

Annual Report

to

USEPA Region IX

Safe Drinking Water State Revolving Fund

State Fiscal Year

2001-2002 (July-June)

State of California

Department of Health Services



**SAFE
DRINKING
WATER
STATE
REVOLVING
LOAN FUND
March 2003**

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I. EXECUTIVE SUMMARY

This is the fourth report for California's Safe Drinking Water State Revolving Fund (SDWSRF) Program. This report is provided annually to the United States Environmental Protection Agency (USEPA) pursuant to the requirement of the Assistance Agreement. The California state agency responsible for administering this award is the California Department of Health Services (DHS). The SDWSRF Program resides in the Division of Drinking Water & Environmental Management. The Annual Report to USEPA follows the State of California's fiscal year reporting cycle of July 1, 2001 through June 30, 2002.

As of June 30, 2002 DHS had executed its fifth SDWSRF Assistance Agreement with the USEPA in the amount of \$84,340,000. The fifth Agreement was awarded on March 13, 2002. This Assistance Agreement is for the federal fiscal year (FFY) 2001. The required California State match of \$16,868,000 (20%) was authorized by the California Electorate with the passage of Proposition 13 in March of 2000 with the approval of General Obligation bonds. Bonds are sold when needed to raise the funds for the state match. DHS had to separately identify \$2,000,000 of state overmatch money from the Public Water Supply Supervision Assistance Agreement (1:1 match) from 1993 and 2002 in order to budget the set-aside component Capacity Development for \$2,000,000 from the 2001 Assistance Award. This brings the total Assistance Award (which includes the state match) for the reporting period to \$101,208,000 and the total allowable USEPA project cost to \$103,208,000 when factoring in the in-kind 1:1 match of \$2,000,000. DHS program staff worked with the Department's Budget Office and the Department of Finance (DOF) to effectuate a technical fix to bring past years' budget authority into alignment with cumulative USEPA authority. Therefore, the variances that were reported in the past for prior years have been zeroed out. In addition, the net budget variance from this reporting period (which is noted in Table 3) was addressed in our Budget Change Proposal (BCP) to DOF and will be incorporated into the change. The BCP will not become effective until July 1, 2003. Beginning with the new budget year, DOF will align prior state authority to USEPA authority by phasing it in over a 3-year period in increments of one-third per year. See Table 3 for details of the variance among accounts.

Funding sources for the SDWSRF Program include the five Assistance Awards received (1997-2001) from USEPA, the state match, interest and principal repayments from loans, and from interest earned on the Surplus Money Investment Fund (SMIF). Principal repayments amounted to \$1,959,759 while loan interest payments amounted to \$1,074,318, bringing the total amount of revenue received for the reporting period to \$3,034,077. Cumulative principal and interest received from loans now amounts to \$3,361,948 (Appendix A). In addition, the SDWSRF program began earning SMIF interest on invested funds, which amounted to \$121,971.92 for the reporting period. This amount, when combined with principal and interest earned for the current year, amounts to total revenue of \$3,156,049 (\$121,972 + \$3,034,077) for the reporting period. Revenue from past years of \$327,871 when added to the current year's total of \$3,156,049 brings the cumulative revenue-to-date to \$3,483,920.

Actual expenditures for State Fiscal Year (SFY) 2001/02 total \$61,243,925 (Table 2) for the reporting period. This is comprised of \$54,579,083 in loan disbursements and \$6,664,842 in

set-aside expenditures. Accounting adjustments for prior reporting periods are restated for those years and also shown in Table 2.

The SDWSRF program is authorized for a total of 61.5 positions, which equate to 51 full-time employees (FTEs). The Administration set-aside has 23 FTEs, Capacity Development has 2.5 FTEs, Small Water Systems has 10.5 FTEs and Source Water Assessment has 15 FTEs. As of June 30, 2002, all positions were filled.

□ Loan Program

The SDWSRF Loan Fund was budgeted for \$89,930,600 (\$73,062,600 + \$16,868,000) from the USEPA and State's contribution. California, however, includes the EPA set-aside for Source Water Protection loans in the amount of \$4,217,000 as part of its loan fund. Therefore, California's budget for its loan fund was modified to \$94,148,000 under the State Budget Act (see Table 3). The \$89,930,600 is comprised of the state 20% match component of \$16,868,000 and that portion of the federal assistance agreement not used for set-asides, which amounts to \$73,062,600. Prior years' loan amounts with the state 20% match were budgeted for \$350,361,090. An amendment to the 1997 federal Assistance Award returned \$1,743,980 to the Loan Fund from set-aside accounts, bringing the total budgeted amount to \$352,105,070. This amount, when combined with the \$89,930,600 for this reporting period, totals \$442,035,670 (\$352,105,070+\$89,930,600). Loan commitments (obligations) made against this amount as of June 30, 2002 total \$302,520,484 (\$93,875,778 from 1997 money, \$92,085,590 from 1998 money, \$68,345,771 from 1999 money, \$48,182,747 from 2000 money, and an adjustment of \$30,598 to the 1997 & 1998 capitalization grants). The 20% state match is being met by the sale of general obligation bonds, which was approved by the California Electorate in March of 2000. See Table 5 for a listing of these loan commitments.

During the reporting period there were a total of fifteen (15) funded projects (closed loans and forgiveness of principal) valued at \$38,473,026. There were twenty-one (21) funded projects from the previous reporting periods, bringing the cumulative funded projects to thirty-six (36). Cumulative project funding (Table 4) amounts to \$137,141,941 (\$132,079,475 in loans + \$5,062,466 forgiveness of principal). The \$137,141,941 is comprised of \$98,473,026 from prior reporting periods and \$38,668,915 from this reporting period. Cumulative project disbursements amount to \$110,607,479 (\$56,028,395.80 from prior years and \$54,579,082.90 from this year).

Long-term construction loans comprise the majority of the project financing to be made available and may include planning, design, acquisition, and construction costs. In addition, the following terms and conditions apply:

- The maximum length of the loan will be 20 years or the useful life of the project, whichever is shorter, unless an applicant is determined to be a disadvantaged community. If the latter is applicable, a term of 30 years may be allowed.
- The applicable interest rate will be 50% of the average interest rate paid by the state on the last bond sale of general obligation bonds issued in the prior calendar year. Disadvantaged communities have a zero interest rate.

- The maximum amount of loan financing to be awarded to a single project from any one capitalization grant will be \$20,000,000. DHS may increase this amount during September of each year (the last month to make loan commitments), if it determines that excess funds are available due to bypasses or other issues.
- All interest rates will be a fixed term for the life of the loan. No variable rates and no balloon payments will be allowed.
- In addition to the maximum loan amount per project described above, no public water system (PWS) with multiple projects shall receive a total amount of loans in excess of \$30,000,000 from any one capitalization grant.

In a few cases, some water systems may not be able to fund the preliminary planning needed to proceed with a full design and construction loan application. In such cases, an applicant may apply for a short-term planning loan. Unlike staged projects, funds from future years will not be reserved for projects receiving a short-term planning loan. The maximum loan amount for any single project shall not exceed \$100,000 with a maximum loan period of five years. The loan repayments may be combined with a long-term construction loan should one be subsequently awarded.

Set-Asides

The Assistance Agreement provides for several set-asides, which are funded out of the federal capitalization grant at 100% federal participation. California was approved to use the 2001 allocation in the following manner:

Administration - To administer the SDWSRF Program, California earmarked the maximum 4% set-aside allowed under the 2001 Assistance Award, which totals \$3,373,600 (\$84,340,000 X 4%). This amount was modified to \$3,263,560, in the State Budget Act. A Budget Change Proposal (BCP) was submitted to the California Department of Finance to realign state authority with federal authority for future years and will become effective July 1, 2003. A total of 26 administrative positions are authorized and equate to 23 FTE positions. Actual expenses for the reporting period totaled \$2,805,305 (See Table 2). Encumbrances totaled \$713,272.

Capacity Development – This set-aside element was budgeted at 2.371354% of the federal allocation for program management from the 2001 award, which totals \$2,000,000 (2.371354% X \$84,340,000). The State Budget Act authorized \$2,000,000 in expenditure authority. Total expenditures through the end of June 30, 2002 were \$551,211.41 (See Table 2). Encumbrances were \$592,623. Authorized positions for this set-aside are 2.5 and equate to 2.5 FTEs.

Funds from this set-aside are used to (1) continue to implement the approved capacity development strategy and the requirements contained in the SDWSRF Policy and Procedures Manual (2) continue to develop the Water Supply Permit Policy and Procedures Manual, (3) track program progress and make program revisions as necessary, (4) to continue to develop a

capacity development data base system, and (5) implement the Staff Guidance Manual for technical assistance to small water systems.

DHS has developed a strategy to assist PWSs in acquiring and maintaining technical, managerial, and financial (TMF) capacity. This strategy was finalized in August of 2000 and accepted by EPA. Throughout this implementation process DHS will continue to solicit input from the State's technical advisory committee and other interested stakeholders.

DHS has developed performance criteria to determine whether a system has adequate TMF capacity. DHS has revised and intends to further revise the criteria based on input received from field use. DHS is in the process of developing policies and procedures for implementing capacity requirements. DHS has developed TMF capacity self-assessment forms and staff evaluation forms to be used to assess and document a water system's TMF capacity. All TMF related forms have been placed on the Department's Internet Site for easier accessibility by staff and water systems.

DHS has revised the Permit Policy and Procedures Manual so that it contains all policies and procedures needed by staff in implementing capacity development requirements. All sections of the permit manual that pertain to the issuance of permits for new PWSs were revised and implemented by October 1, 1999. The permit is the critical control point in prevention of the creation of any new non-viable PWSs in California.

DHS is in the process of modifying its database system to more effectively track program data. The revisions will eventually enable DHS to (1) track information on the TMF capacity status of PWSs, (2) identify and track areas where water systems need to develop capacity, and (3) identify and track areas where water systems need technical assistance.

Small Water System Technical Assistance – The majority of California's 7,896 PWSs fall into the small water system (SWS) category (7,215 SWSs) and DHS is utilizing the entire portion of the Capitalization Grant allowed for this set-aside. The funds will be used to provide in-house technical staff and to contract with outside contractors to provide technical assistance to small systems. The primary goals of the small system technical assistance program are: (1) reducing the instances of noncompliance with drinking water standards and requirements; (2) establishing and assuring safe and dependable water supplies; (3) improving the operational capability of the systems; and (4) establishing or improving the financial, technical, and managerial capability of the systems.

California chose to fund the Small Water System Technical Assistance set-aside element at 2% of the federal allocation (2% X \$84,340,000) from the 2001 Capitalization Grant, which totals \$1,686,800. This set-aside is authorized for a total of 10.5 positions, which equate to 10.5 FTEs. Actual expenditures for the reporting period were \$1,394,178 (Table 2). Encumbrances were \$33,816.

Source Water Assessment Program (SWAP) – The funding for this program is being used to develop a SWAP program to delineate the boundaries of protection areas for drinking water sources, and identify possible contaminating activities within the delineated areas in order to

assess the vulnerability of the water source to contamination. In California, the SWAP is incorporated into the Drinking Water Source Assessment and Protection (DWSAP) Program. USEPA endorsed the Department's DWSAP Program on April 26, 1999 and final approval was given on November 5, 1999.

In state fiscal year 2001/2002 the Department recorded 4,737 completed source water assessments (page 54). This brings the total completed assessments to 5,529 (36%).

The Department is contracting with 33 county environmental health agencies [local primacy agencies (LPAs)] for completion of drinking water source assessments for all active public drinking water sources under the regulatory jurisdiction of the LPA. The contracts run from June 1, 1999 through December 31, 2002 and total \$1,953,900. In 2001/02, payments to LPAs for DWSAP were \$358,058. Outstanding encumbrances amount to \$621,795.

The Department contracted with UC Davis Information Center for the Environment (UCD-ICE) to develop geographic information system applications and decision support tools for DWSAP. The original contract with UCD-ICE was for \$499,212. The contract was amended in April 2001 for \$152,352, bringing the total contract amount to \$651,634. In 2001/02, payments to UCD-ICE were \$262,602, bringing the total payments to UCD-ICE to \$472,921. The outstanding encumbrance is \$178,713.

The one-time SWAP set-aside element was budgeted at 10% of the 1997 federal allocation, to be expended by May 31, 2003 and totals \$7,568,260 (10% of \$75,682,600). Expenditures for last fiscal year amounted to \$1,914,147 (Table 2). As of June 30, 2002, cumulative expenditures against this set-aside amount to \$4,008,674. The unspent balance of \$3,559,586 will be rolled forward and made available through May 2003. Authorized positions for this set-aside are 15, which equate to 15 FTEs.

As part of the overall SWAP strategy, low interest source water protection (SWP) loans will be offered to PWSs beginning in SFY 2002/03 for source water protection. The Department intends to use \$8,416,655 in funding that was set-aside from the FFY 2000 and 2001 Assistance Awards towards funding projects on the SWP priority list. Funding for this program will provide loans to PWSs for the purchase of land or conservation easements. The SWP loans will be treated as a subaccount within the SDWSRF loan fund.

II. INTRODUCTION

DHS is pleased to submit its fourth Annual Report on the SDWSRF Program for SFY 2001/02. The Report addresses operation of the SDWSRF during the time period from July 1, 2001 through June 30, 2002. During that period California received one capitalization grant award from USEPA for \$84,340,000 from the FFY 2001 allotment. This allotment, when combined with the 1997 allotment of \$75,682,600, the 1998 allotment of \$77,108,200, the 1999 allotment of \$80,816,700 and the 2000 allotment of \$83,993,100, total \$401,940,600 for the five grant award periods.

DHS provides this comprehensive report to the USEPA Regional Office and to the public to detail the activities undertaken to reach the goals and objectives set forth in the Intended Use Plan (IUP) developed for SFY 2001/02. The report documents the status of the program by describing the progress made toward long and short-term program goals, the sources (e.g., federal grants and state match) and uses of all funds, financial status of the SDWSRF, and compliance with federal Drinking Water State Revolving Fund requirements.

DHS presents the Annual Report in six major sections. Section I is an Executive Summary. Section II of the report provides an Introduction. Section III provides a summary of progress made toward reaching long and short-term goals. Section IV reports details on loan and set-aside activities. Section V provides an overview of financial conditions of the program. Section VI reports on DHS' compliance with provisions of the federal capitalization grant agreement and the operating agreement.

STATE OF CALIFORNIA SDWSRF – OVERVIEW	
State Fiscal Years 1998/99 - 2001/02	
Total Available Investment (loan amount):	\$442,035,670
Number of Projects (Closed Loans & principal forgiveness):	33
Number of Projects (Principal Forgiveness only)	<u>3</u>
TOTAL NUMBER OF PROJECTS:	→ 36
Project Funding (Closed Loans):	\$132,079,475
(Forgiveness of Principal Loans):	<u>5,062,466</u>
TOTAL PROJECT FUNDING:	→ \$137,141,941
Total Population Served:	4,954,227
Average Interest Rate:	1.65%
Average Repayment Period:	16.94 years
Small Systems Funded (<10,000 pop.):	23 for \$31,324,989
Disadvantaged Community Funding:	13 for \$47,567,200
Systems Receiving 0% Interest Loan:	11 for \$42,504,734
Cumulative Set-Aside Assistance (Not Including SWP Loans):	\$27,717,900

III. GOALS AND ACCOMPLISHMENTS

DHS developed the goals listed below for the SFY 2001/02 IUPs. The long-term goals provide a framework that guides DHS' management decisions for the SDWSRF program. The short-term goals support the implementation of the program's long-term goals.

A. Progress toward Long-Term Goals

1. ***Ensure that public water systems provide an adequate, reliable supply of safe clean drinking water.***

Progress Toward Goal 1: The SDWSRF program continues to lay the foundation for future improvements in California's safe drinking water supply. The program's first two-years of operation consisted mainly of program implementation but now there exists a viable loan program that provides ongoing subsidized funding for infrastructure improvements. During SFY 2001/02, \$91,231,199 in new loan commitments were made representing 25 projects for 24 water systems. \$302,520,484 in cumulative loan commitments (Table 1) have now been made to water systems against the 1997, 1998, 1999 & 2000 year federal grants and state match monies combined. This represents 77 water systems (a total of 90 projects) that are committed to improving the quality of water to their customers. Set-asides are used to fund Administration, Source Water Assessment and Protection, Capacity Development and Small Water System Technical Assistance. The SDWSRF loan program advances this basic goal of the Department by providing an ongoing source of funds for current and future infrastructure improvements.

2. ***Continue funding projects on the comprehensive multi-year Project Priority List (PPL).***

Progress Toward Goal 2: The Department is continuing to use the priority list process to direct SDWSRF loan funds to those projects that meet high priority needs. The PPL developed by the Department for the Capitalization Grant is revised at least biennially, to include new projects. A PPL was updated in the spring of 2002 that was comprised of approximately 3700 projects submitted by approximately 1,650 PWSs. Approximately 60 of these preapplications relate to source water protection projects. Projects by-passed are not removed from the list but will be eligible for funding in subsequent years at the same time as new projects in the same category. The SDWSRF Program commenced loan commitments in June 1999.

3. ***Ensure the revolving nature of the SDWSRF loan fund.***

Progress Toward Goal 3: The SDWSRF loan fund provides a cost effective funding mechanism to assist public water systems in achieving and maintaining compliance with the Safe Drinking Water Act (SDWA). \$137,141,941 in loans (includes \$5,062,466 in forgiveness of principal) representing 36 projects (31 water systems) were executed as of June 30, 2002. Loan repayments for principal and interest during this reporting period totaled \$3,034,076 with a cumulative-to-date total of \$3,361,948. Loans are tracked with an automated information management system to ensure that loan repayments are tracked and accounted for in order to

maintain self-sufficiency of the fund. The Department will ensure that the revolving fund remains financially viable over the long term so that repayments of existing loans will be sufficient to fund the issuance of new loans after the federal Capitalization Grants cease. The Department manages the sale of General Obligation (GO) bonds to provide the required state matching amount. Bond funding for the SDWSRF was provided by the passage of Proposition 13, The Safe Drinking Water, Clean Water, Watershed Protection, and Water Reliability Bond Act in the March 2000 election. That act authorized the sale of \$1.97 billion in GO bonds for water related projects, including \$70 million for the SDWSRF loan program.

4. *Ensure that all PWSs achieve and maintain compliance with the SDWA.*

Progress Toward Goal 4: A fundamental goal of DHS is to ensure safe and reliable drinking water for all Californians. In furtherance of this goal, the ability to use the resources of the SDWSRF loan fund and set-aside programs enhances DHS' attempts to ensure that all PWSs have the technical, managerial and financial capacity to operate in compliance with the SDWA. Important elements of this include enhancing the technical knowledge of small water system personnel pertaining to compliance with regulatory requirements, and enhancing the technical knowledge of small water system operators regarding water treatment.

5. *Reduce the cost of drinking water.*

Progress Toward Goal 5: The loan resources of the SDWSRF Loan Program are assisting in minimizing the per-household cost of protecting public health and delivering safe drinking water by providing subsidized financing for the construction of technically sound drinking water infrastructure and source water protection projects, and by developing PWS monitoring plans based on the conditions surrounding the source water. It will also provide support and encourage managerial and technical competency of water systems to foster effective and efficient system operation.

B. *Progress Toward Short-Term Goals*

1. *Maintain an efficient and effective Safe Drinking Water SRF Program for the State of California through planned evaluation and revision of the program.*

Progress Toward Goal 1: DHS developed the SDWSRF program based on its own experience in regulating PWSs, on the knowledge and experience of the drinking water industry and based on considerable public input received. DHS also meets regularly with the USEPA Region IX staff to discuss its SDWSRF program development activities. Additionally, the program manager is a member of the national Council of Infrastructure Financing Authorities, and participates on the USEPA/States SDWSRF Workgroup and thus is in touch with concepts at USEPA and other states. As the Department proceeded through its fourth year of the program, a period of program evaluation and modification in response to self-identified areas and those identified by audits requiring improvement is now occurring. Standard procedures and processes for implementation of the program have been established and revised as needed.

2. *Continue implementation of the SDWSRF program.*

Progress Toward Goal 2: The first step in the process of implementing the SDWSRF program was the passage of enabling legislation (Senate Bill 1307). During this reporting period the Department applied for and received a Federal Capitalization Grant from the FFY 2001 allocation. The next step in the process was obtaining the 20 percent state match. The match is being provided from general obligation bond authority available to the California SDWSRF Program as a result of the passage by voters of Proposition 13 on March 7, 2000. That bond measure provided for the sale of \$1.97 billion in general obligation bonds for water related projects, including \$70 million for the SDWSRF Program. The state budget for SFY 2001/02 provides the Department with the authority to apply for and utilize the FFY 2001 SDWSRF Capitalization Grant.

