California Department of
Public Health

Safe Drinking Water State Revolving Fund

Draft Intended Use Plan

SFY 2010-2011

DWSRF Grant Application for

FFY 2010 Federal Allotment

August 2010

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Note – the State reserves the right to amend the Intended Use Plan and related appendices at any time without notice or opportunity to review if the amendment is necessary to effectively implement the California Safe Drinking Water State Revolving Fund program. Any necessary amendments will be reflected and explained in the Annual Report. Revisions to the Intended Use Plan, if needed, will be posted at the CDPH website: http://www.cdph.ca.gov/certlic/drinkingwater/

Note -- As used in this Intended Use Plan as well as all appendices, the terms “loan principal forgiveness” or “forgiveness of principal” refer to a “grant” as that term is used in California SDWSRF law and regulations, and are intended to be distinguishable from additional loan subsidization offered in the form of a negative rate of interest applied over a loan repayment term.

I. INTRODUCTION

A. Background

In California, the responsibility for regulating public water systems and overseeing the safety of drinking water rests with the Department of Public Health (CDPH). CDPH is designated as the "primacy agency" by the United States Environmental Protection Agency (USEPA) for purposes of implementing and enforcing the federal Safe Drinking Water Act (SDWA). CDPH regulates some 7,800 public water systems located throughout the State. To assist in this effort, CDPH delegates to 33 of the 58 counties responsibility for enforcement of the State drinking water requirements for public water systems serving less than 200 service connections. The CDPH Drinking Water Program also promotes and provides information on drought preparedness and water conservation; oversees water recycling projects; certifies residential water treatment devices; certifies drinking water treatment and distribution operators; supports and promotes water system security; provides support for small water systems and for improving technical, managerial, and financial (TMF) capacity; and provides funding opportunities for water system improvements.

The 1996 amendments to the federal SDWA responded to that national need by establishing the Drinking Water State Revolving Fund program (DWSRF). The SDWSRF provides financial assistance in the form of Capitalization Grants to states to provide low interest loans and other assistance to public water systems. States must have statutory authority and must provide a state match equal to 20% of the federal Capitalization Grants.

The federal and state laws allow a portion of federal funds to be used for specified activities in addition to providing financial assistance to public water systems for infrastructure improvements. CDPH intends to utilize 18% of the FFY 2010 DWSRF allotment award for set aside activities not directly providing funding for water system projects. The remaining 82% of federal funds, plus all state matching funds, and all interest and repayments will be used for project funding.

To receive funding approval from the USEPA, the State submits a Capitalization Grant application and an Intended Use Plan (IUP), which describes the State plan for utilization of the program funding. Federal guidelines, and related state statute, require that the IUP include a description of how the program is structured, the planned use of the funds, the criteria, and methods to be used to distribute the funds, the goals for the program, and a specific project priority list. The California IUP presented herein is prepared and submitted in compliance with those requirements.

B. Program Structure

The California SDWSRF program is administered and directed by CDPH. CDPH staff conducts many of the activities associated with implementation of the SDWSRF program. CDPH contracts with other State and local agencies and independent contractors for specific activities. Through an interagency agreement (contract), the California Department of Water Resources (DWR) provides assistance in administering the local financial assistance portion of the SDWSRF program. DWR (1) conducts a financial review of project applications, (2) evaluates the ability of the applicant to repay the loan, (3) recommends the amount of loan subsidy, if any, and (4) establishes the financial the terms and conditions of loan contracts. In this context, DWR prepares notices of application acceptance as directed by CDPH, and prepares funding agreements as authorized by CDPH. During project

construction, DWR reviews and processes claims submitted by funding recipients, and concurs in authorization of disbursements to funded projects. DWR maintains a record of disbursements on loans, and prepares semiannual billing notice information for CDPH.

The SDWSRF program is managed by the Technical Programs Branch chief within the CDPH Division of Drinking Water and Environmental Management. The branch chief serves as the program manager, and, with input from other branch managers, provides direction and coordination of various aspects of the SDWSRF program and assurance of compliance with federal cross-cutters. The branch chief is also responsible for assuring statewide consistency in the implementation of the program. The ranking of projects for the priority list, and the management of individual projects (technical review of applications, approval of plans and specifications, construction inspections, etc.) is the responsibility of CDPH drinking water field operations district offices, assisted by regional funding coordinators.

II. INTENDED USE OF SDWSRF FINANCIAL ASSISTANCE FUNDS

A. State Matching Funds

The State of California provides the required 20% State match through the sale of State General Obligation bonds authorized by the Legislature and approved by the voters. A total of $25,391,600 is earmarked to provide for the state match for the federal grant award for the FFY 2010 DWSRF allocation. State funds are made available, as payment is required for invoices related to project funding agreements entered in to from the FFY 2010 DWSRF grant award. Consistent with federal requirements, all state matching funds are allocated to the SDWSRF loan fund.

B. Proposed Uses

The State of California was allocated $126,958,000 from the FFY 2010 DWSRF funding. CDPH plans to use the FFY 2010 capitalization grant for various activities as listed in Table 1. A new activity for this year is the local assistance program. CDPH uses 5% set-aside or $6,347,900, to assist some disadvantaged communities that would otherwise be unable to fully fund a project needed to meet primary drinking water standards and reliability. Description of each of these activities and its goals is detailed in Sections IV and V.

Including the $25,391,600 of state matching funds, a total of $129,065,503 will be transferred to the SDWSRF loan funds. In addition, during SFY 2010-2011, an estimated $430 million in prior year grants and repayments (principal and interest) will be available for re-obligation. The total loan funds available for project funding will be approximately $560 million.

