan account's impact on achieving affordable compliance. CDPH will regularly reevaluate the affordability criteria to ensure that those that are in the greatest need of assistance receive subsidy and set-aside funds.
- 5. Ensure Program Outcomes:** CDPH continues to monitor and manage the DWSRF to ensure that the fund remains financially viable and self-sustaining over the long term as an ongoing source of water system funding to assist PWS in achieving and maintaining compliance with the SDWA. CDPH continues to assess project priority process focusing on ways to streamline and expedite project selection, including readiness to proceed and bypass procedure.

## B. Short-Term Goals

1. Immediately seek the award of the FFY 2013 Capitalization Grant (2013 Capitalization Grant). Upon award, commit loan funds from the 2013 Capitalization Grant by September 30, 2014 such that the federal funds can promptly be utilized.
2. Ensure that at least 20 percent but not more than 30 percent of the 2013 Capitalization Grant is provided to eligible recipients in the form of additional subsidy (i.e., forgiveness of loan principal.)
3. Achieve a loan commitment pace or fund utilization rate of approximately 103 percent (103%) by June 30, 2014.
4. Ensure compliance with USEPA's Notice of Non-Compliance dated April 19, 2013. See Appendix B for USEPA's Notice as well as CDPH's response and Corrective Action Plan (CAP).
5. Provide DWSRF funding to PWS for the installation of new water meters in order to promote the DWSRF Green Project Reserve.
6. Provide at least 15 percent (15%) of all DWSRF funds to PWS serving fewer than 10,000 people to the extent such projects are "ready to proceed" to funding.
7. Provide \$260 million in DWSRF funding to planning and construction projects, as identified on the 2013 Fundable and Comprehensive Lists (Appendix C) by June 30, 2014 and an additional \$96 million by September 30, 2014 for a combined total of \$356 million.
8. Achieve a set-aside ULO of not less than 70 percent (70%) of cumulative total set-aside funds received by June 30, 2014.
9. Disburse a cumulative total of \$321 million DWSRF project funds during the period beginning with July 1, 2012 and ending June 30, 2014.
10. Fully reconcile and updated USEPA's National Information Management System with CDPH's DWSRF funding information by May 31, 2014.
11. Work closely with PWS in the early stages of their project development to identify problems and evaluate alternatives in an effort to create a funding pipeline of high-priority public health projects that will make timely and efficient use of DWSRF funds.
12. Speed up CDPH's DWSRF application review process from the time the pre-application received to the funding agreement issuance.
13. Review policies, procedures and regulatory requirements, as well as State statutes and regulations and initiate any possible changes to increase program's flexibility in reducing and managing the project priority list (PPL).

- 14.** Enlist assistance from USEPA's contractor Northbridge to perform an external assessment of CDPH's DWSRF program to identify any management enhancements or changes of DWSRF project selection processes.
- 15.** Solicit input from stakeholders on further streamlining and expediting of the DWSRF project selection process.
- 16.** Conduct a Request for Proposal for a financial advisor and engage such financial advisor to assist CDPH in evaluating and preparing for the eventual sale of revenue bonds as a source of future State match funding.
- 17.** Reduce instances of noncompliance with drinking water standards and requirements by providing technical assistance to SWS that have significant SDWA violations.
- 18.** Continue outreach activities to ensure PWS are aware of and understand DWSRF assistance options and the loan application process by participating in funding fairs to publicize the DWSRF program.
- 19.** Improve outreach and public education by conducting California Technical Assistance Providers (CalTAP) Fairs.
- 20.** Continue to conduct quarterly cash flow modeling of the DWSRF to ensure the timely and expeditious use of funds while further integrating cash flow modeling tools with the project tracking functionality of USEPA's Loans and Grants Tracking System (LGTS).
- 21.** Begin the first phase of the web-enabling and user interface over-haul of LGTS through a feasibility study with Northbridge.
- 22.** Fully implement CDPH's new Legal Entity Formation Program to provide assistance to eligible communities in establishing a legal entity that can apply for DWSRF funding.
- 23.** Fully implement CDPH's new Consolidation Incentive Program.
- 24.** Fully implement CDPH's new emergency process.
- 25.** Revise and update CDPH's capacity development strategy.
- 26.** Continue to require PWS receiving assistance to complete TMF assessment.
- 27.** Increase the number of PWS conducting TMF tune-ups.
- 28.** Continue to implement CDPH's strategic goal for SWS to reduce the number of small CWS with MCL violations.