3. *Maintain a PPL and an IUP.*

Progress Toward Goal 3: DHS notified every eligible PWS in the state of the annual opportunity to submit a preapplication for incorporation into the SDWSRF project priority list. The staff in the Department's district offices evaluated each preapplication and placed them in the appropriate health risk category. Bonus points were assigned based on the criteria developed by the Department. Regional Engineers and other departmental staff reviewed the PPL before its publication to ensure that the rating of the projects was consistent. The ranked listing of preapplications was compiled into the PPL. In 2001, the Department provided all public water systems with the opportunity to submit additional projects or update the information on projects already listed. Approximately 200 new or revised SDWSRF preapplications were received during the 2001 preapplication period. The Department held a public hearing in January 2002 on the draft 2002 updated PPL for the SDWSRF and adopted the 2002 update listing effective April 2002. In addition, the Department has invited community water systems and certain non-profit non-community water systems to submit preapplications for the Source Water Protection Project loan program priority list. The Department evaluated and ranked the proposed SWP projects, established a draft SWP project priority list, and included this list in the public hearing on the proposed list. The updated SWP PPL was adopted effective April 2002.

4. *Determine the fundable portion of the PPL and invite eligible public water systems to apply for funding.*

Progress Toward Goal 4: Projects are ranked based on health risk into SDWA compliance categories. An important goal of the SDWSRF Program is to fund those projects that are in high priority categories. DHS has determined that categories A through G are high priority categories. These categories contain projects to mitigate a current risk to public health or to correct a violation of the SDWA. DHS began inviting applications from eligible projects on the fundable list beginning in September 1998 (round 1) and as of June 30, 2002, has now progressed through round 9. DHS fundable lists have invited projects from as far down as category L in 2001. As a result of a high response rate to those invitations, DHS limited invitations in 2002, to only projects in category B and those projects in Category C with more

than 10 bonus points. In April 2002, invitations were sent to 123 systems inviting them to submit applications for funding their projects.

5. *Develop and implement the set-aside programs.*

Progress Toward Goal 5: DHS utilized portions of the Capitalization Grant to fund small water system technical assistance and capacity development programs. The Department implements these programs both by providing direct assistance to water systems, and by supporting local health department staff and outside providers to assist smaller water systems in meeting technical, managerial, and financial operations goals, and to aid these systems in applying for SDWSRF loan funds. For Federal Allocation Year 2001, \$1,686,800 was set aside for small water system technical assistance, \$2,000,000 was for Capacity Development, \$3,373,600 for administration of the SDWSRF program and \$4,217,000 for Source Water Protection Loans. To implement these programs, DHS hired staff and entered into Interagency Agreements and third party contracts, as needed, to make maximum use of resources.

IV. SDWSRF LOAN AND SET-ASIDE ACTIVITIES

This section provides a detailed discussion of the SDWSRF assistance activities during SFY 2001/02. Details are provided on the sources of funding in DHS' program, the status of loan activities, and the status of set-aside activities.

Tables 1 and 2 provide information about the sources and uses of SDWSRF funding. Table 1 displays all sources of SDWSRF funds available in SFY 2001/02. It also shows the binding commitments, workplan goals, and administrative funding uses made for the year. Table 2 shows DHS' actual disbursements in SFY 2001/02.

Table 3 is a reconciliation between USEPA budget authority versus authority granted by the California State Legislature in the Budget Act. Each variance is explained.

Table 4 displays cumulative projects funded (closed loans). If a project also has a forgiveness of principal component as part of the funding, it is shown separate from the loan amount.

Table 5 displays loan commitments for the federal funding years.

Table 6 displays environmental clearances for SFY 2001/02.

A. Sources of SDWSRF Funding

The total allowable funding for project costs available for the SDWSRF program in this reporting period total \$101,208,000. This is comprised of \$84,340,000 from the FFY 2001 capitalization grant, and another \$16,868,000 representing the 20% state match, which is in the form of general obligation bonds. DHS had to separately identify \$2,000,000 of state overmatch money from the Public Water Supply Supervision Assistance Agreement (1:1 match) from 1993 & 2001 in order to budget the capacity development set-aside component for \$2,000,000 from the 2001 Capitalization Grant.

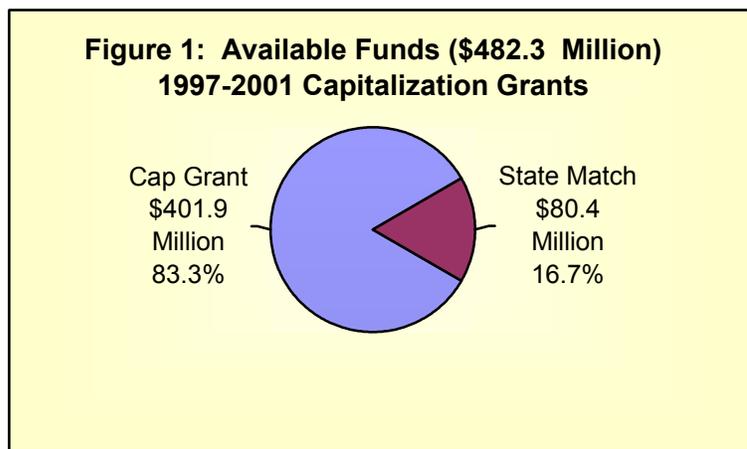
To date, DHS has applied for and received federal grants from the 1997 through 2001 grant allotment years. For the five years combined, DHS has USEPA authority to incur \$482,328,720 (\$90,819,120+\$92,529,840+\$96,980,040+\$100,791,720+\$101,208,000) of allowable funding for project costs. These amounts do not include the 1:1 in-kind match. In the future, loan repayments will add to the available funding. For example, loan repayments for principal and interest during this reporting period totaled \$3,034,076. When combined with previous reporting periods, the cumulative total is \$3,361,948. DHS describes major aspects of the sources below.

Capitalization Grants

In March of 2002, USEPA awarded the State of California its fifth federal capitalization grant in the amount of \$84,340,000. The cumulative total for the five years of awards (1997-2001) is \$401,940,600.

❑ State Match

The State of California is providing \$16,868,000 as the required 20% state match for the FFY 2001 Capitalization Grant. The 20% state match is being provided from general obligation bond authority available to the SDWSRF program as the result of the passage by voters of Proposition 13 on March 7, 2000. That ballot measure provided for the sale of \$1.97 billion in general obligation bonds for water related projects, including \$70 million for the Safe Drinking Water SRF loan program. The state budget for SFY 2001/02 provides the Department with the authority to apply for and utilize the FFY 2001 SDWSRF funding for California. The cumulative total for the five years of state match is \$80,388,120 (See Figure 1).



❑ Principal and Interest Repayments

Nineteen (19) projects had principal and/or interest repayments due during SFY 2001/02. The amounts totaled \$3,034,076 (See Table 1) and were comprised of \$1,959,758 in principal curtailment and \$1,074,318 in interest income. Funding on PWS infrastructure projects began in SFY 1999/00 and repayments began in January 2001. Payments are due semiannually. The repayments (both principal and interest) are accounted for separately. The repayments have not yet been obligated. The loan corpus amount available for executing contracts with water systems as of June 30, 2002 was \$304,893,729 (\$89,930,600 in the loan fund from the 2001 Capitalization Grant for this reporting period, \$350,361,090 in the loan fund from the 1997-2000 Capitalization Grants, a transfer of \$1,743,980 from set-aside accounts to the loan fund from an amendment to the 1997 federal grant, less \$137,141,941 of project encumbrances as of June 30, 2002).

❑ Investment Interest Earnings

On March 20, 2002, the Pooled Money Investment Board of the Treasurer's Office approved DHS' request to invest its available cash on deposit with the State Controller's Office (SCO) in the Surplus Money Investment Fund (SMIF) for the SDWSRF Fund 629-01. It is the practice of the SMIF to invest in even multiples of one-thousand dollars (\$1,000), which results in a small uninvested balance in the cash account. The State Controller's Office apportions interest earnings to the fund at six-month intervals, effective June 30th and December 31st of each year. Available cash in the fund is comprised of remaining state match from the FFY 98 capitalization grant and revenue that is comprised of principal and interest repayments on loans to public water systems. For the year ending June 30, 2002, SMIF earnings posted to the fund amounted to \$121,971.92 (see Table 1).

TABLE 1: SOURCES AND USES OF COMMITTED SDWSRF FUNDING AS OF 6/30/02 (INCLUDES STATE & FEDERAL)				
SOURCES OF FUNDS	Prior Years ¹ 97&98 Grants	2000/01 ² 99&00 Grants	2001/02 ³ FFY01 Grant	Cumulative Total
Capitalization Grant	152,790,800	164,809,800	84,340,000	401,940,600
State Match (General Obligation Bonds for SFY 2000/01)	30,558,160	32,961,960	16,868,000	80,388,120
Additional State Contributions	0	0	0	0
Investment Interest Earnings from Surplus Money Investment Fund	0	0	121,972	121,972
Principal Repayments	0	167,578	1,959,759	2,127,337
Interest Earnings on Loans	0	160,293	1,074,318	1,234,611
Bond Proceeds	0	0	0	0
State of California Budget Act Adjustment ⁴	0	0	-2,879,740	-2,879,740
TOTAL SOURCES OF FUNDS	183,348,960	198,099,631	101,484,309	482,932,900
USES OF COMMITTED FUNDS	Prior Years ¹ 97&98 Grants	2000/01 ² 99&00 Grants	2001/02 ³ FFY01 Grant	Cumulative Total
SDWSRF LOAN ACCOUNT BINDING COMMITMENTS (F629)				
Standard Loans 1452(a) large systems - loan only	103,698,164	89,147,870	0	192,846,034
Disad. Communities 1452(d) includes zero interest & grants	46,399,221	0	0	46,399,221
Standard Loans Subtotal:	150,097,385	89,147,870	0	239,245,255
Small Systems 1452(a)(2)	0	0	0	0
Standard - loan only	26,394,582	18,291,956	0	44,686,538
Disad. Communities 1452(d) includes zero interest & grants	9,469,401	9,088,692	0	18,558,093
Small Systems Subtotal:	35,863,983	27,380,648	0	63,244,631
Committed Loan Subtotal: (includes forgiveness of Principle)	185,961,368	116,528,518	0	302,489,886
Commitment Adjustments ('97 \$1,660 SWSL+ '98 \$28,938 SWSD)	30,598	0	0	30,598
Adjusted Committed Loan Subtotal: (includes forgiveness of principle)	185,991,966	116,528,518	0	302,520,484
Unclosed Loans ⁵ (amount remaining to obligate)	0	49,584,586	89,930,600	139,515,186
Uses of Committed Funds Subtotal:	185,991,966	166,113,104	89,930,600	442,035,670
SET-ASIDE ACCOUNT WORKPLAN COMMITMENTS	Prior Years ¹ 97&98 Grants	2000/01 ² 99&00 Grants	2001/02 ³ FFY01 Grant	Cumulative Total
Technical Assistance (max. 2%) 1452(g)(2) (F628) ⁶	1,610,409	1,616,334	1,686,800	4,913,543
State Program Management(max. 10% 1452(g)(2))				
Capacity Development (Wtr Sys Reliability Acct F626) ⁶	312,591	323,267	2,000,000	2,635,858
Local Assistance Other State Programs (max. 15%) 1452(k)				
Source Water Delineation and Assessment (F627)	7,568,260	0	0	7,568,260
Source Water Land Acquisition Loans (Fund 629)	0	8,240,490	4,217,000	12,457,490
Uses of Set-Aside Account Commitments Subtotal:	9,491,260	10,180,091	7,903,800	27,575,151
SDWSRF ADMINISTRATION ACCOUNT COMMITMENTS	Prior Years ¹ 97&98 Grants	2000/01 ² 99&00 Grants	2001/02 ³ FFY01 Grant	Cumulative Total
4% Set-Aside 1452(g)(2) (F625)	6,111,632	3,232,668	3,373,600	12,717,900
Uses of Administration Account Commitments Subtotal:	6,111,632	3,232,668	3,373,600	12,717,900
TOTAL	201,594,858	179,525,863	101,208,000	482,328,721

¹ FFY 97 & 98 ALLOCATIONS

² FFY 99 & 00 ALLOCATIONS

³ FFY 01 ALLOCATION

⁴ DHS program staff worked with the Department's Budget Office and the Department of Finance (DOF) to effectuate a technical fix to bring past years' budget authority into alignment with cumulative USEPA authority. Therefore, the variances that were reported in the past for prior years have been zeroed out. In addition, the net budget variance from this reporting period (which is noted in the table above) was addressed in our Budget Change Proposal (BCP) to DOF and will be incorporated into the change. The BCP will not become effective until 7/1/03. Beginning with the new budget year, DOF will align prior state authority to USEPA authority by phasing it in over a 3-year period in increments of one-third per year. See Table 3 for details of the variance.

⁵ Unclosed loans are funds for projects that have not yet entered into a binding commitment with the SDWSRF program through the issuance of a Notice of Application Acceptance (NOAA).

⁶ The 1997 federal assistance award was amended 12/14/00 and reduced the technical assistance set-aside by \$1,445,407 and capacity development by \$298,573. These amounts were returned to the loan fund and increased it by \$1,743,980.

TABLE 2: USES OF DISBURSED SDWSRF FUNDING AS OF 6/30/02				
USES OF DISBURSED FUNDS	Prior Years 98/99&99/00	SFY 00/01 State & Fed.	SFY 01/02 State & Fed.	Cumulative Expenditures
SDWSRF LOAN ACCOUNT (F629)				
Standard Loans 1452(a)	371,198.23	21,559,073.80	37,263,490.35	59,193,762.38
Disadvantaged Communities 1452(d)	0.00	25,130,941.84	4,127,516.00	29,258,457.84
Standard Loans Subtotal: (A)	371,198.23	46,690,015.64	41,391,006.35	88,452,220.22
Small Systems 1452(a)(2)				
Standard	0.00	8,289,714.48	8,682,630.70	16,972,345.18
Disadvantaged Communities 1452(d)	0.00	677,467.45	4,505,445.85	5,182,913.30
Small Systems Subtotal: (B)	0.00	8,967,181.93	13,188,076.55	22,155,258.48
Total of Subtotals for Loan Fund: (A)+(B)	371,198.23	55,657,197.57	54,579,082.90	110,607,478.70
SET-ASIDE ACCOUNTS				
Technical Assistance (max. 2%) 1452(g)(2) (F628)	692,809.14	1,480,752.07	1,394,178.32	3,567,739.53
State Program Management (max. 10%) 1452(g)(2)				
Capacity Development (Water Sys. Reliability Acct F626)	82,631.05	175,590.49	551,211.41	809,432.95
Local Assistance Other State Programs (max. 15%) 1452(k)				
Source Water Delineation and Assessment (F627)	577,257.30	1,517,269.82	1,914,147.00	4,008,674.12
Source Water Protection Loans (F629)	0.00	0.00	0.00	0.00
Subtotal: (C)	1,352,697.49	3,173,612.38	3,859,536.73	8,385,846.60
SDWSRF ADMINISTRATION ACCOUNT				
4% Set-Aside 1452(g)(2) (F625)	2,989,275.08	2,658,977.26	2,805,305.45	8,453,557.79
Subtotal: (D)	2,989,275.08	2,658,977.26	2,805,305.45	8,453,557.79
Total of Subtotals for Set-Asides: (C)+(D)	4,341,972.57	5,832,589.64	6,664,842.18	16,839,404.39

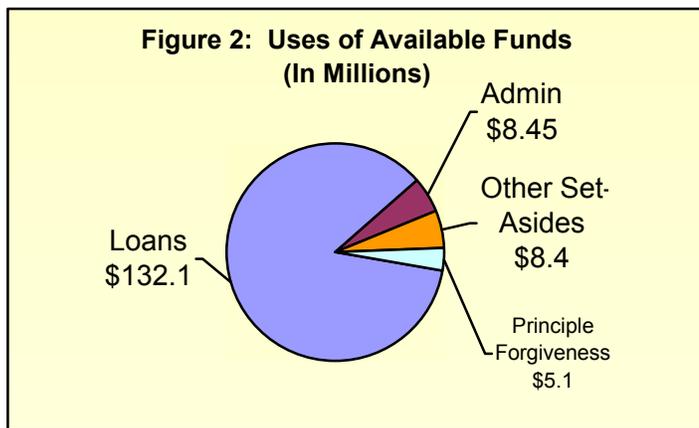
Table 3: Reconciliation of EPA Authority versus State Budget Act Authority					
Description	EPA Authority	CA Budget	01/02	Prior 3 Years'	Cumulative
	FFY 01 Grant	Act Authority	Variance ¹	Variance ¹	Variance
Administration	3,373,600	3,263,560	110,040	0	110,040
Capacity Development	2,000,000	2,000,000	0	0	0
SWAP	0	2,989,320	-2,989,320	0	-2,989,320
Small System TA	1,686,800	1,686,860	-60	0	-60
Loan Fund (State & Federal) ²	89,930,600	94,148,000	-4,217,400	0	-4,217,400
Source Water Protection Loans ²	4,217,000	0	4,217,000	0	0
Total Authority	101,208,000	104,087,740	-2,879,740	0	-2,879,740

¹ DHS program staff worked with the Department's Budget Office and the Department of Finance (DOF) to effectuate a technical fix to bring past years' budget authority into alignment with cumulative USEPA authority. Therefore, the variances for each category for prior years are shown as "zero." In addition, budget variances from this reporting period totaling \$2,879,740 were addressed in our Budget Change Proposal (BCP) to DOF and will be incorporated into the change. The BCP will not become effective until 7/1/03. Beginning with the new budget year, DOF will align prior state authority to USEPA authority by phasing it in over a 3-year period in increments of one-third per year.

² USEPA treats the loan fund separately from the local assistance set-aside of source water protection loans and segregates them accordingly. The State of California, however, includes both categories as part of its loan fund (fund 629) but accounts for the source water protection loans as a sub account of the loan fund.

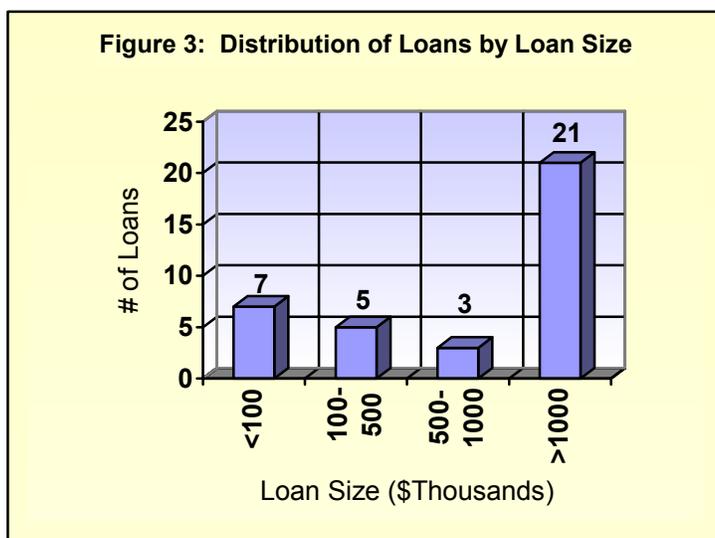
B. Uses of SDWSRF Funds

An amount of \$95,473,026 was provided in prior years for SDWSRF loans with an additional amount of \$3,000,000 for principal forgiveness, which brought total funded projects to \$98,473,026. During SFY 2001/02, the SDWSRF program provided \$36,606,449 in new loans for 13 projects and an additional amount of \$2,062,466 for 2 projects for principal forgiveness, which brings a total of 15 funded projects for the reporting period to \$38,668,915. Cumulative SDWSRF loans-to-date total \$132,079,475 along with principal forgiveness of \$5,062,466, which brings total funded projects to \$137,141,941 (see Table 4). This funding is made available to PWSs for infrastructure improvements. A total of thirty-six (36) projects have now been funded, seven (7) of which have principal forgiveness. During SFY 2001/02, the program also spent \$1,394,178 in set-aside assistance for Small Water System Technical Assistance (\$3,567,740 cumulative), \$551,211 for Capacity Development (\$809,433 cumulative), \$1,914,147 for Source Water Delineation & Assessment (\$4,008,674 cumulative), and \$2,805,305 for Program Administration (\$8,453,558 cumulative). Total set-aside expenditures as of June 30, 2002 total \$6,664,842 (\$16,839,404 cumulative). Please see figure 2.