CDPH acknowledges that the fund utilization rate for DWSRF must be improved. CDPH, with additional flexibility provided from the passage of Assembly Bill AB 1438 in 2009, has implemented changes in DWSRF procedures that will allow the State to increase its fund utilization rate, and to better assist small water systems and disadvantaged communities in getting through the funding process. AB 1438 expanded the funding limit and the purposes for which DWSRF planning funds could be used.

To improve a fund utilization rate to 80% by June 30, 2011, an estimated $281 million will have to be in executed funding agreements (Table 2). CDPH has identified a fundable list of projects (Appendix C) with total requested funding of $262 million. These projects have gone through the ranking and selection process as described in Section VI and are deemed most ready to proceed. Furthermore, the Green Project Reserve List, discussed in detail in Section II.C.1, will add at least $25 million for the target pace of 80% to be achieved.

Table 1: FFY 2010 DWSRF Allocation Funds and Intended Uses of Funds		
CATEGORY	Sources of Funds	Intended Use (Projected)
Federal Capitalization Grant FFY2010	$126,958,000	
Set-aside programs		
Program Administration (4 %)		$5,078,320
Capacity Development (3 %)		$3,808,740
Small Water Systems Technical Assistance (2 %)		$2,539,160
State Program Management Activities (4.34 %)		$5,509,977
Local Assistance Set-aside (5 %)		$6,347,900
State Match (20 %) for FFY2010	$25,391,600	
Balance of Federal & State funds to SDWSRF Loan Fund (FFY2010)		$129,065,503
Total SDWSRF Funds (federal and state) for FFY2010	$152,349,600	$152,349,600

Table 2: Total Available DWSRF Funds and Target Pace		
CATEGORY	Sources of Loan Funds	Intended Use (Projected)
Total funds committed as of June 30, 2010 (a)	$988,020,610	
Funds available from prior years and repayments as of June 30, 2010 in SDWSRF Loan Fund (b)	*$430,448,245*	
Balance of Federal & State funds to SDWSRF Loan Fund (FFY2010) (c)	*$129,065,503*	
Total SDWSRF Loan Funds available for Project funding (b+c)	$559,513,748	
Funds to be obligated by June 30, 2011 to meet Target Pace of 80% of total loan funds [(a+b+c)*0.8 – a]	$281,000,000	
Total Projects in Fundable List		$262,000,000
Green Project Reserve List		>= $25,391,600

C. New Requirements for FFY 2010

1. Green Project Reserve (GPR):

   The provision in the 2010 Appropriation Bill requires that, to the extent there are sufficient eligible project applications, not less than 20% of the funds provided must be used for water or energy efficiency, green infrastructure, or other environmentally innovative activities. To meet the GPR requirement of 20% of the FFY2010 grant or $25,391,600, CDPH has separately identified a list of water meter projects (Appendix D) in the 2010 SDWSRF PPL that may be funded. These water meter projects are categorically eligible for GPR. CDPH intends to invite water meter projects in category H with at least 20 bonus points for a total of $44 million in late Fall 2010 for funding. In the event that some of these projects do not meet "Ready to Proceed" criteria, CDPH will invite more water meter projects from this list for funding until the GPR requirement is met.

2. Additional Subsidies:

   The additional subsidy provision in the Appropriation Bill requires that not less than 30% or $38,087,400 of the funds made available be used by the State to provide additional subsidy to eligible recipients in the form of principal forgiveness. State law limits the maximum amount of principal forgiveness to 80% of the total project cost. Therefore, to meet the additional subsidies requirement, State plans to fund at least to $47.6 million projects of disadvantaged communities. The Fundable Project List (Appendix C) includes projects that are identified as disadvantaged with the estimated amount totaling to approximately $36 million. In addition, the GPR projects ($44 million total), identified in Appendix D, are likely disadvantaged and will be provided additional subsidies in accordance with criteria described in Section VII.

3. Davis-Bacon Requirements:

   The provision in the Appropriation Bill requires that Davis-Bacon Wage Act Requirements be applied to FFY 2010 DWSRF funding. CDPH has included Davis-Bacon requirements language in all funding agreements, and service contracts. In addition, CDPH provides Construction Bid Guidance to ensure compliance with this provision.

III. TYPES OF PROJECTS TO BE FUNDED BY SDWSRF PROGRAM

A. Eligible Systems

Community water systems, both privately and publicly owned and non-profit non-community water systems are eligible for SDWSRF financial assistance. Systems providing water for human consumption through constructed conveyances that have become subject to the SDWA due to the change in the federal definition of a public water system in the 1996 SDWA are also eligible for SDWSRF funding. Federally owned water systems are not eligible for SDWSRF financial assistance from the State of California. Public water systems located on Indian reservations are not eligible for SDWSRF financial assistance from the State of California, but are eligible pursuant to SDWA Section 1452(i) for grant funding from the USEPA for water system improvement projects.

The SDWSRF may not provide any type of assistance to a system that lacks the TMF capability to maintain SDWA compliance, unless (1) the owner or operator of the system agrees to undertake feasible and appropriate changes in operation, and (2) the use of the financial assistance from the SDWSRF will enable compliance with TMF requirements over the long-term. For further information on how capacity development is enhanced through the SDWSRF, please refer to Section V, Part C, Water System TMF Capacity Development Program.