### C. Public Health/Environmental Results Goals

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

## IV. CRITERIA AND METHOD FOR DISTRIBUTION OF FUNDS

### A. Distribution of Funds Analysis

The SDWA provides each state with flexibility to determine how much of their grant should be used for infrastructure loans, disadvantaged assistance and set-aside activities. CDPH intends to use 23 percent (23%) of the FFY 2013 funds for set-aside activities. Many of the activities conducted under the set-asides enhance the TMF capacity of SWS as well as ensure the proper administration of the DWSRF program. CDPH is also committed to achieving certain set-aside ULOs as detailed in its CAP to USEPA's Notice of Non-Compliance, dated July 12, 2013 (Appendix B).

The SDWA allows up to 30 percent of a federal capitalization grant to be used for "disadvantaged" community subsidies. Subsidies may be provided in the form of loan principal forgiveness, negative interest rate loans, or grants. As previously mentioned, the 2013 Capitalization Grant requires states to provide at least 20 percent (20%), but not more than 30 percent (30%), of the funds to be made available for additional subsidization. Subject to certain loan affordability criteria as detailed below, CDPH intends to provide at least 20 percent (20%) as subsidy to eligible PWS that serve "disadvantaged" and "severely disadvantaged" communities for projects that represent California's highest public health priorities and are "ready to proceed" to funding.

### B. Disadvantaged and Severely Disadvantaged Community Program

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

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

### C. Small System Funding

CDPH currently dedicates a majority of its resources to assisting SWS in applying, qualifying and receiving DWSRF funding. As of June 30, 2013, approximately 65 percent (65%) of all funding agreements were directed to SWS. Additionally and to the extent CDPH has SWSs planning and construction projects that are “ready to proceed” to DWSRF funding, CDPH will provide no less than 15 percent (15%) of all available DWSRF funding to PWS that serve less than 10,000 people.

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

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

### D. Capacity Assessment

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

#### Technical Capacity

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

### Financial Capacity

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

### Managerial Capacity

To demonstrate managerial capacity, the water system must have personnel with expertise to manage the entire water system operation. CDPH reviews the applicant'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. CDPH will also review records to ensure that the PWS is staffed with a qualified water operator in accordance with the state's operator certification program.

## E. Consolidation

CDPH continues to encourage consolidation or regionalization of PWS that lack the capability or potential to be operated and maintained in a cost effective manner. By awarding additional points in the priority ranking criteria, CDPH entices water systems to consolidate and thus enable them to take advantage of the economics of scale available to larger PWS.

**Consolidation Incentive Program:** Additionally, in its continuing effort to promote consolidation as a cost-effective solution to public health concerns caused by PWS that do not meet safe drinking water standards, CDPH intends to utilize its PPL ranking criteria as a means of providing an incentive to encourage a PWS to agree to consolidate physically with one or more PWS with higher ranked project(s) (more serious health concern.) A PWS with a project ranked in a lower PPL category (less serious health concern) that agrees to physically consolidate a PWS with a higher ranked project could be re-ranked into the same PPL category as the PWS with the higher ranked problem. The higher ranking would offer the PWS two major incentives: 1) its project likely would be in a fundable category and invited to submit a full application, and 2) its project would be evaluated for grant funding based on the higher PPL category. The important benefit to a PWS, for which consolidation is the most cost-effective solution, derives from making that solution more immediately available because the PWS with which it wants to consolidate now has reason to participate in the consolidation.

In order to take advantage of these incentives, a PWS would need to demonstrate agreement between/among consolidating entities and would need to agree to submit an application when invited to do so. Additionally, unless consolidation is demonstrated to be the most cost effective solution for the PWS with the higher ranked problem and consolidation of the PWS with the higher ranked problem occurs as part of the funded project, the PWS with the project in a lower ranking is not eligible for funding. This requirement is intended to assure that the re-ranked projects proceed expeditiously to solve the most serious health-based problems on the PPL.

## F. Legal Entity Formation Assistance Program

This set-aside program is renamed to Legal Entity Formation Assistance Program, removing “Pre-planning” in its title which has been seen as causing confusion on the types of activities that may be considered eligible under the program. The term “Pre-planning” may imply broad varieties of activities and is not an accurate term to reflect what the program covers.

CDPH continues to utilize 2 percent (2%) of the FFY 2013 Capitalization Grant under Local Assistance set-aside to assist communities where homes, schools and businesses, obtain drinking water from domestic wells or surface water sources with violation(s) of primary drinking water standards, and are not currently served by a PWS. CDPH will make funding available to assist eligible communities with at least 15 homes in a defined geographical area to form a legal entity and eventually a CWS or become part of a nearby PWS. State small water systems (SSWS) (systems with 5-14 service connections) and individual homes/businesses may benefit under this program which is intended to facilitate the formation of a legal entity (new or expanded) encompassing at least 15 service connections and the creation of a CWS to serve the affected region or facilitate service to the affected region by an existing PWS. An existing PWS with violation(s) of primary drinking water standards, which would be an eligible problem for DWSRF financial assistance but lack ownership/control by a legal entity with authority to contract or otherwise act on behalf of the community it serves, may be eligible for the pre-planning funds to form a legal entity. The legal entity must have authority to own/operate a PWS and assess rates and charges for domestic water supply or have authority to agree to consolidate with an existing PWS.