Loan Assistance Status

The SDWSRF entered into thirty-three (33) loan agreements totaling \$132,079,475 as of June 30, 2002 and also provided \$5,062,466 in forgiveness of principal. This brings total project funding to \$137,141,941. This represents thirty-six (36) projects from 31 public water systems. The loans range in size from \$25,000 to \$18,062,849 (See Figure 3). The average loan repayment period is 16.94 years with an average interest rate of 1.65%. The water systems receiving these loans serve approximately 4.9 million people. Systems receiving SDWSRF loans range in size from 15 to 3.7 million people (See Figure 4). Fourteen (14) of the systems are considered disadvantaged and twenty-three (23) are small water systems. Six (6) systems representing seven (7) projects received a 0% interest loan and no principal forgiveness. Four (4) systems representing four (4) projects received a combination of a 0% interest loan and principal forgiveness. Three (3) systems representing three (3) projects received principal forgiveness



loans. Disbursed loan funds as of June 30, 2002 total \$110,607,479 (Table 2). Of this amount, the federal share is \$90,698,133 (82%) and the state share is \$19,909,346 (18%).

❑ Binding Commitments

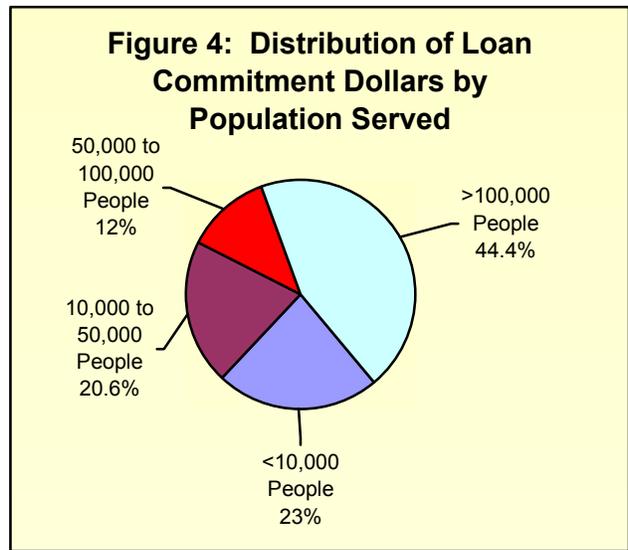
On a cumulative basis, the SDWSRF Program has obligated (entered into binding commitments) 68.4% (\$302,520,484/\$442,035,670) of all available loan funds to projects. This utilizes 117% (\$93,877,438/\$78,407,174+\$1,743,980 return to loan fund) of the federal FY 1997 capitalization grant loan funds, 105% (\$92,114,528/\$87,594,915) of the federal FY 1998 capitalization grant loan funds, 77.9% (\$68,345,771/\$87,766,936) of the FFY 1999 capitalization grant loan funds, and 49.9% (\$48,182,747/\$96,592,065) of the FFY 2000 capitalization grant loan funds. No funds had been obligated from the FFY 2001 capitalization grant as of June 30, 2002. Overobligation of the FY 1997 capitalization grant will be adjusted from future grants. Table 5 lists the loan commitments from the FFY 1997 through 2000 grants and provides a brief description of each project.

❑ Project Bypass

There were some PWS projects that were bypassed due to either applicant request or non-submittal of required documents. See Appendix F for a report on PWS projects that were bypassed. Applicants that appear on the bypass list continue to be invited again in the next round of invitations.

❑ Small Systems

The SDWSRF Program requires that 15% of the loan fund be committed to small water systems. Small water systems are defined as those that have less than 10,000 service connections. For the five federal grants (FFY 1997 through FFY 2001) received by the Department, commitments have been made against the entire FFY 1997, 1998, and parts of the 1999 and 2000 grants. For the four grants, total commitments average 23.2%, which is derived from the total amount committed to small water systems of \$70,044,769 divided by the total commitments of \$302,520,484. By year, this is comprised of \$17,377,828/\$93,875,778 or 18.5% of commitments against the FFY 1997 grant, \$25,286,293/\$92,114,528 or 27.5% of commitments against the FFY 1998 grant, \$15,227,646/\$68,345,771 or 22.3% of commitments against the FFY 1999 grant, and \$12,153,002/\$48,182,747 or 25.3% of commitments against the FFY 2000 grant. No commitments were made against the FFY 2001 grant. Of the 90 total projects listed in Table 5, 66 of them (73.3%) are for small water systems.



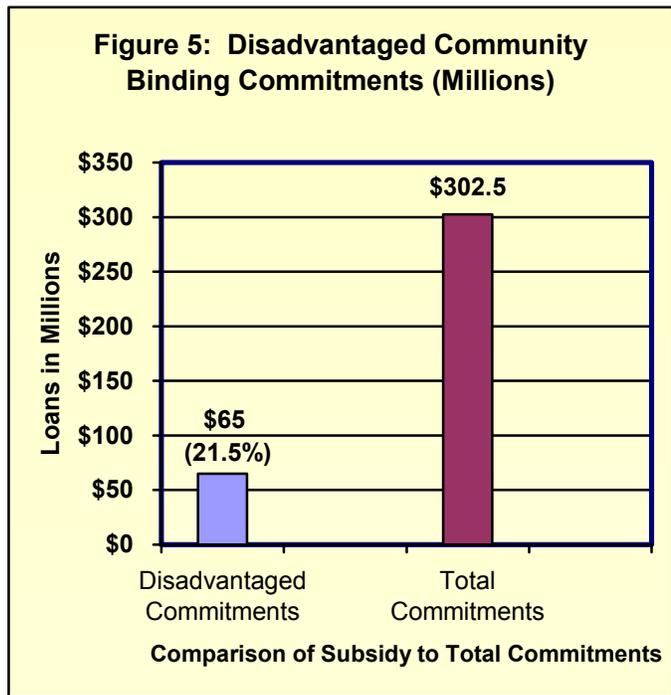
❑ Disadvantaged Community Systems

In accordance with Section 117671.65(b) of the California Health and Safety code, all loans to disadvantaged communities will carry a zero percent interest rate. The offer of additional assistance will be dependent upon the disadvantaged community's ability to repay the loan. Thus, factors such as household income levels, current and projected monthly consumer water charges, and the cost of the proposed project become determining factors (target consumer rate).

The determination as to whether a disadvantaged community qualifies for additional financial assistance will not be made until the Department of Water Resources completes its evaluation of the revenue program, project costs, and other financial information contained in the full project application. Therefore, while a public water system may be able to determine in advance whether or not they qualify as a disadvantaged community, they will not know if additional financial assistance will be provided until the full application process is completed.

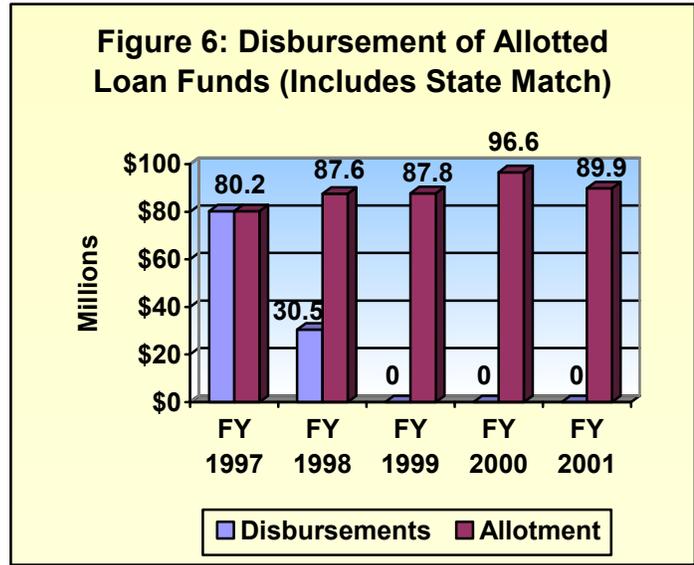
For the five Capitalization Grants received to date, the Department has committed \$62,592,728 to disadvantaged communities, which equates to 20.7% of all commitments. This is comprised of \$36,434,053 from the FFY 97 grant, \$19,463,507 from the FFY 98 grant, \$4,120,665 from the FFY 99 grant, and \$2,574,503 from the FFY 00 grant. No commitments were made against the FFY

2001 Grant. A total of 32 out of 90 total projects (35.6%) qualify as disadvantaged. Of the 32 projects deemed disadvantaged, 26 are receiving a 0% interest rate (\$51,865,551 or 17.1% of commitments); and 22 are receiving principal forgiveness (\$10,512,279 or 3.5% of commitments) on their loans. According to Section 35.3525(b) of the federal law, DHS may have provided for principal forgiveness up to 30% for each Capitalization Grant. DHS is well within the limit for each year.



❑ Disbursements

As of June 30, 2002, total loan fund disbursements amounted to \$110,607,479 (Figure 6). This is comprised of \$54,579,083 for this reporting period and \$56,028,396 from prior periods. Appendix C summarizes all disbursements for the California SDWSRF Program (set-asides and the loan fund). All loan disbursements were from the 1997 and 1998 Assistance Awards. \$57.1 million remained in the loan fund from the 1998 Assistance Award. No funds have been disbursed from the 1999-2001 Assistance Awards.



Loan claims (invoices) are received and reviewed by our contractor, the Department of Water Resources (DWR), for conformity to the loan agreement and forwarded to DHS for approval, processing, and payment.

FUNDED PROJECTS (Closed Loans) 1997, 1998, & 1999 CAPITALIZATION GRANTS
As of June 30, 2002

Table 4
1997 Grant

Priority Ranking	System Name	Loan Amount	Principal Forgiveness	Project Description	Population Served	Service Connections	Small System	Disadvantaged Community	Executed Contract Date
C	El Dorado Irrigation District	\$915,293	No	This project is for lining and covering reservoir #4 with a rigid cover and constructing a bypass	85,000	29,518	No	No	5/1/00
C	El Dorado Irrigation District	\$1,171,500	No	This project is for lining and covering reservoir #3 with a rigid cover and constructing a bypass	85,000	29,518	No	No	5/1/00
C	El Dorado Irrigation District	\$1,045,711	No	This project is for lining and covering reservoir #5 with a rigid cover and constructing a bypass	85,000	29,518	No	No	5/1/00
C	El Dorado Irrigation District	\$1,711,000	No	This project is for lining and covering reservoir #6 with a rigid cover and constructing a bypass	85,000	29,518	No	No	5/1/00
B	Solano Irrigation District	\$2,127,300	No	This project is for construction of a central water treatment plant for all water used in Gibson Canyon Improvement District	450	155	Yes	No	2/1/00
D	City of Brawley	\$16,050,000	No	This project has constructed a new water plant to correct violations	21,000	4,781	No	Yes	6/19/01

FUNDED PROJECTS (Closed Loans) 1997, 1998 & 1999 CAPITALIZATION GRANTS
As of June 30, 2002

Table 4
97 Grant Continued

Priority Ranking	System Name	Loan Amount	Principal Forgiveness	Project Description	Population Served	Service Connections	Small System	Disadvantaged Community	Executed Contract Date
D	C.C.W.D., West Point	\$0	1,000,000 Yes	This project will use the money to assist with a new surface water treatment plant	1,150	543	Yes	Yes	6/19/01
D	City of Vallejo – Lakes Water System (Gordon Valley)	\$6,675,000	No	This project is associated with the construction of a 1.1 million gallon clearwell and storage reservoir	2,000	790	Yes	No	7/24/00
D	Redwood Homes El Novato Trailer Park (Taylor Investments)	\$92,800	No	This project will connect mobiles homes to city water	46	46	Yes	No	10/3/00
C	Humboldt Bay MWD	\$11,677,030	No	Phased construction to provide full treatment	80,000	29,348	No	Yes	12/19/00
C	L.A. City Department of Water & Power	\$17,751,425	No	This project provides an underground Bypass pipeline for the lower Hollywood Reservoir, 60 Mg. of covered, filtered water storage in 2 buried tanks, a small-scale microfiltration plant, and a new water trunk line	3.7 million	662,783	N	N	5/17/01
D	City of Westmorland	\$670,632	1,000,000 Yes	This project will construct a new water treatment plant	1718	622	Yes	Yes	12/13/00

FUNDED PROJECTS (Closed Loans) 1997, 1998, & 1999 CAPITALIZATION GRANTS
As of June 30, 2002

Table 4
97 Grant Continued

Priority Ranking	System Name	Loan Amount	Principal Forgiveness	Project Description	Population Served	Service Connections	Small System	Disadvantaged Community	Executed Contract Date
C	Wiest Lake County Campground	\$83,710	No	This project will construct a 10 gpm surface water treatment plant	34	34	Yes	No	5/17/01
D	City of Brawley	\$4,127,516	No	This is the second contract for a project to fund construction of a new water plant	22,000	4,752	No	Yes	1/28/02
B	Richardson Beardsley	\$92,500	No	This project will replace defective piping and tank and drill new well	66	20	Yes	No	7/6/01
B	Sierra Mobile Home Park	\$72,500	No	Install an interconnection to the City of Fresno	250	128	Yes	Yes	3/8/02
C	Terra Bella ID	\$1,230,000	No	Refinance Debt	4494	651	Yes	Yes	9/20/01
C	Terra Bella ID	\$102,000	Yes \$408,000	Extend Distribution Mains	4494	651	Yes	Yes	4/4/02
TOTAL CLOSED LOANS 97		\$65,595,917¹	\$2,408,000¹				10	8	

See next page for statistical summary

Statistical Summary of Funded Projects from the 1997 Capitalization Grant

¹ Total Funded Projects for the 1997 Capitalization Grant = \$68,003,917 (\$65,595,917 loans + \$2,408,000 forgiveness of principal)
As of 6/30/02, the number of projects awarded loan contracts/forgiveness of principal from the '97 Capitalization Grant = 18 projects
17 of the 18 projects were awarded loans that must be repaid totaling \$65,595,917
2 of the 18 projects were awarded loans of \$670,632 and forgiveness of principal of \$1,408,000
1 of the 18 projects was awarded a forgiveness of principal of \$1,000,000
Number of small water systems funded by the '97 Capitalization Grant = 10 for \$13,554,442
Total population served by the '97 Capitalization Grant is approximately 4.163 million
Number of disadvantaged systems funded by the '97 Capitalization Grant = 8 for \$36,337,678
Average interest rate for the '97 Capitalization Grant = 1.36%
Average repayment period for the '97 Capitalization Grant = 20 years
0% interest loans were given to 5 systems covering 7 projects (City of Brawley – 2 loans, Humboldt Bay MWD, City of Westmorland, Terra Bella Irrigation District – 2 loans, and Sierra Mobile Home Park)

FUNDED PROJECTS (Closed Loans) 1997, 1998, & 1999 CAPITALIZATION GRANTS
As of June 30, 2002

Table 4
1998 Grant

Priority Ranking	System Name	Loan Amount	Principal Forgiveness	Project Description	Population Served	Service Connections	Small System	Disadvantaged Community	Executed Contract Date
B	Faye Ranch Properties	\$50,000	No	Replace the well	25	12	Yes	No	5/17/01
C	Asoleado MWC	\$61,390	No	Install an appropriate filtration system	52	35	Yes	No	5/7/01
D	Bella Vista WD	\$100,000	No	Study and pre-design for water treatment plant to meet CT disinfection regulation	13,500	4885	No	No	9/22/00
D	City of Anaheim	\$18,062,849	No	The Plant was closed down and reconstructed in order to comply with the Surface Water Filtration and Disinfection Treatment Regulations	300,500	59,484	No	No	6/8/01
E	Sonoma County Water Agency	\$9,952,386	No	Design and construction of one additional Ranney Collector Well with 20 mgd capacity and connecting pipeline	500,000	156,447	No	No	3/15/01
E	City of Crescent City	\$7,000,000	\$1,000,000	Installation of additional transmission pipeline and storage tank	13,831	3,749	No	Yes	6/26/01
G	Hillview WC-Oakhurst/Sierra Lakes	\$25,000	No	Planning loan	2,270	908	Yes	Yes	11/15/00
D	Happy Camp CSD	\$0	Yes \$1,000,000	Install additional filter and water meters	1100	433	Yes	Yes	5/3/02

FUNDED PROJECTS (Closed Loans) 1997, 1998, & 1999 CAPITALIZATION GRANTS
As of June 30, 2002

Table 4
1998 Grant

Priority Ranking	System Name	Loan Amount	Principal Forgiveness	Project Description	Population Served	Service Connections	Small System	Disadvantaged Community	Executed Contract Date
D	Whitehorn Elementary	\$28,616.23	\$114,466 Yes	Install new complete filtration	62	1	Yes	Yes	5/9/02
E	Rural North Vacaville Water District	\$8,984,099	No	Design and construct a water system	900	272	Yes	No	11/2/01
TOTAL CLOSED LOANS 98		\$44,264,340¹	\$2,114,466¹				6	4	

Statistical Summary of Funded Projects from the 1998 Capitalization Grant

¹ Total Funded projects for the 1998 Capitalization Grant = \$46,378,806 (\$44,264,340 loans + \$2,114,466 forgiveness of principal)
As of 6/30/02, the number of projects awarded loan contracts/forgiveness of principal from the '98 Capitalization Grant = 10 projects
9 of the 10 projects were awarded loans totaling \$44,264,340
2 of the 10 projects were awarded loans of \$7,028,616.23 and forgiveness of principal of \$1,114,466
1 of the 10 projects was awarded a forgiveness of principal of \$1,000,000
Number of small water systems funded by the '98 Capitalization Grant = 6 for \$10,263,571
Total population served by the '98 Capitalization Grant is approximately 832,000
Number of disadvantaged systems funded by the '98 Capitalization Grant = 4 for \$9,168,082
Average interest rate for the '98 Capitalization Grant = 1.8%
Average repayment period for the '98 Capitalization Grant = 16.1 years
0% interest loans were given to 3 systems (City of Crescent City, Hillview WC-Oakhurst/Sierra Lakes and Whitehorn Elementary School)

FUNDED PROJECTS (Closed Loans) 1997, 1998, & 1999 CAPITALIZATION GRANTS
As of June 30, 2002

Table 4
1999 Grant

Priority Ranking	System Name	Loan Amount	Principal Forgiveness	Project Description	Population Served	Service Connections	Small System	Disadvantaged Community	Executed Contract Date
D	Sereno Del Mar Water Company	\$250,000	No	Construct a new SWT plant and a new water storage source	300	132	Yes	No	5/7/01
D	Ford's Acres Mobile Home Park	\$187,000	No	Drill well for groundwater	150	46	Yes	No	5/3/02
D	Grizzly Flats CSD	\$268,629	No	Install a second treatment unit	1,200	469	Yes	No	10/19/01
D	Sierra Lakes County Water District	\$1,312,000	No	Install additional filter capacity	2,660	653	Yes	No	3/27/02
D	Serrano Water District	\$3,542,373	No	Refinance Project	6,500	2,250	Yes	No	12/5/01
E	Carrick Water System	\$0	Yes \$540,000	Develop new source separate from sewage	142	54	Yes	Yes	6/3/02
I	City of Angels	\$1,521,440	No	Install new filter	3,004	1,382	Yes	Yes	3/1/02
I	Contra Costa WD	\$15,137,776	No	Refinance Project	200,000	58,119	No	No	4/12/02
TOTAL CLOSED LOANS 99		\$22,219,218¹	\$540,000¹		213,956		7	2	

Statistical Summary of Funded Projects from the 1999 Capitalization Grant

¹ Total funded projects for the 1999 Capitalization Grant = \$22,759,218 (\$22,219,218 loans + \$540,000 forgiveness of principal)
As of 6/30/02, the number of projects awarded loan contracts/forgiveness of principal from the '98 Capitalization Grant = 8 projects
7 of the 8 projects were awarded loans totaling \$22,219,218
1 of the 8 projects was awarded a forgiveness of principal in the amount of \$540,000
Number of small water systems funded by the '99 Capitalization Grant = 7 for \$7,621,442
Total population served by the '99 Capitalization Grant is approximately 214,000
Number of disadvantaged systems funded by the '99 Capitalization Grant = 2 for \$2,061,440
Average interest rate for the '99 Capitalization Grant = 2.18%
Average repayment period for the '99 Capitalization Grant = 17.71 years
0% interest loans were given to 1 system (City of Angels)

TABLE 4

STATISTICAL SUMMARY OF FUNDED PROJECTS FOR ALL GRANT YEARS THROUGH JUNE 30, 2002

Summary of all Funded Projects from the '97, '98 & '99 Capitalization Grants as of June 30, 2002	
Total Number of Funded Projects (3 of the 36 were 100% principal forgiveness)	36
33 Projects Funded with Loans that need to be repaid	\$132,079,475
3 Projects Funded with Loans with Forgiveness of Principal	<u>5,062,466</u>
Total Amount of Projects Funded by Loans	→ 36 for a total of \$137,141,941
Total Forgiveness of Principal (4 projects combined 0% P & I forgiveness; 3 were only principal forgiveness)	7 projects for \$5,062,466
Total Population Served	5,209,000-280,000 in duplicate water systems = 4,929,000
Number of Disadvantaged Systems & Amount Funded	14 for \$47,567,200
Systems receiving just principal forgiveness	3 for \$2,540,000
Systems receiving just 0% loans	7 for \$34,703,486
Systems receiving both principle forgiveness & 0% loans (4 for \$2,522,466 & \$7,801,248 respectively)	4 for \$10,323,714
Number of Small Water Systems & Amount Funded	23 for \$31,439,455
Systems receiving 0% Interest (7 with 0% interest and 4 with both 0% interest and principal forgiveness)	11
Average Interest rate for loan portfolio	1.6%
Average Repayment period for loan portfolio	16.94 years