B. Eligible Projects

All eligible projects must facilitate compliance with national or State primary drinking water regulations or further the health protection objectives of the SDWA. The projects eligible by the SDWSRF loan program include those listed below:

1. Compliance with primary drinking water standards and related public heath objectives
2. Projects to Replace Aging Infrastructure to enhance long term reliability of drinking water infrastructure
3. Projects to Provide Treatment to meet drinking water standards and optimize water quality
4. Consolidation of water systems: improve the safety of public water supplies by enabling non-compliant systems that lack necessary TMF capacity to maintain compliance with the SDWA to consolidate with another water system that is in compliance with the SDWA.
5. Water, Energy Conservation and Security: SDWSRF can fund components to enhance the benefit of the needed project by including meters to encourage water conservation, energy conservation and reliability (e.g. auxiliary power and green power), and security (e.g. SCADA).
6. Land Acquisition - Acquisition of land is only eligible if it is integral to a project that is needed to meet or maintain compliance or further the public health protection of the SDWA.
7. Planning and Design of a Drinking Water Project – Projects to assist a water system with the costs of planning, design and other related costs to get a drinking water project ready for construction. The State SDWSRF regulations allow a planning loan of up to $500,000, and to allow a principal forgiveness component for planning projects.

C. Activities Intended to be funded from the Accounts for Set-aside Programs

Separate accounts have been established for financial support and accounting of the following set-aside programs: (1) Administration; (2) Water System TMF Capacity Development; (3) Small Water Systems Technical Assistance; (4) State Program Management- Public Water System Supervision (PWSS) Related Activities; and (5) Local Assistance Program. More details on these set-aside programs are described in Section V.

IV. DWSRF LOAN PROGRAM DESCRIPTION AND GOALS

The California SDWSRF funding system utilizes a comprehensive multi-year Project Priority List whereby (1) public water system projects addressing public health risk problem, (2) public water system projects needed to comply with the SDWA, and (3) projects assisting public water systems most in need on a per household affordability basis, receive higher funding priority than other eligible public water system projects. In addition, as required in the FFY 2010 federal appropriation; (4) "Green Projects" receive funding equivalent to at least 20% of the federal grant award, (5) disadvantaged community projects receive funding subsidization equivalent to 30% of the federal grant award.

A. California SDWSRF Long Term Goals

1. Ensure that all public water systems provide an adequate, reliable supply of safe, clean drinking water and achieve and maintain compliance with the SDWA

   CDPH utilizes the resources of the SDWSRF fund for low interest loans and, in some cases, principal forgiveness ("grants") to enable water systems to fund necessary infrastructure improvements. CDPH manages the SDWSRF resources to fund projects to ensure that public water systems are able to provide an adequate, reliable supply of safe clean drinking water in conformance with federal and state standards. The SDWSRF project ranking process ensures that program resources and funds are applied to the most significant public health and compliance problems.

2. Ensure that the SDWSRF funds are available in perpetuity to all California public water systems.

   CDPH effectively monitors and manages the fund to ensure that it remains financially viable and self-sustaining over the long term as an ongoing source of water system funding to assist public water systems in achieving and maintaining compliance with the SDWA.

3. Reduce Cost of Drinking Water

   SDWSRF funding helps water systems minimize cost of supplying reliable, safe drinking water by providing affordable financing for the construction of technically sound drinking water infrastructure projects. Water systems are encouraged to include energy efficiency and water conservation measures, including water meters, in conjunction with SDWSRF projects. Water meters encourage the conservation of water, and thereby produce savings related to avoided costs of production, treatment, storage and pumping. Additionally, SDWSRF encourages the consolidation or regionalization of small public water systems that lack the capability or potential to be operated and maintained in a cost effective manner by prioritizing consolidation projects and assisting the applicant systems through the funding process. The SDWSRF regulations include provisions to facilitate funding of consolidation projects.

B. California SDWSRF Short Term Goals

1. California will increase the federal measurement of program pace or fund utilization rate from 57% achieved through June 30, 2009, to 80% by June 30, 2011, and to be on parity with the national goal by June 30, 2012. Details on how California will meet this challenge are described in Proposed Uses, Section II. Part B.

2. Provide 30 percent of the 2010 Capitalization Grant as loan subsidy to eligible recipients.

3. Provide at least 20 percent of the 2010 Capitalization Grant to Green Infrastructure, Water and Energy Efficiency projects.

4. Provide at least 15 percent of the funds to systems serving fewer than 10,000 people.

5. Maintain the availability of State Matching Funding for future grant awards
   The State Matching Funding provided by Proposition 84 will be fully allocated to meet the FFY 2011 allotment. SDWSRF program managers are working CDPH management to identify options for providing state match for future federal grant awards and will take needed actions to provide state matching funding on an ongoing basis as part of an effort to maintain the SDWSRF funds availability in perpetuity.

C. USEPA Strategic Plan Goals & Objectives Commitments

The California DWSRF program supports the National USEPA Strategic Plan Goal 2 (Clean and Safe Water), Objective 1 (Protect Human Health), Sub-objective 1 (Water Safe to Drink) listed below. 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 Safe Drinking Water Act requirements. California DWSRF activities support USEPA Program Reporting Measure SDW-4 Fund Utilization and SDW-5 DWSRF projects that have initiated operations.

All planned and prior year loans have assisted public water systems in meeting the federal and state drinking water compliance requirements. Details of California's DWSRF activities supporting the National USEPA Strategic Plan will be included in the DWSRF Annual Report as well as in the Drinking Water National Information Management System (DW NIMS) and the Drinking Water Project Benefit Reporting (PBR).