While this set-aside program continues to be done on a pilot basis, CDPH believes that it is necessary in providing safe drinking water to the citizens of California. If successful, CDPH will likely continue to fund this program in the future with the Local Assistance set-aside each year.

## G. Establishing Project Priority

In accordance with federal requirements, all potential recipients for DWSRF funding must have their projects included on the PPL (Appendix D). In order for a project to be placed in the PPL, DWSRF applicant must submit the pre-application during an open period. CDPH will review, rank, and place the project in the appropriate ranking category based on the nature of the project. As the State’s primacy agency, CDPH sets the funding assistance priorities for California. Both federal and state laws require that CDPH develops a project priority ranking system to determine the priority order of projects to be funded through the DWSRF.

California’s project priority ranking criteria is designed based on the following:

- Health risk and compliance with SDWA
- Affordability and/or Consolidation
- Public water system type

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

**Affordability and/or Consolidation:** Bonus points are used in ranking projects within a category. The addition of bonus points will not move a project from one category to another. To the extent feasible, when a group of system is invited to complete the application for DWSRF funding, all systems within that category seeking funding that year are invited. CDPH factors in affordability by comparing the MHI of the community served by the proposed project to the statewide MHI level. Communities that are below the statewide average MHI level receive additional ranking consideration (Appendix E).

For purposes of ranking projects within a category, any project that includes consolidation of separate existing water system will receive additional ranking points. Consolidation points support projects that will provide reliability, efficiency, and economy of scale that can be achieved with larger water systems (Appendix E). This is often the best solution for small systems with significant TMF deficiencies.

**PWS type:** Because there is a relatively higher health risk associated with persons who drink the same water each over a period of time (accumulated exposure), community and non-transient non-community water systems are ranked above transient non-community water systems within a category and with the same bonus ranking points.

PWS submit pre-applications for the proposed projects. Those projects are ranked and placed on a comprehensive project priority list (Appendix C). CDPH will invite projects that are ranked high in the PPL to submit a full application. After evaluation of all application materials, CDPH develops the fundable list of projects, included in Appendix C. The fundable list includes the highest priority projects that have indicated they will be ready to proceed within the time period covered by this IUP.

## H. Tie Breaking Procedure

All projects within a category that have the same number of ranking points and are of the same PWS type are ranked in ascending order based on the population served by the water system with smaller population ranked higher.

## I. Establishing Fundable and Comprehensive Lists

In accordance with federal regulations, CDPH has developed a 2013-2014 Fundable and a Comprehensive Lists (Appendix C). The 2013-2014 Fundable List consists of both planning and construction projects that total approximately \$356 million, as required and detailed in the CAP. In accordance with the CAP, the projects on the 2013-2014 Fundable List are those planning and construction projects that CDPH believes will be “ready to proceed” to a funding agreement by September 30, 2014. The 2013-2014 Comprehensive List consists of those projects that CDPH

believes will be “ready to proceed” to a funding agreement sometime in the future and may be incorporated into the Fundable List if (1) they prove “ready to proceed” to a funding agreement by September 30, 2014, and (2) can replace an existing project on the 2013-2014 Fundable List that may prove “not ready to proceed” to a funding agreement by September 30, 2014. Due to federal deadlines relating to the obligation DWSRF funds, including those deadlines detailed in the CAP, projects on the 2013-2014 Fundable List that ultimately prove “not ready to proceed” to a funding agreement will be considered for funding consideration during SFY 2014-2015.

## J. Bypass Procedure/Readiness to Proceed

In order to fund the next eligible project, it may be necessary for CDPH to bypass an application for a project that is “not ready to proceed” to a funding agreement or does not meet all requirements for a funding agreement. The bypass process is essential for CDPH to meet its funding obligation deadlines; thereby assures that federal capitalization grant funds are fully committed. CDPH will notify applicants when their projects are, or will be, bypassed. Any project that is bypassed may return to the 2013-2014 Comprehensive List, will retain its position on the current PPL and may be eligible for the next funding cycle. Typical reasons for bypassing a project include the following:

- The applicant indicated on the pre-application form that they did not desire or will not be able to receive funding in the current funding year.
- Upon receiving an invitation from CDPH to submit a full application, the applicant notifies CDPH that they do not wish to submit an application at this time or that they cannot meet the application submittal deadline.
- The applicant fails to sign or return the statement of intent to submit an application by the deadline.
- The applicant fails to submit the full application by the deadline.
- The public water system is in “significant noncompliance” and the project is not designed to bring the system into compliance with the SDWA.
- The PWS does not meet the TMF capacity requirements. CDPH will give reasonable time for compliance and consider efforts to meet requirements.