Report on Binding Commitments for the 1997, 1998, 1999, & 2000 CAPITALIZATION GRANTS
As of June 30, 2002 (Includes Executed Contracts)

Table 5
1997 Grant

Priority Ranking	System Name	Amount Committed	NOAA	Project Description	Population Served	Small System	Disadvantaged Community
D	City of Brawley	\$19,950,991	9/29/99	The city has approved and undertaken the construction of a new water plant to correct violations. The monies will be used to refinance the plant.	21,000	No	Yes
D	C.C.W.D., West Point	\$1,000,000	9/28/99	Replace with new surface water treatment plant	1,150	Yes	Yes
D	City of Vallejo	\$6,675,000	9/30/99	Associated with the construction of a 1.1 million gallon clearwell and storage reservoir.	2,000	Yes	No
C	El Dorado Irrigation District	\$915,293	9/30/99	This project is for lining and covering reservoir #4 with a rigid cover and constructing a bypass	85,000	No	No
C	El Dorado Irrigation District	\$1,045,711	9/30/99	This project is for lining and covering reservoir #5 with a rigid cover and constructing a bypass	85,000	No	No
C	El Dorado Irrigation District	\$1,171,500	9/30/99	This project is for lining and covering reservoir #3 with a rigid cover and constructing a bypass	85,000	No	No
C	El Dorado irrigation District	\$1,711,000	9/30/99	This project is for lining and covering reservoir #6 with a rigid cover and constructing a bypass	85,000	No	No
D	El Novato Trailer Park	\$92,800	9/28/99	Connect mobile homes to city water, North Marin Water District.	75	Yes	No
C	Humboldt Bay MWD	\$11,677,030	7/30/99	Phased construction to provide full treatment	65,000	No	Yes
C	City of L.A. Department of Water & Power	\$22,275,000	9/29/99	This project is a component from project 01. It is called Unit 4 Hollywood trunk line.	3,700,000	No	No
C	City of L.A. Department of Water & Power	\$17,751,425	9/29/99	An underground bypass pipeline for the lower Hollywood reservoir, 60 MG of covered, filtered water storage in 2 buried tanks, a small scale microfiltration plant, and a new water trunk line connecting the Hollywood area & lower Stone Canyon Reservoir	3,700,000	No	No

Table 5 (Continued)
1997 Grant

Priority Ranking	System Name	Amount Committed	NOAA	Project Description	Population Served	Small System	Disadvantaged Community
B	Richardson-Beardsley Inc.	\$92,500	9/27/99	Replace defective piping and tank and drill new well to community standards; install appropriate backflow devices, as needed.	42	Yes	No
B	San Pasqual Union School	\$100,000	9/27/99	Develop new safe well as primary source. Test well to be drilled first to verify water quality.	250	Yes	No
C	Santiago County Water District	\$658,000	9/28/99	Well head injection, mixing treatment and removal.	2,300	Yes	No
B	Sequoia Crest Mutual Water Company	\$159,108	9/27/99	Replace tanks with new 150,000-gallon storage tank.	200	Yes	No
B	Sierra Mobile Home Park	\$103,400	9/28/99	Install an interconnection to the City of Fresno.	325	Yes	Yes
C	Solano Irrigation District	\$2,281,300	6/3/99	This project is for construction of a central water treatment plant for all water used in Gibson Canyon improvement District	450	Yes	No
C	Terra Bella Irrigation District	\$510,000	8/13/99	Extend distribution mains from new SWTP to serve this area.	3500	Yes	Yes
C	Terra Bella irrigation District	\$1,230,000	8/13/99	Refinancing the existing debt at a lower interest rate.	3500	Yes	Yes
C	Trabuco Canyon Water District	\$1,946,038	9/29/99	Possible conversion to full surface water treatment rule treatment.	8550	Yes	No
W	TUD- Rim rock ditch conveyance project	\$282,000	9/27/99	Install a water treatment plant, tank, and water lines to serve the individual ditch customers.	110	Yes	Yes
B	Voyles Trailer Park	\$10,000	9/27/99	Drill new well.	40	Yes	Yes
D	City of Westmoreland	\$1,670,632	12/22/99	Construct a 2 million gallon per day water treatment plant and a 700,000-gallon storage tank.	2300	Yes	Yes
C	Wiest Lake County Campground	\$82,050	9/24/99	Install the system as shown in the included design.	25	Yes	No
B	Yosemite Spring Park Utility Co.	\$485,000 A-1 1,660 \$486,660	8/16/99	Drill new wells, install automatic operating and monitoring controls, and make distributions system improvements	3300	Yes	No
Total 1997 Grant Commitments		\$93,877,438				17	9

See next page for statistical summaries

Statistical Summary of the 1997 Capitalization Grant Commitments

Number of project commitments from the 97 Capitalization grant as of 6/30/02	25
Amount of project commitments from the 97 Capitalization grant as of 6/30/02	\$93,877,438 (117% of amt. to commit)
Total population served	3,895,617
Number of disadvantaged systems	9
Disadvantaged water system project commitments from the Capitalization grant as of 6/30/02	\$36,434,053 (38.8% of commitments)
Number of small water systems	17
Small water system project commitments from the 97 Capitalization grant as of 6/30/02	\$17,377,828 (18.5% of commitments)
Number of water systems receiving 0% interest rate commitments	8
Amount of project commitments receiving a 0% interest rate	\$31,629,023 (33.7% of commitments)
Number of water systems receiving forgiveness of principal	4
Amount of project commitments receiving forgiveness of principal	\$2,588,000 (2.8% of commitments)

Table 5 (Continued)
1998 Grant

Priority Ranking	System Name	Amount Committed	NOAA	Project Description	Population Served	Small System	Disadvantaged Community
C	Asoleado MWC	\$61,390	2/7/00	Install appropriate filtration system or drill deeper wells	140	Yes	No
D	Bella Vista Water District	\$100,000	2/3/00	Study and pre-design for water treatment plant to meet CT disinfection regulation.	12,861	No	No
B	City of Blythe	\$6,771,200	9/29/99	Construct a new water facility including supply wells, filtration, storage reservoirs, and a distribution pipeline loop.	8,500	Yes	Yes
C	Donner Lake Water Company	\$3,691,324	9/28/99	Replacement of existing tank with a 500,000 gallon tank and addition of a booster facility	2,800	Yes	No
B	Faye Ranch Properties	\$50,000	11/1/99	Find source and stop access; replace well. Study and design	25	Yes	No
C	Lake Canyon Mutual Water Company	\$300,000	3/3/00	Site for treatment has been acquired; treatment system has been purchased and design engineering has been completed. They estimate 9 months for the construction of the treatment system. Replacement of aged mains is planned.	175	Yes	No
B	One Hundred Palms Resort	483,850	2/11/00	Consolidate with an adjacent public water system, develop a well, and construct a storage tank.	150	Yes	Yes
C	City of Los Angeles – Dept. of Water & Power	\$16,642,000	9/29/99	9.7 MGD Microfiltration plant at Hollywood Reservoir	3,700,000	No	No
C	Grenada WC	\$1,035,000	9/29/00	Construct new deep wells with separation from sewage hazards; construct storage facilities	250	Yes	Yes
C	River Pines PUD	\$330,000	9/29/99	Drill replacement well close to filtration plant to assure continuous supply of microbiologically safe water,	500	Yes	Yes
E	Rural North Vacaville Water District	\$9,055,832	6/28/00	Design and construct a water system for the district.	1500	Yes	No
C	SLO CWWD No. 6 – Santa Margarita	\$500,000	6/1/00	Locate and identify a new groundwater source, purchase right-of-way, design & construct well and new transmission line.	1200	Yes	No
W	Tinnemaha Campground	\$27,500	4/11/00	Construct a new well, tank, and distribution system.	400	Yes	No

Table 5 (Continued)
1998 Grant

Priority Ranking	System Name	Amount Committed	NOAA	Project Description	Population Served	Small System	Disadvantaged Community
B	TUD-Cattle Drive Ditch Conveyance	\$405,150	12/22/99	Construct a water treatment plant, storage tank, and pipelines to serve the individual ditch customers.	30	Yes	Yes
B	TUD-Expedition Drive Ditch Conveyance	\$36,740	3/1/00	Install water lines to connect the individual ditch customers to TUD's scenic view water system.	25	Yes	No
W	TUD-Last Chance Water Company	\$100,000	3/21/00	Install a pipeline to interconnect to TUD's upper basin system.	15	Yes	Yes
B	TUD-Lower Columbia Ditch Conveyance	\$623,300	12/22/99	Install a pump station, tank, and pipelines from TUD's Columbia Water System to serve the individual ditch customers.	30	Yes	Yes
B	TUD-Railroad ditch conveyance project	\$348,225	3/1/00	Install a water line, pump station, storage tank, and service lines to supply treated water from TUD's Jamestown system to the ditch customers.	80	Yes	Yes
B	TUD-San Diego ditch conveyance project	\$198,700	12/22/99	Install water lines from TUD's Columbia Water System and install a storage tank to serve the individual customers.	60	Yes	Yes
D	Whitehorn Elementary School	\$114,144 A-1 <u>28,938</u> \$143,082	1/12/00	Install new complete filtration	80	Yes	Yes
G	Hillview WC-Oakhurst/Sierra Lakes	25,000	10/6/00	Planning loan	2,170	Yes	Yes
D	Happy Camp C.S.D.	\$1,000,000	9/29/00	Install additional filter to reduce loading rates and water meters at service connections to control demand	1,100	Yes	Yes
E	Sonoma County Water Agency	\$9,952,386	9/28/00	Design and construct one additional Ranney Collector Well with 20 mgd capacity and connecting pipeline	500,000	No	No
E	City of Crescent City	\$8,000,000	9/28/00	Installation of additional transmission pipeline and storage tank	13,831	No	Yes
H	Santa Barbara Water Department	\$14,071,000	9/28/00	Study, design and construct the best alternative to eliminate open distribution reservoir	93,932	No	No
E	Donner Lake Water Company	\$100,000	9/21/00	Investigate the condition of the existing distribution system & repair or replace as needed	2,800	Yes	No

Table 5 (Continued)
1998 Grant

Priority Ranking	System Name	Amount Committed	NOAA	Project Description	Population Served	Small System	Disadvantaged Community
D	City of Anaheim	\$18,062,849	7/17/00	The plant was closed down and reconstructed in order to comply with the Surface Water Filtration and Disinfection Treatment Regulations	292,900	No	No
Total 1998 Grant Commitments		\$92,114,528				21	13

Statistical Summary of the 1998 Capitalization Grant Commitments

Number of project commitments from the 98 Capitalization grant as of 6/30/02	27
Total amount of project commitments from the 98 Capitalization grant as of 6/30/02	\$92,114,528 (105% of amt. to commit)
Total population served (4,635,554 less 3.7 million already reflected in 1997 cap grant)	935,554
Number of disadvantaged systems	13
Disadvantaged water system project commitments from the Capitalization grant as of 6/30/02	\$19,463,507 (21.1% of commitments)
Note: (Adjustment of \$28,938 added to last year's amount of \$19,434,569)	
Number of small water systems	21
Total small water system project commitments from the 98 Capitalization grant as of 6/30/02	\$25,286,293 (27.5% of commitments)
Note: (Adjustment of \$28,938 added to last year's amount of \$25,257,355)	
Number of water systems receiving 0% interest rate commitments	11
Amount of project commitments receiving a 0% interest rate	\$15,128,020 (16.4% of commitments)
Number of water systems receiving forgiveness of principal	9
Amount of project commitments receiving forgiveness of principal	\$4,335,165 (4.7% of commitments)

Table 5 (Continued)
1999 Grant

Priority Ranking	System Name	Amount Committed	NOAA	Project Description	Population Served	Small System	Disadvantaged Community
C	San Luis Obispo WC District (Lopez Project)	300,000	4/12/01	Locate and identify a new well site; then design and construct a new well	16	Yes	No
D	Ford's Acres Mobile Home	\$187,000	6/22/01	Drill a well to change the system source to groundwater	25	Yes	No
G	Prunedale Mutual Water Association	\$275,000	5/31/01	Drill a new well and construct a transmission line. Possibly purchase land for the well site	300	Yes	No
I	East Bay MUD	\$2,188,000	5/9/01	Install an Oxygenation system to reduce TOC levels to comply with ESWTR and Stage 1 DBP Rule	1,200,000	No	No
I	Contra Costa WD	\$15,137,776	5/7/01	Plant upgrade incorporating intermediate ozone and other improvements	225,000	No	No
F	Lake Morena Resort	\$30,000	4/12/01	Drill well or consolidate with adjacent system	45	Yes	No
E	Sisykiyou CSA#5 Carrick Water System	\$540,000	4/12/01	Develop new source that is adequately separated from sewage disposal facilities	150	Yes	Yes
C	City of Crescent City Roosevelt Water System	\$400,000	2/22/01	Develop groundwater source including holding tank, new pumps, install larger mains & meters	200	Yes	Yes
I	City of Angels	\$1,521,440	1/30/01	Install an additional filter	2,844	Yes	Yes
D	Sereno Del Mar Water Company	\$250,000	1/22/01	Construct a new surface water treatment plant or new storage a groundwater supplemental source	300	Yes	No
D	Serrano Water District	\$3,621,142	1/9/01	Refinance projects started after 7/1/93	7,500	Yes	No
D	Grizzly Flats CSD	\$268,629	10/20/00	Install a second treatment unit; involves refinance	796	Yes	No
D	TUD (Big Hill)	\$1,000,000	2/27/01	Construct a new surface water treatment plant	700	Yes	Yes
D	Capell Valley Estates	\$432,000	8/29/01	System upgrade to meet requirements	250	Yes	No
D	Dutch Flat Mutual	\$115,000	9/24/01	Provide 100,000 gallon additional storage	240	Yes	No
D	Sierra Lakes CWD	\$1,312,000	7/31/01	Install additional filter capacity	2660	Yes	No
G	Del Rey CSD	\$659,225	9/20/01	Drill two new production wells	931	Yes	Yes
H	Carpenteria Valley WD	\$6,568,000	6/29/01	Construct new filtration treatment plant	17,000	No	No
H	Montecito Water District	\$3,743,850	8/6/01	Construct piping around existing reservoir	17,800	No	No
I	EBMUD (Comanche S. Shore)	\$4,316,210	9/13/01	Construct new plant for cap requirements	2,632	Yes	No
I	Kern County WA	\$3,955,250	9/27/01	Refurbish 6.1 MG clear water wells	22,250	No	No
I	City of San Diego	\$21,525,249	9/27/01	Alvarado Water Filtration Plant Expansion	1,223,400	No	No
Total 1999 Grant Commitments		\$68,345,771			2,725,039	16	5

See next page for statistical summary

Statistical Summary of the 1999 Capitalization Grant Commitments

Number of project commitments from the 99 Capitalization grant as of 6/30/02	22 projects
Amount of project commitments from the 99 Capitalization grant as of 6/30/02	\$68,345,771 (77.9% of amt. to commit)
Total population served	2,725,039
Number of disadvantaged systems	5
Disadvantaged water system project commitments from the Capitalization grant as of 6/30/02	\$4,120,665 (6% of commitments)
Number of small water systems	16
Total small water system project commitments from the 99 Capitalization grant as of 6/30/02	\$15,227,646 (22.3% of commitments)
Number of water systems receiving 0% interest rate commitments	2
Amount of project commitments receiving a 0% interest rate	\$1,710,370 (2.5% of commitments)
Number of water systems receiving forgiveness of principal	4
Amount of project commitments receiving forgiveness of principal	\$2,019,225

Table 5 (Continued)
2000 Grant

Priority Ranking	System Name	Amount Committed	NOAA	Project Description	Population Served	Small System	Disadvantaged Community
D	Amador WA (Buckhorn)	\$6,473,700	6/13/02	Upgrade treatment plant or construct a new one	1,086	Yes	No
F	East Valley WD (Arroyo Verde MWC)	\$680,170	12/19/01	Consolidate water system into EVWD	41	Yes	No
H	City of Escondido	\$2,048,125	12/5/01	Design & construct pressurized pipe replacement	127,800	No	No
E	Farm Mutual Water Co.	\$536,900	5/24/02	Construct new reservoir	2,371	Yes	No
G	Hillcrest MHP/LACWWD	\$162,320	11/17/01	New supply and system	25	Yes	Yes
J	Ivanhoe PUD	\$2,000,000	12/19/01	Construct new well & replace distribution system	4,000	Yes	Yes
I	Kern County WA	\$1,181,620	1/28/02	Reconfigure inlet to 6.8 MG Oswell Tank	22,214	No	No
E	Lake Combie Mobile Home Village	\$74,375	12/7/01	Connect to NID's treated water line adjacent to property	65	Yes	No
H	Meadow Vista Cnty WD	\$100,000	1/18/02	Replace 2 2mg reservoirs with welded steel tanks	3,200	Yes	No
I	Metropolitan WD (Mills)	\$20,000,000	3/6/02	Design & install ozonation facilities	2,260,000	No	No
B	Paradise Ranch MHP	\$788,354	6/4/02	Redrill 4 shallow wells or provide filtration plant	211	Yes	No
D	Red Hill Marina Campgr	\$150,000	12/31/01	Construct a new surface water treatment plant	50	Yes	Yes
I	City of Santa Barbara	\$12,800,000	12/5/01	Redesign filters, chemical & sludge handling	92,826	No	No
J	Strathmore PUD	\$925,000	2/19/02	Replace old lines with new pipe	1,905	Yes	No
J	City of Tehema	\$225,183	5/13/02	Install automatic standby generator	438	Yes	Yes
G	Weaver Union School	\$37,000	6/12/02	Remove two extraction wells	1,400	Yes	Yes
Total 2000 Grant Commitments		\$48,182,747			2,517,632	12	5

See next page for statistical summary

Statistical Summary of the 2000 Capitalization Grant Commitments

Number of project commitments from the 00 Capitalization grant as of 6/30/02	16 projects
Amount of project commitments from the 00 Capitalization grant as of 6/30/02	\$48,182,747 (49.9% of amt. to commit)
Total population served	2,517,632
Number of disadvantaged systems	5
Disadvantaged water system project commitments from the 00 Capitalization grant as of 6/30/02	\$2,574,503 (5.3% of commitments)
Number of small water systems	12
Total small water system project commitments from the 00 Capitalization grant as of 6/30/02	\$12,153,002 (25.3% of commitments)
Number of water systems receiving 0% interest rate commitments	5
Amount of project commitments receiving a 0% interest rate	\$3,398,138 (7.1% of commitments)
Number of water systems receiving forgiveness of principal	5
Forgiveness of principal for projects from the 00 Capitalization grant as of 6/30/02	\$1,569,889 (3.3% of commitments)

TABLE 5 STATISTICAL SUMMARY OF COMMITMENTS FROM ALL CAPITALIZATION GRANTS

Statistical Summary of all Project Commitments from the 1997-2000 Capitalization Grants as of June 30, 2002	
Total Number of Project Commitments (Notice of Application Acceptance)	90
Cumulative Project Commitments excluding adjustments	\$302,489,886
Amendments to the 97 & 98 Commitments ('97 \$1660 + '98 \$28,938)*	30,598
Total Project Commitments including adjustments	\$302,520,484
Cumulative project commitments are at 68.4% (\$302,520,484/\$442,035,670)	68.4% committed
* \$1,660 from '97 grant for SWS loans and \$28,938 from '98 grant for SWS disadvantaged	
Total Population Served	10,073,842
Cumulative Commitments to Disadvantaged Systems: \$62,592,728/\$302,520,484 = 20.7%	32 for \$62,592,728
Cumulative Commitments to Small Water Systems: \$70,044,769/\$302,520,484 = 23.2%	66 for \$70,044,769
Cumulative Commitments for a 0% Interest Rate: \$51,865,551/\$302,520,484 = 17.1%	26 for \$51,865,551
Cumulative Commitments for Forgiveness of Principal: \$10,512,279/\$302,520,484 = 3.5%	22 for \$10,512,279

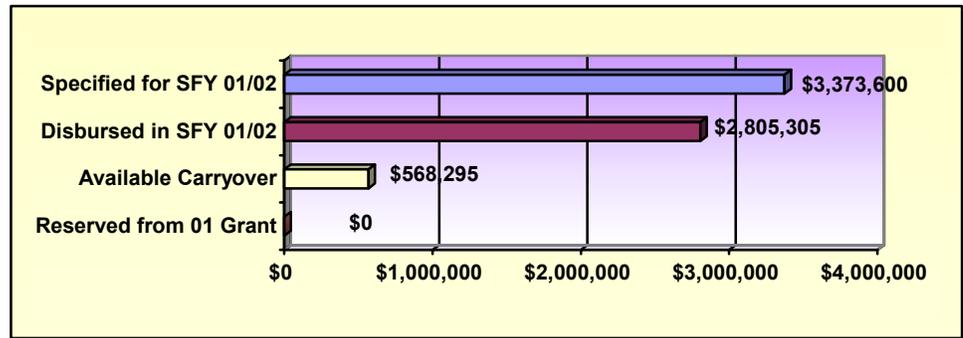
Set-Aside Activity Status

The following pages provide an overview of DHS' set-aside activities for the year ending June 30, 2002. Appendix B includes management reports from Accounting detailing expenditures for the set-asides.