Measure	Measure Text	National Target	California FY-09	California FY-10	California FY-11
SDW-4	Fund utilization rate [cumulative dollar amount of loan agreements divided by cumulative funds available for projects] for the DWSRF	Target 89%	Actual 57%	Target 75%	Target 80%
SDW-5	Number of DWSRF projects that have initiated operations (cumulative)	Base 5,526 ARRA 200 Total 5,726	111	130 5 135	150 40 190

V. DWSRF SET-ASIDE PROGRAM DESCRIPTION AND GOALS

The federal SDWA provides for a variety of activities to be funded from the SDWSRF using "set-aside" funds to be deposited into separate accounts. CDPH will utilize 18% for set-aside programs. Funds from the FFY 2010 DWSRF award will be used as follows: (1) 4% for administration of the SDWSRF program, (2) 3% for water system capacity development, (3) 2% for technical assistance to small water systems, (4) 4.34% for public water system supervision (PWSS) program management and (5) 5% for local assistance for invited projects benefiting disadvantaged communities. Following is a description of each of the proposed set-aside programs along with its long-term and short-term goals.

A. Administration Set-aside

The full cost of administering the Fund, including the development of the priority list, the review and processing of applications from local agencies, management and oversight of individual projects, management of contracts with cooperating agencies, all accounting and legal costs are funded by this set-aside. Public water systems are not billed for time expended in reviewing and processing applications, although this is allowed by state statute (H&S Code Section 116565).

CDPH will use the 4% or $5,078,320 allowed for the administration set-aside funding to support staff within CDPH and to cover the costs of the interagency agreements with DWR and the external audit contract. CDPH utilizes a detailed time-accounting system to track hours devoted by staff to the SDWSRF program elements. This time accounting system forms the basis for personnel costs drawn from the set asides for SDWSRF administration, capacity development, technical assistance and PWSS program.

A portion of the Administration set aside is used to fund positions of the SDWSRF Fiscal Support Team in the Accounting Section of the CDPH Administration functional area. The SDWSRF Fiscal Support Team coordinates closely with the SDWSRF program manager, and with DWR. The Fiscal Support Team provides the point of contact with the State Controller's Office, and may consult on matters related to the sale of State bonds providing state matching funds. In addition, CDPH utilizes SDWSRF administrative funds to support several data management positions and activities to assist with maintenance and enhancement of data management resources necessary for program management. The Administrative Workplan for SFY 2010-2011 contains detailed information about Administrative set aside resource utilization and goals.

Short-Term Goals:

- Effectively and efficiently, manage the operation of the SDWSRF program to meet target program pace.
- Actively participate in the 2011 DW Infrastructure Needs Survey Assessment to ensure that all community water systems' needs in California are adequately captured and documented.

B. Water System TMF Capacity Development

CDPH intends to allocate 3% or $3,808,740 of the FFY 2010 federal award to support TMF capacity development activities. These funds will be used to continue the capacity development efforts including the assessment of existing public water systems. The CDPH capacity development strategy is currently being revised and updated to meet program goals..

Water system capacity is defined as the technical, managerial, and financial (TMF) elements that could enable a system to provide safe and reliable drinking water that meets all standards. By assisting systems 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 sustained.

CDPH plans to continue the use of third-party contractors who offer personnel with specialized small water system expertise to assist small water systems in developing their TMF capacities. These third-party contractors will present workshops throughout the state regarding the TMF elements. They will conduct median household income surveys for potentially disadvantaged small water systems when directed by CDPH. In addition, third-party contractors will provide technical assistance directly to small water systems that have been referred by the regulatory staff. These specialists will provide on-site consultation customized to the water system's specific needs with regard to the development of TMF capacity.

CDPH also provides preliminary engineering assistance through U.C. Davis "Center for Appropriate Technology for Small Water Systems". The contract will provide engineering services to small systems that lack the funds and expertise to obtain these services on their own. Preliminary engineering reports will be provided for identified high priority small and disadvantaged systems projects to move them through the funding process. UC Davis provides research to investigate potential solutions and /or treatment technologies to address the current regulatory challenges facing small water systems with the new arsenic regulations, surface water regulations and the growing nitrate problems throughout the state.

Short-Term Goals:

- Revise and update the capacity development strategy
- Conduct 30 TMF assessments

C. Small Water System (SWS) Technical Assistance Set-aside

There are 7,300 of California's 7,700 water systems that are SWS serving populations of less than 10,000. CDPH intends to utilize the full 2% or $2,539,160 of the FFY 2010 federal award to provide technical assistance to these SWSs. The process developed by CDPH to provide technical assistance to California's small water systems is outlined in the related workplan. This program is directed at SWSs with much of the emphasis given to the 1,000 community water systems serving less than 200 service connections.

The SDWSRF maintains an "Assistance Referral List." Systems are placed on this list by CDPH Drinking Water Program field staff and LPA staff. Systems are then provided specific assistance by SDWSRF small water system specialists or via SDWSRF sponsored technical assistance provided by Rural Community Assistance Corporation (RCAC) and California Rural Water Association (CRWA). SDWSRF small water system specialists hold quarterly meetings with CRWA, RCAC, and other technical assistance providers, such as Sacramento State University. These meetings provide the opportunity to identify and implement more effective and meaningful methods of providing technical assistance to smaller and disadvantaged systems. The SWS Technical Assistance set aside Workplan for SFY 2010-2011 contains detailed information about Technical Assistance set aside resource utilization and goals.

Short-Term Goals:

- Reduce the instances of noncompliance with drinking water standards and requirements by providing technical assistance to SWS that have significant SDWA violations;
- Establish or improve the financial, technical, and managerial capability of the systems by providing training workshops and assistance in preparing preliminary engineering and funding documents;
- Improve outreach and public education by conducting two California Technical Assistance Providers (CalTAP) Fairs and at least one Arsenic Fair per year for the next two years.