In addition, projects that received invitations from CDPH and failed to respond to such correspondence by the deadline for two consecutive invitation rounds and projects that are bypassed for two consecutive invitation rounds will be placed on the “inactive” list until the PWS wishes to be considered for funding.

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

CDPH may amend the PPL and the IUP to include projects considered needed to protect public health or to meet emergency needs.

## K. Emergency Process

A PWS may submit a pre-application following an emergency event without having to wait for a Universal Pre-application Open period. An emergency event will be limited to a sudden or unexpected event which has occurred, is occurring or is an imminent threat, requiring immediate action to avoid or mitigate serious health effects to persons served by the PWS due to its inability to provide an adequate supply of safe drinking water to its service area. Events constituting an emergency include, but are not limited to, disruption or contamination of drinking water supplies caused by events such as fire, flood, earthquake, drought or other natural disasters.

If CDPH determines the project identified in the pre-application as an “emergency” project which will solve the problem caused by an emergency event, the “emergency” project will be ranked in the appropriate category and placed on the comprehensive DWSRF PPL. Invitation to submit a full application will be automatically extended for DWSRF funding for a cost effective long-term solution. Emergency projects will be subject to all applicable DWSRF requirements including environmental review. Emergency projects will be processed in the order their complete applications are received and in the same manner as other DWSRF projects in the pipeline.

## L. Application of Federal Cross-Cutters

To meet federal requirements, CDPH requires all applicants to complete a questionnaire related to federal cross-cutting authorities. CDPH reviews applicable cross-cutting activities which may trigger federal cross-cutting authorities such as Farmland Protection Policy Act, Coastal Zone Management Act, Wild and Scenic Rivers Act, US Forest Service land, wetlands, flood plain management, Federal Endangered Species Act, National Historic Preservation Act and Archaeological and Historic Preservation Act of 1974, Clean Air Act, Clean Water Act (Section 404) and Rivers and Harbors Act (Section 10), and Source Water Protection. As a federally designated state agency, CDPH will consult with the appropriate federal agency for consultation under any applicable federal laws. CDPH also maintains a technical staff providing coordination of Disadvantaged Business Enterprise and other non-environmental cross-cutters.

Projects supported with funds directly made available by USEPA capitalization grants (i.e., projects funded in amounts equaling the grant), sometimes known as “equivalency projects,” must fulfill the Federal cross-cutting requirements. State regulations direct CDPH to establish the threshold for projects subject to federal cross-cutting requirements in each IUP. This process enables CDPH to periodically set the size of systems and the cost of projects that will be exempt from federal cross-cutting requirements. Pursuant to this IUP, federal cross-cutting requirements will apply to projects for PWS that serve over 1,000 service connections and to all projects with a DWSRF cost greater than \$1,250,000, for invitation sent by CDPH in SFY 2013-2014. In limited instances, CDPH will utilize banked cross-cutters for projects that exceed the aforementioned thresholds with preference given to “disadvantaged” PWS and those projects necessary for CDPH to satisfy its obligation deadlines.

CDPH's Environmental Review Unit will recommend the use of banked cross-cutters based on the evaluation of environmental documents that the project will have no significant environmental impacts or a determination of no effect. Funding exempt from federal cross-cutting requirements is subject to the availability of funds in the California DWSRF which are not subject to such requirements, i.e., state match funds equivalency, repayment of DWSRF loans, and interest or penalties available in the DWSRF. All projects and activities funded with DWSRF funds are subject to federal anti-discrimination laws. CDPH includes standard provisions concerning these cross-cutting laws in all funding agreements and service contracts.

## V. FINANCIAL MANAGEMENT

### A. Sources and Uses of Funds

#### Federal Capitalization Grants

Including the 2013 Federal Capitalization Grant, CDPH will have received approximately \$1.54 billion in federal capitalization grant funding for both project loans and set-aside activities since the inception of the DWSRF program. See Table 2 below for the sources and uses of DWSRF funds, including CDPH's receipt of federal capitalization grants.