A. Set-Aside: Administration

DHS set aside the entire 4 percent of the 2001 Capitalization Grant allowed for the administration costs of this complex program. Excess funds available at the end of the SFY 2001/02 will be retained for use in

future years to ensure the availability of sufficient funds to administer the program in perpetuity. The state is not currently charging fees to supplement available set-aside funds.



The majority of funds from this set-aside paid salaries and associated expenses of personnel administering the SDWSRF program. Actual expenditures for the Administration set-aside account (Fund 625) totaled \$2,805,305. Year-end-encumbrances total \$713,272. The encumbrances represent amounts obligated for contracts (but not yet billed) entered into during the period, such as the Department of Water Resources and the California State Personnel Board. The contract with the Department of Water Resources is to assist DHS in managing the financial aspects of executing SDWSRF loans; the contract with the California State Personnel Board is for an engineering classification study; and the contract with the California State Bureau of Audits is to ensure the SDWSRF Program complies with federal laws and regulations applicable to the Capitalization Grants. The following administrative activities have been completed.

Hiring/training of staff

As of June 30, 2002, a total of 26 administrative positions were authorized, which equate to 23 FTE positions. Staff attends periodic SDWSRF training workshops to stay current on policies & procedures.

Purchase of computer hardware and software

Purchases were completed in the first year's grant.

Development of program documents

Extensive program documents have been developed for all set-aside programs. Many of these documents can be found and are available for downloading at the SDWSRF website address located at <http://www.dhs.ca.gov/ps/ddwem/srf/srfindex.htm>. Documents specific to administration include:

- Policy & Procedures Manual
- Project Priority List
- Intended Use Plan
- Pre-application Package
- Full Application Package.

Changes in program procedures

1. Administration Unit – There has been no change in procedures.
2. Technical Support Unit – There has been no change in procedures.
3. Environmental Review Unit – No major changes were made with regards to the environmental review process; however, the process has been refined and given more detail as follows:
 - Environmental Database enhancements
4. Fiscal Unit – There have been some minor changes. In order to become more efficient, the fiscal unit has adopted an invoice tracking process. This will facilitate better coordination between program and accounting for paying invoices on a timely basis. Another change in procedure relates to preparing the notice to invoice water systems for principal and interest on loans. When payment is received, the DHS cashiering unit will deposit the payment and provide a copy to the Senior Accounting Officer with the date posted. When payment has been posted, this will be posted to CALSTARS (the Department's accounting system) to the invoice that was automatically assigned by the Accounts Receivable System and update the payment status. Payments received will be logged into a spreadsheet, which will have a running balance. Payments not received will generate a 30, 60, and 90-day letter to be mailed to the appropriate water system. The last change in procedure was to create a form for the USEPA Draw Checklist. This will clarify to staff exactly what was drawn and allow staff to see the sequence of events that happened after the draw. It also indicates the back up that needs to be in the draw book to support the checklist. With this checklist, USEPA reviewers and auditors will have documentable audit trail of the sequence of events and can track any delays in payments.

5. Small Water System Unit – There has been a change. A guidance manual has been developed to outline how District and LPA staff can obtain assistance from third party contractors for water systems. Along with this manual, an assistance referral list was developed. The list categorizes water systems by their public health risk and size.

❑ Solicitation of Applications (Preapplications)

During SFY 2001/02, the ninth round of invitations was sent out. Invitees included projects in categories B through C (there were no projects in category A) with 10 or more bonus points. Application invitations were sent to 123 water systems in April of 2002. These invitations resulted in 22 systems submitting positive statements of interest and were sent complete application information. Earlier invitees were also given a cutoff date for submitting their application from prior rounds.

❑ Update of comprehensive list of projects (PPL)

The PPL is updated on an annual basis. The PPL for SFY 2001/02 was comprised of approximately 3,700 projects that were submitted by approximately 1650 water systems. Approximately 60 of these preapplications relate to source water protection projects. Application invitations were sent to 126 water systems in April of 2002. Twenty five (25) systems responded positively to a Statement of Interest and were sent complete application information.

The annual open preapplication period was announced to all PWSs in the state in June 2001. During the submission period, which closed in September of 2001, approximately 200 preapplications were received for SDWSRF projects and 8 for source water protection loans. These were ranked by field offices and incorporated into the PPL presented for public hearing in January 2002. Information concerning the open preapplication period, including the preapplication form and related material, was also posted on the SDWSRF Internet web site to increase the availability of this information.

The Department continues to work on its new database, which is under development. The database, known as the Management, Accounting, and Reporting Systems (MARS), will integrate the PPL when completed.

❑ Public Participation

The Source Water Assessment and Protection Policy Advisory Committee and Technical Advisory Committee met in November 2001 to receive updates on SWAP activities and to provide input on the future course of these activities.

Each spring and summer, SDWSRF representatives participate in a series of 6 multi-agency funding fairs held throughout the state. These forums provided information on a variety of funding programs for infrastructure improvements. Participants included the United States Department of Agriculture Rural Utilities Service, the State Water Resources Control Board,

the Department of Housing and Community Development, and DHS. Drawing a wide variety of representatives seeking funding of public projects, these workshops, organized by the California Finance Coordinating Committee, provided public water systems and others with valuable information on the SDWSRF and other funding mechanisms.

DHS representatives also have opportunities to receive input from the stakeholders when making presentations and participating on professional committees at meetings of groups, such as the Groundwater Resources Association, the California Environmental Health Association, the Association of California Water Agencies, the Small Water Systems Interagency Outreach Committee, the California Conference of Directors of Environmental health and the CALFED Bay-Delta project.

□ Evaluation of PWSs for technical, financial, and managerial capacity (TMF).

USEPA granted approval of DHS' TMF Capacity Development Workplan on July 1, 1999 and approval of its Capacity Development Strategy on September 8, 2000.

For the time period from July 1, 2001 to June 30, 2002 there were a total of 554 water supply permit actions by DHS and LPAs reported in the DHS data tracking system. This includes 153 amended permits and 401 other permit actions. The majority of these permit actions did not trigger an evaluation of the TMF Capacity of the water system, which is limited to new systems and systems changing ownership, pursuant to state law found in Health and Safety Code Section 116540 (a).

There were fifty-four (54) TMF Capacity Assessment forms reviewed. Eighteen (18) were for TMF evaluations for SDWSRF Projects, and thirty-six (36) were for new water systems (two (2) Community Water Systems and thirty-four (34) Non-Transient Non-Community Water Systems).

During this period there may have been cases in which potential new PWSs chose to connect to an existing PWS to avoid the expense and TMF requirements of becoming a new PWS. There is no data tracking for these cases, however, at this time.

- For all of the fifty-four (54) TMF Assessments reviewed, the mandatory TMF elements were completed prior to issuance of a permit for new systems or Notice of Application Acceptance (NOAA) for SRF projects.
- For SRF projects, the necessary TMF elements were addressed in the NOAA as contract conditions or if the permit modification was needed, as Water Supply Permit conditions.
- For the new systems, the necessary TMF elements were generally addressed as conditions in the Water Supply Permit. The use of permit conditions makes these necessary items reportable via enforceable requirements and timelines. However, several systems completed all elements up front.

The level of documentation and detail provided in the TMF assessment becomes greater as the size and complexity of the water system increases. The smaller and less complex the water systems require less documentation and detail in the TMF assessment. A review by

DHS Headquarters of the TMF Assessments of SRF projects indicates that the procedures established in the SDWSRF Policy and Procedures Manual and TMF Staff Guidance are substantially being followed. DHS Staff is applying the TMF Criteria in a consistent manner throughout the state based on the system size and complexity.

For new systems, all thirty-six (36) filled out the TMF Assessment Forms. The necessary items from the TMF Assessment were addressed as permit conditions.

Development of the IUP

DHS prepared an IUP for the FFY 2001 Capitalization Grant. The IUP set forth DHS' goals and priorities. A PPL was established that ranked PWSs into categories based on public health issues, compliance with the SDWA, and per household affordability. The PPL is a component of the IUP. Projects that rank high on the PPL are the first to be offered loans based on available funding.

Conduct public hearings for PPLs and IUPs

In December 2001 a notice was sent to all public water systems in California and other interested parties announcing the availability of the draft IUP and the 2002 PPLs (SDWSRF and SWP); A public hearing was held January 25, 2002. The notice and related documents were also posted through the Department's Internet website to maximize public availability.

Meeting of stakeholder committees

The SDWSRF program has stakeholder committees in each of the set-aside programs. The SRF Interest Group is comprised of water utility associations, PWSs, nonprofit groups, water utility consultants, funding agencies and others. The Small Systems Interagency Outreach Committee is a stakeholder group that assists with input and coordination of training.

Preparation of capitalization grant application

The 2001 federal Capitalization Grant was prepared by DHS staff and awarded by USEPA in March of 2002.

Development of Accounting Management Reports

Appendix B details the accounting management reports that will be used to track expenses to the SDWSRF Program.

Completion of SDWSRF program audits

The Certified Public Accounting firm of Clifton Gunderson performed the audit for SFY 2001/02. USEPA, through its subcontractor Northbridge, contracted with Clifton Gunderson for this service. This audit was completed in March 2003. An unqualified opinion was issued, as has been the case for all prior audits. The audit report stated "In our opinion, the

financial statements present fairly, in all material respects, the financial position of the California Department of Health Services Safe Drinking Water State Revolving Fund as of June 30, 2002, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.” A report was also issued on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with Governmental Auditing Standards. The report, dated February 6, 2003 says, “We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.” Finally, the auditors issued a report on compliance with OMB Circular A-133. The report, dated February 6, 2003 says, “We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.” Minor nonmaterial audit findings were noted in the audit report and are discussed below: See Appendix D for a copy of the audit report.

- Finding 2002-01 This finding involves the timing of drawing funds from USEPA to reimburse the Department for costs incurred and paid by the State Controller’s Office (SCO). The auditors noted instances in which draws were received by DHS from the USEPA and more than 72 hours had passed before SCO issued a warrant. No costs were questioned but the auditors recommended that DHS discuss this issue with SCO to find a possible resolution. DHS agrees to work with SCO on this issue to reduce the time between EPA draw dates and warrant issue dates.
- Finding 2002-02 This finding involves the disbursement of retainage amounts to water systems. The auditors noted that sometimes in order to ensure a construction company has performed satisfactory work, the entity will withhold 5% to 10% of each invoice (retainage) submitted by the construction company until the project is complete. At the end of the project, once all parties are satisfied with the quality of the work performed, the retainage is released and paid to the construction company. However, the SDWSRF program has reimbursed costs associated with retainage to entities which have not yet paid out the retainage on the project. No costs were questioned but the auditors recommended that DHS not disburse the retainage until after final inspection and final payment of retainage is made by the entity to the construction company. DHS agrees to train personnel processing the loan disbursement to local entities regarding this matter.
- Finding 2003-03 This finding involves the program’s Time Accounting System (TAS) and how it interfaces with the Department’s Accounting System, known as CALSTARS. In order for proper posting to CALSTARS, each employee’s position code in TAS must agree to the position number in SCO’s payroll database. The auditors noted instances of disagreement between the position codes in CALSTARS and TAS. As a result, the time that these employees spent may not have been recorded appropriately in CALSTARS. The error of the sample period tested resulted in a projected undercharge of the federal program of approximately \$28,000. The auditors recommended that the SDWSRF program implement a policy regarding notification of differences in position numbers between SCO and TAS in order to reduce the errors made in posting to CALSTARS. The SDWSRF program agrees and has made steps in mitigating these position number discrepancies by: 1) working with the Division Personnel unit to more

closely track position numbers and changes; 2) the timing of the reports submitted to the Financial Management Branch (FMB) will be changed to allow feed-back from FMB regarding any position number discrepancies; 3) any discrepancies noted in the position numbers will be researched and, if necessary, changes will be made to reflect agreement with the SCO position numbers; and 4) when the CALSTARS reports are posted to the web-site, the information will be downloaded and compared with TAS and adjustments will be made accordingly.

- Finding 2003-04 This finding involves conversion to an accrual basis of accounting. The auditors noted that the SDWSRF program needs an employee or contractor who can convert the various special revenue funds of the program which are reported on a budgetary (encumbrance) basis of accounting to a proprietary fund type presentation on an accrual basis of accounting for external financial reporting of the program. The SDWSRF program agrees to follow up with the Bureau of State Audits to discuss the conversion issues and determine the appropriate course of action.

Regulations

The authority to implement regulations was based on enabling legislation for the SDWSRF program. This was accomplished with the passage of Senate Bill 1307 (Chapter 734-Statutes of 1997) signed by the Governor on October 6, 1997. Emergency regulations were adopted on March 23, 1999 and became final on August 18, 1999.

In June of 2000 the draft regulations to amend the SDWSRF Program to specifically address the administration of the Source Water Protection Loan Program and consolidation issues were submitted to the Office of Regulations. The public comment period on the Source Water Protection Projects/Consolidation regulations began June 29, 2001; it was concluded on August 13, 2001. These regulations were filed with the Secretary of State's Office on August 6, 2002 and became law on September 5, 2002.

The regulations to support implementation of the Source Water Protection Loan Program were expanded to include a number of changes to facilitate funding projects to consolidate two or more water systems.

Posting to the Department's Internet web site was the primary mechanism for circulation of the proposed regulations before they were finalized. These regulations establish the regulatory procedure for issuance of Source Water Protection Project loans, and remove impediments to funding consolidation projects.

Source Water Protection Projects

Funding for this program will provide loans to PWSs for the purchase of land or conservation easements. A PWS may only purchase land or a conservation easement from a willing party. The purchase must be for the purposes of protecting the system's source water and ensuring compliance with national drinking water regulations. DHS evaluates all projects using the priority system described in DHS' IUP.

As part of the overall SWAP strategy, low interest SWP loans will be offered to PWSs beginning in SFY 2002/03 for source water protection. The Department intends to use an \$8,416,655 (\$4,199,655 FFY 2000 Grant & \$4,217,000 FFY 2001 Grant) set-aside towards funding projects on the SWP priority list. The SWP loans will be treated as a sub-account within the SDWSRF loan fund. This funding is part of the SDSWRF loan fund and will be tracked separately by its own cost accounting code. This amount reduces the funding available to the SDWSRF infrastructure improvement projects accordingly. SWP funding set-aside from the 1999 Capitalization Grant in the amount of \$4,040,835 will need to be returned to the loan fund since it was not obligated by September 30, 2002. This will be done through an amendment to the Assistance Award.

Delegation authority for Compliance with federal regulations and authorities

Federal Endangered Species Act: July 2, 1999 Letter from U.S. Environmental Protection Agency to U.S. Fish and Wildlife Service Designating them (U.S. Fish and Wildlife Service) as Non-Federal Representative for Compliance with Section 7 of the Act.

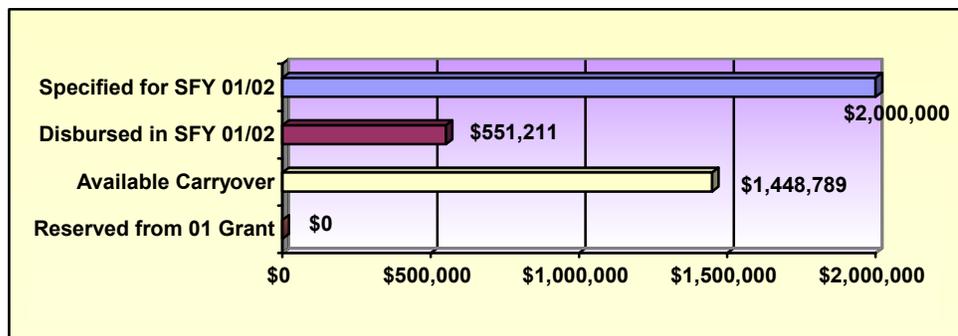
National Historic Preservation Act: March 1990 “Programmatic Agreement on Historic Preservation for the State Revolving Fund” stipulating the responsibilities of USEPA and State Revolving Fund agencies (including DHS).

Environmental review process

During SFY 2001/02, the Environmental Review Unit refined procedures for documenting the environmental review process and incorporating environmental findings and conditions into the process of SDWSRF project approvals. Specific memo and report formats were developed to enhance communication between the ERU and other units in SDWSRF program. Specific environmental information requirements were established for determining the completeness of SDWSRF applications. The “NEPA-like” requirements for consultation with federal authorities have been refined and documented by using detailed checklists. The unit has also prepared a desk manual and flowchart to document its environmental review process. The Unit still maintains its own environmental review database, which has been updated and improved to reflect changes in the process and increase the types of reports that can be generated.

B. Set-Aside: Capacity Development

Capacity Development is related to the increasing of the ability of a system to meet the operational and regulatory



requirements to maintain a public water system in continued compliance with the SDWA. DHS set aside \$2 million of the FFY 2001 Capitalization Grant in order to address these regulatory requirements.

Capacity Development Strategy is a method to identify PWSs most in need of TMF improvement and factors that encourage or impair capacity development and incorporates a plan to improve SWS compliance with the SDWA.

The federal guidance requires a state to describe how it will assist PWSs to meet primary drinking water regulations, how it will encourage partnerships and assist in the training and certification of operators. A state must establish a baseline to measure improvements and identify persons interested in implementing the capacity development strategy.

Actual expenditures for the Capacity Development set-aside (Fund 626) for SFY 2001/02 total \$551,211. Year-end encumbrances total \$592,623. The encumbrances represent amounts obligated but not yet billed. This amount represents contracts with Sacramento State University, California Rural Water Association & Rural California Assistance Corporation.

The contract with Rural Community Assistance Corporation (RCAC) continued from the previous year. The contract amount for the period July 1, 2001 to July 30, 2002 was \$195,152. The purpose of this contract is to provide assistance to DHS in developing the Technical, Managerial and Financial (TMF) capacity of small water systems, which are pursuing funding through the SDWSRF program, or public water systems which have problems maintaining compliance with the Safe Drinking Water Act. This will be done through a series of trainings developed with input from DHS and industry. During the period from July 1, 2001 through June 30, 2002, 24 trainings were completed. They were attended by 103 water systems.

In November 2001 DHS entered into a three-year contract with California State University at Sacramento. For the first year of the contract, July 1, 2001 to June 30, 2002 the amount was \$238,145.00. The purpose of this contract is to develop continuing education materials for operators of both water treatment and water distribution systems. There will be self-study courses, ten videos and on-line courses developed.

For the California Rural Water Association contract, the funds were split between the Capacity Development fund and the Technical Assistance fund. The summary of the work done under this contract is located in the Technical Assistance section of this report.

Overview and Workplan

DHS has developed, and is now implementing, a strategy to assist PWSs in acquiring and maintaining technical, managerial, and financial (TMF) capacity. DHS has (1) defined program goals and objectives, (2) defined a set of steps to be taken to achieve each objective, (3) defined an overall program implementation plan, and (4) defined a program evaluation and improvement plan which describes how the state will establish a baseline and measure improvement in capacity. DHS will continue to solicit input from the State's technical advisory committee, and other interested stakeholders.

Funds were used for (1) implementation of a capacity development strategy, (2) developing policies and procedures for implementing capacity requirements, and (3) continue to develop a capacity development data base system to track the results of the strategy and its implementation.