D. State Program Management –Public Water System Supervision (PWSS) Program

CDPH intends to allocate $5,509,977 of the FFY 2010 federal award for PWSS related activities. In general, the funds will be used to increase the frequency of inspections and surveys of smaller water systems, to evaluate treatment and infrastructure improvement needs; the review of plans and specifications, particularly in relation to for conformance with treatment requirements; to provide technical assistance to managers and operators of public water systems; and to enhance emergency preparedness and terrorism/disaster response preparedness of CDPH and public water systems. CDPH will provide the "1 to 1" match through current PWSS overmatch and previous years' credit. The Program Management Administrative Workplan for SFY 2010-2011contains detailed information about Program Management set aside resource utilization and goals.

E. Local Assistance Set-aside

CDPH intends to allocate 5% or $6,347,900 of the FFY 2010 federal award for Local Assistance program. State law limits the maximum grant provided to disadvantaged community projects to 80% of total project cost. In many instances, some smaller, disadvantaged communities are unable to afford a 20% loan needed for a fully funded project. CDPH proposes that the Local Assistance program will provide the remaining project cost as grant funding to projects of these disadvantaged communities for successful funding of their projects by SDWSRF.

Short-Term Goal:

- Develop strategy with input from stakeholder to implement this set-aside.
- Use set-aside funds to assist disadvantaged water systems to proceed with their planning and construction projects.

VI. CRITERIA AND METHOD FOR DISTRIBUTION OF FUNDS

In accordance with federal requirements, all potential recipients for SDWSRF funding must have had their projects included on a statewide Project Priority List. In February 2009, CDPH advised all public water systems of the opportunity to submit projects for consideration of the American Reinvestment and Recovery Act (ARRA) funding. Pre-applications submitted for ARRA that were not selected for funding have been merged into the 2010 draft PPL. In addition, approximately 400 pre-applications for new or revised projects were received by CDPH during the July 2009 open pre-application period. Projects listed on the previous PPL remain on the draft 2010 PPL unless funded. CDPH developed a draft Project Priority List dated August 2010, which will be finalized in September 2010; this list will be used for obligating SDWSRF funds from the federal allocation addressed by SFY 2010-2011 IUP. The Draft Project Priority List to be used for the FFY 2010 allocation is attached as Appendix B.

Placement of a project on the priority list does not guarantee that a project will be funded. However, only those projects that are included on the priority list will be considered for possible funding. Projects may only be added to a priority list during the annual public hearing and adoption process. Pursuant to state statutory authority, CDPH may revise the ranking of a project on an existing priority list at any time if information affecting the ranking of that project becomes available that was not available at the time the list was adopted.

A. SDWSRF Project Priority Ranking Criteria

1. Health Risk and Safe Drinking Water Act Compliance Categories

As required by federal and state law, water system projects are offered SDWSRF funding based on a Project Priority List developed by the CDPH. In establishing the priority list, CDPH ranks projects in order of the degree of health risk associated with the problem that the proposed project is intended to solve. Thus, the projects solving the most serious health risk and SDWA compliance problems receive the highest ranking. The categories that have been established by CDPH are summarized below.

SRF Category	Problem Description
A	Water systems with deficiencies that have resulted in (1) documented waterborne disease outbreak illnesses that are attributable to the water systems, or (2) water systems under a court order to correct SDWA violations and/or water outage problems.
B	Water systems that have repeatedly violated the total coliform MCL (TCR) due to active sources contaminated with coliform bacteria (fecal, *E. coli*, or total coliform)
C	Water systems which have (1) a surface water supply, or a groundwater under the direct influence of surface water (GWUDI) source, that is not filtered, or untreated; or (2) non-GWUDI well sources that are contaminated with fecal coliform or *E. coli*.
D	Water systems that have (1) surface water sources or GWUDI sources with filtration treatment deficiencies that violate federal or state regulations concerning surface water treatment requirements; including open treated water distribution reservoirs, or (2) non-GWUDI wells that are contaminated with fecal coliform or E. coli and are inadequately treated; or (3) uncovered treated water reservoirs.

SRF Category	Problem Description
E	Water systems with water outages or significant water quantity problems caused by source water capacity or water delivery capability that is insufficient to supply current demand.
F	Water systems that distribute water to consumers (1) containing nitrate/nitrite in excess of the State or Federal MCL; or (2) containing perchlorate in excess of the MCL; or (3) water systems with distribution system problems resulting in ongoing violations of the Total Coliform Rule [other than source contamination].
G	Water systems that distribute water containing chemical or radiological contamination exceeding a State or Federal primary drinking water standard. [other than those in a category above]
H	Water systems utilizing (1) distribution reservoirs with non-rigid covers; or (2) water systems which do not provide service connection meters for measurement of water delivered to customers
I	Water systems which comply with surface water treatment requirements, but are not in conformance with the California Cryptosporidium Action Plan
J	Projects to correct violations of the Water Works Standards that could result in the entry of wastewater into the water supply or distribution system.
K	Projects: (1) to improve or correct disinfection facilities that lack needed reliability features, chlorine residual analyzers, or alarms, or (2) to correct other disinfection deficiencies that violate the Water Works Standards or other State regulations.
L	Projects to: (1) provide treatment to correct an existing and ongoing violation of the iron or manganese secondary standard for which a compliance order has been issued; (2) treat water which exceeds a State chemical Notification Level as distributed; (3) provide treatment for water which, for a primary drinking water standard based on a running average, has exceeded the primary standard in one or more samples, but has not violated the standard or (4) need treatment for a standby groundwater source that is contaminated in excess of a primary MCL.
M	Water systems with an existing violation of any Water Works Standard other described in any of the above categories, or to correct an ongoing TMF deficiency of a water system that does not have a project ranked in any of the above categories.
N	Water systems delivering water which exceeds a secondary standard [other than iron or manganese with a state compliance order].
O	Projects to correct water system deficiencies needed to improve the quality of the water or the water delivery system that are not covered by other categories.