Additionally, USEPA provides for a payment schedule of the 2013 Capitalization Grant. Based upon CDPH's cash flow modeling and projected disbursements for SFY 2013-2014, CDPH has requested the following federal payment schedule from USEPA for the 2013 Capitalization Grant, as detailed in Table 1 below.

**TABLE 1: 2013 Capitalization Grant Payment Schedule**

FFY	DATE	AMOUNT	DESCRIPTION	SITE CODE
13	Award Date	\$3,150,800	4% Admin	DD
13	Award Date	\$1,575,400	2% SWSTA	DE
13	Award Date	\$7,089,300	10% PWSS	DF
13	Award Date	\$6,301,600	15% Local	DG
13	Award Date	\$60,652,900	Loan Fund	DA

Based upon a "Loan Fund" amount of \$60,652,900 for the 2013 Capitalization Grant as well as the associated State Match of \$15,754,000, the disbursement proportionality for the 2013 Capitalization Grant is 79.4%/20.6% (Federal/State). CDPH is currently exploring in its cash flow modeling whether to disburse the 2013 Federal Capitalization Grant and associated State Match funds at the prescribed ratio or if CDPH will disburse 100 percent (100%) of the 2013 State Match funding before disbursing any of the 2013 Federal Capitalization Grant. CDPH will notify USEPA Region 9 of how it intends to disburse the 2013 Federal Capitalization Grant as well as the associated State Match funding prior to disbursing such funds.

#### State Match Source

The SDWA requires states to provide a 20 percent (20%) match to the capitalization grants received from the federal government (State Match). For the 2013 Capitalization Grant, CDPH intends to secure its State Match through a short-term loan with California Infrastructure and Economic Development Bank (iBank). CDPH currently has approximately \$60 million in interest returns on existing project loans and intends to secure its State Match with such interest returns. CDPH will also provide evidence to USEPA Region 9 that the 2013 State Match has been deposited into the DWSRF loan fund prior to CDPH's use of the 2013 Federal Capitalization Grant.

### **Loan and Interest Repayment Sources**

CDPH has received approximately \$285 million in loan and interest repayments since the inception of the DWSRF program, and as of June 30, 2013, CDPH has committed almost all of the loan repayment and interest returns received by CDPH to planning and construction projects that are either currently underway or complete. For SFY 2013-2014, CDPH anticipates receipt of approximately \$43.8 million in loan repayments and interest returns.

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

Since the DWSRF program's inception, CDPH has executed 308 loans for a combined total of approximately \$1.75 billion. The total amount of funds received by the DWSRF for SFY 2013-2014, including the FFY 2013 grant, repayments, and interest earnings, and the intended allocation to each activity is presented in Table 2 below. As a result of available DWSRF funding and as detailed in the CAP, CDPH is targeting approximately \$260 million in funding commitments by June 30, 2014 and an additional \$96 million in funding commitments by September 30, 2014. CDPH has also received approximately \$135 million in set-aside funds for the administration of the DWSRF program and to assist small water systems achieve TMF capacity. The details of set-aside of funding are also described in Table 2 below.

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

TABLE 2: Sources and Uses of All DWSRF Funds

		Cumulative Total through 6.30.2013**	7.1.13-6.30.14* (This IUP)	Cumulative Total through 6.30.2014*
<b>SOURCES</b>				
	Federal Capitalization Grants (Loans + Set-Asides, including ARRA)	\$1,461,371,478	\$78,770,000	\$1,540,141,478
	State Match			
	<i>20% Capitalization Grant</i>	\$260,472,696	\$15,754,000	\$276,226,696
	<i>SPM Set-aside 1:1</i>	\$59,009,075	\$7,089,300	\$66,098,375
	Principal Repayments	\$171,960,693	\$35,536,040	\$207,496,733
	Interest Repayments	\$91,827,549	\$12,246,560	\$104,074,109
	Investment Earnings	\$13,032,035	\$500,000	\$13,532,035
	<b>Sources Total</b>	\$2,057,673,526	\$149,895,900	\$2,207,569,426
<b>USES</b>				
	<b>Loans</b>			
	Loans to Large Systems (>10,000 population)	\$1,496,791,471	\$321,493,026	\$1,818,284,497
	Loans to Small Systems (<10,000 population)	\$257,676,292	\$35,273,487	\$292,949,779
	Additional Subsidy	\$196,406,278	\$39,804,606	\$236,210,884
	<b>Set-Aide Funding</b>			
	Administration	\$53,845,092	\$3,150,800	\$56,995,892
	Small Water System Technical Assistance	\$24,792,655	\$1,575,400	\$26,368,055
	State Program Management			
	<i>PWSS Program</i>	\$11,906,064	\$7,089,300	\$18,995,364
	Local Assistance			
	<i>Capacity Development</i>	\$21,633,679	\$1,575,400	\$23,209,079
	<i>SWAP Support</i>	\$6,831,577	\$0	\$6,831,577
	<i>Legal Entity Formation</i>	\$1,707,160	\$1,575,400	\$3,282,560
	<i>Third Party Local Assistance Contracts</i>	\$0	\$3,150,800	\$3,150,800