Program Documents

The TMF Capacity Development Program has developed and continues to revise the following program documents used to guide staff towards consistent implementation of the program:

Documents for Community Water Systems

Assessment Forms:

- TMF Assessment Form for Community Water System for SDWSRF Applicants (Rev. 6/24/2002)
- TMF Assessment Form for New Community Water Systems (Rev. 6/25/2002)
- TMF Assessment Form for Change of Ownership for Community Water Systems (Rev. 6/25/2002)

Staff Evaluation Forms:

- Staff TMF Evaluation Form for SDWSRF Community Water System (Rev. 5/2/2001)
- Staff TMF Evaluation Form for New Community Water Systems (Rev. 4/17/2001)
- Staff TMF Evaluation Form for Change of Ownership of Community Water Systems (Rev. 4/17/2001)

Checklists:

- SDWSRF Community Water System Checklist (Rev. 5/2002)
- New Community Water System Checklist (Rev. 5/2001)
- Change of Ownership Community Water System Checklist (Rev. 5/2001)

Criteria:

- TMF Capacity Criteria for SDWSRF Community Water Systems (Rev. 7/9/2002)
- TMF Capacity Criteria for New Community Water Systems (Rev. 8/26/2002)
- TMF Capacity Criteria for Change of Ownership of Community Water Systems (Rev. 8/26/2002)

Documents for Non-Community Water Systems

Assessment Forms:

- ❑ TMF Assessment Form for Noncommunity Water System for SDWSRF Applicants (Rev. 6/19/2002)
- ❑ TMF Assessment Form for New Noncommunity Water Systems (Rev. 6/24/2002)
- ❑ TMF Assessment Form for Change of Ownership for Noncommunity Water Systems (Rev. 6/25/2002)

Staff Evaluation Forms:

- ❑ Staff TMF Evaluation Form for SDWSRF Noncommunity Water System (Rev. 5/3/2001)
- ❑ Staff TMF Evaluation Form for New Noncommunity Water Systems (Rev. 5/2/2001)
- ❑ Staff TMF Evaluation Form for Change of Ownership of Noncommunity Water Systems (Rev. 5/2/2001)

Checklists:

- ❑ SDWSRF Noncommunity Water System Checklist (Rev. 5/2002)
- ❑ New Noncommunity Water System Checklist (Rev. 5/2001)
- ❑ Change of Ownership Noncommunity Water System Checklist (Rev. 5/2001)

Criteria:

- ❑ TMF Capacity Criteria for SDWSRF Noncommunity Water Systems (Rev. 7/9/2002)
- ❑ TMF Capacity Criteria for New Noncommunity Water Systems (Rev. 8/26/2002)
- ❑ TMF Capacity Criteria for Change of Ownership of Noncommunity Water Systems (Rev. 8/26/2002)

These documents and others are available on the DHS Internet website at:

http://www.dhs.ca.gov/ps/ddwem/technical/dwp/tmf/TMF_Index.htm

❑ Program Procedures

DHS has developed a set of performance criteria to determine whether a system has adequate TMF capacity. DHS has and intends to continue to make needed improvements to its TMF forms as needed to improve their effectiveness.

DHS continues to refine the policies and procedures for implementing its capacity development strategy. DHS has developed TMF capacity self-assessment forms and staff evaluation forms to be used to document and evaluate a water system's TMF capacity.

All sections of the permit manual that pertain to the issuance of permits for new PWSs were revised prior to September 1, 1999 and implemented by October 1, 1999. The permit is the critical control point in prevention of the creation of any new non-viable PWSs. The DHS Permit Policy and Procedures Manual and the TMF Capacity Training Manual dated September 1998 contain a description of the program procedures to be followed by District and LPA staff in addressing mandatory TMF requirements (permitting of new systems and SDWSRF Projects).

DHS will develop appropriate data tracking tools to monitor and assess program activities. DHS is currently tracking candidates for technical assistance by use of an Assistance Referral List database and is nearing completion of a database to track the assistance and training that has been provided to water systems.

Performance Status Report

USEPA approved DHS' 2000-2001 TMF capacity development workplan on June 28, 2001.

The staff of DHS focused efforts on the following areas related to these set-aside programs:

- The development of the State of California's TMF Capacity Criteria.

Effective January 1, 1998, State of California Law required that TMF Capacity requirements be met by all new PWSs as well as water systems which are undergoing a change of ownership. This requirement necessitated that DHS establish the TMF criteria and begin utilizing these criteria in the approval process for these water systems.

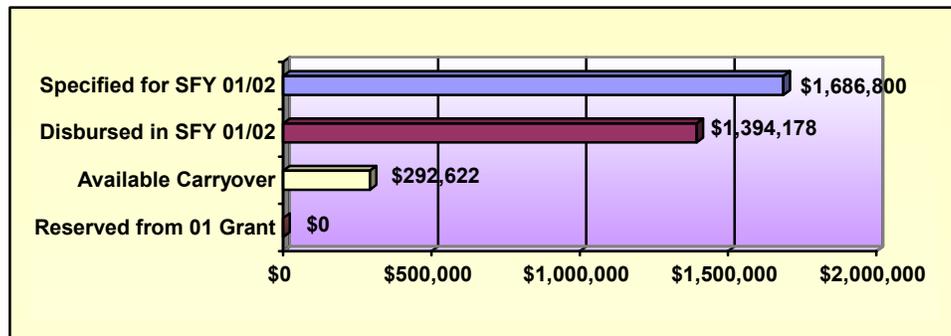
The TMF criteria were developed by a Capacity Development Work Team comprised of members of State and County regulatory personnel.

- Development of the TMF Capacity Development Strategy. A major effort of the Work team was directed towards developing an overall, comprehensive strategy to effectively utilize the Set-Aside programs. This strategy was finalized and transmitted to EPA in August 2000.
- Staff Training: The TMF Capacity Trainings focus on the requirements for systems pursuing funding under the SDWSRF Program. DHS continues to provide TMF Training at DHS & LPA trainings. Along with third party trainings, which include "train the trainer" sessions, DHS & LPA staff can participate in TMF training for systems.

C. Set-Aside: Small Systems Technical Assistance

Overview and Workplan

The majority of California's 7,896 public water systems fall into the SWS category (7,215 small water systems) and DHS is utilizing the entire portion of the FFY 2001



Capitalization Grant

allowed for this activity (2%), which amounts to \$1,686,800. These funds are used to provide additional in-house technical staff and to contract with outside contractors to provide direct technical assistance services to small systems. The primary goals of the small system technical assistance program are: (1) reducing the instances of noncompliance with drinking water standards and requirements; (2) establishing and assuring safe and dependable water supplies; (3) improving the operational capability of the small water systems; and (4) establishing or improving the technical, managerial and financial capability of the small water systems. This program is directed at those systems serving a population of 10,000 or less, with much of the emphasis given to community water systems serving less than 200 service connections.

DHS is implementing the State's overall small water system technical assistance program. DHS has developed procedures for providing technical assistance to small water systems through use of DHS staff, LPA staff and third party contractors. As a part of this process, DHS developed a staff technical assistance manual that includes procedures for providing technical assistance, descriptions of available third party assistance, and guidance document handouts. DHS conducted a two-day training workshop for technical assistance third party contractors in January 2002 and is continuing with its efforts in developing guidance and handouts for SWS.

Funds were used to (1) continue the development of the state's overall small water system technical assistance program and (2) provide direct assistance to small water systems to enable them to qualify for and obtain SDWSRF funding. This assistance includes:

- Assistance in preparation of the SDWSRF application, including submittal of required environmental documentation, preliminary engineering report(s), and compliance with federal crosscutting authorities.
- Assistance in demonstrating required TMF capacity, including submittal of required capacity documentation and development of source capacity assessments, technical evaluations, operations plans, emergency plans and budget projections.

- Assistance in completing Median Household Income Surveys to qualify for disadvantaged community status for funding SDWSRF projects (0% interest or forgiveness of loan principal).

A contract was entered into in June of 2000 with the California Rural Water Association (CRWA) in the amount of \$62,000 to assist DHS with technical assistance to small public water systems that are pursuing SDWSRF funding or have been identified by DHS as having significant problems which the water system may more readily resolve with third party support. In the second year of the contract with CRWA, the amount of the contract increased from \$62,000 to \$185,000.00. In the third year of the contract, CRWA added two additional circuit riders to bring the total to four. CRWA works with DHS staff to provide direct technical assistance to small public water systems which are pursuing funding through the SDWSRF Fund, and systems identified as having significant problems complying with the minimum water supply requirements or having other significant program problems as determined by DHS. The CRWA circuit riders worked directly with the water systems and DHS District Offices. During the period between July 1, 2001 and June 30, 2002, CRWA assisted 102 water systems.

Actual expenditures for the Small Water Systems Technical Assistance (Fund 628) set-aside total \$1,394,178. Year-end encumbrances total \$33,816. The encumbrances represent amounts obligated for contracts (but not yet billed) entered into during the period. The contract DHS has with CRWA represents the accrual.

Program Documents and Procedures

DHS has completed the process of preparing staff guidance and implementation documents for this program. These documents define the role of DHS and LPA staff as well as third party contractors. The Capacity Development Strategy dated September 2000 describes how the Technical Assistance Program fits into the TMF Capacity Development Program. Currently, targeted Technical Assistance is provided by DHS staff and third party contractors to systems that may be pursuing SDWSRF funding.

Performance Status Report

During this time period, DHS focused on developing a program designed to use both DHS staff and Third Party Contractors to provide effective technical assistance to SWSs utilizing the SDWSRF set-aside funds. This effort focused on the following areas during this period:

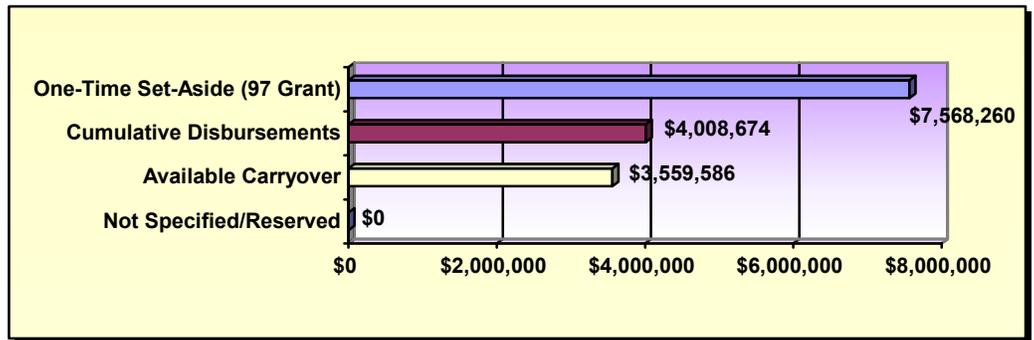
- Continued work of the Capacity Development Work Team which consists of staff of DHS and Local Primacy Agencies. The primary focus of this Work Team has been the development of the Capacity Development Strategy. However, related to this, the Work Team also worked on evaluating and prioritizing Technical Assistance needs for both Capacity Development and general compliance issues.
- Implementation of the Capacity Development Strategy as a basis for evaluating and prioritizing Technical Assistance needs for SWSs.

- Identifying and evaluating available Technical Assistance resources. The Work Team developed lists of available resources and the possible roles of these resources in the Technical Assistance Program.
- As part of our contract with RCAC, they have compiled and categorized (sorted by TMF elements) a list of available resources on a compact disc (CD). The CD is currently being revised and will be distributed at the RCAC/DHS trainings.

D. Set-Aside: Source Water Assessment Program (SWAP)

Overview

The funding for this program is being used to develop and implement a SWAP program to delineate the boundaries of protection areas for drinking water sources, and identify possible



contaminating activities within the delineated areas in order to assess the vulnerability of the water sources to contamination. In California, the SWAP is incorporated into the DWSAP Program. USEPA endorsed Department’s DWSAP Program on April 26, 1999 and formal approval was given on November 5, 1999.

The Department is working towards completing all assessments by the deadline of May 2003.

Contracts began in June 1999 with 33 local primacy agencies (LPAs) for complete drinking water source assessments for all active public drinking water sources used by PWSs under the regulatory jurisdiction of the LPA. The term of the contracts are June 1, 1999 through December 31, 2002 and total \$1,953,900. One county didn’t execute a contract until July 1, 2000. LPA DWSAP expenses in SFY 2001/02 were \$358,058.

The Department has contracted with UC Davis-Information Center for the Environment (UCD-ICE) to develop geographic information system applications and decision support system tools in order to assist in identifying different source water threats. In 2001/02 payments to UCD-ICE for this contract were \$262,602, bringing the total payments to UCD-ICE to \$472,901. A final invoice from UCD-ICE is pending. The total UCD-ICE contract budget is \$651,634 and the contract completion date is June 30, 2002.

Low interest loans for source water protection (SWP) will be offered to PWSs beginning in SFY 2002/03. The SWP loan account will be structured as a subaccount of the SDWSRF loan fund. Regulations that allow the Department to establish the source water protection loan program were enacted in September 2002.

Though the Department encountered delays in implementation of the DWSAP program, substantial progress was made in 2001/02. In addition to the source water assessments, the Department and LPA county staff are also obtaining GPS coordinates for drinking water sources and treatment plants to fulfill other EPA data requirements. This activity has added to the DWSAP project workload.

In 2001/02, assessments were completed for 4,737 sources. The cumulative total of assessments completed through June 30, 2002 is 5,529 (36%). Of these, 2,368 assessments have been done by the Department’s district offices, 2,646 by LPA counties, and 515 by water systems and other entities.

The Department has made data tools available to public water systems and others interested in doing source water assessments. As of June 30, 2002, The Department distributed the “TurboSWAP” program to 128 entities representing over 457 water systems with more than 3,457 sources. Water systems that conduct their own assessments must complete them by December 31, 2002.

LPA counties are responsible for conducting assessments of 6,082 sources or 39% of the total workload. LPAs are required to complete their assessments by December 31, 2002.

Actual expenditures for the SWAP set-aside account (Fund 627) total \$1,914,147 for the past fiscal year and cumulatively amount to \$4,008,674. Outstanding encumbrances total \$621,795.

It is possible that some SWAP set-aside funds may remain unspent by the May 31, 2003 deadline. The Department has experienced staff shortages, and a significant amount of the SWAP work has been taken on voluntarily by public water systems. If there are unspent funds remaining after the deadline, the Department will transfer the funds to the appropriate eligible use, or will return the funds to the Drinking Water SRF infrastructure account.

Work Plan

USEPA approved a revised work plan for SWAP on June 28, 2002. The revised schedule for assessments is shown below, along with progress to date.

DWSAP Assessment Schedule/Progress					
Assessed by FY	1/1/00 to 6/30/00	7/1/00 to 6/30/01	7/1/01 to 6/30/02	7/1/02 to 5/6/03 ¹	Total # Sources ²
# Sources	122	681	4,737	9,992	15,521
% of Total	<1%	4%	31%	64	100%
Cumulative	122	792	5,529	15,521	

Notes:

1. Projected
2. Total number of sources was recently revised based on revisions to Department database.

The accelerated progress in 2001/02 can be attributed to the data tools developed by UCD-ICE.

During SFY 2001/02, the following activities identified in the Work Plan have been undertaken or completed:

Workplan Tasks for State Fiscal Year 2001/02

Assessment Implementation

1. Administered contracts with 33 Local Primacy Agency (LPA) counties for SWAP assessments.
2. With the assistance of UCD-ICE, improved electronic tools for source water assessments: electronic forms (“TurboSWAP”), GPS data dictionary software, and a mapping tool.
3. With the Groundwater Resources Association (GRA) and the UC Davis Department of Land, Air and Water Resources, put on two two-day training sessions on Drinking Water Source Assessment and Protection. One session was held in May 2002 in Sacramento and was attended by 44 people. The second session was held in June 2002 in Newport Beach and was attended by 47 people. Attendees included staff from LPA counties, water systems, consultants, and local, state, and federal agencies.
4. Provided program updates and instructions to staff at Department management and regional staff meetings.
5. Developed detailed guidance for staff on implementation issues.
6. Continued data collection for source water assessments.
7. Acquired required hardware for Department (computers, network servers, etc.) for use with electronic tools.
8. Enhanced data collection system to keep track of assessments.
9. Met with California Rural Water Association to share information and update on progress.
10. Participated in assessments for large water sources including the State Water Project and the Colorado River.

Public Participation

1. Made four presentations to LPA, DHS, local, and professional organizations regarding implementation and progress on the program.
2. Held one meeting of the Technical and Policy Advisory Committee.
3. Updated the Department’s website for the program with useful information and posted a weekly update of water systems with completed assessments.

Reporting

1. Developed format and procedures for reporting progress on assessments.
2. Prepared regular updates on program for management and staff.
3. Prepared annual and other reports as needed for US EPA.

Source Water Protection Loan Program

1. Submitted state regulations for a source water protection loan program.
2. Invited a third round of pre-applications from public water systems.
3. Updated the project priority list.
4. Distributed the project application form and guidelines.
5. Invited 25 public water system projects to submit full applications. Fourteen (14) water systems notified the Department of their intent to submit applications, but only two eligible applications were submitted by the deadline.

Performance Status Report

The Department accomplished the following for the California DWSAP Program in 2001/02:

Assessment Implementation

1. Administered contracts with 33 LPA counties.
2. Data work done by UC Davis:
 - a. Released upgrades of TurboSWAP software application
 - b. Released upgrades of Mapping Tool GIS application
 - c. Processed GPS and TurboSWAP data
3. Distributed one issue of an update (newsletter) for staff with timely tips, hints, reminders and guidance.
4. Developed guidance for completing assessments and posted guidance and forms on Department's website.
5. Completed assessments for 4,737 sources, as detailed in the table below.

System Type	# Source Assessments Completed SFY- 2001/2002
Community Water Systems	2,689
Non-Transient NonCommunity Water Systems	786
Transient NonCommunity Water Systems	1,262
Total	4,737

Public Participation

1. Made four presentations to LPA, DHS, local, and professional organizations.
2. Held one meeting of the Policy and Technical Advisory Committee to update members on the DWSAP program.

Reporting

1. Submitted required reports to USEPA for progress on the program.

Source Water Protection Loan Program

1. The Department conducted a third round of pre-application solicitations and received eight additional eligible pre-applications from five different water systems for a total of \$3.68 million dollars. The SWP project priority list was updated. Two projects were moved from the SRF priority list to the SWP priority list. A summary of the project priority list is shown below.

Category	Contaminant Addressed	Ground Water/ Surface Water	Zone	# Projects	Total \$ (Millions)
A	Microbiological	GW/SW	A	18	12.262
B	Nitrates	GW	A	2	0.200
C	Nitrates	GW	B5, B10	9	3.650
D	Chemicals	GW/SW	A, B5	2	2.485
F	Chemicals	SW	Watershed	12	9.798
H	Microbiological	GW/SW	B5, B10, Watershed	22	2.718
I	All	GW	Buffer zone	1	0.100
Total				66	31.713

2. The Department intends to use set-asides from the SRF capitalization grants towards funding projects on the SWP PPL. A summary of the set-aside amounts is shown in the table below.

Grant #	State Fiscal Year(s)	Amount	Comments
3 (1999)	2000-2001	\$4,040,835	Must be returned to SRF account because NOAA not issued prior to 9/30/02
4 (2000)	2000-2001	4,199,655	
5 (2001)	2001-2002	4,217,000	
Total		\$12,457,490	Total without Year 3 set-aside is \$8,416,655

3. The Department invited applications from all 25 projects in Categories A through D from the 2001/02 PPL. Statements of Interest forms were received for 14 projects for a total of \$6.8 million, but only two eligible applications were submitted by the deadline. The Department expects to begin executing contracts for SWP projects in early 2003.

V. FINANCIAL SUMMARY

The following discussion provides additional details on the financial management activities in the SDWSRF Program.

A. Status of Loans

The SDWSRF loan program had thirty-three (33) closed loans (includes those that are a combination of loan and principal forgiveness) and three (3) exclusively forgiveness of principal loans, bringing the total funded projects to thirty-six (36) as of June 30, 2002. Appendix A displays the status of all SDRSRF loans to date. This comprehensive loan portfolio spreadsheet includes the loan amount, principal forgiveness, interest rate, term, prior years loans disbursed, current years disbursement, total loans disbursed, past years principal paid, current years principal, cumulative principal paid, past years interest paid, current years interest paid, cumulative interest paid, and cumulative principal & interest paid. As of June 30, 2002, cumulative loan interest & principal repaid amounted to \$3,361,948. Cumulative loan disbursements to PWSs amounted to \$110,607,479.

B. Loan Disbursements/Cash Draw Proportionality

DHS disbursed \$54,579,083 in loans for this reporting period and \$56,028,396 from prior reporting periods, bringing the total disbursements to date to \$110,607,479. Appendix C lists cumulative disbursements, cumulative loan-related federal Automated Clearing House (ACH) cash draws, and the cumulative federal/state proportionality ratio resulting from cash draw activities. DHS is using the rolling average method to determine federal/state proportionality as defined in the Guide to Using USEPA's Automated Clearing House for the Drinking Water State Revolving Fund Program (EPA-832-B98-003).

C. Set-Aside Disbursements

DHS disbursed \$6,664,842 (Table 2) in set-aside funds for this reporting period. Disbursements since the program's inception now total \$16,839,404. Appendix C lists set-aside related cumulative cash draws and disbursements by type of set-aside.