In general, CDPH considers priority 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.

2. Bonus Ranking Points

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 systems is invited to complete the application process for SDWSRF funding, all the systems within that category seeking funding that year are invited.

a. Affordability

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. This gives poorer communities a higher ranking within a category than communities with higher income levels do. Additional affordability ranking points will be granted as follows:

MHI of Service Area	Ranking Points
Greater than statewide MHI	0
90%-100% of statewide MHI	5
80%-89% of statewide MHI	10
70%-79% of statewide MHI	15
60%-69% of statewide MHI	20
Less than 60% of statewide MHI	25

b. Consolidation

For purposes of ranking projects within a category, any project that includes consolidation of separate existing water systems will receive additional ranking points. Consolidation points support projects which will provide reliability, efficiency, and economy of scale that can be achieved with larger water systems while discouraging the proliferation of numerous separate small systems with their inherent inefficiencies and limitations.

Consolidation type	Consolidation ranking points
Managerial consolidation of 2 or more systems	10
Physical consolidation of 2 or more systems	20

3. Type of System

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

4. Population

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

B. Process for Adoption of the SDWSRF Priority List

The ranking of projects on the Project Priority List is based on the submission of a pre-application by public water systems using the online Universal Preapplication process. Announcement notice of the annual open preapplication period is provided via the internet and by mail to public water systems throughout California. The preapplication period is open for at least one month each summer. Water systems are encouraged to submit separate pre-applications for each separate water problem faced by the system. Following receipt of the pre-applications, CDPH staff review each project and the project is ranked into the appropriate category. Any bonus points are assigned and the applicant is informed of the category ranking. The pre-application information is added to the database from which the statewide Project Priority List is developed.

In addition to individual water system notification, and posting on the Internet for public availability, a public hearing is held in Sacramento. A 30-day period is provided for public comments on the draft update of the SDWSRF Project Priority List. The Updated SDWSRF Project Priority List is then adopted. The 2010 Draft Project Priority List includes nearly 4,900 projects representing over $10 billion.

C. Use of the Project Priority List

As indicated earlier, the Project Priority List forms the basis for determining which projects will receive funding. To the extent feasible, projects will be funded in descending order of their placement on the priority list. However, due to the federal deadlines on obligation of the available funds, projects that are not ready to proceed may be by-passed for that particular funding cycle. Any project that is by-passed will retain its position on the priority list and be eligible for the next funding cycle.

Following adoption of the priority list, CDPH will determine how far down the Project Priority List to invite, based on the amount of funding available. Generally, the Invited Project List will include small and large systems that together represent approximately 300% of the funds available for that year. This is to ensure that there are enough projects ready to proceed at the time CDPH initiates the funding by-pass procedures.

CDPH has developed and implemented Tier 1 (construction)/Tier 2 (planning) process which is designed to identify projects that are “ready to proceed” to construction early in the funding process and to better direct efforts to assist projects that are not quite ready through planning funding. Projects that are invited for funding are asked to submit a Statement of Intent (SOI) indicating their ability to submit required documentation for funding for construction. Based on the SOI responses, projects are then placed into either Construction (Tier 1), which have indicated an immediate “readiness to proceed” or Planning (Tier 2).

Projects that are eligible for Tier 1 (construction) funding, typically have final plans, specifications and an engineering report and estimate of costs; have evaluated alternatives and is ready to move forward with a CDPH District approved alternative; and environmental processes are complete or near ready to be completed.

Planning (Tier 2) applications are available for water systems with projects that do not meet the Tier 1 criteria. Projects that follow Tier 2 process will be provided funding to undertake activities such as development of engineering studies and reports, environmental documentation, a TMF evaluation, and plans and specifications, required in order to meet construction readiness, and preparation of a construction application.

As required by the federal guidelines, CDPH will annually establish a small water system funding reserve. The amount of the annual small system reserve will be a minimum of 15% of the total funding available for financing projects. The purpose of the small system reserve is to ensure that small systems that have undertaken planning funding to readily proceed to construction will have standing rights and do not have to compete with large water systems for available funds.

Additionally, CDPH has identified a list of water meter projects in category H (Appendix D) in the 2010 SDWSRF PPL that may be funded to meet the new GPR requirements for FFY 2010. These water meter projects will be invited and managed separately. In the event that some of these projects do not meet "Ready to Proceed" criteria, CDPH will invite more water meter projects from this list for funding until the GPR requirement is met.

D. Establishment and Use of the Fundable List

Water systems of Invited Projects will submit full application either for Tier 1, construction, or Tier 2, planning for consideration of SDWSRF funding. Full applications that are deemed completed will be placed in the SDWSRF pipeline list. The pipeline list consists of both Tier-1 and Tier-2 projects and is actively changing as projects are either added or removed based upon the technical, environmental and financial reviews of the SDWSRF applications.

In previous years, the Invited Project List had been called the "Fundable List". Beginning in fiscal year 2010-2011, CDPH has revised the process and has developed a Fundable List (Appendix C), which consists of only projects from the SDWSRF pipeline list that may receive a funding agreement by June 30, 2011. Moreover, CDPH will amend the fundable list on a rotating basis to include additional projects that may receive a funding agreement by the end of fiscal year 2010-2011 and to remove projects that will not receive a funding agreement by June 30, 2011.