\*Based upon current estimates

\*\*Based upon current reconciliation

## B. Financial Terms of Loans

### Non-Disadvantaged Community Loans

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

### Disadvantaged Community Loans

CDPH operates a "disadvantaged" community program for PWS that serve communities with challenging financial and socioeconomic conditions. The criteria used to establish that a community is "disadvantaged" are described in Section IV of this IUP. Under the DWSRF, eligible PWS that serve "disadvantaged" communities receive a zero percent interest loan rate. PWS that are owned by public agencies or non-profit water companies that serve "disadvantaged" communities may also receive some level of principle forgiveness if the PWS' average residential water rate exceeds the community's target consumer rate. Currently, the target consumer rate for a "disadvantaged" community is 1.5 percent (1.5%) of the PWS permitted service area's MHI. The level of principal forgiveness for a "disadvantaged" community loan is ultimately based upon a PWS' ability to afford such loan but is also limited per Table 3 below.

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

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

### Severely Disadvantaged Community Loans

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

### C. Loan Disbursements

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

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

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

Based upon CDPH's cash flow modeling, CDPH is projecting the following quarterly federal cash draw schedule, as detailed in Table 4. CDPH is also targeting a cumulative total of loan disbursements of \$321 million for the period beginning with July 1, 2012 and ending June 30, 2014.

#### TABLE 4: 2013 DWSRF Federal Capitalization Grant Draw Schedule

The following table represents CDPH's anticipated federal draw schedule for SFY 2013-2014. It's anticipated that CDPH will draw the following federal funds from the 2008/2009 Federal Capitalization Grant as well the 2010 Federal Capitalization Grant. The proportionalities for such draws are included in the table below.

Federal Fiscal Year	2014				
Federal Quarter	Q1	Q2	Q3	Q4	TOTAL
State/Federal Local Assistance	18.75%/81.25%	18.75%/81.25%	18.75%/81.25%	18.75%/81.25%	
Federal Local	27,332,787	24,402,272	31,163,960	24,310,841	107,209,859
State Match Draw	6,307,566	5,631,294	7,191,683	5,610,194	24,740,737
Federal Set-Aside	3,750,000	3,750,000	3,750,000	3,750,000	15,000,000

## VI. SET-ASIDE ACTIVITIES

The SDWA allows each state to set aside up to 31 percent (31%) of its federal capitalization grant to support various drinking water programs including administration, water system capacity development, technical assistance, state program management and special activities. For SFY 2013-2014, CDPH plans to use a total of \$17,329,400 of federal funding (22 percent of the 2013 Capitalization Grant) for set-aside activities. CDPH will submit detailed work plans to USEPA for approval before we expend these funds and will report on the progress of set-aside activities to USEPA in annual performance status reports. For our multi-year contracts with third-party assistance providers, we will fund the contract each year through that year's set- asides only. CDPH also intends to apply for any banked set-aside funds that have not been fully used in previous years if needs for those funds arise.

### A. DWSRF Administration

<b>Max Allowed:</b>	4%	
<b>Taken from FFY 2013 Grant:</b>	4%	(\$3,150,800)

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

A portion of the Administration set-aside funds positions of the Fiscal Support Team in the Accounting Section of the CDPH Administration functional area. This team provides the point of contact with the State Controller's Office. In addition, the administration set-aside supports several information technology positions and activities to assist with maintenance and enhancement of data management resources necessary for program management. The Administrative Workplan for SFY 2013-2014 contains detailed information about Administrative set-aside resource utilization and goals.

### B. Small Systems Technical Assistance

<b>Max Allowed:</b>	2%	
<b>Taken from FFY 2013 Grant:</b>	2%	(\$1,575,400)

These funds will be used to provide technical assistance to SWS. There are more than 7,300 of California's 7,700 PWSs that are SWSs, serving populations of less than 10,000. However, this set-aside for SWS emphasizes the 1,900 community water systems serving less than 200 service connections.