D. Annual Repayment/Aging of Accounts

As of June 30, 2002, DHS had thirty-six (36) closed loans. Invoices are mailed to the water systems on a semiannual basis. Invoices are sent out on May 1 with payments due on July 1, and on November 1 with payments due on January 1. Projects under construction pay "interest only" until completion of construction at which time they begin payment of principal and interest. During the reporting period, principal repayments totaled \$1,959,759 and interest repayments totaled \$1,074,318 (Appendix E). The combined amount of repayments totals \$3,029,667.

E. Loan Portfolio Analysis

DHS has thirty-six (36) loans in its portfolio that were funded as of June 30, 2002. As part of the application process to secure funding, DHS procedures require a financial review be conducted on each applicant to determine its ability to repay a loan. This is accomplished through an Interagency Agreement with the California Department of Water Resources, which subcontracts with an outside financial firm, California Municipal Utilities. A credit analysis is performed as part of the contractor's review of the water system. The recommendation of the contractor assists DHS in identifying questionable loans, thereby reducing the Department's exposure to situations that may lead to future loan default. This first line of defense is part of DHS' administrative internal controls. Subsequent to providing a loan, the Department monitors its loan portfolio on a semiannual basis. Invoices are mailed to water systems semiannually and payment is due by July 1 and January 2. The Department utilizes an "aging of accounts receivable" tickler file if payments are not received by the due date. Thirty (30) day notices are automatically generated by the system and staff computes penalties for late payment. DHS will identify loans that are potentially weak and track them closely to ensure that conditions are not deteriorating. As of June 30, 2002 all loans were current. Although all loans were current, the City of Vallejo was assessed and paid \$4,409.46 in interest for a late payment. See Appendix E, Loan Portfolio Tracking Report.

F. Investments

The SDWSRF program had \$121,972 (Table 1) in investment earnings during the reporting period. The State Treasurer is charged with managing investment funds in compliance with state investment practices. On March 20, 2002, the Pooled Money Investment Board approved DHS' request to invest the available cash from loan repayments and cash in the loan fund in SMIF for Fund 629-01. It is the practice of the SMIF to invest in even multiples of \$1,000, which results in a small uninvested balance in the cash account. The State Controller's Office apportions interest earning to the fund at six-month intervals, effective June 30th and December 31st of each year. Available cash in the fund is comprised of remaining state match from the FFY 98 capitalization grant and revenue that is comprised of principal and interest repayments on loans to public water systems.

G. Financial Statements

The SDWSRF Audit Report, which includes the financial statements, is attached to this report as Appendix D. The SDWSRF Program had its financial statements audited for SFY 2001/02. The report gave the SDWSRF Program an unqualified opinion. There were no material issues for our management to address. Minor findings were noted regarding the financial statements portion of the report and DHS is implementing the recommendations of the auditor.

VI. COMPLIANCE WITH OPERATING AGREEMENT AND GRANT CONDITIONS

The State of California has complied with the conditions of the SDWSRF Operating Agreement. DHS has met and continues to be in compliance with the following conditions as described in the Operating Agreement:

- Establish state instrumentality and authority
- Comply with applicable state laws and procedures
- Review technical, financial, and managerial capacity of assistance recipients
- Establish SDWSRF loan account, set-aside account, and SDWSRF administration account
- Deposit all funds in appropriate accounts
- Follow state accounting and auditing procedures
- Require SDWSRF loan recipient accounting and auditing procedures
- Submit IUP and use all funds in accordance with the plan
- Comply with enforceable requirements of the Safe Drinking Water Act
- Establish capacity development authority
- Implement/maintain system to minimize risk of waste, fraud, abuse, and corrective action
- Develop and submit project priority ranking system

DHS has met the following conditions as described more fully below:

- Take payments based on payment schedule

DHS has received payments from USEPA based on the schedule included in the grant awards made for SFY 2001/02. Appendix C includes a schedule of grant payments received.

- Deposit state matching funds

The State of California applied for and received the FFY 2001 Capitalization Grant last fiscal year. The required state match of \$16,868,000 (20%) was authorized by the California Electorate with the passage of Proposition 13 and made available in March of 2000 with the approval of General Obligation bonds. State match is initially provided by a temporary loan from the Pooled Money Investment Account of the State Treasurer's Office. Bonds are then sold to reimburse the temporary loan.

- Submit Annual Report and Annual Audit

The submission of this report, which contains the annual audit, fulfills the State of California's responsibility under the Assistance Award.

The Certified Public Accounting Firm of Clifton Gunderson conducted the annual audit of the SDWSRF Program for SFY 2001/02. The audit addressed internal controls, financial statement presentation, compliance, and all funding activity from the loan account and the set-aside accounts. For SFY 2001/02, this audit firm issued an unqualified opinion on the financial

statements and compliance reports and reported that the internal control structure was without material weakness. The report is contained in Appendix D.

- Assure that borrowers have a dedicated source of repayment

DHS' contractor, the California Department of Water Resources and its subcontractor, California Municipal Statistics, conduct a credit review evaluation for all PWSs. This evaluation determines whether or not an applicant has the ability to repay a loan. For all PWSs, the expected revenue stream from user fees must be sufficient to repay the loan, pay operation and maintenance costs, and pay for other necessary expenses.

- Use funds in timely and expeditious manner

DHS has committed 117% of all available loan funds from the federal FFY 97 grant, 105% of all available loan funds from the federal FFY 98 grant, and 29% of all available loan funds from the FFY 99 grant. No commitments have been made against the FFY 2000 grant. Public water systems with binding commitments have moved in an expeditious and timely manner to start construction. DHS will be monitoring construction progress to ensure that operations are initiated according to schedule.

- Ensure recipient compliance with applicable federal cross-cutting authorities

DHS and all of its assistance recipients have complied with all applicable federal cross-cutting authorities. Compliance checks are mandatory for each project and environmental clearance is required for the project to proceed.

- Implement capacity development strategy.

DHS is in the process of implementing its capacity development strategy, which was finalized and accepted by USEPA in August of 2000. USEPA granted approval of DHS' 2001/02 TMF capacity development workplan on June 28, 2001.

- Conduct environmental reviews

For SFY 2001/02, there were 139 environmental clearances in progress, of which 56 were started, 29 were approved for Notice of Application Acceptance, and 8 were approved for contract. There were 24 projects that received an Environmental Impact Report, 47 that received Negative Declarations, 42 that received a Notice of Exemption, and 31 SDWSRF applications that used a schedule for environmental compliance. Finally, DHS was the lead California Environmental Quality Act Agency for 32 projects (Table 6).

State Fiscal Year 2001 – 2002 Environmental Clearances

Table 6

<i>SRF Number</i>	<i>Applicant</i>	<i>Started</i>	<i>Accepted</i>	<i>Finished</i>	<i>EIR</i>	<i>N.D.</i>	<i>NOE</i>	<i>Sched</i>	<i>Lead</i>
0310006-01	River Pines Public Utility District (System No. 0310006)	Prior to FY					Yes		
3010094-01	Trabuco Canyon Water District	Prior to FY			Yes			Yes	
3010095-02	Santiago County Water District	Prior to FY				Yes		Yes	
5410038-02	Terra Bella Irrigation District	Prior to FY		11/28/2001		Yes			
0800532-02	Big Rock Community Services District	Prior to FY					Yes		
0800510-02	Roosevelt Water Service	Prior to FY					Yes		Yes
1910067-04	Los Angeles Department of Water and Power	Prior to FY			Yes				
4300522-01	Lake Canyon Municipal Water Company	Prior to FY					Yes		Yes
3310003-01	Blythe, City of	Prior to FY				Yes		Yes	
3301477-01	Coachella Valley Water District/One Hundred Palms	Prior to FY				Yes		Yes	
3700978-01	San Pasqual School District	Prior to FY					Yes		
5510029-03	Tuolumne Utilities District	Prior to FY				Yes		Yes	
1400048-01	Tinnemaha Campground - Inyo County Board of Supervisors	Prior to FY					Yes		
0011127-01	Tuolumne Utilities District	Prior to FY				Yes			
0011120-01	Tuolumne Utilities District	Prior to FY							

<i>SRF Number</i>	<i>Applicant</i>	<i>Started</i>	<i>Accepted</i>	<i>Finished</i>	<i>EIR</i>	<i>N.D.</i>	<i>NOE</i>	<i>Sched</i>	<i>Lead</i>
2100570-01	El Novato Trailer Park - North Marin Water District	Prior to FY					Yes		
3010082-01	Serrano Water District	Prior to FY				Yes			
0310008-01	East Bay Municipal Utility District	Prior to FY					Yes		
2400101-01	Weaver Union School District	Prior to FY	4/17/2002				Yes		
1910067-02	Los Angeles Department of Water and Power	Prior to FY			Yes				
1910067-03	Los Angeles Department of Water and Power	Prior to FY			Yes				
0210001-01	Lake Alpine Water Company - Bruce Orvis	Prior to FY					Yes		Yes
2010007-01	Hillview Water Company	Prior to FY							Yes
3100058-01	Dutch Flat Mutual Water Company	Prior to FY				Yes			Yes
4010022-01	Lopez - San Luis Obispo County	Prior to FY				Yes		Yes	
2700702-01	Prunedale Mutual Water Company	Prior to FY					Yes		Yes
5400554-01	Western Sky Mobile Home Park - Mary Lynn Simek	Prior to FY					Yes		Yes
4710012-01	Happy Camp Community Services District	Prior to FY		11/30/2001					
4210010-01	Santa Barbara, City of	Prior to FY			Yes			Yes	
2810014-01	Spanish Flat Water District	Prior to FY				Yes			
2810009-01	Bersa Pines Water System - Spanish Flat Water District	Prior to FY					Yes		
1900827-01	Hillcrest Mobile Home Park	Prior to FY	10/25/2001				Yes		Yes
1600006-01	Delta View Joint Union School District	Prior to FY					Yes		
0710003-01	Contra Costa Water District	Prior to FY		7/27/2001		Yes			

<i>SRF Number</i>	<i>Applicant</i>	<i>Started</i>	<i>Accepted</i>	<i>Finished</i>	<i>EIR</i>	<i>N.D.</i>	<i>NOE</i>	<i>Sched</i>	<i>Lead</i>
3701760-02	Lake Morena Trailer Resort - Linda Bishop	Prior to FY					Yes		Yes
1910155-13	Southern California Water Company	Prior to FY					Yes		
4700523-01	Grenada Water Company	Prior to FY				Yes		Yes	
4100516-01	La Honda/Pescadero Unified School District	Prior to FY					Yes		Yes
0510003-02	Angels, City of	Prior to FY		8/7/2001		Yes		Yes	
5400544-01	Allensworth Community Services District	Prior to FY				Yes			
0300016-01	Volcano Community Services District	Prior to FY					Yes		
1600503-01	Curtis Water Company (Kern County)	Prior to FY					Yes		
5410024-01	Richgrove Community Services District	Prior to FY				Yes			
0110005-11	East Bay Municipal Utility District (EBMUD)	Prior to FY		7/9/2001			Yes		
4700521-01	Siskiyou County	Prior to FY				Yes			
0310003-03	Amador Water Agency	Prior to FY			Yes				
3910011-02	Tracy, City of	Prior to FY			Yes			Yes	
0310012-01	Amador Water Agency	Prior to FY	5/21/2002			Yes		Yes	
0707576-01	Pleasantimes Mutual Water Company	Prior to FY					Yes		Yes
0510012-02	East Bay Municipal Utility District (EBMUD)	Prior to FY	8/20/2001			Yes		Yes	
1700610-01	Ford's Acre Mobile Home Park - William Oswood	Prior to FY		12/18/2001			Yes		Yes
1900903-01	Sleepy Valley WC	Prior to FY							Yes
1300561-01	Red Hill Marina	Prior to FY	8/29/2001				Yes		
1010035-01	Del Rey Community Services District	Prior to FY				Yes		Yes	

<i>SRF Number</i>	<i>Applicant</i>	<i>Started</i>	<i>Accepted</i>	<i>Finished</i>	<i>EIR</i>	<i>N.D.</i>	<i>NOE</i>	<i>Sched</i>	<i>Lead</i>
1009026-01	O'Neill Cattle Feeding Corp - J.E. O'Neill	Prior to FY							
2310001-01	Fort Bragg, City of	Prior to FY			Yes				
1310006-01	Imperial, City of	Prior to FY				Yes			
4210001-01	Carpinteria Valley Water District	Prior to FY	6/19/2002			Yes		Yes	
4210001-01	Carpinteria Valley Water District	Prior to FY	6/19/2002		Yes			Yes	
4210001-01	Carpinteria Valley Water District	Prior to FY	6/19/2002		Yes			Yes	
3710006-04	Escondido, City of	Prior to FY	9/13/2001			Yes			
3200510-01	Indian Valley Community Services District – Crescent Mills	Prior to FY	4/30/2002				Yes		
3110017-03	Sierra Lakes Community Water District	Prior to FY				Yes			
3110017-02	Sierra Lakes Community Water District	Prior to FY		11/9/2001		Yes		Yes	
2702370-01	S.P.C.A. of Monterey County (Society for the Prevention of Cruelty to Animals)	Prior to FY					Yes		Yes
1900158-02	Little Baldy Water Company	Prior to FY							Yes
2800543-01	Capell Valley Water Company	Prior to FY					Yes		Yes
4210007-02	Montecito Water District	Prior to FY				Yes		Yes	
4800572-01	Trailer City - Eric Romer	Prior to FY	8/30/2001				Yes		
1600004-01	Four Seasons Mobile Home Park Stan Armsley owner)	Prior to FY							Yes
4900536-01	Occidental Community Services District	Prior to FY				Yes			
1510040-03	Kern County Water Agency	Prior to FY	9/17/2001				Yes		
1510040-02	Kern County Water Agency	Prior to FY	9/19/2001				Yes		

<i>SRF Number</i>	<i>Applicant</i>	<i>Started</i>	<i>Accepted</i>	<i>Finished</i>	<i>EIR</i>	<i>N.D.</i>	<i>NOE</i>	<i>Sched</i>	<i>Lead</i>
3910006-01	Stockton East Water District	Prior to FY	5/24/2002			Yes		Yes	
0710003-18	Contra Costa Water District	Prior to FY	9/17/2001				Yes		
5410012-02	Strathmore PUD	Prior to FY	12/13/2001			Yes		Yes	
0710003-17	Contra Costa Water District	Prior to FY			Yes				
4310011-07	San Jose Water Company	Prior to FY	9/19/2001				Yes		Yes
2900526-01	Lake Combie Mobile Home Village - Gloria Siegle	Prior to FY	11/13/2001				Yes		Yes
3510001-12	Hollister, City of/Sunnyslope County Water District	Prior to FY				Yes			
1500251-01	Riverkern Mutual Water Company	Prior to FY							Yes
0310012-03	Amador Water Agency	Prior to FY						Yes	
2701278-02	Rancho Chaparral Mutual Water Company	Prior to FY					Yes		Yes
3610037-02	Redlands, City of	7/31/2001				Yes			
3610037-03	Redlands, City of	7/31/2001				Yes			
1910099-01	Paradise Ranch Mobile Home Park - Santiago Associates, LLC	8/13/2001				Yes			Yes
1910099-06	Paradise Ranch Mobile Home Park - Santiago I, LLC	8/13/2001							Yes
1910099-05	Paradise Ranch Mobile Home Park - Santiago I, LLC	8/13/2001							Yes
1910099-03	Paradise Ranch Mobile Home Park - Santiago I, LLC	8/13/2001							Yes
1910099-02	Paradise Ranch Mobile Home Park - Santiago I, LLC	8/13/2001							Yes
3710020-44	San Diego, City of	8/17/2001	9/13/2001		Yes				

<i>SRF Number</i>	<i>Applicant</i>	<i>Started</i>	<i>Accepted</i>	<i>Finished</i>	<i>EIR</i>	<i>N.D.</i>	<i>NOE</i>	<i>Sched</i>	<i>Lead</i>
5410019-01	Ivanhoe Public Utility District	8/24/2001	9/17/2001			Yes		Yes	
0110005-17	East Bay Municipal Utility District	8/29/2001					Yes		
4210010-02	Santa Barbara, City of	8/30/2001	9/12/2001			Yes		Yes	
1910087-02	Metropolitan Water District of Southern California (MWD)	9/14/2001	9/18/2001		Yes				
2110003-02	North Marin Water District	9/20/2001	9/21/2001			Yes		Yes	
1010018-01	Kerman, City of	9/21/2001				Yes			
5700714-01	Yolo County Airport	9/24/2001					Yes		
4810024-01	Solano Irrigation District	9/26/2001				Yes			
4810025-01	Solano Irrigation District	9/26/2001				Yes			
4810026-01	Solano Irrigation District	9/26/2001				Yes			
3610064-01	East Valley Water District	10/5/2001	10/17/2001					Yes	
5410005-01	Alpaugh Irrigation District	10/16/2001				Yes			
4310027-05	Santa Clara Valley Water District	10/24/2001				Yes			
4310027-06	Santa Clara Valley Water District	10/24/2001				Yes			
4310027-07	Santa Clara Valley Water District	10/24/2001				Yes			
3310046-03	Farm Mutual Water Company, The	11/5/2001	3/27/2002						Yes
5400666-01	Grand View Gardens Water Company	11/26/2001							Yes
5200504-01	Tehama, City of	12/3/2001	3/20/2002			Yes			
0910001-06	El Dorado Irrigation District	12/5/2001			Yes				

<i>SRF Number</i>	<i>Applicant</i>	<i>Started</i>	<i>Accepted</i>	<i>Finished</i>	<i>EIR</i>	<i>N.D.</i>	<i>NOE</i>	<i>Sched</i>	<i>Lead</i>
0910001-10	El Dorado Irrigation District	12/5/2001			Yes				
0910001-05	El Dorado Irrigation District	12/5/2001			Yes				
0910001-03	El Dorado Irrigation District	12/5/2001			Yes				
0910001-07	El Dorado Irrigation District	12/5/2001			Yes				
0910001-08	El Dorado Irrigation District	12/5/2001				Yes			
0910001-09	El Dorado Irrigation District	12/5/2001			Yes				
0910001-21	El Dorado Irrigation District	12/5/2001			Yes				
0910001-04	El Dorado Irrigation District	12/5/2001			Yes				
0910001-08	El Dorado Irrigation District	12/5/2001			Yes				
0910001-20	El Dorado Irrigation District	12/5/2001			Yes				
5400641-01	Teviston Community Services District	12/12/2001				Yes			
3200104-BL	GLRID - Delleker PWS # 3200104	12/18/2001							
1010049-01	Biola Community Services District	12/18/2001					Yes		
1010007-04	Fresno, City of	1/9/2002					Yes		
3410021-03	San Juan Water District	1/11/2002					Yes		
2110006-20	North Marin Water District	1/15/2002						Yes	
4400604-01	Bracken Brae Mutual Water Company	1/17/2002							Yes
4810001-04	Benicia, City of	1/17/2002	6/18/2002					Yes	
4810007-01	Vallejo, City of	1/23/2002			Yes				
3210002-01	Plumas County Flood Control and Water	1/24/2002						Yes	

<i>SRF Number</i>	<i>Applicant</i>	<i>Started</i>	<i>Accepted</i>	<i>Finished</i>	<i>EIR</i>	<i>N.D.</i>	<i>NOE</i>	<i>Sched</i>	<i>Lead</i>
	Conservation District								
5410012-01	Strathmore PUD	1/29/2002						Yes	
2700970-01	Cherokee Acre MHP	2/14/2002							Yes
2110004-04	Stinson Beach County Water District	2/25/2002	2/27/2002						
5110002-13	Yuba City	3/11/2002					Yes		
2900523-02	Washington County Water District	3/13/2002					Yes		
5610017-01	San Buenaventura, City of	3/20/2002	6/3/2002					Yes	
4610001-03	Loyalton, City of	4/4/2002				Yes		Yes	
4310011-06	San Jose Water Company	5/16/2002					Yes		Yes
1700519-01	Crescent Bay Improvement Company	6/21/2002							Yes
TOTALS¹	139 Environmental Clearances in Progress	56	29	8	24	47	42	31	32

¹ For SFY 2001/02, there were 139 environmental clearances in progress, of which 56 were started, 29 were approved for Notice of Application Acceptance, and 8 were approved for contract. There were 24 projects that received an Environmental Impact Report, 47 that received Negative Declarations, 42 that received a Notice of Exemption, and 31 SDWSRF applications that used a schedule for environmental compliance. Finally, DHS was the lead California Environmental Quality Act Agency for 32 projects.

APPENDIX A

PROJECT INFORMATION/LOAN STATUS

Cumulative Loan Portfolio Status as of June 30, 2002

There are 36 closed loans as of June 30, 2002, three (3) of which are principal forgiveness only and 33 loan only. Seven (7) of the 36 are a combination of loans & forgiveness of principal. The table below reflects all 36 projects.