E. Types of Financial Assistance Available

Several types of financial assistance are offered to eligible project applicants. CDPH has developed various terms, limitations, and conditions for use of the funds to provide some flexibility for applicants, maintain SDWSRF fund long-term viability, and fund as many high priority projects as possible. These criteria are spelled out in CDPH SDWSRF regulations (See Appendix A). To the extent feasible, CDPH coordinates SDWSRF funding with funding from other State and Federal sources. Applicants are encouraged to make maximum utilization of more appropriate funding sources. Available SDWSRF financing options are discussed below.

1. Non-disadvantaged Communities:

    a. Construction Funding

Construction funding comprises the majority of the project financing made available by the SDWSRF. Tier 1 construction funding is provided to projects which are ready to proceed to construction within one year. Generally, the following terms and conditions apply:
(1) Maximum length of a loan is 20 years or the useful life of the project, whichever is less;
(2) Interest rate is 50% of the average interest rate paid by the State on general obligation bonds issued in the prior calendar year;
(3) Maximum amount of funding for each project during any one fiscal year is $20,000,000*; and (4) Maximum funding for any system is $30,000,000 per fiscal year* [*except as provided in CCR Section 63012].

b. Planning Funding

Planning funding allows water systems to undertake those activities such as development of engineering studies and reports, environmental documentation, a TMF evaluation, and plans and specifications, required in order to meet construction readiness, and preparation of a construction application. Planning loans are subject to the following terms and conditions:
(1) The maximum length of the loan is 5 years. The loan repayments may be combined with a construction loan should one be subsequently awarded. [H&S Code Section 116761.50 (b)(5)]
(2) Interest rate is 50% of the average interest rate paid by the State on general obligation bonds issued in the prior calendar year;
(3) The maximum per project planning funding is $500,000.

2. Disadvantaged Communities

The terms and conditions for SRF financing of non-disadvantaged community projects are applicable to disadvantaged community projects as well. However, as provided for by state and federal statutes, disadvantaged communities (see discussion under Section VII) may be eligible for additional financial assistance in the form of lower interest rates, extended repayment periods, or forgiveness of principal (subsidy). The additional allowable terms and conditions include:
(1) A disadvantaged system may, if necessary, receive a construction loan of up to 30 years as long as this does not exceed the expected useful life of the project;
(2) The applicable interest rate for loans to disadvantaged communities is zero percent;
(3) Additional financial subsidy (principal forgiveness – “grant”) may be awarded to a disadvantaged public water system project owned by a public entity or not-for profit entity; and
(4) Coordination of funding, including SDWSRF set aside-local assistance funding for some disadvantaged communities may be provided.

F. Application of Federal Cross-Cutters

There are numerous federal laws and executive orders that apply by their terms to projects receiving Federal financial assistance, even though that assistance may be administered by the State. CDPH has established a central unit of specialists in environmental review to ensure compliance with the various environmental and historic/archaeological cross-cutting federal requirements. CDPH requires all applicants to complete a questionnaire related to federal cross-cutting authorities. The Environmental Unit 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, the Environmental Unit 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 crosscutting 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 set the size of systems and the cost of projects which will be exempt from federal cross-cutting requirements periodically. For invitations sent by the SDWSRF in State Fiscal Year 2010-2011, pursuant to this IUP, federal cross cutting requirements will be applied to applications from systems serving over 1,000 service connections and to all projects for more than $1,250,000. Funding exempt from federal cross cutting requirements is subject to the availability of funds in the California SDWSRF not subject to such requirements, i.e. state match funds equivalency, repayment of SDWSRF loans, and interest or penalties available in the SDWSRF revolving fund.

In addition, as required for FFY 2010 grant award, the federal wage requirements collectively known as "Davis-Bacon requirements," will apply to each funding action during the period. All projects and activities funded with SDWSRF funds are subject to federal anti-discrimination laws. CDPH includes standard provisions concerning these cross cutting laws in all funding agreements and service contracts.

G. Project By-Pass Procedures

As indicated, it may be necessary from time to time for CDPH to by-pass a project on the priority list in order to fund a lower ranked project. This is essential to meet the federal funding obligation deadlines and avoid loss of funds. Applicants whose projects are, or will be, by-passed are notified. Any project that is by-passed will retain its position on the current priority list and will be eligible for potential funding in the following fiscal year. Projects will be by-passed only under one or more of the following conditions:

1. The applicant indicates on the pre-application form that they do not desire or will not be able to receive funding in the current funding year. This project will be by-passed automatically for the current year.

2. 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.

3. The applicant fails to submit the full application by the deadline established by the CDPH.

4. A full application is rejected by CDPH and a revised application cannot or will not be resubmitted within the deadlines established by the CDPH.

5. CDPH determines (and has notified the applicant) that the applicant does not (or will not) meet the TMF capacity requirements and is thus ineligible.

6. The water system is in "significant noncompliance," and it is determined that the project will not return the system to compliance with the SDWA.

7. Upon receiving a preliminary letter of commitment [Notice of Application Acceptance] from the CDPH, the applicant fails to sign and return the letter by the deadline established by the CDPH.

8. The applicant fails to submit plans and specifications for the project by the deadline established by CDPH and the initial loan offer is withdrawn.

9. The applicant has reached the $30 million annual per applicant loan cap. All other projects for the applicant that would exceed the $30 million cap will be by-passed, except as provided in regulations (Appendix A).

10. Projects which are invited for two consecutive invitation cycles, and which fail to respond to such correspondence, will be bypassed for subsequent invitation cycles until such time as the system indicates that it is ready to proceed if invited to apply for SDWSRF funding.