The Sciences and Environmental Services Section implements the followings to assist small water systems:

- Maintain an “Assistance Referral Database” to prioritize and assign assistance requests and track third party contract deliverables.
- Manage the services provided by third party contractors.
- Conduct annual meetings with the technical assistance providers (CalTAP) to provide opportunity to identify and implement more effective and meaningful methods of providing technical assistance to smaller and disadvantaged water systems.
- Provide technical assistance to SWSs pursuing DWSRF funding in preparation of state and/or environmental documents.
- Advise local primacy agencies on how to provide technical assistance to SWSs that have significant violations of the primary drinking water standards.
- Ensure that the LPAs are verifying that SWSs under their regulatory jurisdiction are in compliance with TMF requirements and implementing the resources available to SWSs to help improve TMF capacity where needed.

The Workplan for SFY 2013-2014 contains detailed information about this set-aside.

### C. State Program Management

<b>Max Allowed:</b>	10%	
<b>Taken from FFY 2013</b>	9%	(\$7,089,300)
<b>State match:</b>		(\$7,089,300)

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

#### PWSS Program

**FFY 2013 Grant/State Matching Funds:** \$14,178,600

CDPH will use funds from this set-aside to support PWSS activities. CDPH will increase the frequency of inspections and surveys of smaller water systems, evaluate treatment and infrastructure improvement needs, review plans and specifications in relation to and for conformance with treatment requirements, assist managers and operators of PWS with compliance, and enhance emergency preparedness and terrorism/disaster response preparedness of CDPH and PWS. CDPH will also use the funds to enhance our data management and reporting capabilities. Specifically, CDPH will distributing approximately \$5 million dollars among 31 LPAs in the form of grant funding agreements to provide specific deliverables relating to data updates in the State Drinking Water Information System as well as to fund the operational requirements set forth in new LPA delegation agreements relating to the regulation of small PWS within the LPA’s jurisdiction.

#### D. Local Assistance and Other State Programs

<b>Max Allowed:</b>	15%	
<b>Taken from FFY 2013</b>	8%	(\$6,301,600)

Funds for this set-aside will be used to support the implementation of local drinking water protection initiatives, including evaluating regional solutions, conducting sustainability audits and legal entity formation assistance. Federal regulations state that no more than 10 percent (10%) of the federal capitalization grant can be allotted to any one of these activities.

##### **Legal Entity Formation Assistance Program**

**FFY 2013 Grant:** 2% (\$1,575,400)

Funding from this set-aside will assist communities where homes, schools and businesses, obtain drinking water from domestic wells or surface water sources with violation(s) of primary drinking water standard, and are not currently served by a PWS. The primary focus of this set-aside is to explore potential legal entity that would have the necessary authority to undertake the DWSRF planning and/or construction project to solve the drinking water problems of the affected community. The expected outcome of this set-aside assistance would be the following:

- The identification and creation of a new legal entity (governing body).
- The identification of an existing public water system which could extend service. The fund would pay for cost to bring the community in the public water system's sphere of influence.
- The identification of an appropriate regional governing authority for the affected area, including the steps to modify or expand, or create the identified legal entity.

This set-aside fund is designed to be used for activities or purposes that otherwise cannot be funded through the DWSRF planning/construction funding. It is to "fill the gap" for projects that are not able to move into planning or construction funding; and to assist communities with identified public health problems, that are not currently eligible for DWSRF funds due to the lack of a governing entity with the necessary authority to enter into contract with the state.

Since this is a new concept that was recently adopted in the amended SFY 2012-2013 IUP, the process might be modified in the future based on lessons learned from the first year of implementation. In the meantime, CDPH will continue with the current process by setting the same goal for funding of up to \$250,000 per grant proposal per affected community per capitalization grant set-aside. Applicants may apply for multiple grants over multiple years; however, the total funding for the same affected community will be limited to \$1,000,000. CDPH will continue to assess the needs for this program and adjust the funding limits applicable to each capitalization grant set-aside accordingly.

### Third Party Contractors

**FFY 2013 Grant:** 4% (\$3,150,800)

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

- Assist in preparing preliminary engineering, funding application, required documents for a DWSRF loan, and navigating the DWSRF loan process.
- Develop and conduct training workshops covering all aspects of water system operation and maintenance and legal responsibilities of water system board members.
- Develop and conduct workshops for the treatment of arsenic and nitrate.
- Conduct Income Survey to determine the community's median household income.
- Conduct water rate study.
- Participate in networking and outreach events to increase water system 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 increased 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 public water systems.
- Assist SWSs with the submittal of claims and processing of payments to contractors for planning and infrastructure improvement projects funded by CDPH.

### Water System TMF Capacity Development

**FFY 2013 Grant:** 2% (\$1,575,400)

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

CDPH plans to continue the use of third-party contractors who offer personnel with specialized SWS expertise to assist SWS in developing their TMF capacities. These third-party contractors provide supports such as developing and conducting workshops relating to the TMF elements and SWS operator training, conducting income surveys, conducting rate studies, and performing on-site consultation to systems in need of TMF capacity.