#	(A) Water System ¹	(B) Project No.	(C) Public Water System Loan Amount	(D) PWS Loan Principal Forgiveness	(D) Interest Rate	(E) Loan In Years	(F) Prior Years' Loans Disbursed	(G) Current Year's Disbursement	(H) Total Loans Disbursed (F)+(G)	(I) Past Years' Principal Paid	(J) Current Year's Principal	(K) Cumulative Principal Paid (I)+(J)	(L) Past Years' Interest Paid	(M) Current Year's Interest Paid	(N) Cumulative Interest Paid (L)+(M)	(O) Cumulative P&I Paid (K)+(N)
1	Asoleado MWC	2702148-01	\$61,390	0	2.793%	10	\$33,725.00	25,475.39	59,200.39	0	0	0	0	1,589.05	1,589.05	1,589.05
2	Bella Vista WD	4510014-03	100,000	0	2.32%	5	0	0	0	0	0	0	0	0	0	0
3	Calaveras County WD-West Point	0510005-01	0	1,000,000	N/A	0	0	934,853.47	934,853.47	0	0	0	0	0	0	0
4	Carrick Water Sys.	4700521-01	0	540,000	N/A	0	0	0	0	0	0	0	0	0	0	0
5	City of Anaheim	3010001-02	18,062,849	0	2.793%	20	18,062,849.00	0	18,062,849.00	0	685,112.10	685,112.10	0	523,316.73	523,316.73	1,208,428.83
6	City of Angels	0510003-02	1,521,440	0	0%	20	0	1,072,403.41	1,072,403.41	0	0	0	0	0	0	0
7	City of Brawley	1310001-02	16,050,000	0	0%	20	15,823,475.00	0	15,823,475.00	0	0	0	0	0	0	0
8	City of Brawley	1310001-20	4,127,516	0	0%	20	0	4,127,516.00	4,127,516.00	0	103,187.90	103,187.90	0	0	0	103,187.90
9	Contra Costa WD	0710003-01	15,137,776	0	2.5132%	20	0	15,137,776.00	15,137,776.00	0	791,173.76	791,173.76	0	0	0	791,173.76
10	Crescent City	0810001-02	7,000,000	1,000,000	0%	20	6,526,251.92	0	6,526,251.92	0	0	0	0	0	0	0
11	LA Dept. of W&P	1910067-01	17,751,425	0	2.32%	20	0	13,252,529.97	13,252,529.97	0	0	0	0	155,835.23	155,835.23	155,835.23
12	City of Vallejo	4810021-01	6,675,000	0	2.32%	20	6,675,000.00	0	6,675,000.00	\$166,110.52	133,624.51	299,735.03	\$97,370.88	154,654.88	252,025.76	551,760.79
13	City of Westmorland	1310008-01	670,632	1,000,000	0%	20	653,796.22	1,016,835.77	1,670,631.99	0	0	0	0	0	0	0
14	El Dorado ID	0910001-01	1,045,711	0	2.32%	20	708,250.18	0	708,250.18	0	0	0	7,940.35	8,148.18	16,088.53	16,088.53
15	El Dorado ID	0910001-02	1,711,000	0	2.32%	20	919,141.68	0	919,141.68	0	0	0	7,168.62	10,472.22	17,640.84	17,640.84
16	El Dorado ID	0910001-22	1,171,500	0	2.32%	20	748,225.47	0	748,225.47	0	0	0	12,266.58	17,280.37	29,546.95	29,546.95
17	El Dorado ID	0910001-23	915,293	0	2.32%	20	558,223.10	0	558,223.10	0	0	0	4,099.41	12,758.95	16,858.36	16,858.36
18	Faye Properties Inc	5700720-01	50,000	0	2.32%	20	0	0	0	0	0	0	0	0	0	0
19	Fords Acres/Oswald	1700610-01	187,000	0	2.5132%	20	0	183,335.50	183,335.50	0	0	0	0	0	0	0
20	Grizzly Flats CSD	0910006-01	268,629	0	2.7934%	20	0	0	0	0	0	0	0	0	0	0
21	Happy Camp CSD	4710012-01	0	1,000,000	N/A	0	0	0	0	0	0	0	0	0	0	0
22	Hillview WC	2010007-03	25,000	0	0%	1	23,672.23	0	23,672.23	0	0	0	0	0	0	0
23	Humboldt Bay WD	1210013-01	11,677,030	0	0%	20	2,781,214.94	5,209,138.54	7,990,353.48	0	0	0	0	0	0	0
24	Imperial Co. Wiest Lake Campground	1300614-01	83,710	0	2.32%	20	0	58,340.25	58,340.25	0	0	0	0	1,153.25	1,153.25	1,153.25
25	Redwood Homes, El Novato Trailer (Taylor)	2100570-01	92,800	0	2.32%	20	74,175.22	4,265.57	78,440.79	1,467.86	76,972.93	78,440.79	940.58	1,760.96	2,701.54	81,142.33
26	Richardson Beardsley	3701780-01	92,500	0	2.32%	20	0	17,728.73	17,728.73	0	0	0	0	311.21	311.21	311.21
27	Rural N. Vacaville	4810013-01	8,984,099	0	2.7934%	20	0	4,543,730.16	4,543,730.16	0	0	0	0	16,310.58	16,310.58	16,310.58
28	Sereno Del Mar WC	4900647-01	250,000	0	2.513%	20	46,791.86	203,208.11	249,999.97	0	4,848.66	4,848.66	0	4,903.72	4,903.72	9,752.38
29	Serrano WD (Union)	3010082-01	3,542,373	0	2.5132%	14	0	3,460,882.00	3,460,882.00	0	103,897.81	103,897.01	0	46,468.17	46,468.17	150,365.98
30	Sierra Lakes CWD	3110017-01	1,312,000	0	2.5132%	20	0	0	0	0	0	0	0	0	0	0
31	Sierra Mobile HP	1000252-01	72,500	0	0%	20	0	0	0	0	0	0	0	0	0	0
32	Solano ID	4810010-01	2,127,300	0	2.32%	20	1,831,220.61	185,664.99	2,016,885.60	0	0	0	30,506.35	42,607.44	73,113.79	73,113.79
33	Sonoma County WA	4910020-04	9,952,386	0	2.793%	20	562,383.37	3,664,045.84	4,226,429.21	0	0	0	0	76,746.87	76,746.87	76,746.87
34	Terra Bella Irr Dist	5410038-02	1,230,000	0	0%	20	0	1,218,820.00	1,218,820.00	0	60,941.00	60,941.00	0	0	0	60,941.00
35	Terra Bella Irr Dist	5410038-01	102,000	408,000	0%	20	0	262,533.20	262,533.20	0	0	0	0	0	0	0
36	Whitehorn Elementary	1200522-01	28,616.23	114,466	0%	20	0	0	0	0	0	0	0	0	0	0
	Total=33 loans&7 principal forgiveness		\$132,079,475	\$5,062,466	1.65% Avg	16.94 Avg	\$56,028,395.80	\$54,579,082.90	\$110,607,478.70	\$167,578.38	\$1,959,758.67	\$2,127,336.25	\$160,292.77	\$1,074,317.81	\$1,234,610.58	\$3,361,947.63

¹ There are 36 funded projects (3 of which are forgiveness of principal only), which represent 31 water systems, which amounts to \$132,079,475 in loans and \$5,062,466 in forgiveness of principal for a total of \$137,141,941.

APPENDIX B

ACCOUNTING & MANAGEMENT REPORTS

APPENDIX C

REPORT ON CASH DRAWS, DISBURSEMENTS,
AND PAYMENTS

**MULTIPERIOD LOAN FUND CASH DRAW PROPORTIONALITY
AS OF 6/30/02 FOR THE 1997 THROUGH 2001 CAPITALIZATION GRANTS
SFY 1998/99, 1999/00, 2000/01 & 2001/02**

				Loan Fund Account				
Action				(A)	(B)	(C)	Federal Portion	State Portion
				Federal Amount	State Amount	Total Amount	A/C (Rounded)	B/C (Rounded)
Period 1 FFY97 (Grant Awarded September 15, 1998)				63,270,654	15,136,520	78,407,174	81%	19%
Cash Draws as of 8/15/99				0	0	0		
Ending Balance				63,270,654	15,136,520	78,407,174		
Period 2 FFY 98 (Grant Awarded August 16, 1999)								
Beginning Balance				63,270,654	15,136,520	78,407,174		
Grant Award Amount				72,173,275	15,421,640	87,594,915		
Total				135,443,929	30,558,160	166,002,089	82%	18%
Cash Draws Between 8/16/99 & 8/15/00				304,382	66,816	371,198	82%	18%
Ending Balance				135,139,546	30,491,344	165,630,891		
Period 3 FFY 99 (Grant Awarded August 16, 2000)								
Beginning Balance				135,139,546	30,491,344	165,630,891		
Grant Award Amount				71,603,596	16,163,340	87,766,936		
Total				206,743,142	46,654,685	253,397,827	82%	18%
Cash Draws Between 8/16/00 & 12/13/00				7,986,089	1,753,044	9,739,133	82%	18%
Ending Balance				198,757,053	44,901,641	243,658,694		
Period 4 FFY 00 (97 Grant Amendment December 14, 2000)								
Beginning Balance				198,757,053	44,901,641	243,658,64		
Grant Amendment				1,743,980	0	1,743,980		
Total				200,501,033	44,901,641	245,402,674	82%	18%
Cash Draws between 12/14/00 & 12/20/00				0	0	0	Not Applicable	Not Applicable
Ending Balance				200,501,033	44,901,641	245,402,674		
Period 5 FFY 00 (Grant Awarded December 21, 2000)								
Beginning Balance				200,501,033	44,901,641	245,402,674		
Grant Award Amount				79,793,445	16,798,620	96,592,065		
Total				280,294,478	61,700,261	341,994,739	82%	18%
Cash Draws Between 12/1/00 & 3/12/02				56,230,060	12,343,185	68,573,245	82%	18%
Ending Balance				224,064,418	49,357,076	273,421,494		
Period 6 FFY 01 (Grant Awarded March 13, 2002)								
Beginning Balance				224,064,418	49,357,076	273,421,494		
Grant Award Amount				73,062,600	16,868,000	89,930,600		
Total				297,127,018	66,225,076	363,352,094	82%	18%

**CUMULATIVE LOAN, SET-ASIDE DISBURSEMENTS & CASH DRAWS FROM USEPA
AS OF 6/30/02 FOR THE 1997 THROUGH 2001 CAPITALIZATION GRANTS
SFYs 1998/99 through 2001/02**

CUMMULATIVE PROJECT SET-ASIDE DISBURSEMENTS		CUMMULATIVE PROJECT SET-ASIDE CASH DRAWS	
Administration Account (625)	\$8,453,558	Administrative Account (625)	\$8,671,584
Water System Reliability Acct. (626)	809,433	Water System Reliability Acct. (626)	787,830
Source Protection Account (627)	4,008,674	Source Protection Account (627)	3,587,078
Small System TA Acct. (628)	3,567,740	Small System TA Acct. (628)	3,578,164
SDWSRF Loan Account (629) ¹	110,607,479	SDWSRF Loan Account (629) ¹	75,474,036
Total Disbursements	\$127,446,884	Total Cash Draws	\$92,098,692

¹ Disbursements of \$110,607,479 for the loan account include both federal and state amounts. Draws from USEPA should amount to 82% of the disbursements in accordance with the proportionality ratio. This would amount to \$90,698,133 (\$110,607,479 X 82%). However, beginning in May 2002, in order to expedite the use of California's Proposition 13 funding for state match, disbursements were made using 100% state money. The state will recapture the correct federal share at a later date, after exhausting the state match. A separate spreadsheet is being maintained to track the amount.

Cash draws for Administration and Small Water System Technical Assistance exceed the amount of disbursements as of 6/30/02. This has to do with a timing issue. Disbursements equaled or exceeded draws but were input into CALSTARS after the year-end-closing.

GRANT PAYMENTS RECEIVED FROM USEPA BY CAPITALIZATION GRANT

**GRANT PAYMENTS RECEIVED FROM USEPA
FOR FFY 2001 CAPITALIZATION GRANT**

FFY	QUARTER	PAYMENT AMOUNT
2002	2	\$1,000,000
2002	3	1,000,000
2002	4	16,000,000
2003	1	16,000,000
2003	2	16,000,000
2003	3	20,226,270
2003	4	14,113,730
TOTAL PAYMENTS		\$84,340,000

APPENDIX D

AUDIT REPORTS (INCLUDING FINANCIAL STATEMENTS)

Audit Report

The Certified Public Accounting firm of Clifton Gunderson performed the audit for SFY 2001/02. USEPA, through its subcontractor Northbridge, contracted with Clifton Gunderson for this service. This audit was completed in March 2003. An unqualified opinion was issued, as has been the case for all prior audits. The audit report stated "In our opinion, the financial statements present fairly, in all material respects, the financial position of the California Department of Health Services Safe Drinking Water State Revolving Fund as of June 30, 2002, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America." A report was also issued on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with Governmental Auditing Standards. The report, dated February 6, 2003 says, "We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses." Finally, the auditors issued a report on compliance with OMB Circular A-133. The report, dated February 6, 2003 says, "We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses." Minor nonmaterial audit findings were noted in the audit report and are discussed below: See Appendix D for a copy of the audit report.

- Finding 2002-01 This finding involves the timing of drawing funds from USEPA to reimburse the Department for costs incurred and paid by the State Controller's Office (SCO). The auditors noted instances in which draws were received by DHS from the USEPA and more than 72 hours had passed before SCO issued a warrant. No costs were questioned but the auditors recommended that DHS discuss this issue with SCO to find a possible resolution. DHS agrees to work with SCO on this issue to reduce the time between EPA draw dates and warrant issue dates.
- Finding 2002-02 This finding involves the disbursement of retainage amounts to water systems. The auditors noted that sometimes in order to ensure a construction company has performed satisfactory work, the entity will withhold 5% to 10% of each invoice (retainage) submitted by the construction company until the project is complete. At the end of the project, once all parties are satisfied with the quality of the work performed, the retainage is released and paid to the construction company. However, the SDWSRF program has reimbursed costs associated with retainage to entities which have not yet paid out the retainage on the project. No costs were questioned but the auditors recommended that DHS not disburse the retainage until after final inspection and final payment of retainage is made by the entity to the construction company. DHS agrees to train personnel processing the loan disbursement to local entities regarding this matter.
- Finding 2003-03 This finding involves the program's Time Accounting System (TAS) and how it interfaces with the Department's Accounting System, known as CALSTARS. In order for proper posting to CALSTARS, each employee's position code in TAS must agree to the position number in SCO's payroll database. The auditors noted instances of disagreement between the position codes in CALSTARS and TAS. As a result, the time that these employees spent may not have been recorded appropriately in

CALSTARS. The error of the sample period tested resulted in a projected undercharge of the federal program of approximately \$28,000. The auditors recommended that the SDWSRF program implement a policy regarding notification of differences in position numbers between SCO and TAS in order to reduce the errors made in posting to CALSTARS. The SDWSRF program agrees and has made steps in mitigating these position number discrepancies by: 1) working with the Division Personnel unit to more closely track position numbers and changes; 2) the timing of the reports submitted to the Financial Management Branch (FMB) will be changed to allow feed-back from FMB regarding any position number discrepancies; 3) any discrepancies noted in the position numbers will be researched and, if necessary, changes will be made to reflect agreement with the SCO position numbers; and 4) when the CALSTARS reports are posted to the web-site, the information will be downloaded and compared with TAS and adjustments will be made accordingly.

Finding 2003-04 This finding involves conversion to an accrual basis of accounting. The auditors noted that the SDWSRF program needs an employee or contractor who can convert the various special revenue funds of the program which are reported on a budgetary (encumbrance) basis of accounting to a proprietary fund type presentation on an accrual basis of accounting for external financial reporting of the program. The SDWSRF program agrees to follow up with the Bureau of State Audits to discuss the conversion issues and determine the appropriate course of action.

The Audit Report is attached to Appendix D.

Financial Statements

The Financial Statements are prepared by the California Department of Health Services and filed with the State Controller's Office. Please see Appendix D.

APPENDIX E

ANNUAL REPORT ON LOAN
PORTFOLIO TRACKING OF BORROWERS

Loan Portfolio Tracking Report

The SDWSRF Program schedules loan repayments from water systems for principal and interest during each January and July. Invoices were sent out in November and May during SFY 2001/02. All water systems were current with their repayments as of June 30, 2002. One water system, the City of Vallejo, was late with its January 2002 repayment and was assessed an interest penalty of \$4,409.46, which they paid.

The invoicing process of the Accounting Department is automated and keeps track of the timeliness of payments through an accounts aging process tickler file. Delinquent loans are flagged and staff contacts the water system, as was the case noted with the City of Vallejo. Since no water systems were delinquent as of June 30, 2002, there was no need to follow up on delinquent loan tracking.

DHS has the following loans in its loan portfolio and tracks repayments to ensure that compliance with the loan contract is maintained. Non-payment of interest and/or principal according to the repayment schedule may be an indication of potential non-performing loans. Staff is prepared to intervene should an account become delinquent. All accounts were current as of June 30, 2002.

Please see the table on the next page.

TABLE 7 LOAN PORTFOLIO TRACKING TABLE

	(A) Water System Name	(B) Project Number	(C) Loan Amount (includes forgiveness)	(D) Principal & Interest Billed	(E) Principal & Interest Paid	(F) D-E Principal & Interest Past Due	(G) Late Payment Interest Assessed
1	Asoleado MWC	2702148-01	\$61,390	1,589.05	1,589.050	0	0
2	Bella Vista WD	4510014-03	100,000	0	0	0	0
3	Calaveras County WD-West Point	0510005-01	1,000,000	Principal Forgiveness	0	0	0
4	Carrick Water Sys.	4700521-01	540,000	N/A	0	0	0
5	City of Anaheim	3010001-02	18,062,849	1,208,428.83	1,208,428.83	0	0
6	City of Angels	0510003-02	1,521,440	0	0	0	0
7	City of Brawley	1310001-02	16,050,000	0	0	0	0
8	City of Brawley	1310001-20	4,127,516	103,187.90	103,187.90	0	0
9	Contra Costa WD	0710003-01	15,137,776	791,173.76	791,173.76	0	0
10	Crescent City	0810001-02	8,000,000	0	0	0	0
11	LA Dept. of W&P	1910067-01	17,751,425	155,835.23	155,835.23	0	0
12	City of Vallejo	4810021-01	6,675,000	283,869.93	283,869.93	0	4,409.46
13	City of Westmorland	1310008-01	1,670,632	0	0	0	0
14	El Dorado ID	0910001-01	1,045,711	8,148.18	8,148.18	0	0
15	El Dorado ID	0910001-02	1,711,000	10,472.22	10,472.22	0	0
16	El Dorado ID	0910001-22	1,171,500	17,280.37	17,280.37	0	0
17	El Dorado ID	0910001-23	915,293	12,758.95	12,758.95	0	0
18	Faye Properties Inc	5700720-01	50,000	0	0	0	0
19	Fords Acres/Oswald	1700610-01	187,000	0	0	0	0
20	Grizzly Flats CSD	0910006-01	268,629	0	00	0	0
21	Happy Camp CSD	4710012-01	1,000,000	N/A	0	0	0
22	Hillview WC	2010007-03	25,000	0	0	0	0
23	Humboldt Bay MWD	1210013-01	11,677,030	0	0	0	0
24	Imperial Co. Wiest Lake Campground	1300614-01	83,710	1,153.25	1,153.25	0	0
25	Redwood Homes, El Novato Trailer (Taylor)	2100570-01	92,800	78,733.89	78,733.89	0	0
26	Richardson Beardsley	3701780-01	92,500	311.21	311.21	0	0
27	Rural North Vacaville	4810013-01	8,984,099	16,310.58	16,310.58	0	0
28	Sereno Del Mar WC	4900647-01	250,000	9,752.38	9,752.38	0	0
29	Serrano WD (Union)	4900647-01	3,542,373	150,365.98	150,365.98	0	0
30	Sierra Lakes CWS	3110017-01	1,312,000	0	0	0	0
31	Sierra Mobile HP	1000252-01	72,500	0	0	0	0
32	Solano ID	4810010-01	2,127,300	42,607.44	42,607.44	0	0
33	Sonoma County WA	4910020-04	9,952,386	76,746.87	76,746.87	0	0
34	Terra Bella ID	5410038-02	1,230,000	60,941.00	60,941.00	0	0
35	Terra Bella ID	5410038-01	510,000	0	0	0	0
36	Whitehorn Elementary	1200522-01	143,082	0	0	0	0
Cumulative Totals			\$137,141,941	\$3,029,667.02	\$3,029,667.02	0	4,409.46

APPENDIX F

PUBLIC WATER SYSTEM BY-PASS PROJECTS