VII. PROGRAM TO PROVIDE ASSISTANCE TO PUBLIC WATER SYSTEMS SERVING DISADVANTAGED COMMUNITIES

California statutes and regulations provide additional financial assistance to "disadvantaged communities" if such communities cannot afford to repay the full amount of the loan needed to fund the proposed project. Disadvantaged communities are defined as those communities whose median household income (MHI) is below 80% of the statewide MHI. The interest rate to disadvantaged communities is set at zero percent. The assistance may include extending the repayment period to 30 years (but not to exceed the design life) as allowed in the federal act. In addition, for community water systems owned by a public agency or a not-for-profit entity and serving a disadvantaged community, State regulations allow forgiveness of up to 80% of the loan principal. The service area affected by the project must meet the criteria for a disadvantaged community in order for the project to be eligible for consideration for these special financial assistance measures. The provisions of State regulations allow for assistance so that the resultant water rate to the average residential user is no higher than 1.5% of the MHI for the community.

SDWSRF determines any grant (principal forgiveness) component to the assistance offer after evaluating the disadvantaged community's ability to repay a loan. Household income levels, current and projected monthly consumer water charges, and the cost of the proposed project are critical factors in determining the SDWSRF funding offer (loan, or loan and grant).

The determination as to whether a disadvantaged community qualifies for additional financial assistance will not be made until DWR completes its evaluation of the revenue program, project costs, and other financial information contained in the full project application. Therefore, a public water system will not know if additional financial assistance will be provided until the full application process is completed.

VIII. PUBLIC PARTICIPATION

The guidelines provided by the USEPA require that states seek meaningful public review and comment on its funding decisions in the SDWSRF Intended Use Plan. CDPH has involved numerous groups and individuals in the development of the ranking criteria and program components. This section provides a summary of CDPH efforts to involve the public in the development of the SDWSRF program.

A. SDWSRF Program Development

During SFY2010-2011, CDPH plans to convene the internal SDWSRF policy committee at least quarterly to discuss program progress and potential modifications. In addition, CDPH plans to hold at least two round-table meetings with water system representatives and other interested parties each year. These internal and external groups may evaluate current program or potential modification of the program structure or resource utilization. Topics recommended for consideration include ranking and bonus point criteria, strategies to increase funding to small and disadvantaged systems, and set-aside activities.

B. Project Priority List and the Intended Use Plan (IUP)

Announcement of the draft version of each year's draft IUP and each Project Priority List is posted on the CDPH internet web site and are available for download and review by all interested parties. Comments are accepted for 30 days, and a public comment hearing is conducted. Comments are accepted by the SDWSRF in writing, by mail, fax, or email to a SDWSRF program email site, or in person at public hearing. A summary of the comments received on the draft SDWSRF IUP and PPLs, and CDPH response is provided in Appendix E.

C. Small Water System Technical Assistance

The small water system technical assistance program strategy was developed with the assistance of interested groups such as California Rural Water Association, Rural Community Assistance Corporation, Community Development Block Grant program, California Conference of Directors of Environmental Health (CCDEH), local environmental health agencies, Self-Help Enterprises, American Water Works Association and others. Funding workshops introducing state and federal infrastructure funding programs are held throughout the state each year. These provide small water system representatives the opportunity to provide direct feedback to SDWSRF program representatives.

D. Outreach

The SDWSRF staff annually participates in a series of Funding Fairs targeting water systems throughout the state, as well as small water system workshops sponsored by CRWA, RCAC and similar organizations. SDWSRF representatives provide updates on the program to various meetings and conferences. 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. At least annually, CDPH convenes a public steering committee assist in steering all funding programs implemented by the Department, including the SDWSRF.

IX. ASSURANCES AND CERTIFICATIONS

1. 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 public water systems and overseeing the safety of drinking water rests with the Department of Public Health (CDPH). CDPH is designated as the "primacy agency" by the United States Environmental Protection Agency (USEPA) for purposes of implementing and enforcing the federal Safe Drinking Water Act (SDWA).

2. The State will comply with State statutes and regulations

California's statutory basis for the SDWSRF 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 SDWSRF program regulations, which are set forth in Sections 63000 through 63058 of the California Code of Regulations (CCR).

3. The State will accept Capitalization Grant funds in accordance with a payment schedule.

CDPH agrees to accept Grant payments in accordance with payment schedules that will be included with each Grant application or Grant amendment package. These payment schedules will be reviewed at least annually and updated as necessary. Separate payment schedules will be provided for each Grant and shall cover all funds to be used over the life of the Grant. The State will receive Federal funds (that is, "payments") in accordance with the provisions of the EPA-Automated Clearing House (ACH) guidelines.

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

The State 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 workplan between EPA and the State is approved as part of the Grant agreement.

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

The required California state match was authorized with the passage Proposition 84. On November 6, 2006, the California Electorate passed Proposition 84, a $5.4 billion water bond measure, known as the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006. A total of $25,391,600 is earmarked to provide for the state match for the federal grant award for the FFY 2010 grant allocation.

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

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

7. The State will match Capitalization Grant funds the State uses for 1452(g)(2) set-asides.

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

8. 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.

9. 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 SDWSRF 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 Capitalization Grant.

10. 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, demonstrate that there is adequate security).

The state 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 SRF project loan guidelines. CDPH processes Safe Drinking Water State Revolving Fund (SDWSRF) 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 work day.

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

The intended use plans provide the basis for how the State 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.

12. Funds will be used in accordance with the Intended Use Plan.

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.

13. 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 workplan specific activities. The annual reports submitted to EPA meet the biennial report requirements.

14. The State will comply with all Federal crosscutting 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.