CDPH also has a contract with the University of California, Davis – Center for Affordable Technology for Small Water Systems (UCD) to provide preliminary engineering assistance to small PWS that lack the funds and expertise to obtain these services on their own. UCD's activities are as follow:

- Prepare preliminary engineering reports for small disadvantaged water systems. This activity helps moving projects through funding process.
- Research to investigate potential solutions and/or treatment technologies to address the challenges that SWSs are facing with new arsenic and surface water regulations, and growing nitrate problems throughout California.

Last year, CDPH identified a list of small community water systems with fewer than 1,000 service connections that are in violations of at least one health-based drinking water standard. CDPH developed an implementation plan that would raise the compliance rate for these SWS to match the compliance rate for large water systems. CDPH will continue our effort in the following activities:

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

## VII. PUBLIC PARTICIPATION

### DWSRF Policy Committee and Stakeholders

CDPH will convene the internal DWSRF policy committee quarterly to discuss program progress and potential modifications. In addition, CDPH holds an annual round-table meeting with stakeholders to evaluate current program or potential modification of the program structure or resource utilization. Stakeholder group includes representatives from small and large public water systems, LPAs, Environmental Justice groups, and other interested parties. Topics recommended for consideration include ranking and bonus point criteria, strategies to increase funding to small and disadvantaged public water systems, and set-aside activities.

### Public Hearing and Comment Activities

To ensure that the public had an opportunity to review our proposed plans for the DWSRF, the draft 2013-2014 IUP, the PPL and the Fundable List were made available 30 days for public review and comment. Public hearing was held on the last day of the review period. To ensure that interested parties were made aware of the public meeting dates, CDPH published announcements on its website (<http://www.cdph.ca.gov/services/funding/Pages/SRF.aspx>) and notified them via emails.

CDPH welcomed input on all elements of the IUP either through written comments or at the hearing. The hearing provided a forum for discussing the overall purpose, format and content of the IUP including the types of assistance being provided through the DWSRF loan account and set-aside account, the long- and short-term goals of the program, the priority system used to rank individual projects and the proposed list of projects to receive funding from SFY 2013-2014 funds. Issues that arose at the public hearings and in written comments were discussed in depth in Appendix F.

### SWS Technical Assistance

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

## VIII. AUDITS AND REPORTING

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

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

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

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

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

## **IX. ASSURANCES AND CERTIFICATIONS**

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

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

### **The State will comply with State Statutes and Regulations**

California’s statutory basis for the DWSRF is set forth in Sections 116760.20 through 116762.60 of the California Health and Safety Code (H&S Code). With only minor differences, the State statute parallels the federal law and requirements. Therefore, the federal law and the DWSRF program guidelines and regulations of USEPA generally govern the conduct of the California program. To aid in implementation of this authority, CDPH has adopted DWSRF program regulations, which are set forth in Sections 63000 through 63058 of the California Code of Regulations.

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

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

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

The State of California provides the 20 percent (20%) State match through a short-term loan with California Infrastructure and Economic Development Bank (iBank). A total of \$15,754,000 is earmarked to provide for the State Match for the 2013 Federal Capitalization Grant. CDPH will also provide evidence to USEPA Region 9 that the 2013 State Match has been deposited into the DWSRF loan fund prior to CDPH’s use of the 2013 Federal Capitalization Grant.

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

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

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

In addition to the 20 percent (20%) match for the overall Grant, CDPH will provide a 100 percent (100%) match for dollars spent on any of the 1452(g)(2) activities as required. This match will be provided by CDPH with 50 percent (50%) will come from allowable "credit" for FFY 1993 expenditures. This credit has been documented previously. The other 50 percent (50%) will be provided by the 1:1 match from the PWSS Overmatch.

**The State will use Generally Accepted Accounting Principles**

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

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

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

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

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

CDPH has developed policies and procedures for ensuring that borrowers have a dedicated source of revenue and that privately-owned systems have adequate security. These policies and procedures are discussed in the CDPH DWSRF project loan guidelines. CDPH processes DWSRF invoices and payments. The forms are available for easy access on the CDPH website. In addition, CDPH staff holds training for claims several times per year to assist water systems, and are available to answer claims questions each workday.

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

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

**Funds will be used in accordance with the IUP**

The IUP directs the manner in which the Capitalization Grant will be used. The IUP underwent public review and comment so that each component could be considered prior to developing the final IUP. All comments are summarized in the final IUP (Appendix F).

**The State will provide EPA with a Biennial Report**

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

**The State will comply with all Federal cross-cutting authorities**

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